FINAL TRANSCRIPT

Sagicor Financial Company Ltd.

Second Quarter 2021 Earnings

August 18, 2021 — 11:00 a.m. E.T.

Length: 48 minutes

"While Cision has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. Cision will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Cision ait fait des efforts commercialement raisonnables afin de produire cette transcription, la société ne peut affirmer ou garantir qu'elle ne contient aucune erreur. Cision ne peut être tenue responsable pour toute perte de profits ou autres dommage ou responsabilité causé par ou découlant directement, indirectement, accessoirement ou spécialement de toute erreur liée à l'utilisation de ce texte ou à toute erreur qu'il contiendrait. »

CORPORATE PARTICIPANTS

Samantha Cheung
Sagicor Financial Company Ltd. — Executive Vice President, Investor Relations

Dodridge Miller
Sagicor Financial Company Ltd. — Group President & Chief Executive Officer

Andre Mousseau
Sagicor Financial Company Ltd. — Group Chief Operating Officer & Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Doug Young
Desjardins Capital Markets — Analyst

Darko Mihelic
RBC Capital Markets — Analyst

Meny Grauman
Scotiabank — Analyst

PRESENTATION

Operator

Good morning. My name is Sylvie and I will be your conference operator today. At this time I would like to welcome everyone to Sagicor Financial Company's Second Quarter 2021 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. And if you would like to withdraw your question, please press star then number two. Thank you.

Ms. Samantha Cheung, EVP of Investor Relations, you may now begin your conference.

Samantha Cheung — Executive Vice President, Investor Relations, Sagicor Financial Company Ltd.

Hello, everyone, and thank you for joining our second quarter 2021 earnings call today. A link to our live webcast and published information for this call is posted on our website at sagicor.com under the Investor Relations tab.

Please refer to the cautionary language and disclaimers in our materials regarding the use of forward-looking statements and the use of non-IFRS measures, which may be mentioned as part of our remarks today.

Unless otherwise noted, all dollar amounts referenced will be in US dollars, which is consistent with our reporting practice.

Joining me today are Dodridge Miller, our Group President and CEO; Andre Mousseau, our COO and CFO; and Anthony Chandler, our Chief Controller. We'll begin with prepared remarks by Dodridge and Andre, followed by a question-and-answer session.

With that, I'll turn the call to our Group President and CEO, Dodridge Miller. Dodridge?

Dodridge Miller — Group President & Chief Executive Officer, Sagicor Financial Company Ltd.

Thank you, Samantha, and thanks to everyone for joining us on this call.

In keeping with our usual approach, I will give some brief remarks focusing on our operating environment and our overall performance for the second quarter, after which our Chief Operating Officer and Chief Financial Officer, Andre Mousseau, will provide you with greater detail on our performance.

You may have noticed that I said Chief Operating Officer and Chief Financial Officer. Effective August 1, 2021, Mr. Mousseau was promoted to the position of Chief Operating Officer and Chief Financial Officer. Since joining Sagicor in February 2019, Andre has made a strong contribution to our group and I'm confident that his leadership will help guide Sagicor onwards to greater success alongside a strong executive team.

Turning to the highlights from the second quarter, the Sagicor group delivered another quarter of solid growth and profitability. Revenue grew 13% year over year to $516 million and net income to shareholders in the quarter was $14.9 million, or $9.3 million accounting for bond refinancing expenses. On a year-to-date basis, revenue grew 18% to $948 million and net income to shareholders was $40.8 million. During the second quarter our US segment was a strong contributor to both growth and profitability. Our Caribbean operations, while benefitting from improvements in new business, also experienced an increase in life and health claims as the pandemic continues to impact these markets.

Turning briefly to our operating environment, the global economy appears on track for recovery as many countries ease their restrictions and protocols introduced in the face of the global pandemic. While the economy in the US is showing signs of recovery, some of our Caribbean countries continue to experience difficult operating environments. We remain confident that the region will benefit from the resumption of global activity, particularly tourism, and for some of the countries to achieve mild recovery during 2021.

