

Research Update:

South Africa-Based Sanlam Ltd. Ratings Affirmed Following Revised Capital Model Criteria

February 26, 2024

Overview

- Our revised criteria for analyzing insurers' risk-based capital "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions" published Nov. 15, 2023, have no material impact on our assessment of Sanlam's capital adequacy, financial risk profile, or credit quality.
- We therefore affirmed our 'zaAAA' national scale rating on the group's main operating entity Sanlam Life Insurance Ltd. and our 'zaA+' national scale rating on the nonoperating holding company Sanlam Ltd., and our 'zaAA-' ratings on all outstanding debt instruments.
- We also revised our assessment of Sanlam Specialised Finance Proprietary Ltd.'s group status to core from highly strategic and raised our rating on that entity to 'zaAAA' from 'zaAA'.
- Our national scale ratings typically do not carry outlooks.

Rating Action

On Feb. 26, 2024, S&P Global Ratings affirmed its 'zaAAA' long-term South Africa national scale rating on Sanlam Life Insurance Ltd., its 'zaA+' national scale rating on Sanlam Ltd., and its 'zaAA-' national scale ratings on all outstanding debt instruments.

At the same time, we raised our long-term national scale rating on Sanlam Specialised Finance Proprietary Ltd. (SanFin) to 'zaAAA' from 'zaAA' and affirmed the 'zaA-1+' short-term national scale rating.

Impact Of Revised Capital Model Criteria

- The revised criteria have no material impact on Sanlam's risk-based capital adequacy; we give full credit for the contractual service margin and risk adjustment, which we consider to be equity-like reserves that enhance the group's capital adequacy.
- We also capture the benefits of risk diversification more explicitly in our analysis and this supports capital adequacy. Nevertheless, Sanlam some diversification benefits are lost due to our deconsolidation of Santam, the general insurance subsidiary, the SanlamAllianz joint

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venture, and asset management activities.

- The recalibration of our capital charges to higher confidence levels, especially interest rate risk charges, as well as inclusion of some assets we previously assessed qualitatively into the model, and deconsolidation of some investments somewhat offset the above improvements.

Credit Highlights

Overview

Key strengths	Key risks
Strong competitive position in South Africa's life insurance market, supported by general insurance through Santam and asset management activities.	Challenging economic conditions in South Africa constraining revenue and earnings
Life and property/casualty (P/C) insurance business across Africa through the SanlamAllianz joint venture (JV).	Low asset quality, given investment concentration to South Africa.
Satisfactory level of capitalization.	

Rationale

Sanlam maintains a leading position in South African life and P/C insurance market, while gradually diversifying into asset management and the rest of Africa through SanlamAllianz JV.

Sanlam benefits from a strong position in South Africa's life insurance market, with a 19% share and ranked No. 2 by total assets as of Dec. 31, 2022. The group also benefits from well-diversified revenue and earnings streams from its exposure to general insurance business through subsidiary Santam, the largest non-life insurer in South Africa, its expanding asset-management activities in South Africa, and exposure to life and non-life insurance markets across Africa through the SanlamAllianz JV. However, we note risks associated with countries where the group operates may have a negative impact on revenue and earnings. We forecast Sanlam's growth to be in line with our GDP forecasts over the coming 12 months.

Sanlam's financial risk profile remains resilient despite economic pressure in South Africa and climate change adversely affecting results in the general insurance operations.

We project Sanlam's capital and earnings to remain satisfactory over the next 12 months under our updated capital model. Its prospective total adjusted capital is deficient at the 99.8% confidence level but there is excess capital at the 99.5% confidence level based on our forecasts. Sanlam has been active in terms of acquisitions and JVs in recent years. Although its total amount of capital remains comfortably within satisfactory levels, the group's overall solvency has been reducing since 2018. We note that, although Sanlam leans more toward capital-light products, there is still a notable proportion of traditional business liabilities with guarantees and longevity risk, among other features, which consume a material proportion of capital.

Sanlam's asset quality in our view is low and affected by the business' concentration in South Africa, while its funding profile is neutral to our ratings.

We cap our ratings on Sanlam at the level of our local currency sovereign credit rating on South African. This is because we believe Sanlam's asset and liability concentration in the domestic economy makes it vulnerable to the financial and macroeconomic stresses associated with a local currency sovereign default.

In our view, SanFin's mandate indicates it is a core group entity. We have revised our assessment of SanFin's group status to core from highly strategic. This is because SanFin's mandate is to maximize shareholders' return by investing in credit and equity markets, to manage asset and liability risks, and to source funding on behalf of Sanlam Life. Therefore, we view SanFin as integral to the group's strategy and daily treasury operations. Furthermore, Sanlam is committed to SanFin through guarantees in place for SanFin's commercial program.

Santam Ltd., the non-life insurance entity, has strategic importance for the group. Sanlam holds a majority stake in Santam (about 61.9%), and we assess Santam as strategically important to Sanlam. At the same time, we consider Santam to be insulated from the parent, due to an independent board of directors and sizable minority shareholders.

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
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- 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

Related Research

- Santam Ltd. 'BB' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Remains Stable, Dec. 14, 2023

Ratings List

***** Sanlam Ltd. *****

Ratings Affirmed

Sanlam Life Insurance Ltd.

Issuer Credit Rating

South Africa National Scale zaAAA/--/--

Sanlam Ltd.

Issuer Credit Rating

South Africa National Scale zaA+/-/--

Sanlam Life Insurance Ltd.

Subordinated zaAA-

Upgraded; Ratings Affirmed

To From

Sanlam Specialised Finance Proprietary Ltd.

Issuer Credit Rating

South Africa National Scale zaAAA/--/zaA-1+ zaAA/--/zaA-1+

Regulatory Disclosure

Sanlam Specialised Finance Proprietary Ltd.

Primary Credit Analyst: Adnan Osman, Rating Analyst

Rating Committee Chairperson: Johannes Bender

Date initial rating assigned: Feb. 25, 2016

Date of previous review: Mar. 13, 2023

Disclaimer

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- Issuer credit rating: A forward-looking opinion about an obligor's overall creditworthiness.
- National scale rating: An opinion of an obligor's creditworthiness or overall capacity to meet specific financial obligations, relative to other issuers and issues in a given country or region.

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