

Rating Action: Moody's places ratings of South African insurance groups on review for downgrade following action on the South African sovereign

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London, 04 April 2017 -- Moody's Investors Service has today placed the global scale Insurance Financial Strength (IFS) and related debt ratings of the following South African insurance groups and related entities on review for downgrade:

- Old Mutual Life Assurance Company (South Africa) Ltd, (OMLAC(SA)): Baa1, review for downgrade
- MMI Group Limited (MMIGL): Baa1, review for downgrade
- Guardrisk Insurance Company Limited (and related Guardrisk entities): Baa2, review for downgrade
- Standard Insurance Limited (SIL): Baa2, review for downgrade

The insurers' national scale ratings are not affected by this rating action.

Today's rating action follows the review for downgrade of the Baa2 debt rating of the Government of South Africa, which was prompted by the abrupt change in leadership of key government institutions. For details of Moody's rating action and review of the sovereign rating, please see the related press release: Moody's places South Africa's Baa2 ratings on review for downgrade (https://www.moody.com/research/--PR_364595).

Moody's considers these insurance groups' key credit fundamentals (asset quality, capitalisation, profitability and financial flexibility) to be partly correlated with -- and thus linked to -- the economic and market conditions in South Africa, where they are domiciled and have significant operations. Moody's also notes that the IFS ratings of OMLAC(SA) and MMIGL remain above the sovereign rating, reflecting their solid capitalization and the flexible liability profile of some of their products. In particular, the products' flexibility offers a relatively high ability to share asset losses with policyholders by permitting OMLAC(SA) and MMIGL the right to retract non-vested policyholder bonuses, or to utilize funds in the bonus stabilisation accounts and/or make lower future bonus declarations to policyholders.

A complete list of ratings affected by this rating action is available at the end of this press release.

RATINGS RATIONALE

--- Old Mutual Life Assurance Company (South Africa) Ltd: Baa1 IFS rating placed on review for downgrade

OMLAC(SA)'s Baa1 -- review for downgrade -- IFS rating reflects the company's very well established and strong market position in South Africa, its solid capitalization relative to economic and regulatory capital requirements, the flexible liability profile of some of its products, that allows it to share investment losses with policyholders, and its sophisticated information technology, asset management and product design capabilities. These strengths are partly offset by the company's dependence on the highly competitive South African life insurance market, its material exposure to South Africa -- in terms of both invested assets and earnings -- which constrains the company's credit profile, and subdued economic conditions in South Africa, that could depress earnings over the short to medium-term.

OMLAC(SA) is a wholly owned subsidiary of Old Mutual Plc (LT Issuer rating Baa3, Ratings under Review), and the largest life insurer in South Africa.

--- Old Mutual Plc: Debt ratings, including Baa3 Long-Term Issuer rating placed on review for downgrade

Old Mutual Plc is a London based holding company for a diversified financial services group that includes life assurance, asset management, banking, non-life insurance and other financial services operations. The group has a particularly strong franchise in South Africa, through OMLAC(SA). The group's debt ratings are partially constrained by the credit quality of South Africa sovereign (Government of South Africa, LT Issuer rating Baa2, Ratings under Review) due to the substantial operations and investment exposure in South Africa.

On 11 March 2016, the group announced a new strategy to separate its four key underlying businesses, Old Mutual Emerging Markets (OMEM, unrated), Old Mutual Wealth (OMW, unrated), Nedbank Limited (LT Deposits Baa2 Ratings under Review, BCA baa2) and OM Asset Management plc (OMAM, LT Issuer rating Baa2, stable). The group expects the separation to be substantially complete by the end of 2018, by which time the group stated it would cease to exist in its current structure.

The review for downgrade on Old Mutual Plc's Baa3 Issuer rating and associated debt ratings follows the review for downgrade on the Baa1 IFS Rating at OMLAC(SA). Old Mutual Plc's Long-Term Issuer rating and other debt ratings continue to reflect (i) our expectation of increased holding company liquidity relative to debt, in the event of individual businesses being sold and as a result of the more conservative dividend policy, and (ii) the company's March 2016 statement of intent to materially reduce holding company debt before returning excess capital to shareholders. Higher liquidity at the holding company, or accelerated debt repayments over the course of the managed separation will offset the negative credit impact of lower diversification benefits following the separation of individual businesses. We note Old Mutual Plc has reduced holding company debt since March 2016, and also highlighted that there could be an increase in cash outlays and liquidity demands in 2017, as a result of the execution of its managed separation.

