MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades ratings of South African insurance groups following action on the South African sovereign; maintains negative outlook

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London, April 1, 2020 – Moody's Investors Service, ("Moody's") has today downgraded the Insurance Financial Strength (IFS) and related debt and issuer ratings of the following South African insurance groups, and maintained the negative outlook:

- Discovery Limited (Discovery): long-term Issuer rating downgraded to Ba2 from Ba1

- Guardrisk Insurance Company Limited (Guardrisk Insurance), Guardrisk Life Limited (Guardrisk Life), and Guardrisk International Limited PCC (Guardrisk International): IFS ratings downgraded to Ba1 from Baa3

- Momentum Metropolitan Life Limited (MML): IFS rating downgraded to Baa3 from Baa2

- Standard Insurance Limited (SIL): IFS rating downgraded to Ba1 from Baa3

A full list of affected ratings is included at the end of this document.

The primary driver of these rating actions is the weakening credit profile of the South African government and banking sectors given the insurers' high exposure to government debt securities and cash and short-term instruments issued by local banks, which links their credit profiles to that of the government and the banking system. In addition, Moody's expects the increasingly difficult operating environment to place pressure on insurers' profitability and asset quality.

These actions follow the downgrade the South African government's issuer rating to Ba1 from Baa3 on 27 March 2020. The key driver of the sovereign rating downgrade is the continuing deterioration in South Africa's fiscal strength and structurally very weak growth, which Moody's does not expect current policy settings to address effectively. For details of Moody's rating action and change in outlook for the sovereign, please see the related press release: Moody's downgrades South Africa's ratings to Ba1, maintains negative outlook (https://www.moodys.com/research/--PR_420630).

RATINGS RATIONALE

SECTOR RATIONALE

Moody's considers these insurance groups' key credit fundamentals (asset quality, capitalisation, profitability and financial flexibility) to be partly correlated to - and thus linked to - the economic and market conditions in South Africa, where they are domiciled and have significant operations. The significant majority of these insurers' invested assets are held in local assets, including South African government debt, local corporate debt and equity securities and real estate, while the insurers' cash and short-term investments are held with the large South African banks. Some of the insurers' have diversified their operations with a portion of revenue and profits being sourced outside of South Africa, however the vast majority of their profits are still generated locally.

Moody's expects the operating environment for insurers to come under increasing pressure in 2020 as declining consumer discretionary income and volatile financial markets supress demand for insurance and savings products and reduce insurers' own investment income. Moody's expects a GDP contraction of 2.5% in 2020 and growth of 1.1% in 2021, significantly below the level required to reduce both high poverty and unemployment levels (29.1%, 2019) materially.

Additionally, the unprecedented deterioration in the global economic outlook caused by the rapid spread of the coronavirus outbreak will exacerbate South Africa's economic and fiscal challenges, complicate the emergence of effective policy responses and negatively impact insurers' credit profiles through asset quality, profitability and liquidity pressures. For life insurers, there is a risk that the complications related to the coronavirus could lead to higher mortality and morbidity losses, placing additional pressure on profitability. However, because the coronavirus has thus far exhibited a higher mortality impact on older age people, the mortality impact on protection business should be moderated by the relatively low level of life insurance uptake in the older population. The weakening economy along with the economic ramifications of coronavirus could lead to rising policy lapse rates which would negatively impact insurers' profitability and capitalisation.

However, Moody's also notes that despite the linkage to the sovereign credit profile, the IFS rating of MML remains above the sovereign rating, reflecting its solid capitalization and the flexible liability profile of some of its products. In particular, the products' flexibility offers a relatively high ability to share asset losses with policyholders by permitting MML 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. Similarly, for Discovery, Moody's consider the notional IFS assessment for the group to be one-notch above the sovereign rating of the Government of South Africa, and it reflects the agency's view that Discovery's diverse business mix, significant fee income and moderate asset leverage reduces the exposure to South African sovereign risk.

NEGATIVE OUTLOOK REFLECTS SOVEREIGN OUTLOOK

The negative outlook of the insurers reflects Moody's view that the weak economic environment and deteriorating government finances will place additional pressure on their asset quality, profitability and capitalisation.

The negative outlook on the insurers is aligned with the outlook on the sovereign rating, which reflects downside risks around economic growth and fiscal metrics, that could lead to an even more rapid and sizeable increase in the debt burden, further lowering debt affordability and potentially weakening South Africa's access to funding.

NATIONAL SCALE RATINGS (NSR)

There has also been a recalibration of South Africa's NSR mappings, triggered by the downgrade of South Africa's government bond rating. Moody's NSRs are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks.

RATINGS RATIONALE – INDIVIDUAL INSURERS

--- Discovery Limited: Long-term Issuer rating downgraded to Ba2 from Ba1 on the global scale and to A1.za from Aa3.za on the national scale, with outlook maintained negative.

