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Research Update:

Old Mutual Life Assurance Co. (South Africa) Assigned 'BBB-' Global Scale Ratings; Outlook Negative

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Research Update:

Old Mutual Life Assurance Co. (South Africa) Assigned 'BBB-' Global Scale Ratings; Outlook Negative

Overview

- We are assigning our 'BBB-' global scale issuer credit and insurer financial strength ratings to Old Mutual Life Assurance Co. (South Africa) Ltd. (OMLACSA).
- Our 'zaAA-' South Africa national scale rating on OMLACSA remains unchanged.
- The negative outlook on the long-term global scale rating reflects that on the long-term sovereign credit ratings on South Africa.

Rating Action

On May 19, 2017, S&P Global Ratings assigned its 'BBB-' global scale long-term issuer credit and insurer financial strength ratings to Old Mutual Life Assurance Co. (South Africa) Ltd. (OMLACSA). The outlook is negative.

Rationale

The ratings reflect OMLACSA's strong position in the South African life insurance market, as demonstrated by its leading positions in diversified product segments and its diversified sales forces. Other credit strengths include OMLACSA's resilient balance sheet, resulting from prudent capital and reserve buffers. On the downside, we take into account the difficult operating environment in the South African life insurance industry. Exposure to the South African economy weighs on the market and credit risk of OMLACSA's assets.

We factor into our rating the consolidated view of Old Mutual Emerging Markets (OMEM) Group, of which we regard OMLACSA a core subsidiary. The ultimate parent, Old Mutual PLC (OM PLC), is still undergoing a managed separation that is expected to continue through to the end of 2018. At the end of this process OMEM is expected to operate independently, most likely as a listed group, of which OMLACSA will continue to be the most important subsidiary. Our base-case assumption is that the separation of OMEM from OM PLC will have a limited impact on our view of OMEM Group and on OMLACSA's creditworthiness.

We rate OMLACSA higher than the foreign currency global scale ratings on South Africa. This is because OMLACSA and OMEM withstand our foreign currency sovereign default stress test. OMLACSA holds approximately 95% 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 hypothetical sovereign foreign currency default scenario--we expect OMLACSA's policyholder funds would share the bulk of losses. However, we limit the ratings on OMLACSA to the level of our local currency sovereign credit ratings on South Africa 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 negative outlook reflects the negative outlook on South Africa.

We could lower the rating if:

- We were to lower our local currency sovereign credit ratings on South Africa; or
- We saw exceptional dividends exhausting capital; unexpected negative consequences of OM PLC's dismantling; or earning fundamentals deteriorating, for example Old Mutual Emerging Markets' reported consolidated return on equity falling below 15% or new business margin to below 2.5%; or weakened balance sheet to the extent OMLACSA fails to pass our sovereign foreign currency default stress scenario.

We could revise the outlook to stable if we took a similar action on the sovereign.

Ratings Score Snapshot

Financial Strength Rating	BBB-/Negative/--
Counterparty Credit Rating	
South Africa National Scale	zaAA-/--/zaA-1
Subordinated Deferrable	zaA
Issuer Credit Rating	BBB-/Negative/--

Anchor	bbb+
Business Risk Profile	Satisfactory
IICRA	Moderate
Competitive Position	Strong

Financial Risk Profile	Upper Adequate
Capital and Earnings	Upper Adequate
Risk Position	Intermediate
Financial Flexibility	Adequate

Modifiers	0
ERM and Management	0

Enterprise Risk Management	Adequate
Management and Governance	Satisfactory
Holistic Analysis	0
Liquidity	Exceptional
Support	0
Group Support	
Government Support	-2

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 1, 2016
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 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

Related Research

- Old Mutual Life Assurance Co. (South Africa) Ltd., July 13, 2016

Ratings List

New Rating; CreditWatch/Outlook Action

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

Counterparty Credit Rating

Local Currency

BBB-/Negative/--

Financial Strength Rating

Local Currency

BBB-/Negative/--

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