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## Research Update:

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

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## Research Update:

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

## 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 S&P Global Ratings' stable outlook on South Africa.
- OMLACSA's capital adequacy has continued to improve. We are consequently also revising upward our assessment of capital and earnings to moderately strong from upper adequate.

## Rating Action

On Feb. 21, 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.

## Rationale

The affirmations reflect 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 first-half 2018, OMLACSA reported a solvency ratio

of 240%, with Old Mutual Ltd. (OML) reporting 164%.

In our view, the difficult operating environment in the South African life insurance industry mitigates 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.

We factor into our rating the consolidated view of OML, of which we regard OMLACSA a core subsidiary. Following the completion of the managed separation process, OMLACSA is now part of the OML group, listed in South Africa. OMLACSA will, in our view, continue to be comfortably the most significant subsidiary to OML in terms of revenue/profit contributions.

We rate OMLACSA higher than the long-term foreign currency global scale rating on South Africa (BB/Stable/B). This is because OMLACSA withstands our foreign currency sovereign default stress test. OMLACSA holds approximately 85% of its assets in South Africa, but the bulk of its life liabilities are with-profit or unit-linked and feature substantial loss-sharing abilities with policyholders.

Should a severe default stress occur--such as our sovereign foreign currency default scenario--we expect OMLACSA's policyholder funds would share the bulk of losses. However, we cap the ratings on OMLACSA at the level of our long-term local currency sovereign credit rating on South Africa (BB+/Stable/B) because we believe the insurer remains susceptible to financial and macroeconomic stresses associated with a local currency sovereign default, given its asset and liability concentration in the domestic economy.

## **Outlook**

The stable outlook on OMLACSA reflects S&P Global Ratings' stable outlook on South Africa. We downgraded OMLACSA in November 2017 following the downgrade of the sovereign. 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.

## Ratings Score Snapshot

Financial Strength Rating	BB+/Stable/--	
	To	From
Anchor	bbb-	bbb-
Business Risk Profile	Satisfactory	Satisfactory
IICRA	Moderate	Moderate
Competitive Position	Strong	Strong
Financial Risk Profile	Less Than Adequate	Less Than Adequate
Capital and Earnings	Moderately Strong	Upper Adequate
Risk Position	Intermediate	Intermediate
Financial Flexibility	Adequate	Adequate
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management and Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Exceptional	Exceptional
Support	0	0
Group Support	0	0
Government Support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

## Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Insurance | General: Methodology For The Classification And Treatment Of Insurance Companies' Operational Leverage, Oct. 31, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

## Ratings List

Ratings Affirmed

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

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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