At Sagicor, we continue to work with our customers to assist them through these challenging times. We remain focused on enhancing interactions with customers and advisors with increasing digitization across the group. For example, at Sagicor Life, new payment solutions and virtual engagements were introduced during the year, allowing for a more efficient and safer customer experience. Sagicor Jamaica introduced eLife, a fully automated customer engagement platform where customers can purchase select life, health, and investment products to serve their needs. Our US operation also continued to improve its automated underwriting and direct-to-consumer platforms during the first six months of the year.

Turning to our outlook, Sagicor is well positioned for the return of global economic activity. We are financially strong and our operating results, initially affected by the pandemic during 2020, are returning to normal profit patterns. We continue to execute on our strategy of growth across our three diversified operating segments and we remain confident in our future performance.

Finally, let me update you on a recent change at our board. At our annual general meeting in June we welcomed the appointment of Mr. Dennis Harris to our group board of directors. Dennis is currently Managing Director of Unicomer Jamaica Limited with responsibility for Jamaica and New York. He has been with Unicomer for over 27 years. We look forward to benefitting from Dennis's vast knowledge and experience as we continue to grow our Company.

I'll now turn the presentation over to our group COO, Andre Mousseau. Thank you.

Andre Mousseau — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

Thank you, Dodridge, and good morning, everyone.

As Dodridge said, we had another solid quarter in Q2. Total revenues increased 13% year over year to $516 million with revenue growing in each of our three major operating segments. Net income to shareholders was $9 million in Q2 compared to a breakeven quarter in Q2 of 2020 when the Company was still challenged with the early days of the pandemic. Our net income this quarter included approximately $6 million of one-time charges related to the early retirement of our old notes, which we replaced with new notes in May. Without those charges, our net income to shareholders would have been $15 million. Absent those charges, this was a pretty clean quarter from a net income point of view, albeit with varied performance among our operating segments.

At Sagicor Life, our operating segment in the Southern Caribbean, total revenue increased 26% year over year to $122 million. We benefitted from single premium annuity sales of $21 million and $12 million of annual recurring new business sold in the quarter, pretty consistent with our expectations and a strong performance given the operating environment. Net income to shareholders of $7 million was $5 million higher than the previous year, which was affected by lockdowns in many of its jurisdictions. Net income margins in SLI were negatively affected by higher than budgeted lapses and surrenders, reflecting the continuing strain on our policyholders of the slow economic recovery in these jurisdictions. We view this as a temporary effect as opposed to being a long-term change in policyholder behaviour; however, it may persist over the near term until economic growth returns total activity to where it was pre-pandemic.

At Sagicor Jamaica, total revenue of $177 million increased 6% year over year measured in US dollars net of a 7% devaluation of the Jamaican dollar compared to the US. Our share of Sagicor Jamaica's quarterly net income decreased by $2 million year over year to $7 million, including the effects of the currency devaluation. Net income margins in Jamaica were negatively affected by challenging claims experience, particularly in our group insurance business. These higher claims reflected both higher death claims, in part because of COVID, as well as inflation on the cost of providing medical care to our group customers.

Now onto Sagicor Life USA, which had a strong quarter after having a softer Q1. Our US business grew its revenue 15% to $206 million on the back of strong new business production of $189 million. Tactically, we saw a better spread environment in Q2 than we had seen earlier in the year and decided to push up production. We expect that production to remain strong in Q3. Net income to shareholders was $16 million, a major improvement over a loss making quarter in Q2 2020, again in the early days of the pandemic. Our profitability margins for the US in this quarter benefitted from improved asset spreads as we were able to back our new business with higher yielding investments. We have begun a push in the US to increase our proportion of assets other than public bonds in that portfolio to trade some or our liquidity for enhanced returns.

