

Various Rating Actions Taken On South Africa-Based Insurers And Reinsurers Following Sovereign Downgrade

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- On April 3, 2017, we lowered our foreign currency sovereign ratings on the Republic of South Africa to 'BB+/B' from 'BBB-/A-3' and our local currency sovereign ratings to 'BBB-/A-3' from 'BBB/A-2'.
- We think that economic conditions in South Africa have increased risks from asset exposure on domestic insurers' balance sheets.
- We are therefore lowering our ratings on various South Africa-based insurers and reinsurers and revising the outlooks to negative from stable on some others.
- The negative outlooks largely reflect that on the sovereign, meaning we could lower the ratings further if we lower our ratings on South Africa.

JOHANNESBURG (S&P Global Ratings) April 7, 2017--S&P Global Ratings today took various rating actions on insurers and reinsurers exposed to the South African market.

Specifically, we lowered our global scale long-term counterparty credit and financial strength ratings to 'BBB-' from 'BBB' on AIG South Africa Ltd. and AIG Life South Africa Ltd. (collectively, AIGSA) and on Allianz Global Corporate and Specialty South Africa Ltd. (AGCSSA). The outlooks on the global scale

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long-term ratings are negative. At the same time, we lowered our South Africa national scale ratings on these entities to 'zaAA-' from 'zaAAA'.

We lowered our global scale long-term counterparty credit and financial strength ratings on Santam Ltd. to 'BBB-' from 'BBB' and lowered our South Africa national scale ratings on Santam to 'zaAA-' from 'zaAAA'. The outlooks on the global scale ratings are negative.

We revised the outlook to negative from stable and affirmed our 'AA-' financial strength ratings on the four entities listed below:

- Hannover Reinsurance Africa Ltd.
- Hannover Life Reassurance Africa Ltd.
- Munich Reinsurance Co. of Africa Ltd.
- SCOR Africa Ltd.

We lowered our long-term South Africa national scale ratings to 'zaAA-' from 'zaAAA' and affirmed our short-term ratings at 'zaA-1' on the following life insurers:

- Liberty Group Ltd.
- Old Mutual Life Assurance Co. (South Africa) Ltd.

We lowered our long-term South Africa national scale ratings on Sanlam Life Insurance Ltd. to 'zaAA-' from 'zaAAA'. We have also lowered our South Africa national scale ratings on subsidiary Sanlam Capital Markets Proprietary Ltd. to 'zaA' from 'zaAA-' and affirmed our 'zaA-1' short-term rating. We have lowered our long-term South Africa national scale rating on the non-operating holding company Sanlam Ltd. to 'zaBBB' from 'zaA'.

We lowered our long-term South Africa national scale issue ratings to 'zaA' from 'zaAA-' on the subordinated deferrable debt issued by:

- Santam Ltd.
- Sanlam Life Insurance Ltd.
- Old Mutual Life Assurance Co. (South Africa) Ltd.
- Liberty Group Ltd.

We lowered our long-term South Africa national scale issue rating to 'zaA+' from 'zaAA+' on Liberty's subordinated non-deferrable debt.

These rating actions follow our recent rating action on South Africa (see "South Africa Long-Term Foreign Currency Rating Cut To 'BB+' On Political And Institutional Uncertainty; Outlook Negative," published April 3, 2017, on RatingsDirect). The downgrade reflects our view that the divisions in the African National Congress-led government that have led to changes in the executive leadership, including the finance minister, have put policy continuity at risk. This has increased the likelihood that economic growth and fiscal outcomes could suffer.

As regards the life insurers we rate--Sanlam, Liberty, and Old Mutual--we consider that economic conditions in South Africa have led to increased asset risk in their balance sheets. However, we believe that they would withstand the stress associated with a foreign currency sovereign default, if one were to occur.

These life insurers hold most of their assets in South Africa. However, a material part of their liabilities are with-profit or unit-linked, and feature substantial loss-sharing abilities with policyholders. We therefore expect their policyholder funds to share the bulk of losses that could arise from a potential sovereign default. We would expect shareholder funds to suffer substantially under a foreign currency sovereign default, but not be fully exhausted. However, we limit the ratings on these life players to the level of our local currency sovereign credit ratings on South Africa, since we believe they remain susceptible to financial and macroeconomic stresses associated with a local currency sovereign default, given their asset and liability concentration in the domestic economy.

The negative rating actions on the life insurers debt reflects our opinion that:

- They face increased exposure to credit risk within asset portfolios following the sovereign downgrade, which somewhat increases deferability risk on such issues.
- Such increased risk is somewhat mitigated by our views on their sound balance sheet resilience.

