

# RatingsDirect®

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## Old Mutual Ltd.

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# Old Mutual Ltd.

## Credit Highlights

### Overview

Key strengths	Key risks
Leading life, savings, and property/casualty (P/C) insurance provider in South Africa.	Macroeconomic challenges, such as unemployment and inflation, could slow growth and profitability.
A sound balance sheet, thanks to prudent capitalization, reserve buffers, and product structures.	Weak asset quality of balance sheet, given that most assets are locally denominated and South Africa's economic conditions.
Healthy financial leverage and fixed-charge coverage metrics.	Potential exposure to capital and earnings volatility, such as financial risks related to with-profits operations.

***Old Mutual Ltd.'s ability to improve its operating performance while sustaining a strong balance sheet among macroeconomic headwinds are key factors for its creditworthiness.*** Old Mutual Ltd. (OML) and the sector as a whole could face challenges sustaining growth and profitability levels due to macroeconomic pressures. Uncertainty around future economic growth, unemployment, and inflation could add pressure on earnings and capital generation. We expect it will seek to maintain results at least in line with the sector and protect the strength of its balance sheet.

***We think a key credit strength is OML's sound balance sheet, thanks to prudent capitalization, reserve buffers, and product structures.*** OML is well capitalized, both according to our risk-based capital model ('AA' level benchmark) and on a regulatory basis at 190% for year-end 2022 (184% for year-end 2021, 187% as of half-year 2022). We note the company's earnings-based dividend policy and expect OML will maintain a disciplined capital management approach, particularly with potential pressures on earnings generation. The significant exposure to lower-rated assets ultimately constrains our assessment of its financial risk profile.

***We expect OML's financial leverage and fixed-charge coverage will support its rating level.*** At end-2022, OML's leverage was about 20% and we anticipate it may increase over the next two years, largely due to potential earnings suppression as a result of economic or market pressures, but also in part due to modest increases in debt. That said, we expect the company will largely maintain its debt stack and servicing ability commensurate with its creditworthiness over the next 12 months.

**Outlook: Stable**

The stable outlook on both the foreign and local currency ratings balances South Africa's credit strengths--particularly a credible central bank, a flexible exchange rate, an actively traded currency, and deep capital markets--against infrastructure-related pressures on growth, and downside risks to the fiscal and debt position.

**Downside scenario**

A rating action over the next 12 months would be driven by a similar action on the sovereign. We could lower the ratings on the sovereign over the next six-to-twelve months if the ongoing implementation of economic and governance reforms does not progress as planned, resulting in further deterioration in economic growth, or higher-than-expected fiscal financing needs. This could, for example, result from a deepening of the electricity crisis or if critical infrastructure constraints worsen.

**Upside scenario**

Over the next 12 months, the most likely trigger for a rating action would be a similar action on the sovereign. We could raise the ratings on the sovereign if there is an improving track record of effective reforms, resulting in structural improvements in economic growth alongside reduced public debt and contingent liabilities.

**Key Assumptions**

- We forecast the economy to slow to 0.7% this year from 2.0% in 2022, as severe electricity outages weigh on activity. Electricity cuts have intensified since August 2022, resulting in a 1.3% quarter-on-quarter economic contraction in fourth-quarter 2022.
- Despite heightened import prices over the past two years, inflationary pressure in South Africa has remained relatively moderate. Inflation averaged 6.9% in 2022 and stayed somewhat sticky in first-quarter 2023 (7.1% in March 2023), but we expect a moderation in price growth over the remainder of 2023 and through 2026.
- Nevertheless, South Africa's credit quality benefits from the country's sizable and sophisticated financial system that provides a deep funding base from which the government can meet elevated financing needs. The country has relatively strong institutions, particularly the central bank (South African Reserve Bank; SARB), as well as deep and sophisticated local financial markets compared with similarly rated peers (see "South Africa," published on May 23, 2023).

