

Research Update:

Santam Ltd. 'BB' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Remains Stable

December 14, 2023

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- Under the updated criteria we have revised upward our view of the group's risk-based capital but have not changed our assessment of its capital and earnings.
- Our ratings on Santam are still capped at the level of the local currency sovereign credit rating on South Africa. Therefore, we affirmed our 'BB' long-term issuer credit rating and our 'zaAAA' South Africa national scale rating on Santam Ltd.
- The stable outlook on the global scale ratings mirrors the outlook on South Africa.

Rating Action

On Dec. 14, 2023, S&P Global Ratings affirmed its 'BB' long-term insurer financial strength and issuer credit ratings on Santam Ltd. and its 'zaAAA' South Africa national scale rating on the company. Our ratings on Santam's subsidiaries are listed below. The outlook on our long-term global scale ratings is stable. We do not assign an outlook to our South Africa national scale ratings.

Impact Of Revised Capital Model Criteria

- Our view of Santam's capital adequacy has improved, primarily because we no longer apply haircuts to liability adjustments such as non-life reserves surplus and discounting, and this increased Santam's total adjusted capital.
- We have captured the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.
- That said, Santam's asset and liability concentration in the South African economy makes it susceptible to the same financial and macroeconomic stresses as its domestic peers.

PRIMARY CREDIT ANALYST

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

SECONDARY CONTACT

Sylvia Mhlanga
Johannesburg
sylvia.mhlanga
@spglobal.com

RESEARCH ASSISTANT

Rahul Iyer
Pune

- Therefore, the rating on Santam is still limited to the level of our local currency rating on South Africa (foreign currency BB-/Stable/B; local currency BB/Stable/B).

Credit Highlights

Overview

Key strengths	Key risks
Leading position and prominent brand in South Africa's property/casualty (P/C) market, and generally good operating performance.	Difficult macroeconomic conditions characterized by rising inflation and financial market volatility.
Diversified underwriting portfolio, including some international diversification.	Low asset quality, in common with local peers.

Outlook

The stable outlook on Santam mirrors our stable outlook on the sovereign.

Downside scenario

Over the next 12 months, the most likely trigger for a downgrade would be 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.

Rationale

Santam has maintained its strong position in South Africa's P/C insurance market, where it has a market share of over 20%. Santam also has exposure to other African countries, and to southeast Asia, India, and the Middle East. Because Santam writes most of its premium income in South Africa's P/C market, its revenue and earnings are affected by the local economic conditions as are those of local peers. We expect Santam's premium growth to be in line with nominal GDP growth over the next two years.

Santam's earnings profile is well diversified and supported by both underwriting and investment income. The group's diversified product portfolio and long-established market position help it navigate the tough conditions in South Africa. As such, we expect it to defend its market position going forward.

Operating performance in the third quarter of 2023 was constrained by high claims inflation, combined with flood claims from the Western Cape. As a result, the company's net combined ratio of 97% was higher than expected. (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.) Based on Santam's

performance for the year to date, we forecast that its year-end combined ratio will be 98%, and that the combined ratio for 2024-2025 will be about 96%.

Under our updated model, we assess risk-based capital at Santam group as strong. Our assessment includes its protected cells business through Centriq and Santam Structured entities, and takes into account its earnings projections and dividend expectations for 2024-2025. Given that capital within the cells is not fungible across the group, we then apply a downward adjustment to our assessment of risk-based capital so that the group's capital and earnings score is fair, rather than strong.

From a regulatory perspective, Santam group's reported economic capital coverage ratio was 151% in September 2023. This was slightly below the 156% reported at year-end 2022. 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 the actions necessary to return to its target level. These actions could include suspending the payment of dividends, executing a hedging strategy, or increasing reinsurance cover.

Santam's financial risk profile is constrained by the low quality of its assets. The average rating for the portfolio is in the 'BB' category, in common with other local peers that have investments concentrated in South Africa combined with investments in unlisted equities. We rate Santam above the 'BB-' foreign currency rating on South Africa. This is mainly because we consider that Santam has sufficient capital (defined as available by the local regulator) to meet potential losses on its asset portfolio should South Africa default on its foreign currency obligations. Our rating on Santam group entities is capped by the local currency rating on South Africa.

We view Santam's access to external funds as good. In particular, it is an active player in the domestic capital market. We estimate that Santam's average financial leverage to 2025 will be 20%-25% and that its fixed-charge coverage will remain above 4x over the same period.

Ratings Score Snapshot

	To	From
Financial strength rating	BB/Stable	BB/Stable
Anchor*	bbb-	bbb-
Business risk	Satisfactory	Satisfactory
IICRA	Moderately high	Moderately high
Competitive position	Strong	Strong
Financial risk	Fair	Fair
Capital and earnings	Fair	Fair
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Modifiers	1	1
Governance	Neutral	Neutral
Liquidity	Adequate	Adequate

	To	From
Comparable ratings analysis	0	0
Support	-2	-2
Group support	0	0
Government support	-2	-2

IICRA--Insurance Industry And Country Risk Assessment. *We select the lower anchor option, reflecting the group's capitalization and asset quality.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed

Santam Ltd.

Issuer Credit Rating	
Local Currency	BB/Stable/--
South Africa National Scale	zaAAA/--/--
Financial Strength Rating	
Local Currency	BB/Stable/--

Santam SI Investments Mauritius Ltd.

Issuer Credit Rating	
Local Currency	B-/Stable/--

Santam Structured Insurance Ltd.

Santam Structured Reinsurance Ltd. PCC

Issuer Credit Rating	
Local Currency	BB-/Stable/--

Ratings Affirmed

Santam Structured Insurance Ltd.

Financial Strength Rating

Local Currency zaAA/--/--

Santam Structured Insurance Ltd. PCC

Financial Strength Rating

Local Currency B+/Stable/--

Santam Structured Reinsurance Ltd. PCC

Santam Structured Insurance Ltd.

Financial Strength Rating

Local Currency BB-/Stable/--

Santam Ltd.

Subordinated

zaAA-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceid/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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