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## Research Update:

# Sagicor Life Inc. 'BBB' Local Currency Financial Strength, Global Scale Counterparty Credit, Ratings Affirmed, Off Watch

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# Sagicor Life Inc. 'BBB' Local Currency Financial Strength, Global Scale Counterparty Credit, Ratings Affirmed, Off Watch

## Overview

- Sagicor's profits were pressured in 2009 as the group recognized part of the impact from the Jamaican debt exchange.
- We are affirming our 'BBB' local currency financial strength and global scale counterparty credit ratings on Sagicor and removing them from CreditWatch, and affirming our 'BBB-' rating on the unsecured debt of Sagicor Finance.
- The outlook is negative.
- We believe the pressure on Sagicor's operating performance continues, given the still challenging economic environment in the Caribbean and the firm's concentration of assets and revenues in Jamaica.

## Rating Action

On June 16, 2010, Standard & Poor's Ratings Services affirmed its 'BBB' local currency financial strength and global scale counterparty credit ratings on Sagicor Life Inc. (Sagicor) and removed them from CreditWatch, where they were placed with negative implications on Aug. 14, 2009. At the same time, we affirmed our 'BBB-' rating on the \$150 million, 10-year senior unsecured obligations of Sagicor Finance Ltd. The outlook is negative.

## Rationale

The rating action reflects our belief that Sagicor's operating performance could be under further pressure during 2010 as a result of the still challenging economic environment in the Caribbean and its asset and revenue concentration in Jamaica.

The counterparty credit and financial strength ratings reflect Sagicor's dominant market position as the leading life insurer in the Caribbean, increasing geographic diversification, and strong capitalization. These positive factors are partially offset by a relatively high, though decreasing, concentration of assets (19%) and revenues (20%) in Jamaica; pressure on profitability ratios derived from the Jamaican debt exchange (JDX) program, which took place on Feb. 24, 2010; and the challenging economic conditions in most of the economies in which Sagicor underwrites its business.

Sagicor has leading positions in the life, pensions, health, and asset accumulation insurance markets of Barbados, Jamaica, and Trinidad and Tobago--small and mature markets in which room for organic growth is somewhat limited. In the U.S. and U.K., its market position is relatively small, with a

short track record of operations. We expect the company will maintain lower, but still double-digit, growth in 2010. Although we view diversification as positive, the entrance to new markets poses integration and penetration challenges, which Sagicor has so far overcome.

Sagicor has consistently maintained extremely strong capital adequacy ratios based on our model. Although the more challenging economy affected internal capital generation capacity during 2009, we expect no pressure on the group's capitalization because we believe that management takes a conservative view.

Sagicor's profitability was pressured in 2009 as the group recognized part of the impact from the JDX during the year. Also, the low interest rates and investment yields that prevailed as a result of the financial and economic crisis resulted in a 2009 return on assets (ROA) of 1.5% and return on revenue (ROR) of 8.4%, which compare negatively with those reported in 2008 (2.6% and 15.0%, respectively, after adjusting by gains arising on 2008 acquisitions). Also in 2009, the group's interest coverage ratio was under considerable pressure, falling to 7.6x from 11.3x in 2008, but we expect no further decrease.

In 2010 \$7.5 million in claims arising from the Chilean earthquake in February will likely affect results. Losses were incurred by the U.K. operations, Sagicor at Lloyd's, but we still expect the insurance company to reach and maintain an ROA of more than 1.0% in 2010.

Our rating on the senior unsecured obligations reflects the subordination of the notes to obligations owed to policyholders and creditors of Sagicor's subsidiaries.

## Outlook

The negative outlook incorporates our expectation that Sagicor's operating performance could come under further pressure given the still challenging economic conditions in the Caribbean and the firm's significant concentration of assets and revenues in Jamaica. We could lower the ratings if capitalization decreases drastically over a short period, or if profits deteriorate to an ROA an ROR of less than 1% and 5%, respectively. If the interest coverage ratio falls to 6x, we could also lower the ratings. Furthermore, ratings would be pressured by a sovereign downgrade of either Barbados or Jamaica, and by the degree of any downgrade of Trinidad and Tobago.

## Related Criteria And Research

- "Table Of Contents: Standard & Poor's Insurance Ratings Criteria," June 7, 2010
- "Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy," June 7, 2010

## Ratings List

Ratings Affirmed; Off CreditWatch

	To	From
Sagicor Life Inc.		
Counterparty Credit Rating	BBB/Negative/--	BBB/Watch Neg/--
Financial Strength Rating		
Local Currency	BBB/Negative/--	BBB/Watch Neg/--
Sagicor Finance Ltd.		
Senior Unsecured	BBB-	BBB-/Watch Neg

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at [www.globalcreditportal.com](http://www.globalcreditportal.com) and RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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