**Table 1**

<b>Economic forecast summary--South Africa</b>										
	2017	2018	2019	2020	2021	2022	2023f	2024f	2025f	2026f
<b>Key indicators</b>										
Nominal GDP (bil. ZAR)	5,078.2	5,348.6	5,613.7	5,556.9	6,192.5	6,638.4	7,009.6	7,435.0	7,840.7	8,273.6
Nominal GDP (bil. \$)	381.3	403.8	388.5	338.0	418.9	405.2	392.7	422.9	438.5	450.4

**Table 1**

<b>Economic forecast summary--South Africa (cont.)</b>										
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023f</b>	<b>2024f</b>	<b>2025f</b>	<b>2026f</b>
Unemployment rate	24.4	24.2	25.5	24.1	28.8	33.5	31.8	30.8	30.2	30.1
CPI growth	5.2	4.7	4.0	3.3	4.5	6.9	6.0	5.0	4.4	4.8

f--Forecast. CPI--Consumer price index. ZAR--South African rand. Sources: Statistics South Africa, IMF (economic indicators), South African Reserve Bank, IMF (external indicators); The National Treasury (fiscal indicators); IMF, South African Reserve Bank (monetary indicators).

**Table 2**

<b>Old Mutual Ltd.--Key metrics</b>					
<b>(Mil. ZAR)</b>	<b>2021</b>	<b>2022</b>	<b>2023f</b>	<b>2024f</b>	<b>2025f</b>
S&P Global Ratings capital adequacy	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory
EBITDA fixed charge coverage (x)	12.2	9	c4x	c4x	c4x
Financial leverage (%)	c.20	c.20	c.20	c.20	c.20

ZAR--South African rand. f--Forecast data reflects S&P Global Ratings' base-case assumption.

## **Business Risk Profile: Satisfactory**

OML, through its 100% ownership of OMLACSA, is one of the leading players in the life and savings insurance industry in South Africa. It reported consolidated gross premiums earned of South African rand (ZAR) 85.7 billion (about \$5.03 billion using the Dec. 31, 2022 exchange rate) and assets under management of ZAR335.5 million in the wealth division and ZAR774 million under Old Mutual Investments at year-end 2022. OMLACSA holds a leading position in both the retail (mass and foundation cluster) and corporate segments. The company is looking to regain its competitive edge in the mass and corporate segments, which have recently shown improvements but are somewhat more exposed to macroeconomic headwinds. The personal finance segment, which faced material COVID-19 related losses, and the investment divisions are working on strategies to improve performance and distribution arrangements.

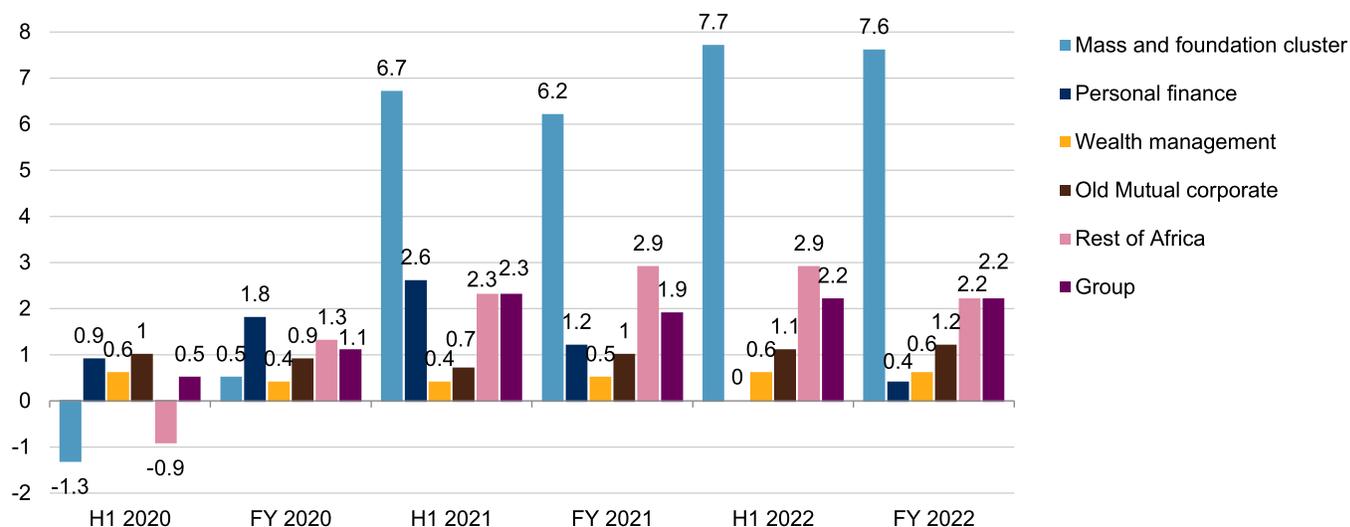
In addition to South Africa's main life insurer, OMLACSA, OML also owns a number of African insurance operations across East/West Africa and the Southern African Development Community region, albeit these are small in both absolute and relative terms for OML. OML also owns 100% of Old Mutual Insure, a South African P/C insurer. OML's key peers are Liberty, Discovery, MMI, and Sanlam in the life and savings market and Santam in the P/C sector.

