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Research Update:

African Reinsurance Corp. (South Africa) Ltd. Rating Affirmed At 'A-'; Outlook Stable

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Overview

- African Reinsurance Group has issued an unconditional and irrevocable guarantee to the policyholders of its South Africa-based subsidiary.
- We are therefore affirming our 'A-' financial strength rating (FSR) on African Reinsurance Corp. (South Africa) Ltd. (ARCSA) and removing the rating from CreditWatch negative, in line with our FSR on the parent and guarantor African Reinsurance Group.
- The guarantee does not cover general obligations, however. We are therefore lowering our issuer credit rating (ICR) on ARCSA to 'BBB+' from 'A-' and removing the rating from CreditWatch negative. We are subsequently withdrawing the ICR at ARCSA's request.
- The outlook is stable.

Rating Action

On Feb. 9, 2018, S&P Global Ratings affirmed its 'A-' insurer financial strength rating (FSR) on South Africa-based African Reinsurance Corp. (South Africa) Ltd. (ARCSA). The outlook is stable. The rating reflects our A-/Stable/-- rating and outlook on the parent and guarantor, African Re Group.

At the same time, we lowered our long-term local currency issuer credit rating (ICR) on ARCSA to 'BBB+' from 'A-'.

We removed the FSR and ICR from CreditWatch with negative implications, where we placed them on Nov. 30, 2017, see "Various Rating Actions Taken On South Africa-Based Insurers And Reinsurers Following Sovereign Downgrade," published on RatingsDirect.

We subsequently withdrew the ICR on ARCSA at the issuer's request. The outlook was stable at the time of the withdrawal.

Rationale

We affirmed the FSR to reflect our view of the unconditional and irrevocable guarantee that parent, African Reinsurance Group, has provided to cover the policyholder obligations of South Africa-based ARCSA. The guarantee exclusively covers reinsurance policyholder obligations. We had previously limited the level of the rating to three notches above the local currency rating on South Africa, under our group rating methodology, as we consider the entity to be core to the group.

According to our group rating methodology, the FSRs on subsidiaries benefiting from a policyholder guarantee that meets our criteria can exceed, by up to six notches, a

local currency long-term sovereign credit rating that is at 'BBB-' or higher, or by four notches if the sovereign rating is 'BB+' or lower. We believe the guarantee ensures that the Africa Re Group will also support ARCSA policyholders in the event of a sovereign stress scenario.

We lowered the ICR on ARCSA because the parental guarantee doesn't extend to general obligations. We therefore limit the ICR at three notches above the level of the long-term local currency sovereign credit rating on South Africa, which we downgraded on Nov. 24, 2017 (see "South Africa Ratings Lowered On Weakening Economic And Fiscal Trajectory; Outlook Stable."

Outlook

The stable outlook on ARCSA reflects the outlook on African Reinsurance Group, and our expectation that the parent's guarantee will remain in force. We therefore expect the FSR and outlook to remain aligned with those on the parent. Should we lower the rating on the parent or the local currency long-term sovereign rating to 'BB', then we could also lower the FSR on ARCSA, in order to maintain the maximum four notches above the sovereign rating, which is not our current expectation.

Ratings Score Snapshot

	To	From
Holding Company Rating	A-/Stable	A-/Stable
Financial Strength Rating	A-/Stable	A-/Watch Neg
Anchor		
Business Risk Profile		
IICRA		
Competitive Position		
Financial Risk Profile		
Capital and Earnings		
Risk Position		
Financial Flexibility		
Modifiers		
ERM and Management		
Enterprise Risk Management		
Management and Governance		
Holistic Analysis		
Liquidity		
Support		
Group Support		
Government Support		

IICRA--Insurance Industry And Country Risk Assessment

Related Criteria And Research

Related Criteria

- General Criteria: Guarantee Criteria - October 21, 2016
- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions - November 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management - May 07, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology - May 07, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- South Africa Ratings Lowered On Weakening Economic And Fiscal Trajectory; Outlook Stable, Nov. 24, 2017
- Various Rating Actions Taken On South Africa-Based Insurers And Reinsurers Following Sovereign Downgrade, Nov. 30, 2017

Ratings List

	Rating	
	To	From
African Reinsurance Corp. (South Africa) Ltd.		
Counterparty Credit Rating		
Local Currency	BBB+/Stable/--	A-/Watch Neg/--
Financial Strength Rating		
Local Currency	A-/Stable/--	A-/Watch Neg/--

Ratings Subsequently Withdrawn

African Reinsurance Corp. (South Africa) Ltd.

Counterparty Credit Rating

Local Currency	NR	BBB+/Stable/--
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NR--Not rated

Regulatory Disclosures

- Primary Credit Analyst: Trevor Barsdorf, Rating Analyst
- Rating Committee Chairperson: David Laxton

- Date initial rating assigned: Nov. 28, 2014
- Date of previous review: Nov. 30, 2017

Disclaimers

This rating has been determined by a rating committee based solely on the committee's independent evaluation of the credit risks and merits of the issuer or issue being rated in accordance with S&P Global Ratings published criteria and no part of this rating was influenced by any other business activities of S&P Global Ratings.

This credit rating is solicited. The rated entity did participate in the credit rating process. S&P Global Ratings did have access to the accounts, financial records and other relevant internal, non-public documents of the rated entity or a related third party. S&P Global Ratings has used information from sources believed to be reliable but does not guarantee the accuracy, adequacy, or completeness of any information used.

Glossary

- **Anchor:** The starting point for rating an insurer, based on S&P Global Ratings' assessments of the business and financial risk profiles.
- **Business risk profile (BRP):** Assesses the risk inherent in the insurer's operations and therefore the potential sustainable return to be derived from those operations.
- **Capital and earnings:** Measure of an insurer's ability to absorb losses.
- **Competitive position:** An assessment based on an insurer's operating performance, branding, market position, diversification and control over its distribution channels.
- **Date initial rating assigned:** The date S&P Global Ratings assigned the long-term foreign currency issuer credit rating on the entity.
- **Date of previous review:** The date S&P Global Ratings last reviewed the credit rating on the entity.
- **Enterprise risk management (ERM):** Our assessment of ERM examines whether insurers execute risk management practices in a manner that effectively limits future losses.
- **Financial flexibility:** The balance between an insurer's sources and uses of external capital and liquidity over the current and next two years.
- **Financial risk profile (FRP):** The consequence of decisions that management makes in the context of its business risk profile and its risk tolerances.
- **Financial strength rating (FSR):** A forward-looking opinion about the financial security characteristics of an insurer with respect to its ability to pay under its insurance policies and contracts, in accordance with their terms.
- **Insurance Industry And Country Risk Assessment (IICRA):** Addresses the risks typically faced by insurers operating in specific industries and countries, and is generally determined at a country or regional level.
- **Issuer credit rating (ICR):** A forward-looking opinion about an obligor's overall creditworthiness, focusing on its capacity and willingness to meet its financial obligations in full and as they come due.
- **Risk position:** Assesses material risks not incorporated in the capital and earnings analysis and specific risks that could affect the volatility of an insurer's TAC.

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- Stand-alone credit profile (SACP): S&P Global Ratings' opinion of an insurer's creditworthiness, in the absence of extraordinary intervention from its parent, affiliate, or related government.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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