Our total comprehensive income to shareholders this quarter was positive $17 million, reflecting $7 million of net other comprehensive income to shareholders with rising asset prices increasing the value of our assets back in capital across all our segments, offset partially by the decline in the Jamaican dollar, which affected the carrying value of our 49% interest in Sagicor Jamaica. With that, our book value per share grew to US$7.57, or about C$9.33. We repurchased 1.2 million shares at a discount to book value through our normal course issuer bid in Q2 and we've continued to be active in Q3.

Looking at the balance sheet, you'll see an unusually high debt to capital ratio of 31%. This includes just under $200 million of the old notes that we subsequently retired last week, so pro forma for that retirement our debt to capital will be approximately 25% and that's what we'd expect to see in the Q3 statements. With the new capital raise we retained approximately $70 million of new cash while reducing our annual debt service cost by about $7 million. We remain well funded and well positioned to benefit from further growth when the global economy recovers.

With that, I'll turn it back to Dodridge and Samantha.

Samantha Cheung — Executive Vice President, Investor Relations, Sagicor Financial Company Ltd.

Thanks, Andre. We are now ready to take your questions. Operator, please open the line to our analysts for their questions.

Q & A

Operator

Thank you, Ms. Cheung. Ladies and gentlemen, if you do have any questions at this time, please press star followed by one on your touchtone phone. You will then hear a three-tone prompt acknowledging your request. And if you would like to withdraw your question, simply press star followed by two. If you are using a speakerphone, we do ask that you please lift your handset before pressing any keys. Please go ahead and press star one now if you do have any questions.

And your first question will be from David Young at Desjardins. Please go ahead.

Doug Young — Analyst, Desjardins Capital Markets

Actually it's Doug Young from Desjardins. Just on Sagicor Life, and I think, Andre, you mentioned this in your prepared remarks, in the benefits line there's obviously an increase in withdrawals, I guess that's the lapse you were referring to, but also talked a bit about the increase in the health benefit costs, and I'm hoping you can, I know you mentioned the lapse in your prepared remarks, hoping you can elaborate a little bit about the lapse, what you're seeing and why you're comfortable that it's more temporary. And then just can you elaborate on the health benefit cost inflation that you're also seeing?

Andre Mousseau — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

Sure. Happy to talk about that, Doug. I think, with respect to SLI in particular, the margins were more affected by the lapses and surrenders than by the higher claims, but they were both higher than budget.

With respect to the lapses and surrenders, I think what we're seeing is more policyholders coming back and digging into the cash value of their policies sooner. And as we have started to lift some of the forbearance measures around lapses, we're seeing some of our policies lapsing. And you always have a provision or a prediction for a certain number of lapses and we're seeing it at a higher rate. I really think that our analysis shows that it's about people having less disposable funds at hand as the economies, while they've grown a little bit over the last few quarters, they're still not running at full employment and full steam they way they were before. So while people have prioritized, largely speaking, retaining their policies, they have lapsed more than they would have normally. Because the numbers are big enough to see, but they're not a sea change in terms of behaviour, I think that, combined with the fact that we're continuing to sell new policies at a pretty good rate, tells us that the market has not fundamentally changed and that when these jurisdictions get back to full employment that normal policyholder behaviour will persist.

With respect to higher benefits paid outaround the health business, we saw that in SLI, and we also saw it in our Jamaica segment where it's a higher proportion of our business. And some combination of higher absolute number of death claims where even within a group business you will have kind of smaller face amounts than individual life, but they're still claims. Along with some inflation in terms of the cost per claim, and we're seeing that particularly in Jamaica, some of it may be general inflation around medical costs and in Jamaica some of it will be affected by the Jamaican dollar, where a lot of what's purchased is bought on the global market in US dollars.

Dodridge Miller — Group President & Chief Executive Officer, Sagicor Financial Company Ltd.