OML's operating performance has demonstrated the expected recovery in sales with overall sound margins, as economies eased away from lockdowns and pandemic-related restrictions. For the full year-end 2022, Life APE's sales improved by 10% to ZAR12.5 billion and results from operations improved to ZAR8.7 billion from ZAR4.4 billion over the same period last year. This resulted in value of new business (VNB) for the period of ZAR1465 million, up 16% compared with the prior period. New business margins were largely stable, up 30 basis points to 2.2. Funds under management reduced by 4% to ZAR1.2 trillion on account of weaker financial markets.

**Chart 1**

**New business margins (%)**

VNB margins have improved with recovery in sales volumes in FY 2022



H1--First half. FY--Financial year. Source: S&P Global Ratings.

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We anticipate OML's top line to be flat, largely due to weak economic growth. We also remain cautious about the dampening effects of other macroeconomic factors, such as rising unemployment and lower disposable income, which could feed through to retail and corporate customers. We believe the company will undertake initiatives to manage its cost structure and maintain its underwriting discipline in response. In our base case, we expect OML will be able to maintain a sound operating performance and its leading market position over the next two years. We also expect OML will continue to execute on initiatives to progress on its stated financial targets and strategic actions to defend its market leading positions, which provides it with scale and diversity.

**Financial Risk Profile: Fair**

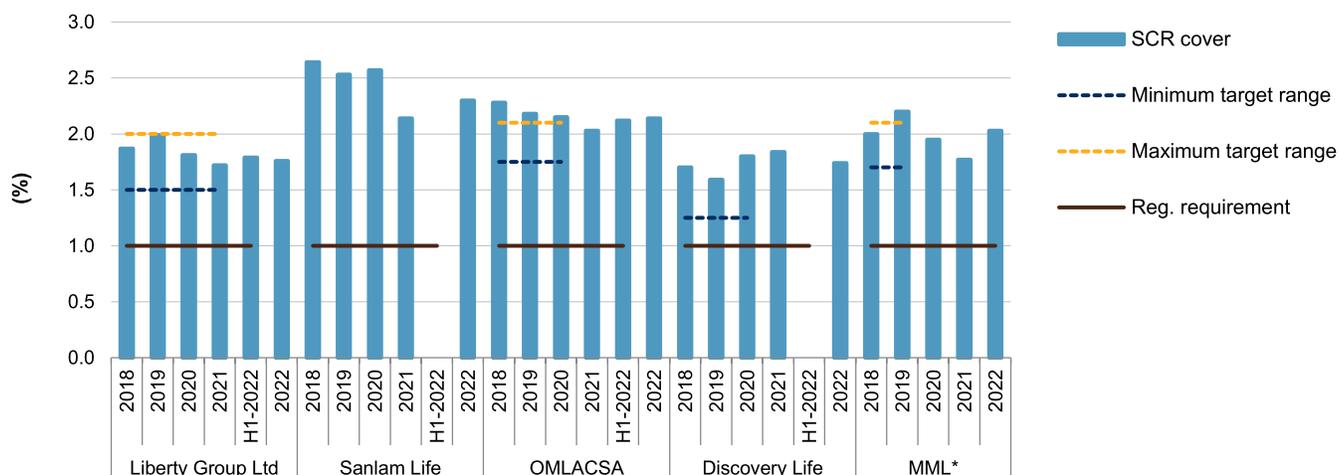
The group will announce new targets as it works on implementing International Financial Reporting Standards (IFRS) 17 in July. It stated this implementation will not affect its fundamentals, cash, or capital generation. Equity could decline by ZAR3.8 billion to ZAR4.5 billion as a result of the higher contractual service margins (CSM) versus prudential margins under IFRS 4. The group expects the CSM will be released into profit in future years. We will monitor the new targets' implications and any changes to capital allocation as the group provides more details during the year.

