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Santam Ltd.

Primary Credit Analyst:

Ali Karakuyu, London + 44 20 7176 7301; ali.karakuyu@spglobal.com

Secondary Contact:

Tatiana Grineva, London + 44 20 7176 7061; tatiana.grineva@spglobal.com

Research Contributor:

Anisha Tole, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

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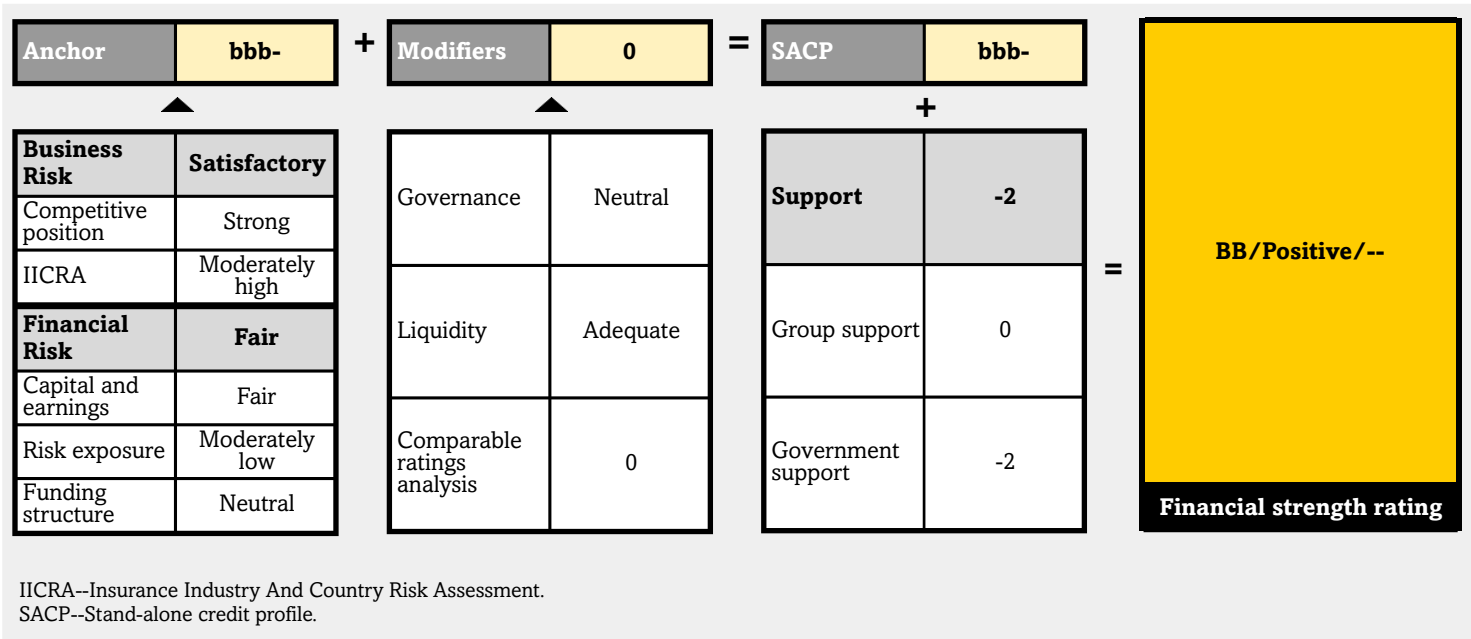
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Santam Ltd.



Credit Highlights

Overview

Key strengths	Key risks
Leading position and prominent brand in South Africa's property/casualty (P/C) market, with good operating performance, in general.	Challenging macroeconomic conditions, with rising inflation and financial market volatility.
Diversified underwriting portfolio, with some international diversification.	Low asset quality, in common with local peers.
	Strained capitalization, with risk-based capital at the bottom of the 'BBB' range.

Santam continues to display a dominant competitive position in the domestic market. We expect Santam to maintain its strong franchise value in South Africa, where it has a leading position in many business lines and a market share of close to 20% by premium income. Santam is increasing its presence in the rest of Sub-Saharan Africa. We believe that Santam has clear risk-management practices that support its good operating performance. Its strong risk-control framework limits underwriting and investment risks, such that potential losses are within its risk appetite.

Higher claims inflation likely to pressure earnings, however, we expect Santam to remain profitable through to 2024. Although COVID-19 related contingent business interruption claims have significantly subsided, major losses from floods in KaZulu Natal province (costing Santam ZAR550 million on a net basis) and rising claims inflation impacted Santam's underwriting result and net earnings. It reported a net income of ZAR492 million at half-year 2022 compared to ZAR1 billion at half-year 2021. However, we expect the group to report better earnings for the second half of 2022. This will likely be supported by rate increases (10%-15%), with a net combined (loss and expense) ratio of around 96% for the year-end 2022 and net income close to ZAR1.6 billion.

