

Research Update:

Sagicor Financial Co. Ltd. 'BBB' Rating Affirmed Following Revised Capital Model Criteria; Outlook Remains Stable

December 29, 2023

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- Based on the revised criteria, the capital adequacy of Sagicor Financial Co. Ltd. (SFC) remains strong.
- We therefore affirmed our 'BBB' long-term local currency issuer credit rating on SFC.
- The stable outlook reflects our expectation that SFC will maintain total adjusted capital above our 'AA' category benchmark in the next two years, as well as stable debt. We also expect SFC to continue benefiting from dividends from multiple subsidiaries, based in different regulatory jurisdictions, to meet its financial needs.

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Rating Action

On Dec. 29, 2023, S&P Global Ratings affirmed its 'BBB' long-term local currency issuer credit rating on SFC. The outlook remains stable.

Impact Of Revised Capital Model Criteria

Applying the revised capital model criteria did not materially affect our ratings on SFC.

The new calculation results in a reduction of the redundancy to the 'AA' level from the 'AAA' level. This is mainly because of the removal of the debt-funded capital in the U.S. that, under the new criteria, can no longer be included in capital because:

- We think this debt is not able to absorb losses through coupon deferral or cancellation or through principal deferral, write-down, or conversion without causing an event of default; and
- We believe structural subordination is low since the dividends may come from Caribbean and

Canadian Life (considered to be low subordination by our published criteria).

Although SFC's capital buffer has decreased, we think it's still sufficient for a strong assessment of capital and earnings.

We expect that the group will continue to deploy capital in new businesses during the next several years. We anticipate that this will be through continued internal growth in the U.S., Jamaica, Trinidad and Tobago, and Barbados, and through a continued search for new external growth opportunities, which could pressure the group's capitalization beyond our expectations.

Credit Highlights

Overview

Key strengths	Key risks
High capital base and liquidity buffers.	Operations partially based in low-rated jurisdictions with higher operational and regulatory risks.
Improved profitability prospects.	Rapid business growth that could pressure capital adequacy.
Ample geographic and business diversification, bolstered by the recently approved acquisition of Ivari.	SFC is still a small player in the U.S. and Canada, and mostly uses noncontrolled channels to sell its products.

Outlook

The stable outlook reflects our expectation that SFC will maintain stable debt and total adjusted capital (TAC) above our 'AA' benchmark in the next two years. We also expect SFC to continue benefiting from dividends from multiple subsidiaries, based in different regulatory jurisdictions, to meet its financial needs. Our base-case also considers there will be no major acquisition during the next two years.

Downside scenario

We could lower the ratings in the next 24 months if the group's TAC falls and remains below our 'AA' benchmark. This could happen if, for example, SFC experiences unexpected growth, leading to higher risk-based capital requirements, lower loss-absorbing capital, or a combination of both. We would also lower the ratings if the group's financial leverage ratio increases to above 40% or if its exposure to high-risk sovereigns or its other exposures exceed our expectations.

Upside scenario

We consider an upgrade of SFC to be unlikely in the next two years because we believe it will take time for SFC to integrate the businesses it acquired, and we already capture the geographic diversification in the current rating. Over the longer term, an upgrade is possible if:

- The group's results consistently exceed our expectations,
- The group focuses on its existing businesses,
- There are no additional acquisitions, and
- It maintains its conservative strategy and a TAC well above our 'AAA' benchmark.

Rationale

SFC faces diverse economic, regulatory, and other operational risks in each of the countries where it has insurance operations. We base our assessment of these risks on our insurance industry and country risk assessments on the life, pension, and health sectors in the countries where the group operates.

The group has been rapidly growing its underwriting of insurance policies in the U.S. life market in the last few years, taking advantage of the healthy demand for life and retirement products and the competitive interest rates in the multiyear guarantee annuity segment. Thus, gross premium written (GPW) in the U.S. now represents at least 42% of SFC's total underwriting, and we expect this share to continue growing in 2024-2025. However, SFC is still a small player in the U.S. and mostly uses noncontrolled channels to sell its products.

With the recent acquisition of Ivori, the group's exposure to Canada represents about 26% of GPW. Ivori is a middle-market insurer in Canada with a history spanning more than nine decades. It provides insurance and investment products and services to middle-market customers in Canada. The company offers predominantly universal life and term insurance.

The group's subsidiaries operating in the Caribbean provide the remaining premium, mostly in Jamaica, Trinidad and Tobago, and Barbados. In our view, the U.S. and Canadian life insurance markets face lower country and insurance risks than those in the Caribbean. SFC benefits from solid brand recognition and has maintained strong relationships with policyholders and dealers over decades in the Caribbean, where it retains dominant market positions.

The group has healthy income diversification by business line and region because it operates in 21 countries across the Caribbean and North America, providing life, health, and property/casualty insurance, annuities, and pension products to individuals and groups. In addition, Sagicor's commercial and investment banking operations, asset management, trading, and wealth management in Jamaica and the Cayman Islands diversify its revenue.

We project that, with the incorporation of Ivori, SFC's TAC will be above our 'AA' benchmark in 2023-2024. We consider Ivori to be well-capitalized because it operates under Canada's conservative regulations, and its investment portfolio mainly consists of Canadian highly rated fixed-income securities.

The lengthy regulatory and legal approval process for SFC to acquire the insurance portfolios of Colonial Life Insurance Co. (Trinidad) Ltd. and British American Insurance Co. (Trinidad) may conclude by 2025. If the acquisitions close, they will pressure the group's capitalization while SFC incorporates the new assets and liabilities.

SFC benefits from good investment and insurance portfolio diversification because it holds mostly life, pension, and health businesses in the U.S., Canada, and many countries in the Caribbean. The group's investment portfolio mostly consists of securities issued by local governments, corporate entities, and financial institutions, while direct exposure to equities remains very limited. Moreover, we believe the insurer has adequate risk controls and proactively manages risk exposures.

We expect SFC's financial leverage ratio to remain manageable at about 30% in 2023-2024 (down from 35.5% in 2022 and 33% in 2021) as the group's capital continues to grow following strong earnings. This will continue to allow the group to service its debt comfortably, with a fixed-charge coverage ratio above 7x in 2023-2025.

Ratings Score Snapshot

	To	From
Issuer credit rating	(LC)BBB/Stable/--	(LC)BBB/Stable/--
Anchor	a-	a-
Business risk	Satisfactory	Satisfactory
IICRA	Intermediate	Intermediate
Competitive position	Satisfactory	Satisfactory
Financial risk	Strong	Strong
Capital and earnings	Strong	Strong
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed

Sagicor Financial Co. Ltd.

Issuer Credit Rating	BBB/Stable/--
Senior Unsecured	BBB

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