At year-end 2022, OML reported a net profit excluding non-controlling interests of ZAR7,325 million (ZAR6,662 million for 2021). In addition to dividend payouts, the group announced share buybacks of ZAR1.5 billion and outlined

the use of the remainder of the ZAR1.4 billion discretionary capital for the Two Mountains transaction and other growth ventures. We will monitor how these developments impact capital management, a key credit factor, as capital adequacy stood at the 'AA' level benchmark according to S&P Global Ratings' capital model prior to these announced capital allocations.

**Chart 2**

**Largest South African life insurance solvency capital requirement coverage ratios**  
 OML Group and OMLACSA are comfortably in their target range as of YE 2022



H1-2022 is data as of June 30, 2022; Momentum Metropolitan Holdings Limited (MMi) year-end is June 30 (SCR is as per December end for 2018-2022). YE--Year end. SCR--Solvency capital requirement. H1--First half.

Source: S&P Global Ratings, Audited Financial Statements.

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We note that OML continues to face uncertainties such as potential exposures from asset and investment risk. The resilience of OML's balance sheet to market volatility is supported by substantial buffers within OMLACSA's with-profit policyholder funds (WPF). Such buffers, in particular the bonus-smoothing reserves and the nonvested part of the bonuses, could offset potentially high volatility due to substantial investment in equities within the WPF. The investment guarantee reserves are dynamically hedged and backed with discretionary margins to buffer against any residual market risk.

This liability profile, which includes significant mechanisms for sharing profits and losses with policyholders (including the ability to make negative bonus declarations, as well as market risk hedging programs), contributes to our view of the balance sheet's resilience to investment market volatility. In addition, most products pay market value on termination. That said, we continue to believe that the highly competitive nature of the savings market and high policyholder expectations might discourage OML from making full use of the loss-sharing mechanisms in less extreme stress events.

OML's financial risk assessment is constrained by its low asset quality. The average credit quality of OML's asset portfolio is within the 'BB' rating because the significant majority of its assets are held as bank deposits (in local banks) and local currency sovereign bonds. OML also maintains substantial asset exposure to what we refer to as high-risk assets, such as equities, properties, loans, and speculative-grade and unrated bonds, although the profit-and-loss sharing mechanisms described above also mitigate this. On a regulatory basis, at year-end 2022, OML reported a group solvency ratio of 190% (184% at year-end 2021) and OMLACSA reported 214% (201% at year-end 2021). OML therefore sits comfortably within its target ranges of 170%-200% for OML and 175%-210% for OMLACSA.

The modest financial leverage of about 20% for year-end 2022 supports the balance sheet's strength. We expect leverage could increase if earnings are suppressed as a result of weaker macroeconomic or financial markets, along with a modest increase in debt. We also expect that EBITDA financial coverage will remain solid, although we note that it has been volatile over the last few years due to COVID-19 and investment losses.

## Other Key Credit Considerations

### Governance

We believe OML benefits from sound governance and risk management. We note the focus on developing a strong IT infrastructure and an agile operating model, which could enable OML to become more cost efficient and maintain its market position.

