

08 JUN 2020

Fitch Affirms Sagicor Financial's Ratings; Outlook Stable on Coronavirus Risk

Fitch Ratings - New York - 08 Jun 2020: Fitch Ratings has affirmed Sagicor Financial Company Limited's (SFCL) Long-Term Issuer Default Rating (IDR) at 'BB' and SFCL's senior debt ratings at 'BB-'. The Rating Outlook is Stable.

Key Rating Drivers

Fitch's current assessment of the impact of the coronavirus pandemic, including its economic impact, is based on a set of ratings assumptions described below. These assumptions were used by Fitch to develop pro forma financial metrics for SFCL that Fitch compared to both ratings guidelines defined in its criteria and relative to previously established Rating Sensitivities for SFCL.

The ratings affirmation with a Stable Outlook for SFCL reflects Fitch's pro forma analysis and expectation that SFCL will continue to perform in line with rating expectations. Today's rating actions follows Fitch's recent action to revise the rating outlook on the U.S. life insurance industry to negative. Fitch's primary concerns over the near term include the decline in interest rates, equity market declines, increases in credit losses, and rating migration. Longer term, SFCL's credit profile remains vulnerable to a prolonged, steep macroeconomic downturn and sustained low interest rates.

Fitch expects deterioration in SFCL's capital metrics and financial performance from the coronavirus, including increased credit defaults and ratings migration on the investment portfolio over the near term. Fitch's pro forma analysis for SFCL shows the impact of the asset stresses does not result in a breach of key rating downgrade sensitivities. Fitch's current expectation is that the impact of coronavirus, while material, is manageable for SFCL due largely to the company's strong capital position and improved liquidity resulting from the Alignvest Acquisition II (AQY) transaction. Longer term, concerns around a potentially lower for longer interest rate scenario will negatively affect SFCL and peers in terms of pressure on capital and earnings.

Fitch considers SFCL's holding company liquidity, which includes cash and cash equivalents of \$405 million as of March 31, 2020, to be ample relative to annual financial debt interest expense of approximately \$38 million and debt maturities of approximately \$93 million in 2020. SFCL has the next debt maturity of \$320 million occurring in 2022.

SFCL's ratings continue to consider the company's improved business profile, which has been supported by steady growth in earnings and assets in investment grade jurisdictions, particularly the company's U.S. operations over the last few years. Fitch's view on business profile also considers the

operating and economic environments of two of its main insurance subsidiaries in Jamaica and Barbados, both of which have below-investment grade sovereign ratings. SFCL has very high capital exposure and concentrations in below-investment-grade sovereign debt, which are primarily used to meet local regulatory requirements and match local liabilities. The ratings also consider SFCL's strong and stable profitability, and macroeconomic challenges associated with low interest rates.

Key Assumptions

Fitch used the following key assumptions, which are designed to identify areas of vulnerability, in support of the pro-forma ratings analysis discussed above:

- Decline in key stock market indices by 35% relative to Jan. 1, 2020.
- Increase in two-year cumulative high yield bond default rate to 16%, applied to current non-investment grade assets, as well as 12% of 'BBB' assets.
- Both upward and downward pressure on interest rates, with spreads widening (including high yield by 400 basis points) coupled with notable declines in government rates.
- Capital markets access is limited for issuers at senior debt levels of BBB and below.
- A COVID-19 infection rate of 5% and a mortality rate (as a percent of infected) of 1%.

RATING SENSITIVITIES

The ratings remain sensitive to any material change in Fitch's Rating Case assumptions with respect to the coronavirus pandemic. Periodic updates to our assumptions are possible given the rapid pace of changes in government actions in response to the pandemic, and the pace with which new information is available on the medical aspects of the outbreak. A discussion of how ratings would be expected to be impacted under a set of Stress Case assumptions is included at the end of this section to help frame sensitivities to a severe downside scenario.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A material adverse change in Fitch's Ratings Assumptions with respect to the coronavirus impact.
- Significant deterioration in the economic and operating environments and sovereigns of Jamaica, Trinidad, and Barbados, which would lead to a material decline in operating performance and/or credit profile of SFCL's investment portfolio.
- Deterioration in key financial metrics, including consolidated MCCR falling below 180% and financial leverage exceeding 50% and ROE below 5% on a sustained basis.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A material positive change in Fitch's Ratings Assumptions with respect to the coronavirus impact.
- A positive rating action is prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profile of both the U.S. life insurance industry and SFCL.
- No material deterioration in economic and operating environments and sovereigns of Jamaica, Trinidad, and Barbados resulting from the coronavirus situation.
- Deployment of capital proceeds from the AQY transaction to grow operations in investment grade jurisdictions.
- Decline in financial leverage ratio below 25% (adjusted to exclude non-controlling interests from capital).

Stress Case Sensitivity Analysis

- Fitch's more severe Stress Case assumes a 60.0% stock market decline, two-year cumulative high yield bond default rate of 22.0%, high yield bond spreads widening by 600 basis points and more prolonged declines in government rates, heightened pressure on capital markets access, a COVID-19 infection rate of 15.0% and mortality rate of 0.75%.
- The implied rating impact under the Stress Case would be a downgrade by no more than one notch.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Sagicor Financial Company Ltd.	LT IDR	BB 	Affirmed	BB 
Sagicor Finance (2015) Limited				
• senior unsecured	LT	BB-	Affirmed	BB-

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		

RATINGS KEY OUTLOOK WATCH

STABLE



Applicable Criteria

[Insurance Rating Criteria \(pub.02 Mar 2020\) \(including rating assumption sensitivity\)](#)

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