



Global Credit Rating Co.

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CREDIT RATING ANNOUNCEMENT

GCR affirms Santam Limited's rating of AAA_(ZA); Outlook Stable

Johannesburg, 17 August 2018 -- Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to Santam Limited of AAA_(ZA), with the outlook accorded as Stable. Global Credit Ratings has also affirmed the national scale long term subordinated debt rating accorded to Santam Limited of AA_(ZA), with the outlook accorded as Stable. Furthermore, Global Credit Ratings has affirmed the international scale claims paying ability rating assigned to Santam Limited of BB+, with the outlook accorded as Stable.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit ratings to Santam Limited ("Santam") based on the following key criteria:

Santam's competitive position is considered to be a material rating strength. The company is the market leader in the short term insurance industry, with a 19% share of gross premiums, and a premium base of 15x the industry average in FY17. GCR considers Santam to be well positioned to sustain its competitive strength, on the back of its high levels of capacity and technical expertise, diversified business mix and strong brand.

Santam's business mix is very well diversified across business lines, market segments and distribution channels. The insurer is the largest player in five of the seven statutory lines of business, each of which reflects material net premium scale. In GCR's view, the strong representation in both the specialised and commoditised market segments is a sustainable competitive differentiator.

Despite large dividend distributions in recent years, Santam's risk adjusted capitalisation is considered to be sound. Based on statutory interim measures, Santam's Capital Adequacy Requirement cover stood at 1.2x at FY17 (FY16: 1.4x), after accounting for R1bn in dividend payments. Going forward, the insurer aims to manage economic and regulatory Solvency Capital Requirement cover within management's target bands, implying that capital strength will be sustained over the rating horizon. This is supported by a demonstrated capital management framework, with the company's internally developed, risk-based model being well entrenched in operations and strategic decision making. Furthermore, Santam uses a mature and embedded Enterprise Risk Management framework, which has been independently assessed and is integrated into operations and capital allocation.

Santam's operations have been highly cash generative over the review period, with cumulative operating cash flow totalling R7bn. This is further supported by a large portion of readily redeemable instruments, contributing to strong liquidity metrics. GCR expects adjusted liquidity levels to remain robust over the rating horizon, underpinned by strong operational cash generation and consistency in asset liability matching. Higher risk investment assets represented 61% of capital at FY17 (FY16: 69%), implying an intermediate degree of asset risk.

Santam's earnings capacity is viewed to be strong, having evidenced profit resilience through adverse underwriting cycles. The insurer's underwriting margin has averaged 5% over the review period, versus the cumulative loss posted by its larger intermediated peers. GCR expects net profitability to be sustained going forward, although noting the potential for capital market fluctuations to introduce a degree of variability.

The rating is supported by the insurer's integrated position within the Sanlam group, with a high level of strategic alignment emanating from the short term offering, which complements the group's comprehensive product range.

GCR assesses Santam's debt serviceability metrics to be sound on an aggregate basis. Gross gearing continued to register within a low range, while the insurer remained ungeared on a net basis. Furthermore, the insurer reflected a comfortable profit based interest coverage metric.

Both the national and international scale claims paying ability ratings are at their respective rating ceilings. Downward rating adjustments may arise if there is significant and sustained weakening in earnings capacity and/or compression in risk adjusted capitalisation below targeted levels.

NATIONAL SCALE RATINGS HISTORY

Initial rating (May 2009)
Claims paying ability: AAA_(ZA)
Outlook: Stable

Last rating (July 2017)
Claims paying ability: AAA_(ZA)
Outlook: Stable

INTERNATIONAL SCALE RATINGS HISTORY

Initial rating (July 2013)
Claims paying ability: A-
Outlook: Stable

Last rating (June 2018)
Claims paying ability: BB+
Outlook: Stable

NATIONAL SCALE SUBORDINATED DEBT RATINGS HISTORY

Initial rating (June 2009)
Long term subordinated debt: AA_{-(ZA)}
Outlook: Stable

Last rating (July 2017)
Long term subordinated debt: AA_{-(ZA)}
Outlook: Stable

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for Rating Short Term Insurance Companies, updated May 2018
South Africa Short Term Insurance Bulletins, 2001 – 2017
Santam rating reports, 2009 - 2017

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SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Santam Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Santam Limited with no contestation of the ratings.

The information received from Santam Limited and other reliable third parties to accord the credit ratings included:

- The latest audited financial statements to 31 December 2017
- Four years of comparative audited financial statements to 31 December
- Budgeted financial statements to 31 December 2018
- Year to date management accounts to May 2018
- Quantitative statutory returns to 31 December 2017
- The current reinsurance programme summary
- Other relevant documents

The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S INSURANCE GLOSSARY

Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Capacity	The largest amount of insurance available from a company. In a broader sense, it can refer to the largest amount of insurance available in the marketplace.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Claim	A request for payment of a loss, which may come under the terms of an insurance contract.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Distribution Channel	The method utilised by the insurance company to sell its products to policyholders.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Gearing	Gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Liquidity	The speed at which assets can be converted to cash. The ability of an insurer to convert its assets into cash to pay claims if necessary. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loss	The happening of the event for which insurance pays.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account such as interest, tax, depreciation, auditors' fees and directors' fees.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Horizon	The rating outlook period
Short Term	Current; ordinarily less than one year.
Solvency	With regard to insurers, having sufficient assets (capital, surplus, reserves) and being able to satisfy financial requirements (investments, annual reports, examinations) to be eligible to transact insurance business and meet liabilities.
Statutory	Required by or having to do with law or statute.
Subordinated Debt	Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt.
Underwriting	The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.
Underwriting Margin	Measures efficiency of underwriting and expense management processes.

For a detailed glossary of terms please click [here](#)



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