### Liquidity

OMLACSA's liability bias toward smoothed with-profit business and the related heavy exposure to equities lead to heavy charges under our liquidity analysis, compared with insurers with asset allocations mostly geared toward investment-grade bonds. Still, OMLACSA and OML maintain supportive liquidity thanks to the liquid nature of investments backing liabilities and their ability to apply market value adjustments in case of a lapse surge in a stressed market.

### Ratings above the sovereign

We cap our global scale ratings at the long-term local currency rating on South Africa. This is because, in our view, OML'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.

### Factors specific to the holding company

We base our ratings on OML on the overall creditworthiness of the OML group and OML's structural subordination as a nonoperating holding company.

### Group support

OMLACSA is, and will likely remain, by far the largest subsidiary of OML, representing approximately four-fifths of OML's total assets. We assess OMLACSA as core to the group.

## Environmental, social, and governance

### ESG Credit Indicators



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 alphanumeric 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 OML.

## Ratings Score Snapshot

Rating score snapshot	
Business risk profile	Satisfactory
Competitive position	Strong
IICRA	Moderately high
Financial risk profile	Fair
Capital and earnings	Satisfactory
Risk exposure	Moderately high
Funding structure	Neutral
Anchor*	bbb-
Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial strength rating§	BB

\*This is influenced by our view of Old Mutual's capital levels and underwriting margins compared with most of its similarly rated peers. §Note that the financial strength rating applies to the main operating company, OMLACSA.

## 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

## Appendix

Old Mutual Ltd.--Credit metrics history						
Ratio/Metric (Mil. ZAR)	2022	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy*	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Strong
Total invested assets	998,547.0	998,041.0	881,677.0	865,184.0	829,814.0	814,964.0
Total shareholder equity	66,546.0	65,301.0	69,323.0	77,925.0	81,420.0	183,445.0
Gross premiums written	85,668.0	83,841.0	81,571.0	80,758.0	78,729.0	72,323.0
Net premiums written	74,537.0	72,551.0	72,462.0	72,760.0	72,046.0	65,630.0
Net premiums earned	74,537.0	72,551.0	72,462.0	72,760.0	72,046.0	65,630.0
Reinsurance utilization (%)	13.0	13.5	11.2	9.9	8.5	9.3
Net income (attributable to all shareholders)	7,799.0	7,463.0	(5,348.0)	9,655.0	42,708.0	20,364.0
Return on revenue (%)	24.6	(78.7)	(15.8)	(22.0)	51.7	N/A
Return on assets (excluding investment gains/losses) (%)	3.2	(10.5)	(2.2)	(3.3)	3.4	N/A
Return on shareholders' equity (reported) (%)	11.8	11.1	(7.3)	12.1	32.3	N/A
P/C: net combined ratio (%)	108.7	110.4	114.6	109.0	104.7	N/A
P/C: net expense ratio (%)	45.8	51.1	47.9	44.9	43.9	N/A
EBITDA fixed-charge coverage (x)	9.0	12.2	0.1	13.3	11.7	5.3
Financial obligations / EBITDA adjusted	1.6	1.2	116.7	0.8	0.9	2.0
Financial leverage including pension deficit as debt (%)	c.20	c.20	c.20	c.20	c.20	c.20
Net investment yield (%)	4.5	4.2	4.5	5.1	4.8	N/A
Net investment yield including investment gains/losses (%)	2.1	16.7	6.5	10.2	2.5	N/A

\*2018 and prior capital adequacy nomenclature is based on old criteria; Leverage metrics for 2021 and 2022 include pension surplus/deficit instead of pension liabilities. P/C--Property/casualty. ZAR--South African rand.

### Ratings Detail (As Of July 24, 2023)\*

#### Operating Company Covered By This Report

##### Old Mutual Ltd.

Issuer Credit Rating

*South Africa National Scale*

zaA+/-/zaA-1

##### Related Entities

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

Financial Strength Rating

*Local Currency*

BB/Stable/--

Issuer Credit Rating

*Local Currency*

BB/Stable/--

*South Africa National Scale*

zaAAA/-/zaA-1+

### Ratings Detail (As Of July 24, 2023)\*(cont.)

Subordinated

*South Africa National Scale*

zaAA-

**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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