

CREDIT RATING ANNOUNCEMENT

GCR affirms Santam Limited's national scale financial strength and long term issuer ratings of AAA_(ZA) and AA_{+(ZA)} respectively; Outlook Stable

Rating action

Johannesburg, 26 November 2024 – GCR has affirmed Santam Limited's (Santam) national scale financial strength and long term issuer ratings of AAA_(ZA) and AA_{+(ZA)} respectively, with Stable Outlooks. The national scale long term issue rating of Santam's subordinated callable notes (Stock Code SNT05) has also been affirmed at AA_{-(ZA)}, with a Stable Outlook. Furthermore, GCR has affirmed the international scale financial strength rating of BB+ and simultaneously withdrawn this rating for commercial reasons.

Rated entity / Issue	Rating class	Rating scale	Rating	Outlook/Watch
Santam Limited	Financial strength	National	AAA _(ZA)	Stable Outlook
	Financial strength	International	WD	Stable Outlook
	Long term issuer	National	AA _{+(ZA)}	Stable Outlook
SNT05			AA _{-(ZA)}	Stable Outlook

Rating rationale

Santam's ratings are underpinned by a very strong business profile, strengthening earnings trend and sound capitalisation and liquidity. The insurer's stand-alone credit profile derives further uplift from implied group support, given relevance to Sanlam Limited's strategy, history of performance, and a level of operational integration.

Santam maintains a very strong market position in the South African short term insurance industry. The group's share of conventional gross premiums registered at about 22% in fiscal year 2023, with the uptake of the MTN devices book offsetting pressure stemming from cancelled pockets of business. The conventional book is complemented by the alternative risk transfer (ART) portfolios, which represented about 23% of group premiums in 2023 (2022: 29%) after growth normalised from the very high levels in the prior year. Stronger growth in the nine months to September 2024 is expected to be complemented by continued re-rating of commercial property risks, sustaining Santam's competitiveness over the outlook horizon. The group is well diversified across lines of business, with four classes registering premiums of between USD100 million and USD1.1 billion in 2023. Furthermore, Santam is viewed to benefit from broad distribution channels and strong geographic growth potential.

Santam's earnings profile remained healthy, with the five-year average combined ratio registering at about 96% in 2023, slightly up from the previous cross cycle average of 95%. In this regard, after reflecting higher volatility in recent years due to attritional claims pressure and severe weather events, underwriting profitability started to turnaround in fiscal 2024. The corrective actions undertaken over the past 18 months saw the combined ratio reduce to 94% in 1H 2024 and about 92% in the period to September 2024, while return on revenue strengthened to c. 12% from 11% in 2023. We therefore expect the cross cycle combined ratio to register between 90% and 95% over the outlook horizon, supporting stability in net earnings despite the reducing interest rate cycle.

The GCR capital adequacy ratio (CAR) remained at an intermediate level of about 1.2x at 31 December 2023, largely impacted by the group's targeted return on capital. Furthermore, the Internal Economic Model (IEM) coverage ratio remained comfortably within the 145% to 165% target range, at 158% at 30 June 2024 (31 December 2023: 155%). We expect solvency levels to remain within the current range, given the insurer's capital management framework.

The GCR liquidity coverage ratio was stable at about 1.3x at fiscal year-end 2023, with strong operational cash flow generation offsetting growth in policyholder liabilities. Santam backs policyholder liabilities and subordinated debt with cash and interest securities, which collectively represented c. 68% of the investment portfolio at 31 December 2023. Given consistency in the investment strategy, we expect liquidity metrics to remain comfortably within the 1.2x to 1.5x range going forward.

The negative one notch spread on the national scale long-term issuer rating reflects our view that policyholders take preference above other creditors in South Africa. A further negative two notch spread on the notes reflects the subordinated status and mandatory deferability of the notes (if there is a Regulatory Deficiency Redemption or Interest Deferral Event).

Outlook statement

We expect Santam to maintain the EIM coverage ratio within the target band of 145% to 165% in line with the group capital management strategy. This should be largely consistent with maintaining the SAM Standard Formula SCR coverage ratio and the GCR CAR within rating adequate ranges. The strengthened earnings trend is expected to support the cross-cycle combined ratio within the targeted 90% to 95% range, comparing favourably with peers.

Rating triggers

Rating upside is limited by the ceiling on the financial strength rating. While Santam's standalone financial profile has shown signs of a strengthening trend, there could be a negative rating impact if we change our assessment of group support.

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2024
Criteria for Rating Insurance Companies, May 2024
GCR Ratings Scales, Symbols & Definitions, May 2023
GCR Country Risk Scores, August 2024
GCR Insurance Sector Risk Scores, February 2023

Ratings history

Santam Limited

Rated entity	Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Santam Limited	Financial strength	Initial*	National	AAA _(ZA)	Stable Outlook	May 2009
		Last		AAA _(ZA)	Stable Outlook	November 2023
	Financial strength	Initial*	International	A-	Stable Outlook	July 2013
		Last		BB+	Stable Outlook	November 2023
SNT05	Long term issuer	Initial	National	AA+ _(ZA)	Stable Outlook	November 2019
		Last		AA+ _(ZA)	Stable Outlook	November 2023
SNT05	Long term issue	Initial	National	AA- _(ZA)	Stable Outlook	December 2020
		Last		AA- _(ZA)	Stable Outlook	November 2023

*Formerly claims paying ability.

Risk score summary

Rating Components & Factors	Score
Operating environment	13.50
Country risk score	6.50
Sector risk score	7.00
Business profile	3.00
Competitive position	3.00
Sustainability	0.00
Financial profile	0.25
Earnings	0.25
Capitalisation	0.00
Liquidity	0.00
Comparative profile	1.50
Group support	1.50

Peer comparison

0.00

Total Risk Score

18.25

Glossary

Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Catastrophe	An event, which causes a loss of extraordinary magnitude.
Compound Annual Growth Rate	The year on year percentage growth rate of an investment over a given period of time. It is found by calculating:
Financial Year	The year used for accounting purposes by a company or government. It can be a calendar year or it can cover a different period, often starting in April, July or October. It can also be referred to as the fiscal year.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Solvency	With regard to insurers, having sufficient assets (capital, surplus, reserves) and being able to satisfy financial requirements (investments, annual reports, examinations) to be eligible to transact insurance business and meet liabilities.
Statutory	Required by or having to do with law or statute.
Underwriting	The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.

Salient points of accorded rating

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to the rated entity. The rating above was solicited by, or on behalf of, the rated entity.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Audited financial statements to 31 December 2023;
- Four years of comparative audited financial statements to 31 December
- Annual and quarterly statutory returns to 31 December 2023 and 30 June 2024;
- Year to date management accounts to 30 September 2024;
- Budgeted financial statements to 31 December 2025;
- Exchange rate source: South African Reserve Bank USD1 = ZAR18.58 (29 December 2023);
- Other relevant documents.

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