This is Dodridge. Just to add a little bit to what Andre said about the experience in the Southern Caribbean, we've taken a conservative view on lapses and surrenders and we have extended in some cases and we've withdrawn in some cases the forbearance that we've had that we'd given to policyholders. What we are about to start now is an aggressive reinstatement program, which would save many of these policies that are currently scheduled to be lapsed or have just been lapsed, and this program will include restructuring some of the policies with adjustments to the sum assured to make the premiums more affordable and keep the policies in force going forward.

So, that campaign is about to be kicked off. We expect it will have a positive impact on the numbers. But, as Andre said, the economies are still under strain and we're managing through this very carefully.

Doug Young — Analyst, Desjardins Capital Markets

And just a follow up, because what I like to sometimes do is look at the earnings power excluding adverse experience that is thought to be temporary, have you quantified what that negative lapse experience, how much of a drag that was on earnings in the quarter?

Andre Mousseau — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

It was mid single digits millions.

Doug Young — Analyst, Desjardins Capital Markets

Okay. That's helpful. And then on Sagicor Life US, I mean annuity sales increased quite nicely. There was mention in the MD&A about competitive pricing strategy and it sounds like you've gotten a little bit more comfortable with the spread and are going more aggressively towards driving sales. But you also mentioned, Andre, in your prepared remarks, just moving into higher yielding investments, which just signals to me taking on more risk. Can you talk a bit about, it sounds like you're yield enhancing, so you're going from public bonds into maybe alternative long-duration assets, so can you can you talk a bit about the strategy to kind of enhance yields in that portfolio?

Andre Mousseau — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

First of all what I'd say is our strategy is to increase the yield on the portfolio without taking credit risk. I think the fundamental trade-off that we're looking to make is to trade some of the liquidity that our portfolio has in its favour for the enhanced yield that comes with giving up some of that liquidity. And so it is things like moving into more rated mortgage debt, for example, and we made a small allocation to a private debt fund.

I think if you look at a lot of the publicly-traded US peers, particularly the ones that are backed by financial sponsors and have this level of disclosure, you'll see that a lot of the big names, the best practice is to move 40% to 50% of a portfolio away from public bonds into illiquids, and I think that makes sense from a risk/return point of view. Public bonds right now have very thin yields against them. The overall BBB index on any given day yields less than 3%, which is getting pretty close to where market clearing crediting rates are, and so when you have sticky policyholder funds such as those in annuities, it makes sense to trade a portion of that liquidity for higher returns where you can get credits that are just as good but, because you're committing to tie up the funds for a number of years, you can make a couple hundred more basis points on any individual investment.

And so if you look where we're starting from, well over 90% of our US investment portfolio right now is in public bonds, and we would never need to access that level of liquidity immediately, so we think there's a lot of room to enhance our yield while not increasing the credit risk but maintaining enough liquidity that we can have our capital available for policyholders but really improving our investment spread.

Doug Young — Analyst, Desjardins Capital Markets

Okay. Maybe just to follow up on that one, if you're moving in that direction I would assume there's higher capital requirements as you give up liquidity and you take more risk, and so is that going to be a bit of a drag on capital? And then just along the same vein, can you quantify what you consider your excess capital position to be? And maybe, Dodridge, if you can talk a bit about the allocation of capital, why not be more aggressive on buybacks given where your stock trades relative to book? I'll leave it there.

Andre Mousseau — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

Just on the first question around the capital charges, particularly in well-underwritten and well-performing commercial mortgages, for example, the capital charges are actually lower than for BBB bonds, for example, and indications are that gap may actually widen at the end of the year. If you move into other assets, they could go up a little bit, but we're conscious of looking at these investments on kind of a return on equity on a return on capital basis, so we're only, to the extent we're making investments that have a higher capital charge, we're making sure that we satisfy a very strong marginal return on equity.

Dodridge, do you want to talk about the shareholder buyback or do you want me to?

Dodridge Miller — Group President & Chief Executive Officer, Sagicor Financial Company Ltd.