The lowering of our ratings on Sanlam Capital Markets Proprietary Ltd. (SCM) reflects the negative action on Sanlam. We consider SCM as highly strategically important to Sanlam and therefore derive its ratings based on those on Sanlam.

The downgrade of non-operating holding company Sanlam Ltd. reflects that on Sanlam group. We also take into account the structural subordination that comes from its non-operating holding company status.

We think that Santam would be able to withstand the stress associated with a default by South Africa on its foreign currency obligations, based on its asset base and supported by its credible and executable risk-mitigation plan. In our opinion, these strengths indicate that the insurer is unlikely to default on its insurance liabilities under a sovereign default, if one were to occur. Therefore, we rate Santam above the foreign currency sovereign rating on South Africa.

However, we limit the ratings on Santam at the level of our local currency sovereign credit ratings on South Africa because we believe the group remains susceptible to financial and macroeconomic stresses, given the insurer's asset and liability concentration in the domestic economy.

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The rating action on Santam's debt reflects our opinions that:

- Santam has increased exposure to credit risk within asset portfolios following the sovereign downgrade, which somewhat increases deferability risk on such issues.
- Such increased risk is somewhat mitigated by our views of Santam's sound balance-sheet resilience.

We consider that AIG South Africa Ltd. and AIG Life South Africa Ltd. (collectively AIGSA) would remain solvent in the event of a foreign currency default by South Africa and that the insurer is unlikely to default on its insurance liabilities in such an event. Consequently, we rate AIGSA above our foreign currency rating on South Africa.

Despite its conservative investment profile and solid capitalization, we believe AIGSA remains susceptible to financial and macroeconomic stresses associated with a sovereign default on its local currency obligations, given its asset and liability concentration in the domestic economy.

We continue to view AIGSA as strategically important within the AIG group. We could assign three notches of uplift to reflect group support. However, in AIGSA's case, our assessment of its stand-alone credit profile (SACP) is at the same level as the local currency sovereign rating and we therefore apply no uplift.

The ratings on Allianz Global Corporate and Specialty South Africa Ltd. (AGCSSA) continue to reflect that the insurer is highly strategic to its parent, Allianz Global Corporate & Specialty SE (AGCS SE), which is a core subgroup of Allianz SE. However, we rate AGCSSA at the level of the local currency sovereign rating on South Africa, reflecting its concentration in South Africa.

Hannover Reinsurance Africa Ltd. (HRAL) and Hannover Life Reassurance Africa Ltd. (HRLAL), as well as Munich Reinsurance Co. of Africa Ltd. (Munich Re Africa) and SCOR Africa Ltd. continue to benefit from policyholder guarantees from their respective parents, Hannover Rueck SE (AA-/Stable/--), Munich Reinsurance Co. (AA-/Stable/--), and SCOR SE (AA-/Stable/A-1+). The financial strength ratings on subsidiaries benefiting from a policyholder guarantee can exceed a local currency long-term sovereign credit rating by up to six notches if the sovereign rating is 'BBB-' or higher, or by four notches if the sovereign rating is 'BB+' or lower. We have therefore affirmed our ratings on HRAL, HRLAL, SCOR Africa, and Munich Re Africa.

OUTLOOK

The negative outlooks on AIGSA, AGCSSA, and Santam reflect the negative outlook on the sovereign. We could therefore downgrade these three insurers if we downgraded the sovereign. Additionally, in Santam's case, a downgrade could follow its failure to execute its risk-mitigation plan.

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The negative outlooks on HRAL, HRLAL, Munich Re Africa, and SCOR Africa indicate that a lowering of the local currency sovereign rating could lead to a downgrade of up to three notches of these insurers. This would reflect a downgrade of the sovereign, together with narrowing of the notching between the sovereign ratings and the ratings on the guaranteed entities.

We could revise the outlooks on all the insurers mentioned just above to stable if we revised our outlook on South Africa to stable.

Our national scale ratings have no outlooks, but we consider that insurers in South Africa are exposed to changes in the ratings on the sovereign and the economic environment.