Discovery's Ba2 long-term Issuer rating reflects the group's very strong franchise in South Africa and its growing global footprint through its Vitality brand and platform, its strong profitability and significant non-insurance fee income from Discovery Health, moderate exposure to local investments because of the capital-light nature of its business, and good capitalization on both a regulatory and economic basis. These strengths are partially offset by the group's substantial business exposure to South Africa and the challenging operating environment, pressure on the profitability of its Vitality Life business in the UK due to very low interest rates and the complexity inherent in its shared value insurance model. While Discovery Bank is still small relative to the overall group, its lending book exposes the group to rising consumer credit risk in the weakening economic environment, albeit that Discovery's clients tend to be more insulated from this than the general population.

The downgrade of Discovery's NSR to A1.za from Aa3.za reflects the recalibration of South Africa's NSR mappings, triggered by the downgrade of South Africa's government bond rating, and does reflect a deterioration in Moody's view of Discovery's creditworthiness among debt issues and issuers within South Africa.

--- Guardrisk Group: IFS rating of rated subsidiaries downgrade to Ba1 from Baa3, with outlook maintained negative.

The Ba1 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 its good market position as the largest cell captive insurer in the South African market, low underwriting risk due to its predominately fee based model, diverse product mix across life insurance and short-tailed non-life insurance lines, and strong profitability. These strengths are partially offset by its investment portfolio's concentrated exposure to the South African economy and banking system and lower regulatory capital buffer above the new SAM capital requirements due to nonrecognition of surplus capital in cells for regulatory capital purposes. Guardrisk is also exposed to corporate credit risk through its reliance on cell-owners to recapitalise cells in the event needed. Deterioration in the local economy, exacerbated by the economic effects of coronavirus, will lead to rising corporate credit risk.

The rated entities included in the Guardrisk group, collectively referred to as Guardrisk, include Guardrisk Insurance Company Limited, Guardrisk Life Limited (Guardrisk Life) and Guardrisk International Limited PCC (Guardrisk International), incorporated in Mauritius (Government of Mauritius, Baa1 stable). Guardrisk Insurance and Guardrisk Life are rated both Ba1 on the global scale, and Aaa.za on the national scale, while Guardrisk International is rated Ba1 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, including Guardrisk International, which although it is regulated, capitalised and increasingly managed separately from the broader Guardrisk group, remains an integral part of the group and therefore the analytic unit.

--- Momentum Metropolitan Life Limited: IFS rating downgraded to Baa3 from Baa2, with negative outlook maintained

MML's Baa3 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. The group's capital has strengthened over the past 18 months, benefiting from higher retained earnings given its more conservative dividend policy and improving profitability. 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, along with weakening economy and expected effects of coronavirus which will make it more challenging for the group to meet its profitability targets under its "Reset and Grow" strategy.

Moody's expects the weakening economy and pressure on consumer income to present significant headwinds to MML's savings and investment businesses, which had recently started gaining improved traction under its new strategy. In addition, the group's corporate and employee benefits division, which has been a key source of profitability, could experience higher disability claims in the event of rising unemployment and lower new business volumes in the event of a GDP contraction.

The downgrade of MML’s long-term Issuer NSR to Aa1.za from Aaa.za reflects the recalibration of South Africa's NSR mappings, triggered by the downgrade of South Africa's government bond rating, and downgrade of the long-term Issuer rating to Ba1 from Baa3. Similarly, the downgrade of MML's subordinated debt NSR to Aa3.za from Aa2.za reflects the recalibration of South Africa's NSR mappings, and does reflect a deterioration in Moody’s view of MML’s creditworthiness among debt issues and issuers within South Africa.

MML is the primary life insurance subsidiary of MMH, 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.

--- Standard Insurance Limited: IFS rating downgraded to Ba1 from Baa3, with negative outlook maintained

SIL's Ba1 global scale, and Aa1.za national scale, IFS ratings reflect the insurer's established market position as a mid-tier short-term insurer in the South African market, good brand recognition and credibility afforded by its affiliation with Standard Bank, strong and consistent profitability, partly due to lower acquisition costs resulting from the sales and distribution arrangement with its parent, and strong capitalization relative to regulatory capital requirements. These strengths are partially offset by its investment portfolio's concentrated exposure to the South African economy and banking system, very high gross modelled natural catastrophe exposure relative to capital, and 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, long-term Issuer rating Ba2, negative) and an affiliate of South Africa's largest bank, by assets, The Standard Bank of South Africa Limited (SBSA, long-term Deposits Ba1, negative, BCA ba1). 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.

