S&P downgrades four listed insurers

S&P Global Ratings' axe has now fallen on four listed insurers following its recent decision to cut the government's foreign-currency rating to non-investment grade.

Old Mutual Life Assurance Company of SA (Omlacsa), Sanlam, Liberty and Santam had their national scale ratings cut at least one notch - although all remained above investment grade. S&P kept SA's sovereign local currency rating at investment grade, although it was lowered by a notch to BBB-.

"As regards the life insurers we rate Sanlam, Liberty and Old Mutual, we consider that economic conditions in SA have led to increased asset risk in their balance sheets," S&P said.

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"However, we believe that they would withstand the stress associated with a foreign currency sovereign default, if one were to occur. These life insurers hold most of their assets in SA."

The ratings agency has limited these insurers' ratings " along with those of Santam " to the level of SA's local currency credit ratings because of their susceptibility to the financial and macroeconomic stress that would arise from the government defaulting on its debt denominated in local currency.

"Omlacsa remains well capitalised as our capital management strategy adequately stress-tested the scenario of a downgrade," said Old Mutual spokesman William Baldwin-Charles.

Adrian Cloete, a portfolio manager at PSG Wealth, said the insurer downgrades were not cause for alarm.

"As Omlacsa is extremely well capitalised, this downgrade isn't concerning in any way and just follows on from the downgrade of SA's sovereign credit rating - like when the banks' ratings were also downgraded earlier," Cloete said.

"The only impact on Omlacsa is that it will pay a slightly higher interest rate on any new debt it issues.

"As Omlacsa is so well capitalised and very cash generative, it is unlikely to issue significant amounts of debt anytime soon," he said.

Sanlam and Santam had not responded at the time of going to print, but both issued Sens announcements after the market closed on Monday.

Santam said the rating adjustments were not expected to negatively affect its solvency position and it had adequate capital to stay solvent in the face of rising risks.

Sanlam said it had been expecting a downgrade for some time. Sanlam Life, its main operating arm, had "strong" solvency cover under the Financial Services Board's new solvency assessment and management (SAM) regime.

"The S&P rating actions on " SA and Sanlam Life are not expected to have a significant impact on Sanlam Life's or the Sanlam Limited Group's solvency position under the current and future SAM solvency regimes due to the well diversified nature of the balance sheets," the board said.

"It is therefore also anticipated that the capital allocation to the Sanlam operations, including Sanlam Life, and the level of available discretionary capital will remain unaffected by the rating actions."

Santam also had its counterparty credit rating - a measure of its ability to meet obligations to third parties such as policyholders - revised a notch to BBB-, a rung above junk.

"Santam would be able to withstand the stress associated with a default by SA on its foreign currency obligations, based on its asset base and supported by its credible and executable risk-mitigation plan," S&P said.

"In our opinion, these strengths indicate that the insurer is unlikely to default on its insurance liabilities under a sovereign default, if one were to occur," the agency said.

Source: *Business Day*