

## **FITCH RATINGS UPGRADES SOUTH AFRICA'S SANTAM TO 'AA+(ZAF)'; OUTLOOK STABLE**

Fitch Ratings-London-11 April 2007: Fitch Ratings has today upgraded Santam Limited's (Santam) National Insurer Financial Strength Rating (IFS) to 'AA+(zaf)' from 'AA(zaf)'. Following the upgrade, the Outlook is revised to Stable from Positive.

The upgrade follows Fitch's upgrade of the Sanlam group's ratings and reflects the agency's view that Santam occupies a core position within the Sanlam group, as indicated by the Sanlam group's expected increase in its shareholding in Santam to about 72% from 56%.

The rating also considers Santam's strong underwriting performance, number one domestic market position and strong capitalisation. Offsetting factors include the increasingly competitive South African market, the impact of a deteriorating claims environment and the company's limited diversification outside South Africa.

Santam has a long history of underwriting profitability and reported at FYE06 a combined ratio of 93.9% (FYE05: 91.3%). The deterioration in the combined ratio was due to the deteriorating claims environment, which was exacerbated by several catastrophic events. The claims ratio deteriorated to 69% at FYE06 from 65.3% at FYE05 but underwriting performance was supported by Santam's strong focus on efficiencies, which resulted in its expense ratio improving to 24.9% from 26%.

Santam remains the largest South African general insurer, in terms of net premiums written. However, increasing competition, particularly in its personal lines business, has placed pressure on both its profitability and market share. Offsetting the latter is the growth potential stemming from a growing economy and the insurance needs of the emerging black middle class. In this environment, Fitch expects Santam to maintain its overall number one business position. Net premium growth is expected to be assisted by reinsurance optimisation and entry into new markets such as the lower-income segment in South Africa.

Santam had a regulatory solvency margin (net asset value/net written premiums) of 62% at FYE06 (FYE05: 61%). The agency understands that the company expects to manage its capital to target a solvency margin of about 40% and Fitch expects the company's capital levels to remain strong. Fitch considers that Santam maintains strong risk management disciplines and the company has embedded its internal capital model in management decisions, such as selecting optimal levels of reinsurance.

Although Santam has some international exposure, this is currently of limited scale, representing only 7% of FYE06 gross written premiums. Fitch considers the company's measured approach towards broadening its international operations to be a prudent one and believes that continued profitable growth of international business has the potential to further enhance Santam's credit quality by way of diversification.

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