

# Various Negative Rating Actions Taken On South Africa-Based Insurers Following The Negative Outlook On South Africa

November 26, 2019

- On Nov. 22, 2019, S&P Global Ratings revised to negative from stable its outlook on the foreign and local currency sovereign rating on South Africa.
- Our outlook on South Africa indicates that South Africa's fiscal metrics are rapidly worsening as a result of low GDP growth, upwardly revised fiscal deficits, and the growing debt burden.
- These factors could weigh on the quality of assets and earnings prospects of the domestic insurance sector.
- We are therefore revising our outlook on various global scale ratings and lowering various South Africa national scale ratings on nonoperating holding companies (NOHC) and two operating companies, as well as deferrable debt ratings on some domestic insurers.

LONDON (S&P Global Ratings) Nov. 26, 2019--S&P Global Ratings today took various rating actions on the insurers exposed to the South African market, as listed in table 1.

Table 1

## Summary Of South African Insurers Rating Actions

Entity	Global Scale Ratings§	National Scale Ratings
AIG Life South Africa Ltd.	Affirmed at 'BB+'	Affirmed 'zaAAA'
AIG South Africa Ltd.	Affirmed at 'BB+'	Affirmed 'zaAAA'
Allianz Global Corporate and Specialty South Africa Ltd.	Affirmed at 'BBB-'	Affirmed 'zaAAA'
Liberty Group Ltd.		Affirmed 'zaAAA'/'zaA-1+'
Old Mutual Life Assurance Co. (South Africa) Ltd.	Affirmed at 'BB+'	Affirmed 'zaAAA'/'zaA-1+'
Old Mutual Ltd.		Lowered to 'zaA+'/'zaA-1'
Sanlam Capital Markets Proprietary Ltd.		Lowered to 'zaAA'; Affirmed 'zaA-1+'
Sanlam Life Insurance Ltd.		Affirmed 'zaAAA'
Sanlam Ltd.		Lowered to 'zaA+'
Santam Ltd.	Affirmed at 'BB+'	Affirmed 'zaAAA'
Santam Structured Insurance Ltd.*	Affirmed at 'BB'	Lowered 'zaAA'
Santam Structured Reinsurance d.a.c.*	Affirmed at 'BB'	
Santam Structured Reinsurance Ltd. PCC*	Affirmed at 'BB'	

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Table 1

**Summary Of South African Insurers Rating Actions (cont.)**

Entity	Global Scale Ratings§	National Scale Ratings
<b>Issue Credit Ratings</b>		
Subordinated Deferrable - Liberty		Lowered to 'zaA+'
Subordinated Nondeferrable - Liberty		Affirmed 'zaAA'
Subordinated Deferrable - OMLACSA		Lowered to 'zaA+'
Subordinated Deferrable - Sanlam Life Insurance Ltd.		Lowered to 'zaA+'
Subordinated Deferrable - Santam Ltd.		Lowered to 'zaA+'

\*These three Santam structured entities are collectively known as Santam SI Investments. §All outlooks are negative.

We took these rating actions after revising to negative our outlook on South Africa (see "South Africa Outlook Revised To Negative On Worsening Fiscal And Debt Trajectory; Ratings Affirmed," published on Nov. 22, 2019).

Once again, South Africa's economic performance has disappointed, depressed by low investment, power shortages, dry weather, and limited reform momentum. We expect real GDP growth for this year to come in at 0.6%, down from our expectation of 1% in May. Unemployment is at a 16-year high of 29%. As a result, asset quality in the domestic insurance sector is likely to come under additional pressure. Furthermore, the insurance market's growth and earnings prospects could deteriorate from current levels. We therefore see their balance sheets as being more vulnerable.

**Rationale**

**Old Mutual Life Assurance Co. (South Africa) Ltd. (OMLACSA) and Old Mutual Ltd. (OML)**

We affirmed our ratings on OMLACSA at 'BB+', and revised the outlook to negative, in line with the South African sovereign. We rate OMLACSA one notch above the 'BB' foreign currency rating on the sovereign. This reflects our belief that OMLACSA's largely loss-absorbing liability profile would allow it to withstand the stress associated with a foreign currency sovereign default. We use our South African national scale tables to derive our 'zaAAA/zaA-1+' national scale ratings on OMLACSA. For the NOHC, OML, we lowered the South Africa long- and short-term national scale ratings to 'zaA+/zaA-1' from 'zaAA-/zaA-1+'.