Santam's liquidity and sufficient capital buffers allow it to pass our stress test under a hypothetical foreign currency sovereign default. We limit our ratings on Santam, as we do for most local peers, to the level of the local currency ratings on South Africa (foreign currency BB-/Positive/B; local currency BB/Positive/B). This is because Santam's asset and liability concentration in the domestic economy makes it susceptible to the financial and macroeconomic stresses associated with a local currency sovereign default, in our view.

Outlook: Positive

The positive outlooks on Santam reflects our positive outlook on the sovereign.

Downside scenario

An outlook revision to stable over the next 12 months would be driven by a similar action on the sovereign.

Upside scenario

Over the next 12 months, the most likely trigger for an upgrade would be a similar action on the sovereign.

Key Assumptions

Table 1

South Africa Economic Forecast Summary					
	2023f	2022f	2021	2020	2019
Real GDP growth (%)	1.6	2.0	4.9	(6.3)	0.3
Inflation (annual average, %)	6.4	6.8	4.6	3.3	4.1
Unemployment rate (%)	34.6	35.9	34.3	29.2	28.7

f--S&P Global Ratings forecast. Source: S&P research update--Economic Outlook Emerging Markets Q4 2022: Further Growth Slowdown Amid Gloomy Global Prospects, Sept. 27, 2022

Table 2

Santam Ltd.--Key Metrics						
	--year ended 31 Dec--					
	2023f	2022f	2021	2020	2019	2018
S&P Global Ratings capital adequacy	Fair	Fair	Fair	Fair	Fair	Fair
Gross premiums written (Mil. ZAR)	~46,000	~44,000	42,129.0	38,273.0	35,852.0	33,109.0
P/C: Net combined ratio (%)	~94.0	~96.0	92.8	98.4	92.9	91.7
Net investment yield (%)	~3.5	~3.5	1.9	4.1	4.3	5.3
Net income (Mil. ZAR)	~2,300	~1,600	2,844.0	431.0	2,321.0	2,529.0
Return on equity (%)	~18.0	~14.0	25.7	4.3	23.9	29.3
Financial leverage (%)	~16.0	~17.0	22.4	28.2	22.2	23.2

Table 2

	--year ended 31 Dec--					
	2023f	2022f	2021	2020	2019	2018
Fixed charge coverage (x)*	>8.0	>8.0	11.7	5.7	9.8	12.0

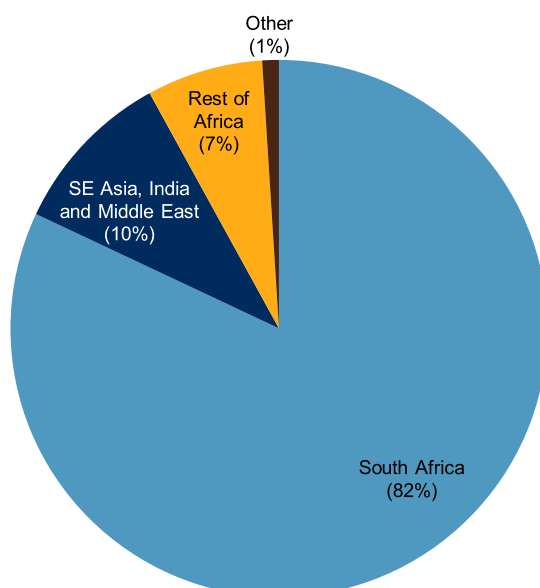
*Excludes net realised and unrealised investment gains (losses) and net exchange gains(losses). ZAR--South African rand; f--Forecast data reflects S&P Global Ratings' base-case assumption.

Business Risk Profile: Satisfactory

Santam maintains its strong position in South Africa's P/C insurance market, with a market share of around 20%. In addition to the main South African P/C sector, Santam has exposure to other regions (chart 1). Through its board representation at Sanlam Emerging Markets (SEM) and key subsidiaries, it provides strategic and technical support when required by SEM. Since Santam writes most of its premium income in South Africa's P/C market, its revenue and earnings are affected by economic conditions, like local peers. However, the group's well-diversified product portfolio (chart 2) and long-established market position help it navigate the challenging market conditions in South Africa.

