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Sanlam Ltd.

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Sanlam Ltd.

Credit Highlights

None

Overview

Key strengths	Key risks
Strong competitive position supported by diversified exposure through life and property and casualty (P/C) business and increasing presence in Africa through SanlamAllianz JV.	Challenging economic conditions in South Africa constraining revenue and earnings.
Sufficient level of capital relative to balance-sheet risks.	Low asset quality, given investment concentration to South Africa.

Sanlam's financial risk profile remains resilient despite the challenging operating environment prompted by South African economic pressure and adverse results in general insurance operations. As of first-half 2023, Sanlam demonstrated strong recovery in its life operations with net results from financial services increasing 28% to South African rand (ZAR) 3,599 million, while net results from financial services from general insurance increased 38% to ZAR1,160 million compared to June 2022. Sanlam's life insurance segment benefited from positive risk experience, higher asset-based fee income, and credit portfolio earnings. General insurance benefitted from Santam's strong underlying performance, despite pressure due to increasing claims costs from higher inflation, market volatility, and, in South Africa, high levels of electrical power surges and recurring adverse weather conditions. We expect challenging growth conditions in South Africa in 2023-2024, which may constrain the group's earnings capacity. We believe that the group will maintain a sufficient level of capital relative to Sanlam's balance sheet risks and its ratings level in 2023-2025. We also view positively the profit- and loss-sharing feature of Sanlam's life products.

Sanlam maintains a leading position in the South African life and P/C insurance market, while gradually diversifying into the rest of Africa through SanlamAllianz JV. We expect Sanlam will maintain its leading positions in both South African life and non-life markets. We anticipate that Sanlam's premium growth is likely to be modest over 2023-2024, around 4%-5%.

The tough economic environment in South Africa will continue to test Sanlam and its peers. We limit the ratings on Sanlam at the level of our South African local currency sovereign credit rating, as we do for peers (Old Mutual and Liberty), since we believe that 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.

Our national scale rating does not have an outlook. Nevertheless, any rating action on our global scale sovereign credit rating on South Africa could have a multiple-notch effect on our national scale rating on Sanlam.

Santam Ltd.

Sanlam holds most of the stakes in Santam (about 61.9%), and we assess Santam as strategically important to Sanlam. At the same time, we consider it insulated from the parent, due to an independent board of directors and sizable minority shareholders.

Sanlam Specialised Finance Proprietary Limited (SanFin--formerly known as Sanlam Capital Markets Ltd.)

We consider this operating subsidiary to be highly strategic to Sanlam, mainly because we believe it is integral to the group's strategy. Furthermore, Sanlam is highly committed to SanFin, partly demonstrated by guarantees in place for SanFin's commercial program.

Key Metrics

Sanlam Group (Sanlam Ltd.)--Key metrics									
	2017	2018	2019	2020†	2021	2022a	2023 H1 #	2023f	2024f #**
Gross premium written (Mil. ZAR)	59,128	68,963	89,450	97,676	109,858	117,508	60,214	>100,000	~85,000
Net income (Mil. ZAR)	11,990	12,802	8,805	3,634	11,350	11,882	9,698	~12,000	~12,000
Return on shareholders' equity (%)	19.7	17.7	10.9	4.6	14.2	14.2	N/A	~11-13%	~11-13%
Financial leverage (%)*	N/A	N/A	11.6	13.8	15.5	14.5	N/A	~20	~20
Fixed-charge coverage (x)*§	N/A	N/A	12.6	13.7	16.9	20.2	N/A	>10	>10

*2019-2022 description updated due to new insurance criteria published July 1, 2019. §Relative to EBITDA. †Sanlam restated 2020 financials for hyperinflation error, S&P Global Ratings did not restate 2020 or prior years for the purpose of this publication. #2023 H1 figures and our forecasts are based on IFRS 17 metrics including using insurance revenue instead of gross written premium; #** forecasts exclude insurance revenue from Sanlam Emerging Markets which expected to be transferred into SanlamAllianz JV. ZAR--South African rand. f--S&P Global Ratings forecast. N/A--Not applicable.

Environmental, social, and governance

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

Related Criteria

- 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
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- South African Insurers' Hybrid Debt National Scale Ratings Raised to 'zaAA-'; Removed From UCO, June 26, 2023
- Outlooks On Various South Africa-Based Insurers Revised To Stable Following Similar Action On The Sovereign, March 10, 2023
- Sanlam Ltd., Dec. 2, 2022
- Bulletin: Sanlam's Partnership With Allianz Could Strengthen Its Competitive Position In Africa, May 12, 2022

Appendix

Sanlam Group (Sanlam Ltd.)--Credit metrics history				
(Mil. ZAR)	2022	2021	2020*	2019
Total invested assets	811,343	864,570	846,860	803,158
Total shareholder equity	84,942	82,896	77,224	79,360
Gross premiums written	117,508	109,858	97,676	89,450
Net premiums written	92,599	88,792	78,008	74,903
Net premiums earned	67,116	88,313	77,478	77,478
Reinsurance utilization (%)	21.2	19.2	20.1	16.3
EBIT	16,305	18,514	8,490	16,061
Net income (attributable to all shareholders)	11,882	11,350	3,634	8,805
Return on shareholders' equity (reported) (%)	14.2	14.2	4.6	10.9
Property/casualty: Net combined ratio (%)	60.3	70.1	96.1	91.6
Property/casualty: Net expense ratio (%)	19.3	2.8	29.1	28.6
Property/casualty: Return on revenue (%)	39.7	29.9	3.9	8.4
Financial leverage including pension deficit as debt (%)	15.9	16.9	13.8	11.6
EBITDA fixed-charge coverage (x)	20.2	20.6	13.8	12.6
Net investment yield (%)	3.9	3.7	3.9	4.3
Net investment yield including investment gains/(losses) (%)	2.0	13.6	5.2	10.0

*Sanlam restated 2020 financials for hyperinflation error. S&P Global Ratings did not restate 2020 or prior years for the purpose of this publication. ZAR--South African rand.

Ratings Detail (As Of November 13, 2023)*

Sanlam Ltd.

Issuer Credit Rating

South Africa National Scale

zaA+ / -- / --

Related Entities

Sanlam Life Insurance Ltd.

Issuer Credit Rating

South Africa National Scale

zaAAA / -- / --

Subordinated

South Africa National Scale

zaAA-

Ratings Detail (As Of November 13, 2023)*(cont.)

Sanlam Specialised Finance Proprietary Ltd.

Issuer Credit Rating

South Africa National Scale

zaAA/--/zaA-1+

Santam Ltd.

Financial Strength Rating

Local Currency

BB/Stable/--

Issuer Credit Rating

Local Currency

BB/Stable/--

South Africa National Scale

zaAAA/--/--

Subordinated

South Africa National Scale

zaAA-

Santam SI Investments Mauritius Ltd.

Issuer Credit Rating

Local Currency

B-/Stable/--

Santam Structured Insurance Ltd.

Financial Strength Rating

Local Currency

BB-/Stable/--

South Africa National Scale

zaAA/--/--

Issuer Credit Rating

Local Currency

BB-/Stable/--

Santam Structured Insurance Ltd. PCC

Financial Strength Rating

Local Currency

B+/Stable/--

Santam Structured Reinsurance Ltd. PCC

Financial Strength Rating

Local Currency

BB-/Stable/--

Issuer Credit Rating

Local Currency

BB-/Stable/--

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 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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