RELATED CRITERIA

- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 01, 2016
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria - Insurance - General: Methodology For The Classification And Treatment Of Insurance Companies' Operational Leverage, Oct. 31, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 07, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 07, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 07, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 09, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

RELATED RESEARCH

- South Africa Long-Term Foreign Currency Rating Cut To 'BB+' On Political

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And Institutional Uncertainty; Outlook Negative, April 3, 2017

- Insurance Industry And Country Risk Assessment: South Africa Life, Oct. 12, 2016
- Insurance Industry And Country Risk Assessment: South Africa Property/Casualty, Oct. 12, 2016

RATINGS LIST

* * * * * AIG South Africa Ltd. * * * * *

Downgraded

	To	From
AIG Life South Africa Ltd.		
AIG South Africa Ltd.		
Counterparty Credit Rating	BBB-/Negative/--	BBB/Negative/--
Financial Strength Rating	BBB-/Negative/--	BBB/Negative/--
South Africa National Scale	zaAA-/--/--	zaAAA/--/--

* * * * * Allianz Global Corporate and Specialty South Africa Ltd. * * * * *

Downgraded

	To	From
Allianz Global Corporate and Specialty South Africa Ltd.		
Counterparty Credit Rating	BBB-/Negative/--	BBB/Negative/--
Financial Strength Rating	BBB-/Negative/--	BBB/Negative/--
South Africa National Scale	zaAA-/--/--	zaAAA/--/--

* * * * * Hannover Reinsurance Africa Ltd. * * * * *

Outlook Action; Ratings Affirmed

	To	From
Hannover Reinsurance Africa Ltd.		
Hannover Life Reassurance Africa Ltd.		
Financial Strength Rating	AA-/Negative/--	AA-/Stable/--

* * * * * Liberty Group Ltd. * * * * *

Downgraded; Ratings Affirmed

	To	From
Liberty Group Ltd.		
Counterparty Credit Rating		
South Africa National Scale	zaAA-/--/zaA-1	zaAAA/--/zaA-1
Subordinated Non-Deferrable	zaA+	zaAA+
Subordinated Deferrable	zaA	zaAA-

* * * * * Munich Reinsurance Co. * * * * *

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Outlook Action; Ratings Affirmed

	To	From
Munich Reinsurance Co. of Africa Ltd. Financial Strength Rating	AA-/Negative/--	AA-/Stable/--

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

Downgraded; Ratings Affirmed

	To	From
Old Mutual Life Assurance Co. (South Africa) Ltd. Counterparty Credit Rating		
South Africa National Scale	zaAA/--/zaA-1	zaAAA/--/zaA-1
Subordinated Deferrable	zaA	zaAA-

* * * * * Sanlam Ltd. and Santam Ltd. * * * * *

Downgraded

	To	From
Santam Ltd. Counterparty Credit Rating	BBB-/Negative/--	BBB/Negative/--
Financial Strength Rating	BBB-/Negative/--	BBB/Negative/--
South Africa National Scale	zaAA/--/--	zaAAA/--/--

Sanlam Life Insurance Ltd. Counterparty Credit Rating		
South Africa National Scale	zaAA/--/--	zaAAA/--/--

Sanlam Ltd. Counterparty Credit Rating		
South Africa National Scale	zaBBB/--/--	zaA/--/--

Santam Ltd. Sanlam Life Insurance Ltd. Subordinated Deferrable	zaA	zaAA-
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Downgraded; Ratings Affirmed

	To	From
Sanlam Capital Markets Proprietary Ltd. Counterparty Credit Rating		
South Africa National Scale	zaA/--/zaA-1	zaAA/--/zaA-1

* * * * * SCOR Africa Ltd. * * * * *

Outlook Action; Ratings Affirmed

	To	From
SCOR Africa Ltd. Financial Strength Rating	AA-/Negative/--	AA-/Stable/--

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REGULATORY DISCLOSURES

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

- Primary Credit Analyst: Trevor Barsdorf, Rating Analyst
- Rating Committee Chairperson: Marco Sindaco
- Date initial rating assigned: March 3, 2003
- Date of previous review: Dec. 12, 2016

AIG South Africa Ltd.

AIG Life South Africa Ltd.

- Primary Credit Analyst: Trevor Barsdorf, Rating Analyst
- Rating Committee Chairperson: David Laxton
- Date initial rating assigned: May 2, 2014
- Date of previous review: Dec. 12, 2016

Hannover Life Reassurance Africa Ltd.

Hannover Reinsurance Africa Ltd.

- Primary Credit Analyst: Trevor Barsdorf, Rating Analyst
- Rating Committee Chairperson: Marco Sindaco
- Date initial rating assigned: Nov. 30, 2011
- Date of previous review: Feb. 08, 2017

Sanlam Capital Markets Proprietary Ltd.