I'll start and you can top it up. We have a normal course issuer bid in the market and we have been participating in share buybacks. We have internally discussed whether we should have a larger buyback program. We haven't taken a view on that as yet. But we're also not certain that we will see the supply available for a large buyback program. But your point is taken, given where the stock is at the minute, and we continue to look at that internally.

Doug Young — Analyst, Desjardins Capital Markets

And then do you have kind of a rough estimate of what your excess capital and excess cash would be, Andre?

Andre Mousseau — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

Depending how you look at it, I mean it's still over half of the proceeds that were brought in from the equity raise in 2019. So it's still $250 million or north of that.

Doug Young — Analyst, Desjardins Capital Markets

Okay. Thank you.

Operator

Thank you. Next question will be from Darko Mihelic at RBC Capital Markets. Please go ahead.

Darko Mihelic — Analyst, RBC Capital Markets

Hi. I have some follow ups to those questions that were just asked, but first, before I get there, Andre, what are you doing now that you have CFO and COO titles? What changes for you? And is the intention to hang on to both those titles there or do you imagine that, as time progresses, you sort of let go of the CFO role?

Andre Mousseau — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

Dodridge, I can invite your comments on this as well, but I think we're looking at the entirety of our group management structure and with an eye on evolving roles. I have brought in just recently an SVP of Corporate Development to help on the M&A side, but I do expect that we will continue to strengthen our bench.

Dodridge, do you want to say something here?

Dodridge Miller — Group President & Chief Executive Officer, Sagicor Financial Company Ltd.

Yes. Darko, you would remember we had another executive who worked with Andre and myself. That executive retired at the end of 2020. Andre has more shifted his role towards being a COO and for the time being he will span both but, ultimately, as we evolve the structure, I expect that we'll probably split the roles out again. But that is somewhere down the road.

Darko Mihelic — Analyst, RBC Capital Markets

Okay. Great. Thank you. So the questions, I just have some follow ups to Doug's questions just to help solidify how I go about modelling. The first is with respect to, I think, Dodridge, you mentioned that you have a campaign starting to perhaps restructure some policies to sort of slow down, prevent, alter the course of lapses and surrenders. The adoption of that, is that helping you avoid a reserve increase? You know, is this something that you're doing to prevent that? Or should we start to expect or think about a potential reserve hit in the next quarter or two?

Dodridge Miller — Group President & Chief Executive Officer, Sagicor Financial Company Ltd.

So, I would treat everything associated with the pandemic as very short term, not affecting our long-term view of the business, either actuarially or otherwise. In relation to the reinstatement program, every time there's a deep recession in the Caribbean we see some movement in lapses and surrenders and we quickly move in to working with the policyholders to restructure the policy, keep the policies on the books through reinstatement programs. They've been successful in the past. We expect that they will have some success here, even though this has been a little bit deeper.

I would not expect that the experience we're seeing right now to affect our reserves going forward. Of course, we're taking a view based on global actuarial assessment of the impact of the pandemic, but today the view is that this is a very temporary impact on the companies and shouldn't affect long-term view of the liabilities.

Darko Mihelic — Analyst, RBC Capital Markets

Okay. And so digging into that a little further, has your Company altered anything, even in the shorter term, with respect to or as a result of the pandemic? In other words, has pricing been altered because of COVID-19? Have your underwriting choices changed? Like, for example, are you asking people if they're vaccinated or not? Has anything changed for you or do you simply power ahead and sell policies and alter pricing based on, you know, crediting rates or what have you? I'm just curious to know if the new policies that are being underwritten have any sort of padding or cushion built in for COVID-19.

Dodridge Miller — Group President & Chief Executive Officer, Sagicor Financial Company Ltd.

I can say that we have introduced some new products which are fit for the times in terms of ease of doing business virtually and in a digital form. As it relates to prices we are underwriting, we are mindful of what's happening in the environment, but we have stopped short at this point of asking people about vaccinations. We're waiting on guidance from the various markets before we do so. But it doesn't mean that our underwriters are not paying attention to what's happening in their own environments. So there's no official position taken, but we are mindful of what's happening around us.

