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## Research Update:

# Sagicor Finance 'B' Debt Rating Placed On Watch Positive, Sagicor Life 'BB-' Ratings Placed On Watch Developing

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## Research Update:

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## Overview

- Sagicor Financial Corporation Ltd. (SFC), a non-operating holding company and ultimate parent of the Sagicor group, completed its registration in Bermuda and discontinued its registration in Barbados on July 20, 2016.
- In addition, SFC is overhauling its corporate structure to make the operating and non-operating insurance companies currently under Barbados-based Sagicor Life Inc. (SLI) direct subsidiaries of SFC.
- We're placing our 'B' debt rating on Sagicor Finance (2015) Ltd. (SFL) on CreditWatch with positive implications while we're analyzing the effect of SFC's re-domiciliation and its proposed corporate restructuring. At the same time, we're placing our 'BB-' ratings on SLI on CreditWatch developing.
- The CreditWatch positive designation on SFL indicates a higher than one-in-two possibility of its upgrade because the sovereign rating on Barbados will no longer be the reference sovereign rating, therefore, it will no longer be a cap for SFL's issue-level rating. The CreditWatch developing designation on SLI reflects a higher than one-in-two possibility of a rating change, although the direction is dependent on our view of group support once the restructuring is completed.

## Rating Action

On Sept. 15, 2016, S&P Global Ratings placed its 'B' issue-level rating on Sagicor Finance (2015) Ltd.'s (SFL) \$320 million seven-year senior unsecured notes on CreditWatch positive following Sagicor Financial Corporation Ltd.'s (SFC) re-domiciliation to Bermuda from Barbados and restructuring of Sagicor Life Inc. (SLI). We also placed our 'BB-' issuer credit and financial strength ratings on SLI on CreditWatch developing.

## Rationale

Our rating action on SFL follows the announcement to shift SFC's domicile to Bermuda from Barbados and the changes in the SFC corporate structure. In our view, both factors could reduce SFC's exposure to Barbados' potential default, because the company is no longer based in that country, and cash flows from each operating subsidiary could flow directly to SFC.

We're currently analyzing credit, regulatory, and legal implications of the

announced changes, and we will resolve our CreditWatch listings on SLI and SFL once we determine which sovereign is relevant for SFC, and if its ratings are subject to a cap, given its considerable exposures in the 'B' rated countries (Jamaica and Barbados).

The sovereign rating on Barbados (B/Negative/--) would no longer impose a limit on Sagicor Finance's issue-level rating. However, it will continue to be considered on Sagicor Life Inc. (SLI) because the latter remains domiciled in Barbados.

SFL's issue-level rating is currently two notches below that of the group's main operating subsidiary, SLI, reflecting SFL's debt's structural subordination to the group's insurance operations. SLI's rating is currently capped at two notches above Barbados' 'B' rating, although the company's group credit profile (GCP) is 'bb+'. A life insurer rating is capped at two notches above the sovereign rating of its country of domicile because of our view that these entities have a high sensitivity to country risk and the critical role of regulations for these entities. Since the holding company will no longer be based in Barbados', its ratings might no longer acts as rating cap. Therefore, our current 'B' debt rating on SFL could rise to 'BB-', which would be two notches below the potential 'bb+' GCP and reflecting structural subordination of the debt issue to policyholder obligations.

The CreditWatch developing status on SLI, which is still based in Barbados, reflects our view that the number of notches that the company's rating could receive above the sovereign rating could vary depending on the resulting corporate structure and our view of the group's potential support to SLI during Barbados' potential default. In this sense, if we believe that the SFC, which is no longer based in Barbados, will support the newly restructured SLI under almost any circumstances associated with a sovereign stress scenario, the ratings on the company could be up to three notches above Barbados' or one notch higher than SLI's current 'BB-' ratings. On the other hand, if such level of support is unlikely, the ratings on SLI could drop to the sovereign level if the company fails to pass our sovereign stress test, which is likely to happen, in our view, if the corporate overhaul leaves SLI with only its Barbadian insurance operations.

## **CreditWatch**

The CreditWatch positive listing on SFL reflects our view that there's a higher than one-in-two possibility of its upgrade within the next 90 days. This could happen if we conclude that the relevant sovereign rating to consider for this debt rating is above that of Barbados.

The CreditWatch developing listing on SLI reflects a higher than one-in-two possibility of a rating change on either direction based on how many notches SLI can receive above the sovereign rating of its country of domicile, following its corporate overhaul. An upside scenario is possible if, under the new structure, we still consider SLI a core entity to the group. We could

lower the rating if, in our view, the group is unwilling or able to support SLI under a sovereign stress scenario and the restructured company fails to pass the relevant sovereign stress tests. SLI current structure, which consolidates a number of Caribbean operations, allows the company to pass the stress tests for Jamaica and Barbados, which allows for two notches above Barbados sovereign rating. A modified corporate structure may no longer allow for such rating differential.

We expect to complete our analysis within the next 90 days to assess the combined implications of the re-domiciliation, the proposed changes to the corporate structure, and the effect this would have on our view of sovereign risk.

## Related Criteria And Research

### Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Insurance Rating Methodology, May 7, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

### CreditWatch Action

	To	From
Sagicor Life Inc.		
Counterparty Credit Rating	BB-/Watch Dev/--	BB-/Negative/--
Financial Strength Rating		
Local Currency	BB-/Watch Dev/--	BB-/Negative/--
Sagicor Finance Ltd.		
Senior Unsecured	B/Watch Pos	B

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