FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Sagicor Financial Company and ivari's Ratings

Tue 07 Nov, 2023 - 5:15 p. m. ET

Fitch Ratings - New York - 07 Nov 2023: Fitch Ratings has affirmed Sagicor Financial Company Ltd.'s (SFC)Foreign Currency Long Term Issuer Default Rating (IDR) at 'BBB-' and senior unsecured debt at 'BB+'. Also, Fitch has affirmed the Long Term Insurer Financial Strength (IFS) rating of ivari at 'A-'. The Rating Outlook is Stable.

Fitch recently upgraded SFC's ratings following the company's acquisition of ivari from Wilton Re Ltd. This rating action was driven by an improvement in the company's Industry Profile and Operating Environment (IPOE) and company profile, supported by stronger competitive positioning, operating scale, and business mix. Additionally, SFC's investment and asset risk improved due to an increased proportion of investment-grade assets. However, the risky assets ratio will remain elevated relative to the industry due to SFC's below-investment-grade sovereign bond exposure in certain Caribbean jurisdictions to comply with local regulations. The rating continues to reflect SFC's strong capitalization levels and solid operating performance.

KEY RATING DRIVERS

Improved IPOE and Company Profile: The acquisition of ivari strengthens SFC's IPOE and company profile, as it resides in a stronger operating environment and is rated higher than most of SFC's operating subsidiaries. The stronger IPOE of the U.S. and Canada expands SFC'S bespoke IPOE range to 'a' to 'bb+' from 'bb+' to 'b-'. However, the IPOE continues to be impacted by exposure to operating environments in some Caribbean countries, with weaker regulatory frameworks, technical sophistication, and sovereign risk exposure.

SFC's overall company profile is now scored as "favorable" within the new bespoke IPO range. The company profile reflects the company's dominant market position and most favorable operational scale in the Caribbean as one of the largest players in all life products; balanced with ivari's moderate competitive position in Canada, as the second largest player in the universal life segment; and more limited operating scale and market position in the U.S.

Strong Capitalization Levels Persist: SFC's capitalization levels remain strong and have a high influence on the rating. SFC's strong capitalization is supported by a consolidated Minimum Continuing Capital Surplus Requirements (MCCSR) of 286% as of June 30, 2023, increasing from 276% as Dec. 31, 2022. The ivari transaction is expected to increase the consolidated MCCSR ratio by 10 percentage points. Operating leverage was 10.9x as of June 30, 2023 and is expected to increase modestly to 11.0x, which is very strong relative to life insurance peers. 2023 financial statements consider IFRS 17 standards and reflect the establishment of the contractual service margin (CSM), which is considered by Fitch as high-quality loss absorbing capital.

Financing Strategy in Line with Expectations: SFC's financing plan considers new debt used for the ivari acquisition. The new debt is expected to be offset by capital accretion and CSM addition. Fitch expects the company's financial leverage as of Dec. 31,2023 will be approximately 30.6%, down from 34.2% as June 30, 2023. Going forward, Fitch expects financial leverage to be below 30% and interest coverage to exceed 3.0x. Additionally, the holding company targets to maintain cash and liquid assets at approximately 1.5x financing costs.

Investment Risk Improves but Remains High: SFC's investment and asset risk improves with the purchase of ivari. However, the company's overall exposure to risky assets and below-investment-grade assets to shareholders' equity exceeds industry peers, driven by investments in below-investment-grade sovereigns required to meet local regulatory requirements. Total invested assets will increase from USD9.7 billion as of June 30, 2023 to USD16.2 billion on pro forma basis including ivari. Moreover, the company's consolidated exposure to below-investment-grade assets as a percentage of shareholders' equity is expected to be below 90% in 2024 (190% as of June 30, 2023) and the risky assets ratio is expected to be below 210%.

Robust and Stable Operating Performance: As June 30, 2023, SFC continued to register a strong net income under IFRS 17 standards. Consolidated net income was USD60 million compared with a loss of USD68 million at the same period of the previous year. This result was driven primarily by favorable net investment income from higher interest rates and positive mark to market movements on financial assets.

SFC's net income will benefit from ivari's net operating income in 2023. The group is expected to double the amount of dividends to SFC. The expected increase in dividends considers a higher dividend payment ratio by ivari..

ivari's Rated Higher than Parent: ivari is a mid-size Canadian life insurer with a leading position in universal life (UL) insurance, with an emphasis on the middle-income market, which Fitch expects to persist under SFC's ownership. ivari will largely operate as a standalone entity, with minimal integration with SFC. ivari is rated higher than SFC based on Fitch's view that it is sufficiently insulated from any potential weakness.

ivari's Balance Sheet Strength: LICAT ratio was 123% as of 1H23. Fitch views ivari's balance sheet as conservative and risk as generally low, with equity risk primarily borne by UL policyholders. Profitability has been modest and volatile over recent years, in part due to the mark-to-market accounting regime and assumption updates, and is expected to exhibit more stability under IFRS 17, though return metrics will trail larger and higher-rated Canadian peers.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade of SFC's Ratings:

--Significant improvement in SFCL's consolidated industry profile, operating environment and company profile;

--Risky asset ratio below 150% and, along with an improvement in the sovereign credit rating and minimal exposure to sovereigns to capital specially Barbados, Jamaica and Trinidad;

--Stability in financial performance resulting in a ROAE continuously above 7%;

--No material deterioration in economic and operating environments and sovereigns of Jamaica, Trinidad, and Barbados.

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade of SFC's Ratings:

--A decline in ivari's IFS rating on a standalone basis to below 'A-', and/or available cash flows available to the holding company would appear to be lower than expected;

-Financial leverage exceeding 35% and interest coverage ratio bellow 3.0x;

-Deterioration in key financial metrics, including consolidated MCCSR falling below 180%;

--Risky asset ratio above 270% and, along with ani increase in the exposure to sovereigns to capital specially Barbados, Jamaica and Trinidad;

--Significant deterioration in the economic and operating environments and sovereigns of Jamaica, Trinidad and Barbados, which would lead to a material decline in operating performance and/or credit profile of SFC's investment portfolio.

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade of ivari's Ratings:

--An upgrade is unlikely absent an upgrade in SFC's ratings coupled with improvement in ivari's standalone credit quality, which could be driven by an improved business profile along with a LICAT ratio in excess of 120% and a return on capital exceeding 9%.

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade of ivari's Ratings:

--A decline in SFC's ratings could lead to a downgrade in ivari's ratings;

--Deterioration in capital as evidenced by a LICAT ratio below 110%;

--Deterioration in Fitch's assessment of business profile driven by a change in strategy or increased risk in the product profile;

--Decline in profitability with a return on capital sustained below 5%.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Sagicor has acquired ivari and both ratings are materially linked.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Sagicor Financial Company Ltd.	LT IDR	BBB- Rating Outlook Stable	Affirmed	BBB- Rating Outlook Stable
senior unsecured	LT	BB+	Affirmed	BB+
ivari	LT IFS	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Insurance Rating Criteria (pub. 20 Jul 2023) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

ivari	EU Endorsed, UK Endorsed
Sagicor Financial Company Ltd.	EU Endorsed, UK Endorsed

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