



## Credit Rating Announcement

GCR revises Santam Limited's Outlook to Negative on rising operating environment risks

### Rating action

Johannesburg, 12 August 2020 - GCR Ratings ("GCR") has affirmed Santam Limited's ("Santam") international and national scale financial strength ratings of BB+ and AAA<sub>(ZA)</sub> respectively, with the ratings placed on Negative Outlook. At the same time, GCR has affirmed Santam's national scale long term issuer rating of AA+<sub>(ZA)</sub>, with a Negative Outlook and also affirmed the national scale long term issue ratings of Santam's outstanding subordinated callable notes (Stock Codes SNT02, SNT03, SNT04) of AA-<sub>(ZA)</sub>, with Negative Outlooks.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook/Watch
Santam Limited	Financial strength	International	BB+	Negative Outlook
	Financial strength	National	AAA <sub>(ZA)</sub>	Negative Outlook
	Long term issuer	National	AA+ <sub>(ZA)</sub>	Negative Outlook
SNT02			AA- <sub>(ZA)</sub>	Negative Outlook
SNT03	Long term issue	National	AA- <sub>(ZA)</sub>	Negative Outlook
SNT04			AA- <sub>(ZA)</sub>	Negative Outlook

The rating action follows a reduction in the South African country and insurance sector risk assessments.

The South African country risk score was lowered to 7.0 from 7.5 previously, in a market alert released on the 27<sup>th</sup> May 2020. Click [here](#) to access the link. On 4<sup>th</sup> June 2020, the South African Insurance sector risk score was also lowered to 8.0 from 8.75 previously. Click [here](#) to access link.

Combined, the above country and sector risk scores comprise the operating environment score, which is a key input into GCR's ratings.

### Rating rationale

The Negative Outlook reflects risks emanating from the strained operating environment, most specifically the potential reduction in the financial profile of Santam and its subsidiaries (collectively, Santam) in the wake of the ongoing COVID-19 pandemic.

The ratings continue to be supported by a very strong competitive position, with approximately 23% of total short-term insurance industry GWP in FY19, and high levels of business and geographic premium diversification. We do not anticipate these factors to change over the medium to long term. Conversely, Santam's financial profile is a slight rating negative, balancing tight but well managed capitalisation, strong earnings and intermediate liquidity. The Negative Outlook reflects the potential reduction in all of the financial profile factors, at least over the short term, due to the strained operating environment.

Santam's ratings also benefit from implied parental support, given the insurer's relevance to the Sanlam Limited group, history of performance, and contribution towards group earnings diversification.

The negative one notch spread on the national scale long-term issuer credit rating reflects the regulatory subordination of senior unsecured creditors to policy holders. A further negative two notch spread on the notes reflects the subordinated status and mandatory deferability of the notes (if there is a Regulatory Deficiency Redemption or Interest Deferral Event).

## Outlook statement

The Negative Outlook reflects the potential reduction in the financial profile, due to the strain emanating from the operating environment.

## Rating triggers

The Outlook could revert to Stable if earnings capacity measures in line with expectations, while capitalisation and liquidity remain within the current range. We could lower the ratings if FY20 earnings significantly underperform expectations and potential recovery over the medium term is materially lower than anticipated. Furthermore, if Solvency Capital Requirement and/ or liquidity coverage ratios reduce below 1x the ratings could be downgraded.

## Analytical contacts

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## Related criteria and research

Criteria for the GCR Ratings Framework, May 2019  
Criteria for Rating Insurance Companies, May 2019  
GCR Ratings Scales, Symbols & Definitions, May 2019  
GCR Country Risk Scores, May 2020  
GCR Insurance Sector Risk Scores, July 2020

## Ratings history

Rated Entity / Issue	Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Santam Limited	Financial strength*	Initial	National	AAA <sub>(ZA)</sub>	Stable Outlook	May 2009
		Last	National	AAA <sub>(ZA)</sub>	Stable Outlook	November 2019
	Financial strength*	Initial	International	A-	Stable Outlook	July 2013
		Last	International	BB+	Stable Outlook	November 2019
SNT02**	Long term issuer	Initial/last	National	AA+ <sub>(ZA)</sub>	Stable Outlook	November 2019
	Long term issue	Initial/ last	National	AA- <sub>(ZA)</sub>	Stable Outlook	November 2019
	Long term issue	Initial/ last	National	AA- <sub>(ZA)</sub>	Stable Outlook	November 2019
	Long term issue	Initial/ last	National	AA- <sub>(ZA)</sub>	Stable Outlook	November 2019

\*Formerly claims paying ability.

\*\* Ratings were not accorded to individual notes prior to November 2019.

## Risk score summary

Rating components and factors	Risk score
<b>Operating environment</b>	<b>14.00</b>
Country risk score	6.50
Sector risk score	7.50
<b>Business profile</b>	<b>3.25</b>
Competitive position	1.50
Premium diversification	1.75
Management and governance	0.00
<b>Financial profile</b>	<b>(0.25)</b>
Earnings	0.75
Capitalisation	0.00
Liquidity	(1.00)
<b>Comparative profile</b>	<b>1.00</b>
Group support	1.00
Peer analysis	0.00
<b>Total score</b>	<b>18.00</b>

## Glossary

Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
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.
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.
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.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Horizon	The rating outlook period
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 Margin	Measures efficiency of underwriting and expense management processes.

## SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating process 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; and c.) such ratings are an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to the rated entity. 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. The rated entity participated in the rating process via virtual management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Santam Limited and other reliable third parties to accord the credit ratings included:

- The audited financial results to 31 December 2019;
- Four years of comparative audited numbers;
- Unaudited interim results to 31 May 2020;
- Budgeted financial statements for 2020;
- Santam group and company Own Risk and Solvency Assessment Report to 31 December 2019;
- Santam Solo Statutory return to 30 June 2020; and
- Other related documents.

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