S&P Global Ratings

RatingsDirect®

Bulletin:

Old Mutual Ltd. Is Down, But Not Out

March 24, 2021

PRIMARY CREDIT ANALYST

Simran K Parmar
London
+ 44 20 7176 3579
simran.parmar@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

LONDON (S&P Global Ratings) March 24, 2021--S&P Global Ratings said today that although South African insurer Old Mutual Ltd. (OML)'s results were significantly impacted by the COVID-19 pandemic, they are in line with our expectations.

The pandemic reduced OML's results from operations by South African rand (ZAR) 6.1 billion in financial 2020 (ended Dec. 31, 2020). Investments in Nedbank, in which OML has a stake, also suffered impairments, causing the Old Mutual group to see a total International Financial Reporting Standards loss of ZAR5.1 billion during the financial year.

Old Mutual (South Africa national scale rating 'zaA+'/'zaA-1') has a dominant position in the mass and foundation cluster (MFC), which targets the mass market in South Africa. In our view, this makes it more vulnerable to the economic and health implications of COVID-19. OML's property/casualty carrier, Old Mutual Insure Ltd., is exposed to business interruption and trade credit claims, which account for ZAR791 million of its provisions.

The group's new business profitability, measured using value new business (VNB) margins, dipped in 2020 to 1.1%, from 2.6% in 2019. Old Mutual has announced a revised medium-term VNB target of 1.5%-3.0%.

We expect management will act to maintain its competitive strength and improve operating performance by building its market position and distribution channels and delivering the group's target of ZAR750 million in pretax run-rate cost savings.

The group announced dividend payments of 35 cents per share, which is a dividend cover of 1.5x the ZAR2.5 billion in adjusted headline earnings in 2020. Although OML is well-capitalized, both according to our risk-based capital model (we expect 'A' level redundancy over 2021-2022) and on a regulatory basis (185% as of Dec. 31, 2020), its significant exposure to lower-rated sovereign assets, similar to some peers, ultimately constrains our assessment of its financial risk profile. Our base-case assumption is that OML will maintain its current capital adequacy, with leverage remaining under 20%, and fixed-charge cover improving toward 4x over 2021.

This report does not constitute a rating action.