

Research Update:

# Old Mutual Life Assurance Co. (South Africa) Ltd. 'BB+' Ratings Affirmed; Outlook Stable

August 12, 2019

## Overview

- Old Mutual Life Assurance Co. (South Africa) Ltd. (OMLACSA) continues to demonstrate a strong competitive position in the South African life insurance market, benefiting from its leading positions in varied product segments and its diversified sales forces.
- We are therefore affirming our 'BB+' global scale issuer credit and insurer financial strength ratings on OMLACSA.
- We are also affirming our 'zaAAA/zaA-1+' long- and short-term South Africa national scale ratings on OMLACSA and our 'zaAA-' national scale rating on its subordinated debt.
- The stable outlook on OMLACSA reflects our stable outlook on South Africa.
- We are also revising our view of the equity content of three of OMLACSA's outstanding hybrid issuances to intermediate from minimal.

## Rating Action

On Aug. 12, 2019, S&P Global Ratings affirmed its 'BB+' global scale long-term issuer credit and insurer financial strength ratings on Old Mutual Life Assurance Co. (South Africa) Ltd. (OMLACSA). The outlook is stable.

At the same time, we affirmed our 'zaAAA/zaA-1+' long- and short-term South Africa national scale ratings on OMLACSA and our 'zaAA-' national scale rating on its subordinated debt.

We have also revised to intermediate from minimal our view of the equity content of three of OMLCASA's hybrid issuances, each of which currently has a residual maturity of slightly more than 10 years. Under our "Hybrid Capital: Methodology And Assumptions," criteria, published on July 1, 2019, hybrids with a residual maturity of at least 10 years may qualify for intermediate equity content. The three affected hybrids are:

- South African rand (ZAR) 623 million 11.35% notes series 10 due Sept. 14, 2030;
- ZAR690 million 10.955% notes series 7 due March 19, 2030 (ZAG000124579); and
- ZAR460 million 10.955% notes series 7 due March 19, 2030 (ZAG000124579).

### PRIMARY CREDIT ANALYST

**David J Masters**  
London  
(44) 20-7176-7047  
david.masters  
@spglobal.com

### SECONDARY CONTACTS

**Ali Karakuyu**  
London  
(44) 20-7176-7301  
ali.karakuyu  
@spglobal.com

**Trevor Barsdorf**  
Johannesburg  
+ 27 11 214 4852  
trevor.barsdorf  
@spglobal.com

## Outlook

The stable outlook on OMLACSA reflects our stable outlook on South Africa. We rate OMLACSA one notch above the 'BB' long-term foreign currency rating on South Africa. This reflects our belief that OMLACSA's largely loss-absorbing liability profile allows it to withstand the stress associated with a foreign currency sovereign default.

We cap our global scale ratings on OMLACSA at the 'BB+' long-term local currency rating on South Africa. This is because, in our view, OMLACSA's asset and liability concentration in the domestic economy makes it susceptible to the financial and macroeconomic stresses associated with a local currency sovereign default.

## Downside scenario

We view a negative rating action as unlikely over the next 12 months due to the company's relatively robust stand-alone credit profile. However, we could lower the rating on OMLACSA over this timeframe if we were to lower our local currency sovereign credit ratings on South Africa.

We could also take this action if we saw:

- Exceptional dividends reducing capital;
- Unexpected negative consequences following the dismantling of Old Mutual PLC (although this is now largely completed);
- Earnings fundamentals deteriorating (for example, the new business margin sustainably fell below 2.5%);
- Deterioration in the credit quality of assets; or
- A weakened balance sheet to the extent that OMLACSA failed to pass our sovereign foreign currency default stress scenario.

## Upside scenario

We could raise the rating on OMLACSA over the next 12 months if we were to raise our local currency sovereign credit ratings on South Africa.

Given the linkages between the sovereign credit rating and that on OMLACSA, it is unlikely that an improvement in OMLACSA's stand-alone characteristics would, by itself, lead to an upgrade.

## Rationale

We factor into our rating the consolidated view of Old Mutual Ltd. (OML), of which we regard OMLACSA a core subsidiary.

Our assessment reflects OMLACSA's strong position in the South African life insurance market, demonstrated by its leading positions in varied product segments and its diversified sales forces. Other credit strengths include OMLACSA's resilient balance sheet, resulting from prudent capital and reserve buffers. This affords it significant flexibility to mitigate investment volatility, including the ability to make negative bonus declarations to policyholders. This is further supported by sound regulatory solvency ratios under the newly introduced South African Solvency Assessment

and Management regime (SAM). At the end of 2018, OMLACSA reported a solvency ratio of 225%, with OML reporting 170%.

In our view, the difficult operating environment in the South African life insurance industry dilutes these strengths. Exposure to the South African economy weighs on the market and credit risk of OMLACSA's assets, as reflected in our overall assessment of its financial profile.

## Ratings Score Snapshot

<b>Business Risk Profile</b>	<b>Satisfactory</b>
Competitive position	Strong
IICRA	Moderately high risk
<b>Financial Risk Profile</b>	<b>Fair</b>
Capital and earnings	Satisfactory
Risk exposure	Moderately high
Funding structure	Neutral
Anchor*	bbb-
<b>Modifiers</b>	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
<b>Financial Strength Rating</b>	<b>BB+</b>

\*This is influenced by our view of OMLACSA's capital levels and underwriting margins compared with most of its similarly rated peers.

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

### Ratings Affirmed

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**Old Mutual Life Assurance Co. (South Africa) Ltd.**

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Issuer Credit Rating	
Local Currency	BB+/Stable/--
Financial Strength Rating	
Local Currency	BB+/Stable/--
South Africa National Scale	zaAAA/--/zaA-1+
Subordinated	zaAA-

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