--- MMI Group Limited: Baa1 IFS rating placed on review for downgrade

MMIGL's Baa1 -- on review for downgrade -- global scale, and Aaa.za national scale, IFS ratings reflect the insurer's top tier market position in South Africa, its solid capital position and its flexible product characteristics which serve to reduce the impact on the group from stress related to credit pressures at the sovereign level. These strengths are partially offset by the group's exposure to South Africa, both in the form of its invested assets and revenues, which are susceptible to the pressure on the domestic economy, and lower insurance profit margins relative to peers.

MMIGL is the primary life insurance subsidiary of MMI Holdings Limited (MMI, unrated), a leading insurance group in South Africa, that was formed in 2010 following the merger of two long-established life insurance and investment groups, Momentum and Metropolitan. MMI's primary focus is life insurance and investment products for the South African market, although the group has been expanding into other developing markets and building its presence in the non-life insurance sector, including its 2014 acquisition of the Guardrisk Group.

--- Guardrisk Group: Baa2 IFS rating of rated subsidiaries, placed on review for downgrade

The Baa2 -- on review for downgrade -- global scale IFS ratings assigned to entities in the Guardrisk group - as well as the Aaa.za national scale IFS ratings assigned to the South African entities - reflect (i) its good market position as the largest cell captive insurer in the South African market, (ii) low underwriting risk due to its fee based model, (iii) diverse product mix across life insurance and short-tailed non-life insurance lines, and (iv) strong profitability. These strengths are partially offset by (i) its investment portfolio's concentrated exposure to the South African economy and banking system, which is somewhat correlated with the credit risk of cell owners and (ii) the uncertainty around the level of its capital coverage under the upcoming SAM regulations, including meaningfully lower capital coverage expected for Guardrisk Insurance Company Limited, absent the regulator agreeing to transitional measures or an additional capital contribution from the parent, MMI Holdings Limited.

The rated entities included in the Guardrisk group, collectively referred to as Guardrisk, include Guardrisk Insurance Company Limited (Guardrisk Insurance), Guardrisk Life Limited (Guardrisk Life) and Guardrisk International Limited PCC (Guardrisk International), incorporated in Mauritius (Government of Mauritius, LT Issuer rating Baa1, stable). While Guardrisk Insurance and Guardrisk Life are rated both Baa2 on the global scale, and Aaa.za on the national scale, Guardrisk International is rated Baa2 on the global scale only. Additionally, while Guardrisk is comprised of various regulated entities, we consider Guardrisk's various entities to be a single analytic unit, and, as such rate them at the same level. We consider Guardrisk's entities to be closely related, the South African entities benefiting from a common operating platform and management structure. In addition, the three rated entities form part of Guardrisk's overall platform and integrated service offering to clients, allowing it to offer a variety of risk transfer solutions to clients.

--- Standard Insurance Limited: Baa2 IFS rating placed on review for downgrade

SIL's Baa2 -- on review for downgrade -- global scale, and Aa1.za national scale, IFS ratings reflects the insurer's (i) established market position as a mid-tier short-term insurer in the South African market, (ii) good brand recognition and credibility afforded by its affiliation with Standard Bank, (iii) strong and consistent profitability, partly due to lower acquisition costs resulting from the sales and distribution arrangement with its

parent, and (iv) strong capitalization relative to regulatory capital requirements. These strengths are partially offset by (i) its investment portfolio's concentrated exposure to the South African economy and banking system, (ii) very high gross modelled natural catastrophe exposure relative to capital, and (iii) limited product and geographic diversification, with high concentration in residential property exposure.

SIL is a wholly-owned subsidiary of the Standard Bank Group Limited (SBG, LT Issuer rating Baa3, Ratings under Review) and an affiliate of South Africa's largest bank, by assets, The Standard Bank of South Africa Limited (SBSA, LT Deposits Baa2 Ratings under Review, BCA baa2). While SIL benefits from the Standard name, and to a large extent services a subset of SBSA's customers, the rating does not incorporate any support from SBG.

WHAT COULD CHANGE THE RATINGS UP/DOWN

--- Old Mutual Life Assurance Company (South Africa) Ltd

Given the review for downgrade of the rating of the South African sovereign, there is limited upward pressure on OMLAC(SA)'s IFS rating. Moody's would likely stabilize OMLAC(SA)'s outlook, or return it to negative, if the outlook on South Africa was stabilized, or returned to negative, respectively.

Conversely, downward pressure on OMLAC(SA)'s rating could result from: (i) a downgrade of the rating of the South African sovereign, (ii) meaningful reduction in the proportion of its flexible liability products relative to its overall non-unit linked liabilities, (iii) failure to maintain regulatory capital levels, under the upcoming SAM regulations, comfortably above management's minimum target level, (iv) meaningful challenges that arise from the group's strategy of managed separation, including erosion of the company's market position due to uncertainty around the separation from the group.

