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Sanlam Ltd.

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Credit Highlights

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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.	Challenging economic conditions in South Africa constraining revenue and earnings, as is the case for local peers such as Liberty and Old Mutual (South Africa).
Significant capital buffers relative to balance-sheet risks.	Low asset quality, given investment concentration to South Africa, similar to the above peers.
Default being unlikely under a hypothetical foreign currency sovereign stress scenario, courtesy of sufficient available capital and robust liquidity.	

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 2022 Sanlam demonstrated a strong recovery in its life operations and investment management activities with net results increasing 23% and 25% respectively, while net results from general insurance operations declined by 57% from first-half 2021. Sanlam's general insurance segment was affected by adverse weather conditions including the KwaZulu-Natal floods, rising claims from Eskom load shedding, and rising claims costs from higher inflation. We expect challenging growth conditions in South Africa in 2023-2024 will constrain the group's earnings capacity. We view as a positive the significant excess capital relative to Sanlam's balance sheet, and the profit- and loss-sharing feature of its products. We expect the group will maintain its 'AA' capital adequacy under our risk-based capital model over 2022-2024.

Sanlam maintains a leading position in the South African life and P/C insurance market, while gradually diversifying into the rest of Africa. We expect Sanlam will maintain its leading positions in South African life. Its overall business position in South Africa and across the continent is being further enhanced by the recent transactions (see Business Risk Profile section for more information).

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 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 rating on South Africa could have a multiple-notch effect on our national scale rating on Sanlam.

Key Assumptions

Sanlam Group (Sanlam Ltd.)--Key Metrics

	2017	2018	2019	2020†	2021	2022f	2023f
Gross premium written (Mil. ZAR)	59,128	68,963	89,450	97,676	109,858	113,999	118,596
Net income (Mil. ZAR)	11,990	12,802	8,805	3,634	11,350	~9,100	~9,300
Return on shareholders' equity (%)	19.7	17.7	10.9	4.6	14.2	~11-13	~11-13
Financial leverage (%)*	N/A	N/A	11.6	13.8	15.5	~15-16	~15-16
Fixed-charge coverage (x)*§	N/A	N/A	12.6	13.7	16.9	~17-18	~17-18

*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. ZAR--South African rand. f--S&P Global Ratings forecast. N/A--Not applicable.

Sanlam Group (Sanlam Ltd.)--Economic Assumptions

(% of change, volume, 2010 prices)	2020	2021	2022f	2023f	2024f
Real GDP growth (%)	(6.3)	4.9	1.9	1.5	1.7
Inflation (annual average [%])	3.3	4.5	6.8	5.8	4.3
Unemployment (%)	24.1	28.8	33.9	32.9	32.4

f--Forecast. Source: S&P Global Ratings.

Business Risk Profile

We base our ratings on Sanlam Life Insurance Ltd. (Sanlam Life) on the credit profile of its parent, Sanlam Ltd.'s (Sanlam or the group) consolidated position, which benefits from good diversification of earnings sources across various business clusters and regions. We consider Sanlam Life core to the group, since it makes up the majority of the group's revenue, earnings, and capital.

Table 1**Sanlam Group (Sanlam Ltd.)--Source Of Earnings**

(Mil. ZAR)	2022*	% total	2021§	% total	2020†	% total
Sanlam Life and Savings (South African life insurance business)	2,747.0	60.3	2,086.0	46.1	2,357.0	60.0
Sanlam Emerging Markets (non-South African business)	1,159.0	25.4	1,313.0	29.0	985.0	25.3
Sanlam Investment Group (asset management business)	498.0	10.9	610.0	13.5	127.0	3.3
Santam (property/ casualty business)	244.0	5.4	621.0	13.7	396.0	10.2
Group office and other	(91.0)	(2.0)	(101.0)	(2.2)	33.0	0.8
Total	4,557.0	100.0	4,529.0	100.0	3,898.0	100.0

*First-half 2022. §First-half 2021. †First-half 2020. ZAR--South African rand.