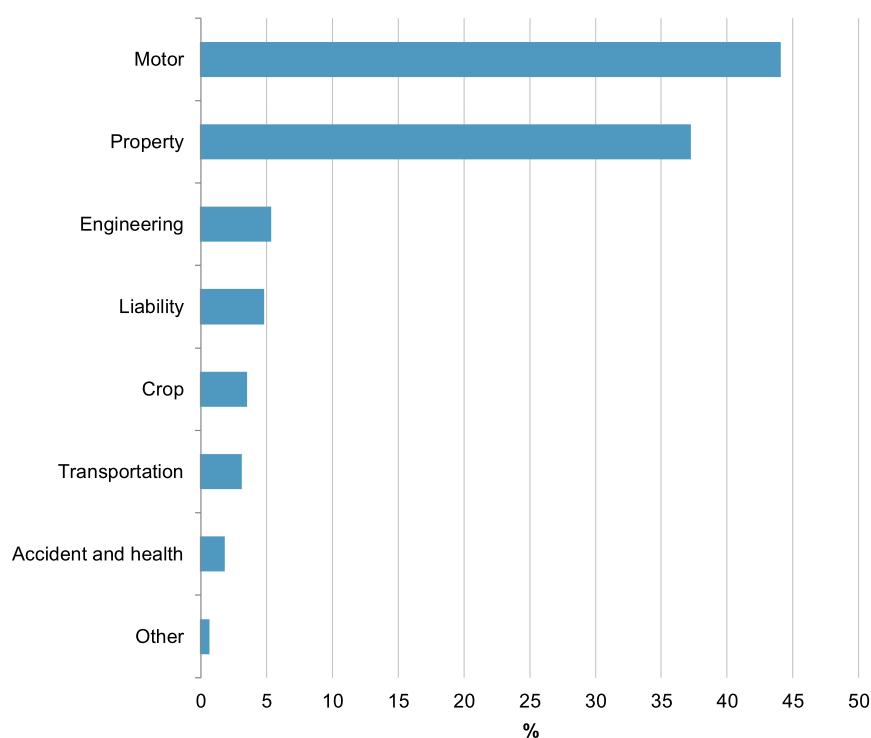
Chart 1

Santam's Business Is Concentrated In South Africa



Source: Santam H1 2022 presentation.

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Chart 2**Santam Is Well Diversified By Product**

Source: Santam YE 2021.

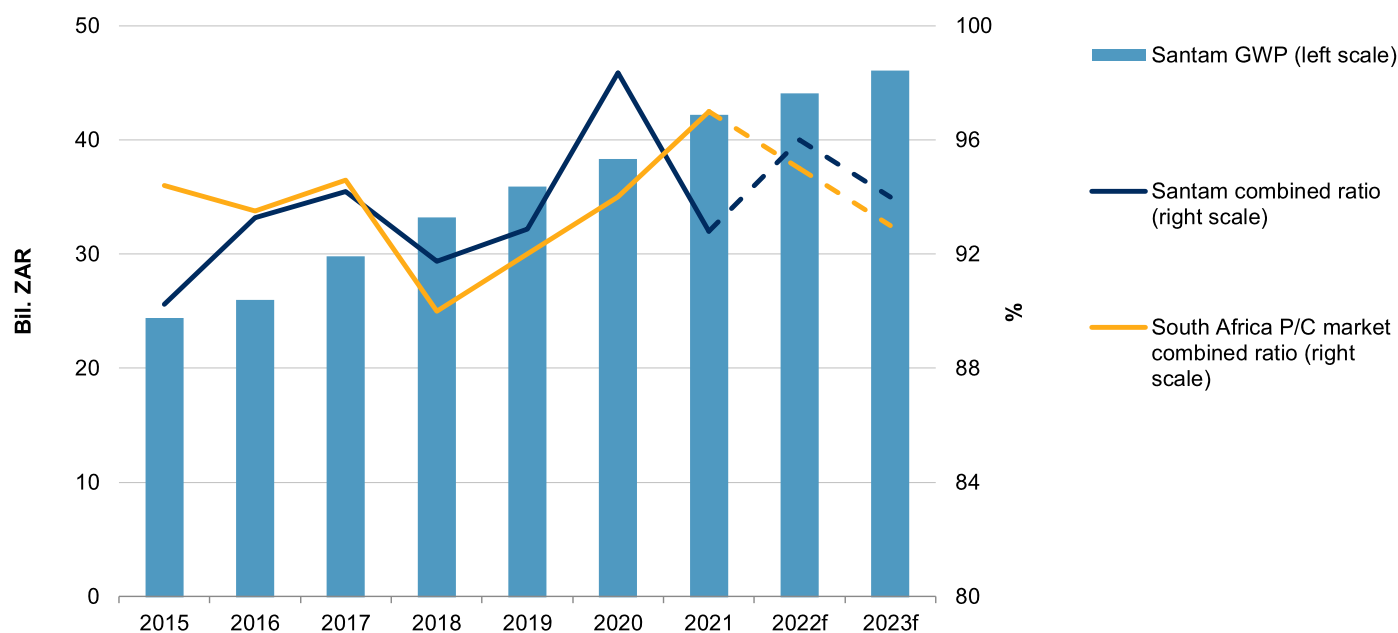
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Santam's operating performance in the first half of 2022 was hindered by adverse claims from floods in the KwaZulu-Natal and higher claims inflation. The net combined ratio as of 30, June 2022 was 98.9%. However, we expect the company's net combined ratio to improve to around 96% by year-end 2022 and to 94% in 2023-2024 supported by gradual rate increases. We expect Santam will grow its business by about 5% through to 2024.