Darko Mihelic — Analyst, RBC Capital Markets

That's helpful. Thank you. And then just switching gears to the USA, you mentioned that, you just went through a very good explanation as to what you're doing strategically and so on, and so I guess the question is, when you push to enhance sales, so my obvious expectation is that next quarter, perhaps quarter after, that we're going to get a little more sales in Sagicor USA. Is it your expectation that your sales for the year would be higher than typically budgeted for? And then secondly, on top of that, if we just took this quarter's sales and think about that as like a normal run rate of sales for the US, how long before you hit that point at which you'd believe you've reached scale? Would it be a year? Like would you reach scale by the end of next year, let's say? Just trying to gauge how impactful this higher level of sales is and how impactful it could be to the bottom line.

Dodridge Miller — Group President & Chief Executive Officer, Sagicor Financial Company Ltd.

Andre, do you want to address that?

Andre Mousseau — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

Sure. Well, if you took this quarter of just under $200 million of new sales, so something between $700 million and $800 million of new sales annually, I think that there's not a precise point, but if you think of getting the US balance sheet up towards about $4 billion or so, I think the end of 2022 would be a point where the excess expenses relative to bigger players would start to melt away. I do think that we're going to continue to grow our US business with an eye to that and just tactically, at the same time, try and improve our spread so that, to the extent that we're injecting capital into the US to grow it faster than its natural return on equity, that we're doing so at a very high marginal return on equity.

Darko Mihelic — Analyst, RBC Capital Markets

Okay. Thank you. That's a very good answer. Thank you for that. That's very helpful. Last one for me, and I apologize for dragging on with so many questions, but any comment on IFRS 17?

Andre Mousseau — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

Well, it's a topic that we are hard at work on and the immediate effect that you see is that we're spending several million dollars that's sprinkled through the different SG&As of our segments on it, getting ready in preparation. We do have a robust project plan we're working with. We have a big internal project team and we're working with one of the big four companies that has done the work with the majority of the Canadian market already and so we're confident that we will ready to go and up and doing parallel runs in the first part of next year so that we're ready.

With respect to the financial impact on the balance sheet and the income statement, obviously both of those are going to change, and as soon as we have a handle on the direction and the magnitude of those we will share that, well ahead of the 2023 date, but we're not there yet.

Darko Mihelic — Analyst, RBC Capital Markets

Andre, is there an intention to try, I mean from everything that we've been studying, there's an awful lot of elections that you have to make. Is it your intention or is there anything strategically there that you could do to say, all right, well, we really want to be comparable to, let's say, the average of the other Canadian lifecos? Or is it simply no, forget it, you're going ahead with making your elections based upon your own internal benefit and the way you sort of run your business? Is there any thought process to helping to make your numbers more comparable to those of the other Canadian lifecos?

Andre Mousseau — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

There definitely is that intention and that's what we're working towards. As I said, I'm not going to give the commercial for the firm, but we are working with a firm that has done a bunch of work with the Canadian industry and so we have a decent understanding of where the majority of folks are gravitating towards. So, on issues where we can, we're going to try and be quite consistent with the Canadian market, which seems, you know, they seem to have gravitated around a handful of elections that are a little different than where the European market is going, for example. There may be certain instances where we need to be mindful of some of the differences around, you know, for example, how our assets work under IFRS 9 versus the liabilities under IFRS 17 given that we have, you know, the nature of the marks on Caribbean government debt are different than a Canadian company taking marks on Canadian government debt. So that's an example of a place where we may end up diverging. And we haven't landed on that yet, but for the majority of the elections we're going to try and be market consistent with Canada to make it easier on folks like you.

Darko Mihelic — Analyst, RBC Capital Markets

Okay, great. Thank you very much for your answers today.