We cap our global scale rating on OMLACSA at the 'BB+' local currency ratings on South Africa. This is because, in our view, OMLACSA's (in common with Liberty and Sanlam) asset and liability concentration in the domestic economy makes it susceptible to the financial and macroeconomic stresses associated with a local currency sovereign default.

**Sanlam Life Insurance Ltd. (Sanlam Life) and Liberty Group Ltd.**

We affirmed the national scale ratings on these entities at 'zaAAA', in line with the national scale rating on the sovereign. This reflects our belief that these groups' liability profiles are largely loss-absorbing, which would allow them to withstand the stress associated with a foreign

currency sovereign default.

We cap our ratings on these players at the level of the local currency rating on South Africa because, in our view, their asset and liability concentration in the domestic economy makes them susceptible to the financial and macroeconomic stresses associated with a local currency sovereign default.

### **Sanlam Capital Markets Proprietary Ltd. (SCM)**

We lowered our national scale ratings on SCM to 'zaAA'. We consider SCM to be highly strategic to the Sanlam group and therefore derive its ratings from the Sanlam group.

### **Sanlam Ltd. (NOHC)**

We lowered the national scale rating to 'zaA+', below the rating on Sanlam Life, because of the structural subordination that comes from its NOHC status.

### **Santam Ltd. and Santam SI Investments**

We affirmed our ratings on South African insurer Santam Ltd. at 'BB+' and our national scale ratings at 'zaAAA'. We rate Santam Ltd. above the 'BB' foreign currency sovereign ratings on South Africa. This is because we believe that Santam Ltd. would be able to withstand the stress associated with a South African default on its foreign currency obligations, based on the insurer's asset allocation and regulatory capital base. We assume that group capital funds are fully fungible through the group and could be used in the event of capital stress. Our view is supported by Santam Ltd.'s execution of its credible and board-approved risk mitigation plan.

We cap our global scale rating on Santam Ltd. at the level of our local currency sovereign ratings on South Africa because we consider that the group remains susceptible to financial and macroeconomic stresses, given the insurer's asset and liability concentration in the domestic economy.

We affirmed our 'BB' global scale rating on the three entities collectively known as Santam SI Investments, but lowered our national scale rating on Santam Structured Insurance Ltd. to 'zaAA'.

We continue to regard Santam SI Investments as a highly strategic subgroup of the Santam group. Therefore, our global ratings on it are one notch below those on the group's core operating entity, Santam Ltd.

### **Issue Ratings**

We lowered our national scale ratings on the deferrable debt issued by Liberty, OMLACSA, Sanlam Life, and Santam Ltd. to reflect the increased payment risk of the issuers. Under our methodology for rating such issues, we apply a one-notch downward adjustment to the global scale rating on an issuer to take into account the coupon payment risk on the debt and then derive the national scale rating using our mapping. Because of the increased payment risk, we selected the lower of the two national scale rating options ('zaAA', instead of 'zaAA+', which we had selected previously). We then deduct another two notches from the resulting national scale rating to reflect the subordination. As a result, for Liberty, OMLACSA, Sanlam Life and Santam Ltd., we rate the deferrable notes four notches below our 'zaAAA' South Africa national scale rating. Liberty's nondeferrable note is rated 'zaAA', two notches below the 'zaAAA' issuer level rating.

## **AIG South Africa Ltd. and AIG Life South Africa Ltd. (collectively known as AIG SA)**

We affirmed our 'BB+' global scale and our 'zaAAA' national scale ratings on AIG SA.

AIG SA's strong capital position and liquid assets allow it to withstand the stress associated with our foreign currency sovereign default scenario. Consequently, we rate AIG SA above our foreign currency rating on South Africa, as we believe the insurer is unlikely to default on its insurance liabilities in the event of a foreign currency default by South Africa.