LIST OF AFFECTED RATINGS

Issuer: Discovery Limited

Downgrade:

…Long-term Issuer Rating downgraded to Ba2 from Ba1

…National scale Long-term Issuer rating downgraded to A1.za from Aa3.za

Issuer: Guardrisk Insurance Company Limited

Downgrade:

...Insurance Financial Strength Rating downgraded to Ba1 from Baa3

Affirmation:

…National scale Insurance financial strength rating affirmed Aaa.za

Issuer: Guardrisk Life Limited

Downgrade:

...Insurance Financial Strength Rating downgraded to Ba1 from Baa3

Affirmation:

…National scale Insurance financial strength rating affirmed Aaa.za

Issuer: Guardrisk International Limited PCC

Downgrade:

...Insurance Financial Strength Rating downgraded to Ba1 from Baa3

Issuer: Momentum Metropolitan Life Limited

Downgrades:

…Insurance financial strength downgraded to Baa3 from Baa2

…Long-term Issuer rating downgraded to Ba1 from Baa3

…National scale Long-term Issuer rating downgraded to Aa1.za from Aaa.za

…Subordinated debt downgraded to Ba2(hyb) from Ba1(hyb)

…Backed Subordinated debt downgraded to Ba2(hyb) from Ba1(hyb)

…National scale subordinated debt downgraded to Aa3.za(hyb) from Aa2.za(hyb)

...National scale backed subordinated debt downgraded to Aa3.za(hyb) from Aa2.za(hyb)

…Subordinated MTN program downgraded to (P)Ba2 from (P)Ba1

…Backed Subordinated MTN programme downgraded to (P)Ba2 from (P)Ba1

…National scale subordinated MTN program downgraded to Aa3.za from Aa2.za

…National scale backed subordinated MTN program downgraded to Aa3.za from Aa2.za

Affirmations:

…National scale Insurance financial strength rating affirmed Aaa.za

Issuer: Standard Insurance Limited

Downgrade:

...Insurance Financial Strength Rating downgraded to Ba1 from Baa3

Affirmation:

…National scale Insurance Financial Strength Rating affirmed Aa1.za

The outlooks on all affected issuers remain negative.

The principal methodology used in rating Discovery Limited, Momentum Metropolitan Life Limited and Guardrisk Life Limited was Life Insurers Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1187348. The principal methodology used in rating Standard Insurance Limited, Guardrisk Insurance Company Limited and Guardrisk International Limited PCC was Property and Casualty Insurers Methodology published in November 2019 and available at https://www.moodys.com/

researchdocumentcontentpage.aspx?docid=PBC_1187352. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Factors that would lead to an upgrade or downgrade of the ratings:

--- Discovery Limited

Given the negative outlook for Discovery and the Government of South Africa, there is limited upward pressure on the rating over the next 12 to 18 months.

Conversely, the following factors could lead to downward pressure on the ratings: (i) a downgrade in the rating of the South African sovereign, (ii) failure to maintain regulatory capital levels comfortably above management's minimum target level, (iii) material uncertainty about the sustainability of the fee income generated by Discovery Health, including loss of the management contract with Discovery Health Medical Scheme (DHMS), or material deterioration in expected earnings due to implementation of National Health Insurance in South Africa, (iv) sustained increase in the group's financial leverage, meaningfully beyond its 28% Financial Leverage Metric, (v) rapid growth in banking assets that decreases the group's resilience to sovereign-related stress scenarios, (vi) material weakening in the group's franchise, including evidence that casts doubt on the viability of the “Shared Value Insurance Model”.

--- Guardrisk Group

Given the negative outlook for Guardrisk and the Government of South Africa, there is limited upward pressure on the rating over the next 12 to 18 months.

Conversely, the following factors could lead to downward pressure on the ratings: (i) negative rating action on the South African sovereign or banking sector, (ii) failure to maintain regulatory capital levels comfortably above management's minimum target, and (iii) material weakening in the Guardrisk's franchise, including regulatory or market changes that limit the appeal of the cell captive insurance model in South Africa.

--- Momentum Metropolitan Life Limited

Given the negative outlook for MML and the Government of South Africa, there is limited upward pressure on the rating over the next 12 to 18 months.

Conversely, the following factors could lead to downward pressure on the ratings: (i) negative rating action on the South African sovereign or banking sector, (ii) failure to maintain regulatory capital, comfortably above management's minimum target level, (iii) meaningful reduction in the proportion of its flexible liability products relative to its overall non-unit linked liabilities.

--- Standard Insurance Limited

Given the negative outlook for SIL and the Government of South Africa, there is limited upward pressure on the rating over the next 12 to 18 months.

Conversely, Moody's noted that the following factors could lead to a downgrade of the group's ratings: (i) a downgrade of South Africa's government debt rating and/or a downgrade of the South African banks, (ii) failure to maintain regulatory capital levels comfortably above management's minimum target level , (iii) meaningful reduction in reinsurance limits and capacity, including reinstatements, relative to modeled natural catastrophe exposures, and (iv) termination of the bancassurance agreement with SBSA.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1216309.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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