Operator

Thank you. Ladies and gentlemen, as a reminder, if you do have any questions, please press star followed by one on your touchtone phone. And your next question will be from Meny Grauman at Scotiabank. Please go ahead.

Meny Grauman — Analyst, Scotiabank

Hi. Good afternoon. Just a question on medical cost inflation in Jamaica: What's driving that and how is it different from other jurisdictions that you're operating in? Is there something unique in that market in particular that's causing inflation on the medical side to be more notable?

Andre Mousseau — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

Dodridge, I can try with two things and then you can proceed. The two things are, in Jamaica, our group business is a higher proportion of our business than in the Southern Caribbean, so it just sticks out more. And then the second thing is in the Southern Caribbean our markets, the majority of our markets either have explicitly pegged currencies like Barbados or implicitly, so in the case of Trinidad where the exchange rate has been pretty static for a number of years, whereas Jamaica's exchange rate, as we've said before, has continued to devalue and so that affects their purchasing power.

Meny Grauman — Analyst, Scotiabank

And in terms of addressing that issue, I guess how persistent do you expect it to be and how quickly can you re-price? How much pricing power do you feel you have to fix that issue?

Dodridge Miller — Group President & Chief Executive Officer, Sagicor Financial Company Ltd.

We do have the pricing power. We also have the option to not reinstate groups if the claims experience exceeds our pricing power. And we have started to realign some of that business. But the bulk of it, as Andre said, is driven by the movement in currency against the US dollar and Jamaica is forecasting some further movement for the rest of the year and then in 2022 to see moderation in that movement. So we will price those claims back into the margins that we expect, even if it means losing some of that business, and we don't expect that that is going to be a big challenge, but it very much depends on the movements in the currency and the forecast going forward is that the currency will start to moderate in 2022.

Meny Grauman — Analyst, Scotiabank

Thanks for that, Dodridge. And then in terms of credit, the reversals of the credit impairment losses, what's driving that? I'll start there and then I have a follow up.

Andre Mousseau — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

I think we took reasonably robust provisions in the kind of early and middle part of last year and I think that the actual losses that we're seeing haven't reflected that experience, so there's a bit of natural movement back. This is on the banking side. It's helpful for earnings on the life side. The way it runs through reserves, it's less of a change. We have yet to see those losses crystallize to the extent that we had provisioned.

Dodridge Miller — Group President & Chief Executive Officer, Sagicor Financial Company Ltd.

And there were some assets which we had provisions on that we have disposed of the assets and released the provisions as well. So there are two parts of that response.

Meny Grauman — Analyst, Scotiabank

Is there anything notable in those dispositions? Like what kind of assets are you referring to? Is there anything interesting in disposing those specific assets that you're referring to?

Dodridge Miller — Group President & Chief Executive Officer, Sagicor Financial Company Ltd.

I don't have any specific names, but I do remember that there was some in the energy sector, both in our Caribbean segment and in our US segment, that we disposed of having fully provided for.

Meny Grauman — Analyst, Scotiabank

Got it. And then just more a forward-looking question in terms of credit. I mean obviously we're seeing COVID become more complicated again and question marks around the potential economic implications of that, so how much, I think, when you look ahead, are you still very optimistic in terms of the credit outlook? Like how conservative, how has your view changed over the last little while in terms of the need to be more conservative in terms of your outlook for credit? I'm just wondering if you've had a change in your view and if you feel there's a need or a justification to be more conservative as you look forward now.

Dodridge Miller — Group President & Chief Executive Officer, Sagicor Financial Company Ltd.

We haven't adjusted our stance on conservatism. We remain conservative. But we are seeing some signs that economic activity, both globally and eventually in the Caribbean, will return. So we don't see a need to tighten our stance on conservatism but we haven't relaxed it either.

Meny Grauman — Analyst, Scotiabank

I guess as a follow up, like would you expect more reversals in the quarters ahead or is it not so clear in your mind?