We continue to view AIG SA as strategically important to the wider AIG group. We could assign up to three notches of uplift to reflect group support, up to the level of the local currency sovereign rating. In AIG SA's case, group support does not lead to a rating uplift, as our assessment of its stand-alone credit profile is already at the same level as the local currency sovereign rating.

## **Allianz Global Corporate and Specialty South Africa Ltd. (AGCSSA)**

We affirmed our ratings on AGCSSA at 'BBB-' and our national scale ratings at 'zaAAA'. We consider Allianz willing and able to support AGCSSA if South Africa comes under stress, especially because we consider it to be highly strategic to Allianz. AGCSSA is relative small compared with the group as a whole, and we anticipate that that Allianz would want to mitigate any hypothetical solvency issues of its entities, to avoid potential reputational issues for the whole group. We therefore rate AGCSSA two notches above the foreign currency rating on South Africa.

## **Outlooks**

### **AIG SA, AGCSSA, and OMLACSA**

The negative outlook on these entities reflects our negative outlook on the sovereign. Over the next 12 months, the most likely trigger for further rating actions, positive or negative, would be a similar action on the sovereign.

### **Santam Ltd. including Santam SI Investments**

The negative outlook on the global scale ratings on these entities mirrors the negative outlook on the sovereign. Over the next 12 months, the most likely trigger for further rating actions, positive or negative, would be a similar action on the sovereign. For Santam, we could also lower the rating if it were to fail our sovereign stress test and we see signs that it is not executing its risk-mitigation plan, or if the insurer's capital and earnings were to weaken below the current levels.

The negative outlook on Santam SI Investments mirrors the negative outlook on Santam because the ratings are linked; we consider Santam SI Investments to be highly strategic to the Santam group.

## National Scale Ratings

Our national scale ratings have no outlooks. That said, any rating action on the global scale sovereign rating on South Africa could have a multiple-notch effect on our national scale ratings.

## Ratings Score Snapshots (Where Applicable)

### Rating Score Snapshots

#### Santam Ltd.

Business Risk Profile	Satisfactory
Competitive position	Strong
IICRA	Moderately High
Financial Risk Profile	Fair
Capital and earnings	Fair
Risk exposure	Moderately Low
Funding structure	Neutral
Anchor	bbb
Modifiers	
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
Financial Strength Rating	BB+/Negative

#### AIG South Africa Ltd.

Business Risk Profile	Fair
Competitive position	Satisfactory
IICRA	Moderately High
Financial Risk Profile	Fair
Capital and earnings	Satisfactory
Risk exposure	Moderately High
Funding structure	Neutral
Anchor	bb+
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	BB+/Negative

#### Old Mutual Life Assurance Co. (South Africa) Ltd.

Business Risk Profile	Satisfactory
Competitive position	Strong

### Rating Score Snapshots (cont.)

IICRA	Moderately High
Financial Risk Profile	Fair
Capital and earnings	Satisfactory
Risk exposure	Moderately High
Funding structure	Neutral
Anchor	bbb-
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	BB+/Negative

IICRA--Insurance industry and country risk assessment.

### Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

### Related Research

- South Africa Outlook Revised To Negative On Worsening Fiscal And Debt Trajectory; Ratings Affirmed, Nov. 22, 2019

### Ratings List

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**Ratings Affirmed; Outlook Action**

	To	From
<b>Allianz Global Corporate and Specialty South Africa Ltd.</b>		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
Financial Strength Rating	BBB-/Negative/--	BBB-/Stable/--

**Ratings Affirmed**

<b>Allianz Global Corporate and Specialty South Africa Ltd.</b>		
South Africa National Scale	zaAAA/--/--	

**Ratings Affirmed; Outlook Action**

	To	From
<b>AIG South Africa Ltd.</b>		
<b>AIG Life South Africa Ltd.</b>		
Issuer Credit Rating	BB+/Negative/--	BB+/Stable/--
Financial Strength Rating	BB+/Negative/--	BB+/Stable/--

**Ratings Affirmed**

<b>AIG South Africa Ltd.</b>		
<b>AIG Life South Africa Ltd.</b>		
South Africa National Scale	zaAAA/--/--	

