

Research Update:

# Sagicor Financial Co. Ltd. Upgraded To 'BBB' From 'BB+' Following Acquisition Of ivari, Outlook Stable

October 4, 2023

## Overview

- Sagicor Financial Co. Ltd. (SFC) announced it has received all regulatory approvals required under its previously announced definitive agreement with Wilton Re Ltd. to complete the acquisition of ivari.
- We project that with the incorporation of ivari, the group's total adjusted capital (TAC) will be above our 'AAA' benchmark in 2023-2024, and we believe the acquisition will widen the geographic and business diversification that will support the group's revenue stability.
- As a result, we're revising the group credit profile (GCP) upward to 'a-' from 'bbb'.
- Consequently, we raised the ratings by two notches to 'BBB' from 'BB+' on Bermuda-based non-operating holding company SFC.
- The stable outlook reflects our expectation that SFC will maintain its TAC above our 'AAA' category benchmark in 2023-2024, as well as stable debt. We also expect SFC to continue benefiting from dividends from multiple subsidiaries, based in different regulatory jurisdictions, in order to meet its financial needs.

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## Rating Action

On Oct. 4, 2023, S&P Global Ratings raised its issuer credit rating on SFC to 'BBB' from 'BB+'. We also raised our issue-level rating on SFC's \$550 million senior unsecured notes due 2028 to 'BBB' from 'BB+'. The outlook is stable.

## Rationale

**SFC announced it has received all regulatory approvals required under its previously announced definitive agreement with Wilton Re to complete the acquisition of ivari.** The acquired entity provides protection and wealth management services, including individual life insurance, and critical illness insurance solutions for the middle market in Canada. It distributes its products mainly through a large network of independent advisors.

We project that with the incorporation of ivari, SFC's TAC will be above our 'AAA' benchmark in 2023-2024. This is because we consider ivari as well-capitalized because it operates under Canada's conservative regulations, and its investment portfolio mainly consists of Canadian highly-rated, fixed-income securities. In addition, our base-case scenario considers that the acquisition-related goodwill will be very low. Moreover, SFC has been improving its capitalization thanks to its sound earnings and low dividend payouts after the results took a hit during the pandemic.

Also, we believe the acquisition widens the group's geographic and business diversification that will support its revenue stability. We consider SFC's overall economic, regulatory, and operating risks would be lower with the incorporation of ivari, because the Canadian life insurance sector benefits from lower country and industry risks than those in the Caribbean and even in the U.S. The group's premiums would be mostly underwritten in Canada and the U.S., each country to make up about one-third of the group's premiums, while the remaining share would be underwritten in the Caribbean.

The group's geographic and business diversification will increase, because the acquired company operates in Canada and underwrites mostly universal and traditional life insurance policies. However, the offsetting factor will be SFC's overall lower competitive advantage because about 72% of its insurance underwriting would be done in Canada and the U.S., markets where SFC is still a small player, the brand is relatively new, and it will mostly use noncontrolled channels to sell its products.

**We expect that the group will continue deploying capital in new businesses during the next several years while continue searching for new external growth opportunities.** These factors could pressure its capitalization beyond our expectations. SFC is currently in the process of acquiring the insurance portfolios of Colonial Life Insurance Co. (Trinidad) Ltd. (CLICO) and British American Insurance Co. (Trinidad) Ltd. (BAT), for which lengthy regulatory and legal approvals may be concluded by 2024-2025. If the acquisitions close, they will pressure the group's capitalization due to the incorporation of assets and liabilities of CLICO and BAT's insurance portfolios.

We consider SFC's debt will remain manageable once ivari's purchase closes. Its financial leverage ratio will remain stable at about 30% after the group raises additional debt to finance part of the acquisition and once it consolidates ivari. In addition, we believe rising earnings will continue to allow the group to service its debt comfortably.

## Liquidity

We expect SFC's liquidity to remain adequate after the close of the ivari transaction and to be sufficient to cover its financial obligations. In addition, we view as positive that SFC will benefit from more diverse sources of dividends from its various regulated operating subsidiaries. Moreover, SFC has a \$125 million revolving credit facility that's currently undrawn, providing further flexibility.

## Outlook

The stable outlook reflects our expectation that SFC will maintain a TAC above our 'AAA' 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.

## Downside scenario

We could lower the ratings in the next 24 months if the group's TAC falls and remains below our 'AAA' category benchmark. This could happen if, for example, SFC experiences unexpected internal or external 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 above 40% or if its exposure to high-risk sovereigns or other exposures grow beyond our expectation.

## Upside scenario

We consider the likelihood of an upgrade of SFC to be limited in the next two years because we believe the integration of the acquired businesses will take time to consolidate, and we capture the geographic diversification in the current rating. In the longer term, an upgrade is possible if the group posts stronger-than-expected results in a consistent manner, focuses on its existing businesses, there are no additional acquisitions, while it maintains its TAC well above our 'AAA' category benchmark and a conservative strategy.

## Ratings Score Snapshot

	To	From
Business risk profile	Satisfactory	Satisfactory
Competitive position	Satisfactory	Satisfactory
IICRA	Intermediate risk	Intermediate risk
Financial risk profile	Strong	Satisfactory
Capital and earnings	Strong	Satisfactory
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Anchor	a-	bbb
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0

## Related Criteria

- 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: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

## Ratings List

### Upgraded; CreditWatch/Outlook Action

	To	From
<b>Sagicor Financial Co. Ltd.</b>		
Issuer Credit Rating	BBB/Stable/--	BB+/Positive/--

### Upgraded

	To	From
<b>Sagicor Financial Co. Ltd.</b>		
Senior Unsecured	BBB	BB+

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