

**Rating Action: Moody's assigns an Aaa.za national scale IFS rating to Guardrisk Insurance Group**

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Global Credit Research - 27 May 2016

London, 27 May 2016 -- Moody's Investors Service, ("Moody's") has assigned Aaa.za national scale insurance financial strength (IFS) ratings to both Guardrisk Insurance Company Limited (Guardrisk Insurance) and Guardrisk Life Limited (Guardrisk Life). At the same time, Moody's also assigned a Baa2 global scale IFS rating to Guardrisk International Limited PCC, incorporated in Mauritius (Guardrisk International).

In the same action, Moody's assigned the following global scale IFS ratings, which serve as the basis for the national scale ratings: Guardrisk Insurance at Baa2 and Guardrisk Life at Baa2. The outlook is negative, on a global scale basis, and follows from the negative outlook for the Government of South Africa (Baa2, negative)

Moody's considers Guardrisk's various entities (Guardrisk Insurance, Guardrisk Life and Guardrisk International) as a single analytic unit, and, as such rates them at the same level. In fact Moody's considers 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.

#### RATINGS RATIONALE

The ratings of the Guardrisk 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 and consistent 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 future capital coverage levels expected for Guardrisk Insurance if the company's internal model is not approved by regulators in the long term. Given its exposure to the South African market, the IFS rating is constrained by South Africa's Baa2, negative outlook, government debt rating.

Guardrisk is the largest provider of cell captive insurance in South Africa and manages cells that insure both life and non-life risks in South Africa and internationally, predominately in other African countries. Based on premiums written -- both at the cell and promoter levels -- Guardrisk is amongst the top five largest non-life insurers in South Africa. Guardrisk is a subsidiary of MMI Holdings Limited, a leading insurance group in South Africa. MMI purchased Guardrisk from the Alexander Forbes Group in 2014.

As a cell captive insurer, Guardrisk's primary risk is the credit risk of the third party cell owners. Cell owners are responsible for maintaining adequate solvency of the respective cells; however, in the event cell owners are not able to recapitalize following adverse underwriting performance, Guardrisk retains the ultimate responsibility to policyholders. In addition to managing captive cells, for which it earns fee income, Guardrisk retains a moderate portion of insurance risk through direct business, and premiums generated by selected cells for its own account.

Guardrisk's primary sources of revenue are the fees it earns for managing the cells and invested assets belonging to cell owners. Similarly, its expenses are substantially related to operational expenses, and it is not exposed to significant underwriting gains and losses. This fee based model decreases volatility in earnings, and reduces the level of underwriting risk Guardrisk is exposed to. However, because of the white-label nature of Guardrisk's business model, with its lack of consumer interaction and meaningful underwriting risk, Guardrisk's business might be less sticky in the face of increased competition in the cell captive market.

The group is well capitalized relative to current regulatory capital requirements, with Guardrisk Insurance at 1.67x the solvency capital requirements (SCR) and Guardrisk Life at 2.6x the capital adequacy requirement (CAR) at year-end 2015. Under the upcoming SAM requirements, Guardrisk's regulatory capital coverage levels are expected to be adversely impacted, primarily due to the ring-fencing of individual cells capital requirements, and not allowing for meaningful diversification benefit in determination of the aggregate capital

requirement. Guardrisk Life plans to implement the standard formula approach, while Guardrisk Insurance has applied for regulatory approval of its internal model, which it believes reflects a more economic view of the cell captive business.

The Guardrisk ratings are constrained by South Africa's Baa2, government debt rating. In fact Moody's views Guardrisk's credit profile as having a meaningful link to the South African sovereign (Government of South Africa, Baa2 negative) and banking system. The primary reasons for this link include, the significant majority of the group's invested assets being held in domestic securities, including deposits with domestic banks, and sensitivity of the group's operating performance to the South African economy and financial markets. While Guardrisk International is based in Mauritius (Government of Mauritius, Baa1 stable), Moody's considers its credit profile to be linked to the broader Guardrisk group, and its parent, Guardrisk Insurance, that is based in South Africa.

## RATINGS OUTLOOK

The negative outlook on Guardrisk reflects the negative outlook on South Africa's Baa2 government bond rating.

## WHAT COULD CHANGE THE RATING UP OR DOWN

Moody's stated that the following factors could lead to an upgrade of the Guardrisk ratings on the global scale: (1) an upgrade of South Africa's sovereign rating, (2) explicit support from a higher rated entity within the MMI group, and (3) diversification of Guardrisk's geographic footprint, related to its invested assets and policyholder base, that meaningfully reduces its exposure to South Africa, or other highly correlated regions. Conversely, Moody's noted that the following factors could lead to a downgrade of the group's ratings on the global scale: (1) a downgrade of South Africa's government debt rating and/or a downgrade of the South African banking sector, and (2) failure to attain regulatory compliance, including a transitional dispensation, under the upcoming SAM regulations.

## OTHER

Guardrisk Insurance is the largest non-life insurer in the Guardrisk group, with net written premium of ZAR 7.3 billion in 2015 (15 months ended June 2015), primarily focused on providing cell captive insurance for the South African market. It writes a wide range of corporate, personal and commercial lines that are mostly short-tailed.

Guardrisk Life is a life insurer primarily focused on providing cell captive insurance for the South African market. It offers a diverse range of long-term insurance lines including funeral benefits, health, employee benefits, and net written premiums of approximately ZAR 2.3 billion in 2015 (15 months ended June 2015).

Guardrisk International is domiciled in Mauritius and is licensed to write both short-term and long-term insurance, although its business is predominately short-term focused. It offers a diverse set of products to Guardrisk's clients with operations outside of South Africa, predominately in Africa.

## LIST OF NEW RATINGS

The following insurance financial strength ratings were assigned on the global scale:

Guardrisk Insurance Company Limited at Baa2

Guardrisk Life Limited at Baa2

Guardrisk International Limited PCC at Baa2

A negative outlook was assigned

The following insurance financial strength ratings were assigned on the national scale:

Guardrisk Insurance Company Limited at Aaa.za

Guardrisk Life Limited at Aaa.za

## PRINCIPAL METHODOLOGIES

The principal methodology used in rating Guardrisk Insurance Company Limited and Guardrisk International Limited PCC was Global Property and Casualty Insurers published in April 2016. The principal methodology used in rating Guardrisk Life Limited was Global Life Insurers published in April 2016. Please see the Ratings Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

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\\_189530](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_189530).

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