**Downgraded**

	To	From
<b>Old Mutual Ltd.</b>		
South Africa National Scale	zaA+--/zaA-1	zaAA--/zaA-1+
<b>Old Mutual Life Assurance Co. (South Africa) Ltd.</b>		
Subordinated	zaA+	zaAA-

**Ratings Affirmed; Outlook Action**

	To	From
<b>Old Mutual Life Assurance Co. (South Africa) Ltd.</b>		
Issuer Credit Rating	BB+/Negative/--	BB+/Stable/--
Financial Strength Rating	BB+/Negative/--	BB+/Stable/--

**Ratings Affirmed**

<b>Old Mutual Life Assurance Co. (South Africa) Ltd.</b>		
South Africa National Scale	zaAAA/--/zaA-1+	

**Ratings Affirmed; Outlook Action**

	To	From
<b>Santam Ltd.</b>		
Issuer Credit Rating	BB+/Negative/--	BB+/Stable/--
Financial Strength Rating	BB+/Negative/--	BB+/Stable/--

## Various Negative Rating Actions Taken On South Africa-Based Insurers Following The Negative Outlook On South Africa

### Downgraded; Ratings Affirmed

	To	From
<b>Sanlam Capital Markets Proprietary Ltd.</b>		
South Africa National Scale	zaAA/--/zaA-1+	zaAA+/--/zaA-1+

### Downgraded

	To	From
<b>Sanlam Ltd.</b>		
South Africa National Scale	zaA+/--/--	zaAA/--/--

### Santam Ltd.

Subordinated	zaA+	zaAA-
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### Sanlam Life Insurance Ltd.

Subordinated	zaA+	zaAA-
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### Ratings Affirmed

#### Santam Ltd.

#### Sanlam Life Insurance Ltd.

South Africa National Scale	zaAAA/--/--	
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### Ratings Affirmed; Outlook Action

	To	From
<b>Sanlam Structured Insurance Ltd.</b>		
<b>Santam Structured Reinsurance Ltd. PCC</b>		
<b>Santam Structured Reinsurance DAC</b>		
Issuer Credit Rating	BB/Negative/--	BB/Stable/--
Financial Strength Rating	BB/Negative/--	BB/Stable/--

### Downgraded

	To	From
<b>Sanlam Structured Insurance Ltd.</b>		
Financial Strength Rating	zaAA/--/--	zaAA+/--/--

### Ratings Affirmed

#### Liberty Group Ltd.

South Africa National Scale	zaAAA/--/zaA-1+	
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#### Liberty Group Ltd.

Subordinated	zaAA	
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### Downgraded

	To	From
<b>Liberty Group Ltd.</b>		
Subordinated	zaA+	zaAA-

## Regulatory Disclosures

Allianz Global Corporate and Specialty South Africa Ltd.

Primary Credit Analyst: Trevor Barsdorf, Associate Director

Rating Committee Chairperson: Johannes Bender

Date initial rating assigned: Aug. 14, 2014

Date of previous review: Oct. 04, 2019

AIG South Africa Ltd.

Primary Credit Analyst: Trevor Barsdorf, Associate Director

Rating Committee Chairperson: Johannes Bender

Date initial rating assigned: Oct. 14, 2013

Date of previous review: Aug. 23, 2019

AIG Life South Africa Ltd.

Primary Credit Analyst: Trevor Barsdorf, Associate Director

Rating Committee Chairperson: Johannes Bender

Date initial rating assigned: Oct. 14, 2013

Date of previous review: Aug. 23, 2019

Liberty Group Ltd.

Primary Credit Analyst: Trevor Barsdorf, Associate Director

Rating Committee Chairperson: Johannes Bender

Date initial rating assigned: Feb. 18, 2016

Date of previous review: Aug. 13, 2019

Sanlam Capital Markets Proprietary Ltd.

- Primary Credit Analyst: Trevor Barsdorf, Associate Director

- Rating Committee Chairperson: Johannes Bender

- Date initial rating assigned: Feb. 25, 2016

- Date of previous review: Feb. 28, 2019

Santam Ltd.

Primary Credit Analyst: Trevor Barsdorf, Associate Director

Rating Committee Chairperson: Johannes Bender

Date initial rating assigned: Oct. 10, 2012

Date of previous review: Aug. 27, 2019

Santam Structured Insurance Ltd.

