

## **FITCH UPGRADES MMI GROUP'S IFS TO 'AA+(ZAF)'; OUTLOOK STABLE**

Fitch Ratings-Johannesburg/London-15 January 2014: Fitch Ratings has upgraded South Africa-based MMI Group Limited's (MMI Group) National Insurer Financial Strength (IFS) rating to 'AA+(zaf)' from 'AA(zaf)' and National Long-term rating to 'AA(zaf)' from 'AA-(zaf)' and MMI Holdings Limited's (MMI) National Long-term rating to 'AA-(zaf)' from 'A+(zaf)'. The Outlooks are Stable. Fitch has simultaneously upgraded MMI Group's subordinated debt to 'A+(zaf)' from 'A(zaf)'.

### **KEY RATING DRIVERS**

The upgrades reflect MMI's progress in realising its merger plan and improved profitability in the context of a well-established domestic franchise and a solid capital position.

Fitch views positively MMI's operational and financial progress in realising its merger plan. At the financial year ending 30 June 2013 (FYE13) the group reported realised cumulative recurring cost savings of ZAR346m and is on track to meet its target of recurring cost savings of ZAR500m per annum by June 2014.

MMI's profitability has continued to improve since the merger between Momentum Group Limited and Metropolitan Holdings Limited on 1 December 2010. The group reported an improvement in core headline earnings to ZAR3.2bn at FYE13 (FYE12: ZAR3.0bn).

MMI has a solid domestic franchise as one of South Africa's four largest insurance groups, with two strong client facing brands (Momentum and Metropolitan).

MMI Group's capital adequacy, on both Fitch's internal assessment as well as a statutory solvency basis, is viewed as strong for the ratings. MMI Group reported statutory cover of 2.6x at FYE13 (FYE12: 2.4x). The group's low financial leverage of 8.9% at FY12 (FY11: 9.3%) is also supportive of the rating.

MMI's equity exposure is considered high for the rating. However, Fitch recognises that these holdings mostly back discretionary participating policies where clients assume most of the investment risk. Assets backing MMI's shareholder funds are conservative, and overall Fitch continues to view MMI's investment risk as acceptable for the rating.

### **RATING SENSITIVITIES**

A downgrade could result from a substantial deterioration in capitalisation either based on Fitch's internal assessment or on the statutory capital adequacy ratio (CAR), in particular if MMI's reported CAR fell below 2.0x for a sustained period.

A sustained poor operating performance driven by a decline in the equity market, a reduction in new business margins relative to its peers or a material loss of market share could also result in a downgrade, as would a weakened outlook for South African life insurers based on further economic weakness.

Fitch considers a further upgrade unlikely in the medium term. However, over the longer term, the group's ratings could be upgraded if it continues to improve its profitability significantly relative to peers and increases its market share.

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- (a) No part of the rating was influenced by any other business activities of the credit rating agency;
- (b) The rating was based solely on the merits of the rated entity, security or financial instrument being rated;
- (c) Such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

Applicable criteria, 'Insurance Rating Methodology', dated 13 November 2013 are available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:

Insurance Rating Methodology -- Amended

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=723072](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=723072)

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