MOODY'S
RATINGS

Rating Action: Moody's Ratings upgrades Guardrisk Group's global scale IFSRs

18 November 2024

London, November 18, 2024 – Moody's Ratings (Moody's) has today upgraded to Ba1 from Ba2 the global scale Insurance Financial Strength Ratings (IFSR) of Guardrisk Insurance Company Limited (Guardrisk Insurance), Guardrisk Life Limited (Guardrisk Life) and Guardrisk International Limited PCC (Guardrisk International, incorporated in Mauritius). The Aaa.za national scale IFSRs of Guardrisk Insurance and Guardrisk Life have been affirmed. The outlook on these entities remains stable.

Rated entities included in Guardrisk Group (Guardrisk) include Guardrisk Insurance, Guardrisk Life and Guardrisk International.

RATINGS RATIONALE

The upgrade of Guardrisk's global scale ratings reflects both its cell captive structures, which shield its own balance sheet from a number of stresses including those related to the South African sovereign and operating environment and its association with Momentum Group Limited, which we expect to provide financial assistance if required. The national scale ratings, where applicable, were affirmed at Aaa.za.

The majority of Guardrisk's business relates to cell captive insurance. Guardrisk earns fee income for managing cell captive arrangements, however each cell is managed to have its own contractually ringfenced assets, liabilities and capital which are provided by third parties. We consider Guardrisk's capital to be well protected in the event of sovereign stress as individual cells, which individually hold capital buffers, bear the first loss. As a result, Guardrisk's IFSRs are one notch above the sovereign rating. Guardrisk is exposed to credit risk through the obligation of cell sponsors, who are typically domestic corporates, to recapitalise cells and also the concentration to its investment portfolio to the South African banking system. Indvidually, cell sponsors' credit quality is constrained by the South African operating environment. However the large number of cells and their diversification by industry, as well as their requirement to hold capital buffers on an individual basis, significantly reduce Guardrisk's exposure on its own balance sheet. Cells are also able to absorb a proportion of investment losses.

Guardrisk's ratings reflect its strong market position as the largest cell captive insurer in the South African market and growing position as a specialty property and casualty (P&C) insurer, its low underwriting risk due to its predominantly fee based model, diverse product mix across life insurance and short-tailed P&C insurance lines, and strong profitability. These strengths are partially offset by the group's investment and operating exposure to the South African operating environment. While Guardrisk reports low regulatory capital ratios, its regulatory capital coverage is relatively insensitive to stress as excess capital in individual cells is not recognised in the regulatory solvency calculation. On an economic basis (including individual cell surpluses), Guardrisk reports much stronger ratios.

We consider Guardrisk's various entities to be a single analytic unit and rate them at the same level, including its Mauritius entity, which, although it is regulated and capitalised separately from the broader Guardrisk Group, remains an integral part of the group and therefore the analytic unit.

We also expect that Momentum Group Limited, Guardrisk's ultimate parent, would provide capital support if required. While Guardrisk has not required support to date, the Momentum Group Limited has provided support for other operating subsidiaries.

Outlook

The outlooks for Guardrisk Insurance, Guardrisk Life and Guardrisk International are stable and reflect the stable outlook on the South African sovereign, and the linkage between Guardrisk and South Africa.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The following factors could lead to an upgrade: (i) an upgrade of the South African sovereign rating, or (ii) diversification of the group's revenues, earnings and assets to meaningfully reduce its concentration towards South Africa.

The following factors could lead to a downgrade: (i) a downgrade of the South African sovereign rating, or (ii) a weakening in the credit profile of parent group Momentum Group Limited, or a perception of lower implicit support, or (iii) failure to maintain regulatory capital coverage above 100%, or (iv) material weakening in Guardrisk's franchise such as from regulatory changes that limit the appeal of the cell captive insurance model in South Africa or significantly increased competition in the sector.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Property and Casualty Insurers published in April 2024 and available at https://ratings.moodys.com/rmc-documents/418354. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

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 August 2022 entitled "Mapping National Scale Ratings from Global Scale Ratings Methodology". 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_1280297.

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 on https://ratings.moodys.com/rating-definitions.

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