Over the past five years (2017-2021), Santam's premium income increased at a compounded average growth rate of 10.2%, reaching ZAR42.1 billion in 2021, with the average net combined ratio at around 94.0% (chart 3). This is supported by Santam's business diversification within and outside South African markets and good risk-management practices. Overall, the company's underwriting performance is close to the South African P/C market (chart 3). However, its five-year average return on equity (ROE) is 21.4%, which is better than the South Africa P/C market average ROE of around 14.5%.

Chart 3

Santam's Underwriting Performance In Line With South Africa P/C Market



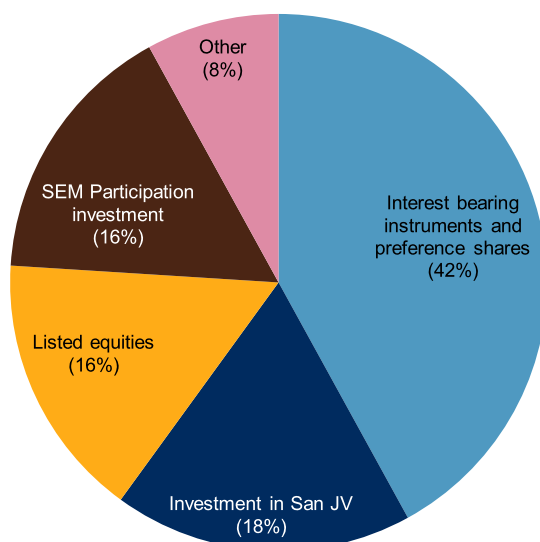
f--Forecast. ZAR--South African rand. P/C--Property/casualty. Source: Santam YE 2021.
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Financial Risk Profile: Fair

Santam's risk-based capital, measured using our capital model, is likely to remain at the lower end of 'BBB' level through to 2024, considering earnings projections and dividend expectation over this period. Santam's financial risk profile is constrained by its low asset quality ('BB' range). Most of its assets in domestic banks are in money market funds and cash instruments, as well as local currency sovereign bonds (chart 4).

From a regulatory perspective, Santam reported a group economic capital coverage ratio of 157% in June 2022 (169% at year-end 2021). Overall, we expect the solvency ratio to sit comfortably within its target range (145%-160%) over the next two years. In the event of shocks, we expect the group to take necessary actions to return to levels within its target. Such actions could include dividend suspension, execution of hedging strategy, or higher reinsurance coverage.

Santam's investment portfolio is concentrated in South Africa, which is common to other local peers. It has exposure to unlisted equities and speculative-grade bonds and bank deposits. However, in our view, Santam's execution of its credible and board-approved risk mitigation plan help it keep capital and earnings volatility within the internally set target.

Chart 4**Santam's Low Asset Quality Reflecting Exposure To Domestic Market**

Source: Santam YE 2021.

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We view Santam's access to external funds as good, particularly because it is an active player in the domestic debt market. Including recently issued unsecured subordinate notes, we estimate Santam's average financial leverage at 20%-25% through to 2024 and the fixed-charge coverage to be above 8x over the same period.

Other Key Credit Considerations

Governance

Santam benefits from an experienced team with a clear strategy focused on extending the group's leadership position in South Africa and building a pan-African position through SEM. Furthermore, the group's goal is to effectively manage capital through the impact of rising claims inflation, the challenging macroeconomic environment and investment market volatility. The group has well planned capital management actions to manage its capital coverage ratios through to 2024.

Liquidity

We view Santam as having a diverse array of available liquidity sources and a highly liquid asset portfolio, which is well managed. This is balanced by the concentration of investments in South Africa that back a significant portion of its technical liabilities. As of Dec. 31, 2021, liquid assets (including fixed-income securities, equities, cash, and

short-term investment) covered total net technical liabilities (after reinsurance) by more than 1.47x.