- Primary Credit Analyst: Matthew Pirnie, Rating Analyst
- Rating Committee Chairperson: David Laxton
- Date initial rating assigned: Feb. 25, 2016
- Date of previous review: Oct. 25, 2016

Santam Ltd.

- Primary Credit Analyst: Trevor Barsdorf, Rating Analyst
- Rating Committee Chairperson: David Laxton
- Date initial rating assigned: Oct. 10, 2012
- Date of previous review: Dec. 12, 2016

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This rating has been determined by a rating committee based solely on the committee's independent evaluation of the credit risks and merits of the issuer or issue being rated in accordance with S&P Global Ratings published criteria and no part of this rating was influenced by any other business activities of S&P Global Ratings.

This credit rating is solicited. The rated entity did participate in the credit rating process. S&P Global Ratings did have access to the accounts, financial records and other relevant internal, non-public documents of the rated entity or a related third party. S&P Global Ratings has used information from sources believed to be reliable but does not guarantee the accuracy, adequacy, or completeness of any information used.

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.
- **Collateral posting risk:** Assessment of an insurer's exposure to collateral posting requirements in the event of rating downgrades or other triggers, relative to liquid assets.
- **Combined ratio:** The ratio of the sum of loss expense, loss adjustment expense, and operating expenses divided by premiums earned.
- **Competitive position:** An assessment based on an insurer's operating performance, branding, market position, diversification and control over its distribution channels.
- **Date initial rating assigned:** The date S&P Global Ratings assigned the long-term foreign currency issuer credit rating on the entity.
- **Date of previous review:** The date S&P Global Ratings last reviewed the credit rating on the entity.
- **Earnings before interest and taxation (EBIT):** Profit before tax and interest expenses.
- **EBITDA:** The sum of EBIT and depreciation on tangible fixed assets plus amortization of intangible assets except for deferred acquisition costs and value of business acquired.
- **Economic capital available:** ECA is a broader, more economic view of owner (shareholders, or policyholders in the case of mutual) capital with a longer-term view on crystallizing value.
- **Employee benefits obligations:** Employee postemployment defined-benefit obligations (including pension and retiree health care benefits) in terms of both liability and asset risks.
- **Enterprise risk management (ERM):** Our assessment of ERM examines whether insurers execute risk management practices in a manner that effectively limits future losses.
- **Financial flexibility:** The balance between an insurer's sources and uses of external capital and liquidity over the current and next two years.
- **Financial leverage ratio:** Total financial obligations over the sum of economic capital available, debt, and hybrids.
- **Financial leverage:** The financial leverage subfactor addresses the degree of an insurer's indebtedness relative to its total capitalization. Total financial obligations over the sum of ECA (economic capital available), debt, and hybrids.
- **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: Addresses an insurer's ability to service interest on financial obligations out of EBITDA.
- Foreign exchange risk exposure: Assesses currency mismatches between assets and liabilities (including equity). The criteria define a significant mismatch as more than about 10% of total insurer's liabilities.
- Headroom for covenants: Assesses the risk to an insurer's liquidity of not complying with covenants and rating triggers on its third-party financial obligations, including reinsurance and insurance contracts.
- High-risk assets: Volatile or illiquid assets.
- 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.
- Intangibles: The sum of goodwill, intangible assets, deferred acquisition costs (DAC), value of in-force, value of business acquired, and deferred tax assets.
- Issuer credit rating (ICR): A forward-looking opinion about an obligor's overall creditworthiness, focusing on its capacity and willingness to meet its financial obligations in full and as they come due.
- Operating return on embedded value: Post-tax operating profit divided by the average of embedded value at period-end and a year before.
- Prebonus pretax earnings: The sum of EBITDA and policyholder dividends.
- Return on assets (ROA): Indicates to us how efficiently management uses its assets to generate earnings by comparing EBIT to the two-year average of total assets adjusted. Total assets adjusted is total assets minus reinsurance assets.
- Return on revenue (ROR): Total revenue is used to capture net premium from underwriting activities as well as investment income and fees generated as a result of those underwriting activities. Where total revenue is not reported, it is the sum of the net premiums earned, net investment income, and other income.
- Risk position: Assesses material risks not incorporated in the capital and earnings analysis and specific risks that could affect the volatility of an insurer's TAC.
- Return on equity (ROE): Measures the return available to stockholders. Calculated as reported net income divided by the year-end average of reported stockholders' equity for the past two years.
- 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 adjusted capital (TAC): S&P Global Ratings' measure of the capital an insurer has available to meet capital requirements.

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