Sanlam's leading position in South African life and P/C markets and large levels of diversification somewhat mitigate the risks from difficult operating conditions. Nevertheless, we expect challenging economic conditions to constrain new business volumes, given the low GDP per capita and growth. We anticipate that Sanlam's premium growth is likely to be modest over 2023-2024, and in line with the secular trend of South Africa's real GDP growth of 2%-3%.

Sanlam is strengthening its market position in South Africa and Africa through recent transactions, for example in life through the acquisition and integration of AlexForbes' life book; and its asset management arm through transactions

with African Rainbow Capital and ABSA Financial Services. The proposed acquisition of control of Afrocentric will expand Sanlam's health care value chain.

The acquisition of Saham and joint venture with Allianz entrenches Sanlam's footprint across Africa, and positions the group as a leading pan-African insurer, supporting long-term diversification. The Sanlam-Allianz transaction remains subject to approval from regulators and competition commissions, which we expect over the next 12 months.

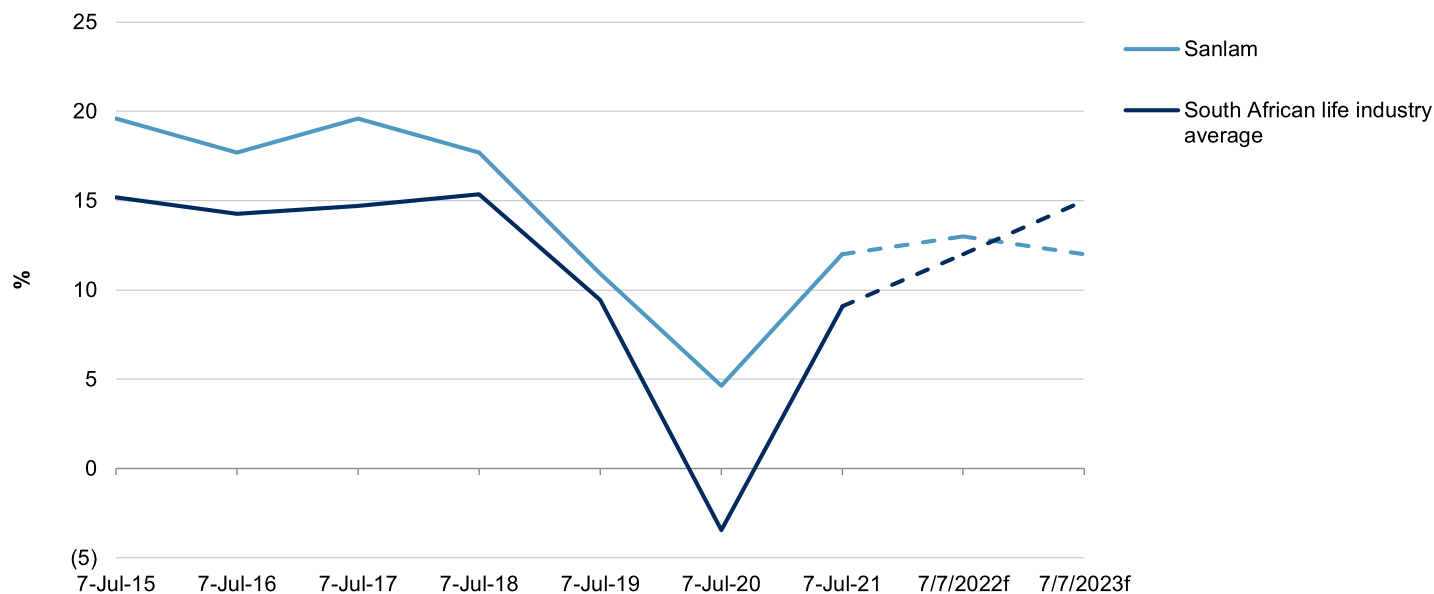
This JV in our view will provide growth opportunities for the group's specialist business in general insurance, although earnings diversification will likely remain small in the near-to-medium term relative to that of South Africa. Overall, we consider that the planned joint venture won't affect Sanlam's competitive position in the near term.