Dodridge Miller — Group President & Chief Executive Officer, Sagicor Financial Company Ltd.

We keep that under review. A big part of IFRS 9 is the expectation of the performance of the economies going forward and we remain optimistic but conservative on that view.

Meny Grauman — Analyst, Scotiabank

And then more of a strategic question, but if it turns out in fact that COVID, I guess, really interferes with the tourism season, the winter tourism season in the Caribbean, I guess how do you think about sort of your ability to weather that storm? And then actually I'm more interested, from an M&A point of view, is your sense that that could create opportunity? Are there players that you feel would not be able to weather the storm as well? Could that shake loose some opportunities from an M&A point of view? I'm curious to your thoughts on that.

Dodridge Miller — Group President & Chief Executive Officer, Sagicor Financial Company Ltd.

I would say the major territories in the Caribbean saw some return of activity, particularly in the last quarter. Tourism was slower in some locations than we expected because the source markets took longer to move their restrictions. We are looking forward to a fairly active winter season. But should that not occur, I think the economies, from a fiscal position, the major ones I'm referring to, have enough capacity to weather through it.

And in terms of the impact on our business, we will continue to work with our clients to help them through this and we have the capacity to do so.

Meny Grauman — Analyst, Scotiabank

And then just in terms of M&A, are there any potential M&A implications? If there's another tough winter tourism season, as you look at the competitive landscape, would you expect—?

Dodridge Miller — Group President & Chief Executive Officer, Sagicor Financial Company Ltd.

We're always keeping an eye on opportunities to further consolidate the market, but I can't immediately think of any target that we could be prosecuting. We will address that as we go forward and opportunities present themselves. But we are always looking.

Meny Grauman — Analyst, Scotiabank

That's all I have. Thank you very much.

Operator

Thank you. And at this time we have a question from Doug Young. Please go ahead.

Doug Young — Analyst, Desjardins Capital Markets

Yeah, just two quick ones. Andre, the Canadian lifecos are going to be adjusting their ultimate reinvestment rate assumption with Q3 results because of the CIA changes. I assume this impacts Sagicor as well, correct me if I'm wrong. Can you quantify if there's going to be an impact?

Andre Mousseau — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

We look at it every Q3 anyway and if you look through our disclosure you'd see that our URRs have, they don't tend to move dramatically but they have shifted in different markets. So I'm not sure we're ready to say what a change would be or whether there's going to be a change, but we're going to do a full review of that along with our other actuarial assumptions that will be in the Q3 report.

Doug Young — Analyst, Desjardins Capital Markets

Okay. But there's no early indication that there's anything big coming as a result of that actuarial review in Q3 essentially?

Andre Mousseau — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

No, nothing that we would flag right now.

Doug Young — Analyst, Desjardins Capital Markets

Okay. And then just second, correct me if I'm wrong, and I think I may have asked this before and I forget, but your US annuity business, fixed annuity business, this doesn't incorporate book value guarantees. Is that correct? Or is there book value guarantees embedded in these contracts?

Andre Mousseau — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

The majority of them do not and some of the policies that have guarantees on them start out kind of quite out of the money and then build over time. I mean, in general, that's not really part of what we're marketing or the proposition. I think people who are looking for that sort of thing kind of end up going to other providers.

Doug Young — Analyst, Desjardins Capital Markets

That's what I figured, I just wanted to confirm. Thank you very much.

Operator

Thank you. And at this time we have no further questions. Please proceed.

Samantha Cheung — Executive Vice President, Investor Relations, Sagicor Financial Company Ltd.

Thanks, everyone, for joining our call today. Given there are no further questions, we certainly can conclude our call.

Following the call a telephone replay will be available for one month. As well, a transcript will soon be available on our website. If you do have additional questions, please do not hesitate to reach out to us.

With that, thanks again for your participation and interest today. Have a great day. Thank you.

Operator

Thank you. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending, and at this time we do ask that you please disconnect your line.