Fitch Maintains Sagicor Financial Company Ltd. at Rating Watch Positive

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Fitch Ratings - New York - 22 Nov 2022: Fitch Ratings maintains Sagicor Financial Company Ltd’s (SFCL) at Rating Watch Positive (RWP). SFCL's Long-Term Foreign-Currency Issuer Default Rating (IDR) and senior unsecured debt remain unchanged at 'BB' and 'BB-', respectively.

Fitch placed SFCL's ratings on RWP in August 2022 following the announcement of its intended acquisition of ivari, a leading middle-market insurer in Canada, and reflects prospective improvement in the credit quality of SFCL's insurance operating company group. Fitch expects to resolve SCFL’s Rating Watch upon successful completion of the transaction, anticipated to take place in the first half of 2023, subject to regulatory approvals and closing conditions.

KEY RATING DRIVERS

ivari Acquisition Completion: Fitch expects to resolve the RWP following SFCL’s acquisition of ivari. The RWP reflects that Fitch is likely to affirm or upgrade SFCL's Long-Term IDR and senior unsecured debt should the acquisition proceed under the assumptions considered by Fitch.

Improved Company Profile: The RWP is supported by an improved company profile at the group operating company level as a result of the acquisition of ivari, which operates in a stronger operating environment. The acquisition of ivari will lead to a material positive shift in SFCL's operating group's competitive positioning, operating scale, and business mix, including geographic diversification towards investment grade sovereign jurisdictions.

Strong Capitalization with Some Pressures: Fitch views capitalization of SFCL's insurance operations to be strong and supportive of the ratings. SFCL's strong capitalization is supported by a consolidated MCCSR of 204% and operating leverage of 8.9x as of Sept. 30, 2022, which is very strong relative to life insurance peers.

Capitalization ratios have shown deterioration in 2022 due to mark to market declines from rising interest rates and increases in the actuarial liabilities in line with company growth. Capitalization levels could face additional pressures due to heightened macroeconomic uncertainty, including continued rising interest rates and inflation in key markets, and the introduction of IFRS 17.

Higher Financial Leverage Ratios: SFCL's financial leverage has historically been high and is expected to increase modestly due to the planned addition of new debt required to fund the ivari acquisition, putting downward pressure
on holding company notching. FLR (including minority interest) of 32% as of Sept. 30, 2022 increased from 28% as of Dec. 31, 2021.

After the transaction closes, Fitch will review leverage and capitalization levels compared with original rating expectations. Fitch will also review the level of the new cash flow derived from ivari, along with any other developments with respect to ivari’s standalone credit quality. In resolving the Rating Watch, Fitch will balance the credit positives tied to improvements in the group operating company credit quality relative to the credit negatives tied to the impact of higher financial leverage, while also balancing in regulatory restrictions on the acquired cash flows.

**Investment Risk Above Average with Manageable Exposure:** SFCL’s investment portfolio has considerably above average investment risk relative to the industry. SFCL’s investment portfolio has substantial concentrations in Jamaica and Barbados sovereigns. These investments are primarily used to meet regulatory requirements and for insurance liability matching purposes; as a result, the portfolio has a significant concentration of below investment-grade debt. SFCL’s investment and asset risk factor will improve with the purchase of ivari, as it will result in a reduction of capital exposure to below investment grade bonds, but it will still remain elevated relative to the industry.

**Strong Financial Performance:** During 2021 and the first nine months of 2022, Sagicor experienced strong earnings from all business segments, with particularly robust performance in the U.S. and Jamaica. U.S. operations have reported strong net income in 2021 and 9M22 due to strong growth in U.S. annuity sales and premium revenue, along with positive investment spreads. The Jamaican segment’s earnings were strong in 9M22, but decreased yoy due to historically high volumes in 2021 and realized and unrealized investment losses due to the rising rate environment.

**RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Significant improvement in SFC’s consolidated industry profile, operating environment and company profile achieved by the closing of the ivari acquisition, and the view that it materially enhances the operating group's overall credit quality;

--FLR ratios maintained at or below current levels and not higher than 35%;

--Fixed charge coverage ratio of at least 3x;

--Economic uncertainties do not result in ivari’s stand-alone credit quality implied at the current ‘A’ Insurer Financial Strength (IFS) rating;

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

--Below investment grade to capital ratio close to 130% and Risky asset ratio below 250% and, along with minimal exposure to sovereigns to capital specially Barbados, Jamaica and Trinidad.

The ratings could return to Stable Outlook if:

--The transaction is not completed;
--There is 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;

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--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 SFCL’s investment portfolio;

--Deterioration in key financial metrics, including consolidated MCCSR falling below 180% and financial leverage exceeding 35% and ROE below 5% on a sustained basis;

**BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from ‘AAA’ to ‘D’. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579](https://www.fitchratings.com/site/re/10111579)

**Criteria Variation**

Bespoke IPOE

SFCL’s primary operations are located in four jurisdictions: U.S., Jamaica, Trinidad and Barbados. Given the company’s insurance operations across the Caribbean and the U.S., SFCL’s IPOE score is an amalgamated IPOE range of ‘bb+‘ to ‘b-‘, reflecting its primary regions of operations. SFCL’s IPOE range continues to reflect the skew of its business mix toward below-investment-grade jurisdictions, which remains the majority but recognizes continued growth in the U.S. over the last several years.

**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.

**ESG CONSIDERATIONS**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of ‘3’. This 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. For more information on Fitch’s ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

**RATING ACTIONS**

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**Applicable Criteria**

Insurance Rating Criteria (pub. 15 Jul 2022) (including rating assumption sensitivity)
ADDITIONAL DISCLOSURES

Solicitation Status
Endorsement Policy

ENDORSEMENT STATUS
Sagicor Financial Company Ltd. EU Endorsed, UK Endorsed

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