Profitability has been maintained as of June 2022 with a net result of South African rand (ZAR) 4.6 billion compared with ZAR 4.5 billion in June 2021, despite adverse weather conditions and the catastrophic floods in KwaZulu-Natal thanks to a strong recovery in the life insurance segment.

We expect profitability to stabilize, although on average below its pre-pandemic levels, as the group faces the headwinds from the challenging economic environment in South Africa (such as heightened inflation and unemployment rate).

Chart 1

Sanlam's Return On Average Equity Has Been Relatively Resilient



f--Forecast. Source: S&P Global Ratings, audited financial statements.
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The group also exited its U.K. life and wealth operations, in line with its strategy of allocating capital from the U.K. to Africa and selected emerging markets. The Sanlam Life and Pensions UK Ltd. transaction closed April 27, 2022; and the Sanlam Private Investments UK Ltd. and Sanlam Wealth Planning Holdings UK Ltd. transactions closed May 6. This did not impact our assessment of Sanlam's competitive position.

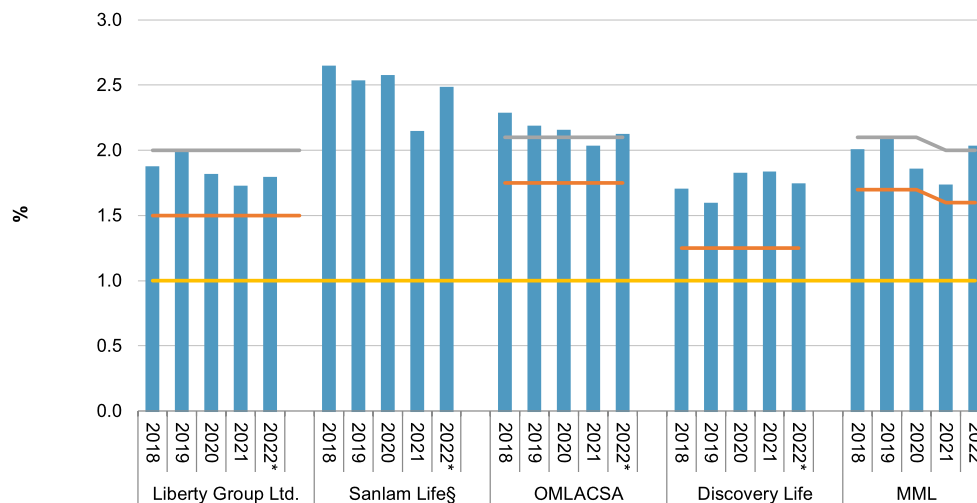
Financial Risk Profile

We derive our financial risk assessment from the 'AA' capital adequacy on Sanlam, according to our risk-based capital model, but the group also relies on material levels of weaker forms of capital relative to the total, notably value in force. Another factor weighing on our assessment is the group's low asset quality, reflecting the quality of available assets in South Africa. The average credit quality of Sanlam's asset portfolio is within the 'BB' range, because a significant majority of its assets are held as bank deposits (in local banks) and local currency sovereign bonds. This risk is partly mitigated by the significant level of excess capital relative to Sanlam's balance sheet and the profit- and loss-sharing features of its products.

The solvency capital requirement (SCR) coverage of Sanlam Life, the group's main long-term insurance, remains strong, at approximately 2.5x as of June 30, 2022 (compared with 2.14x at Dec. 31, 2021). Similarly, Sanlam life covered business was 1.8x (unchanged from Dec. 31) and within the internal target ratio of 1.7x-2.1x. At June 30, 2022, Sanlam Group's SCR coverage ratio remained at a healthy 174% (similar to the 173% at Dec. 31), and we expect the group's ratio will remain within the target range of 150%-190%.