## Various Negative Rating Actions Taken On South Africa-Based Insurers Following The Negative Outlook On South Africa

Primary Credit Analyst: Trevor Barsdorf, Associate Director

Rating Committee Chairperson: Johannes Bender

Date initial rating assigned: May 24, 2017

Date of previous review: Aug. 27, 2019

Santam Structured Reinsurance DAC

Primary Credit Analyst: Trevor Barsdorf, Associate Director

Rating Committee Chairperson: Johannes Bender

Date initial rating assigned: May 24, 2017

Date of previous review: Aug. 27, 2019

Santam Structured Reinsurance Ltd. PCC

Primary Credit Analyst: Trevor Barsdorf, Associate Director

Rating Committee Chairperson: Johannes Bender

Date initial rating assigned: May 24, 2017

Date of previous review: Aug. 27, 2019

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## Glossary

- Anchor: The starting point for rating an insurer, based on S&P Global Ratings' assessments of the business and financial risk profiles.
- Business risk profile (BRP): Assesses the risk inherent in the insurer's operations and therefore the potential sustainable return to be derived from those operations.
- Capital and earnings: Measure of an insurer's ability to absorb losses.
- Competitive position: An assessment based on an insurer's market or niche position, scale or efficiency of operations, brand name recognition or reputation, and strength of distribution.
- Date initial rating assigned: The date S&P Global Rating's assigned the long-term foreign currency issuer credit rating on the entity.
- Date of previous review: The date S&P Global Rating's last reviewed the credit rating on the entity.
- Earnings before interest (other than interest on nonrecourse or operational leverage) and taxes. We may apply analytical adjustments for items such as nonrecurring events; realized investment gains/losses; or impairments to goodwill.
- Earnings before interest (other than interest on nonrecourse or operational leverage), taxes, depreciation, and amortization. We may apply analytical adjustments for items such as nonrecurring events, realized investment gains/losses, impairments to goodwill, or other non-cash items. Where we believe depreciation and amortization is immaterial, we may use EBIT in the relevant ratios.
- Financial leverage. Financial obligations/(reported equity + financial obligations). We deduct from reported equity any off-balance-sheet pension deficit, net of tax, and any financial obligations included in reported equity, such as preferred stock. We typically include noncontrolling interests as part of reported equity. We may use net assets rather than reported equity, for example in the case of mutual insurers.
- Financial obligations/EBITDA. Determines the number of years of normalized earnings required to pay back debt and is another measure of the sustainability of the level of debt taken on by an insurer.
- Financial risk profile (FRP): The consequence of decisions that management makes in the context of its business risk profile and its risk tolerances.
- Financial strength rating (FSR): A forward-looking opinion about the financial security characteristics of an insurer with respect to its ability to pay under its insurance policies and contracts, in accordance with their terms.
- Fixed-charge coverage. EBITDA/fixed charges. Fixed-charge coverage represents an insurer's ability to service interest on financial obligations out of EBITDA. Fixed charges include total interest expense including interest expense reported as investment expense, lease expense, and preferred stock dividends (tax-adjusted), minus any interest expense on debt that we consider to be nonrecourse or operational leverage.
- Insurance Industry And Country Risk Assessment (IICRA): Addresses the risks typically faced by insurers operating in specific industries and countries, and is generally determined at a country or regional level.
- Issuer credit rating (ICR): A forward-looking opinion about an obligor's overall creditworthiness,

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focusing on its capacity and willingness to meet its financial obligations in full and as they come due.

- Risk exposure: Assesses material risks that the capital and earnings analysis does not incorporate and specific risks that it captures but that could make an insurer's capital and earnings significantly more or less volatile.
- Return on equity (ROE): Reported net income divided by the average of opening and closing reported equity for the year. Reported net income is before remuneration of preferred stock and non-controlling interests. Reported equity includes non-controlling interests and preferred stock.
- Stand-alone credit profile (SACP): S&P Global Ratings' opinion of an insurer's creditworthiness, in the absence of extraordinary intervention from its parent, affiliate, or related government.
- Total assets are the average of opening and closing total assets (less reinsurance assets) for the year.

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