--- Old Mutual Plc

Given the review for downgrade of the rating of the South African sovereign, there is limited upward pressure on Old Mutual Plc's ratings. Moody's would likely return the outlook for Old Mutual Plc to negative, if the outlook on South Africa was returned to negative. Old Mutual Plc's outlook would only be returned to stable if the outlook for South Africa was returned to stable, and the level of uncertainty and execution risk around Old Mutual Plc's managed separation had reduced meaningfully.

Conversely, downward pressure on Old Mutual Plc's ratings could result from: (i) a downgrade of the rating of the South African sovereign, (ii) material deterioration in the creditworthiness of the group's subsidiaries, including OMLAC(SA), OMW and Nedbank Limited, (iii) a meaningful reduction in the Group's business and geographic diversification, absent a related increase in holding company liquidity, or debt repayment, (iv) meaningful return of capital to shareholders ahead of debt redemption, (v) failure to sustain hard interest coverage of at least 2x.

--- MMI Group Limited:

Given the review for downgrade of the rating of the South African sovereign, there is limited upward pressure on MMIGL's IFS rating. Moody's would likely stabilize MMIGL's outlook, or return it to negative, if the outlook on South Africa was stabilized, or returned to negative, respectively.

Conversely, downward pressure on MMIGL's rating could result from: (i) a downgrade of the rating of the South African sovereign, (ii) meaningful reduction in the proportion of its flexible liability products relative to its overall non-unit linked liabilities, (iii) failure to maintain regulatory capital levels, under the upcoming SAM regulations, comfortably above management's minimum target level.

--- Guardrisk Group

Given the review for downgrade of the rating of the South African sovereign, there is limited upward pressure on the respective Guardrisk IFS ratings. Moody's would likely stabilize Guardrisk's outlook, or return it to negative, if the outlook on South Africa was stabilized, or returned to negative, respectively.

Conversely, downward pressure on the respective Guardrisk ratings could result from: (i) a downgrade of the rating of the South African sovereign, (ii) failure to attain regulatory compliance, including a transitional dispensation, under the upcoming SAM regulations.

--- Standard Insurance Limited

Given the review for downgrade of the rating of the South African sovereign, there is limited upward pressure on SIL's IFS rating. Moody's would likely stabilize SIL's outlook, or return it to negative, if the outlook on South Africa was stabilized, or returned to negative, respectively.

Conversely, downward pressure on SIL's rating could result from: (i) a downgrade of the rating of the South African sovereign, (ii) failure to maintain regulatory capital levels, under the upcoming SAM regulations, comfortably above management's minimum target level, (iii) meaningful reduction in reinsurance limits and capacity, including reinstatements, relative to modelled natural catastrophe exposures, (iv) termination of the sales and distribution agreement with SBSA.

LIST OF AFFECTED RATINGS

The following ratings have been placed on review for downgrade:

Issuer: Old Mutual Life Assurance Company (South Africa) Ltd

...Insurance Financial Strength Rating at Baa1

Issuer: Old Mutual Plc

Senior Unsecured EMTN program at (P)Baa3

Long term Issuer rating at Baa3

Subordinate EMTN program at (P)Ba1

Subordinated debt at Ba1(hyb)

Commercial paper at P-3

Other Short-Term at (P)P-3

Issuer: MMI Group Limited

Insurance financial strength at Baa1

Long-term Issuer rating at Baa2

Subordinated debt at Baa3

Subordinated DMTN programme at (P)Baa3

Issuer: Guardrisk Insurance Company Limited

...Insurance Financial Strength Rating at Baa2

Issuer: Guardrisk Life Limited

...Insurance Financial Strength Rating at Baa2

Issuer: Guardrisk International Limited PCC

...Insurance Financial Strength Rating at Baa2

Issuer: Standard Insurance Limited

...Insurance Financial Strength Rating at Baa2

The outlooks on all affected issuers were changed to Ratings Under Review from Negative

PRINCIPAL METHODOLOGY

The principal methodology used in rating Guardrisk Life Limited, MMI Group Limited, Old Mutual Plc and Old Mutual Life Assurance Company (South Africa) Ltd was Global Life Insurers published in April 2016. The principal methodology used in rating Guardrisk Insurance Company Limited, Guardrisk International Limited PCC and Standard Insurance Limited was Global Property and Casualty Insurers published in June 2016.

Please see the Rating Methodologies page on www.moody's.com for a copy of these methodologies.

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