Ratings above the sovereign

Santam's balance-sheet resilience is supported by the group's capital funds, which are fully fungible through the group and could be used in the event of capital stress. We believe the insurer would be able to withstand the stress associated with a South African default on its foreign currency obligations, based on Santam's asset and regulatory capital base. We continue to rate Santam above our foreign currency sovereign rating on South Africa. However, we limit the ratings on Santam at the level of our local currency sovereign credit rating on South Africa. We believe the insurer remains susceptible to the incremental adverse effect that a default of the sovereign's local currency securities would have on its liquidity and investment position, given its asset concentration in local investment assets.

Factors specific to the holding company

Sanlam Ltd. holds the majority of Santam (around 59.2%) and we assess Santam as strategically important to it. At the same time, we consider it is insulated from the parent due to an independent board of directors and sizable minority shareholders. Furthermore, we assess Santam SI Investments Group (Santam SI) as a highly strategically important subgroup for Santam, and therefore our ratings on Santam SI are one notch below Santam's group credit profile. This is due to Santam's senior management's strong support and involvement in operational and financial decision-making at Santam SI, since it is integrated into the wider group. This is further reinforced by the role Santam SI plays within Santam's broader group strategy, its contribution toward the diversified revenue streams, and shared branding. The ratings on Santam SI's core operating subsidiaries, Santam Structured Insurance Ltd. and Santam Structured Reinsurance Ltd. PCC, are equalized with our group credit profile on the Santam SI subgroup.

Environmental, social, and governance(ESG)

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
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ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of Santam.

Accounting considerations

Santam's financial statements have been prepared in accordance with, and contain information required by, International Financial Reporting Standards.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Economic Outlook EMEA Emerging Markets Q4 2022: Juggling Inflation, Interest Rates, And Growth, Sept. 27, 2022
- Various South Africa-Based Insurers Outlooks Revised To Positive Following Similar Rating Action On The Sovereign, May 25, 2022
- Santam Ltd.'s Unsecured Subordinated Notes Rated 'zaA+', May 11, 2022

Appendix

Santam Ltd.--Credit Metric History			
(Mil. ZAR)	--Year ended Dec. 31--		
Particular	2021	2020	2019
S&P Global Ratings capital adequacy	Fair	Fair	Fair
Total invested assets	39,529.0	37,534.0	33,179.0
Total shareholder equity	12,062.0	10,092.0	10,063.0
Gross premium written	42,129.0	38,273.0	35,852.0
Net premium written	27,363.0	25,517.0	25,132.0
Net premium earned	26,584.0	24,661.0	24,226.0
Reinsurance utilization (%)	35.1	33.3	29.9
EBIT	4,628.0	1,549.0	3,843.0
Net income (attributable to all shareholders)	2,844.0	431.0	2,321.0
Return on revenue (%)	13.0	6.8	13.8
Return on shareholders' equity (%)	25.7	4.3	23.9
P/C: Net combined ratio (%)	92.8	98.4	92.9
P/C: Net expense ratio (%)	31.1	30.4	30.6
Net investment yield (%)	1.9	4.1	4.3
Net investment yield including investment gains/(losses) (%)	4.6	3.6	5.3
Financial leverage (%)	22.4	28.2	22.2
EBITDA fixed-charge coverage (x)	11.7	5.7	9.8

Santam Ltd.--Credit Metric History (cont.)

(Mil. ZAR)	--Year ended Dec. 31--		
Financial obligations / EBITDA (x)	0.7	2.4	0.7

P/C--Property/Casualty; ZAR--South African Rand. EBITDA excludes net realised and unrealised investment gains (losses) and net exchange gains(losses).

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of November 18, 2022)*

Operating Companies Covered By This Report

Santam Ltd.

Financial Strength Rating

Local Currency

BB/Positive/--

Issuer Credit Rating

Local Currency

BB/Positive/--

South Africa National Scale

zaAAA/--/--

Subordinated

South Africa National Scale

zaA+

Santam Structured Insurance Ltd.

Financial Strength Rating

Local Currency

BB-/Positive/--

South Africa National Scale

zaAA/--/--

Issuer Credit Rating

Local Currency

BB-/Positive/--

Santam Structured Reinsurance Ltd. PCC

Financial Strength Rating

Local Currency

BB-/Positive/--

Issuer Credit Rating

Local Currency

BB-/Positive/--

Domicile

South Africa

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable

Ratings Detail (As Of November 18, 2022)*(cont.)

across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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