Chart 2**Top-Tier South African Life Insurance Solvency Capital Requirement Coverage Ratios**

Sanlam's regulatory ratio remains sound at above 2x



Note: Data as of Dec. 31, 2021. *First-half 2022. §Sanlam Life Insurance Ltd. (stated target range only available for Sanlam Life covered business excluding strategic participations, discretionary capital, and other capital not allocated to covered business); Old Mutual Life Assurance Company (South Africa) Ltd.; Momentum Metropolitan Life. Source: S&P Global Ratings, Audited Financial Statements. Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

We recognize Sanlam's exposure to high-risk assets and concentration in the investment portfolio, which is geared toward financial services. This creates potential volatility in its capital and earnings, given that in key investment benchmarks. We still consider the credit risks within the South African economy elevated, owing to the pandemic's effects and conditions arising from strained macroeconomic growth. Improved investor sentiment has seen a positive recovery in major asset classes, but they remain susceptible to sentiment.

Sanlam has access to a range of capital sources. We anticipate the company is likely to maintain its relatively low financial leverage (below 20%) and favorable fixed charge coverage ratio greater than 10x in 2023 and 2024. These remain well within our threshold of 4x.

Other Key Credit Considerations

Governance

The group has a comprehensive and established strategic planning process, which incorporates clear strategic, financial, and operational goals. The group's aspirations are in line with its capabilities, and it has demonstrated an ability to adjust and execute its strategy through the development of core business and geographic expansion.

Liquidity

We view Sanlam's liquidity as sufficient, reflecting the strength of available liquidity sources relative to requirements.

Ratings above the sovereign

We limit the ratings on Sanlam Life to the local currency ratings on South Africa, like local peers Old Mutual Life Assurance Co. (South Africa) Ltd. and Liberty Group Ltd. This is because these entities' asset and liability concentration in the domestic economy makes them susceptible to the financial and macroeconomic stresses associated with a local currency sovereign default, in our view.

Factors specific to the holding company

The rating on Sanlam Ltd. is lower than the ratings on its operating subsidiaries. This reflects the structural subordination of holding company creditors to operating company policyholders.

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 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 Sanlam Capital Markets, partly demonstrated by guarantees in place for Sanlam Capital Markets' commercial program.

Environmental, social, and governance

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 Sanlam.

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
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- 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. 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

- 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)	2021	2020*	2019
S&P Global Ratings capital adequacy			
Total invested assets	864,570	846,860	803,158
Total shareholder equity	82,896	77,224	79,360
Gross premiums written	109,858	97,676	89,450
Net premiums written	88,792	78,008	74,903
Net premiums earned	88,313	77,478	77,478
Reinsurance utilization (%)	19.2	20.1	16.3
EBIT	18,514	8,490	16,061
Net income (attributable to all shareholders)	11,350	3,634	8,805
Return on shareholders' equity (reported) (%)	14.2	4.6	10.9
Property/casualty: Net combined ratio (%)	70.1	96.1	91.6
Property/casualty: Net expense ratio (%)	2.8	29.1	28.6
Property/casualty: Return on revenue (%)	29.9	3.9	8.4
Financial leverage including pension deficit as debt (%)	16.9	13.8	11.6
EBITDA fixed-charge coverage (x)	20.6	13.8	12.6
Net investment yield (%)	3.7	3.9	4.3
Net investment yield including investment gains/(losses) (%)	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 December 2, 2022)*

Sanlam Ltd.

Issuer Credit Rating

South Africa National Scale

zaA+/--/--

Related Entities

Sanlam Capital Markets Pty Ltd.

Issuer Credit Rating

South Africa National Scale

zaAA/--/zaA-1+

Ratings Detail (As Of December 2, 2022)*(cont.)

Sanlam Life Insurance Ltd.

Issuer Credit Rating

South Africa National Scale

zaAAA/--/--

Subordinated

South Africa National Scale

zaA+

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 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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