FitchRatings

Sagicor Financial Company Limited

And Operating Subsidiaries

Insurance
Life Insurers
Caribbean

Key Rating Drivers

Significant Increase in Capital: Sagicor Financial Company Limited's (SFCL) acquisition by Alignvest II Acquisition Corporation (AQY), which closed at YE 2019, brought in additional capital proceeds of $440 million, which exceeded original company expectations by approximately $225 million. Based on discussions with management regarding its capital management plans, Fitch Ratings expects the company to further enhance its financial profile and support growth in SFCL's insurance operations in investment-grade jurisdictions.

IDR and Senior Debt Upgraded: The upgrade in SFCL's Issuer Default ratings (IDR) and senior debt ratings reflects significant improvement in capitalization and financial leverage as a result of the equity capital infusion. The Positive Outlook reflects Fitch's view that the ratings could be further upgrade based on successful execution of the company's capital management plans.

Substantial Reduction of Financial Leverage: SFCL's financial leverage ratio (FLR) was high at 38% (adjusted to exclude noncontrolling interests from capital) as of Sept. 30, 2019, but is expected to decline to approximately 27% pro forma for the additional capital proceeds. Fitch expects the FLR to decline further as new capital is deployed.

Improving Business Profile: Fitch's improving view of SFCL's less favorable business profile score, which has been supported by steady growth in earnings and assets in investment-grade jurisdictions, particularly the U.S. operations over the last few years, is expected to continue over the medium term. The company's business profile continues to be heavily influenced by the economic environment and sovereign risks of Barbados and Jamaica given the company's considerable operations in those countries.

High Below-Investment-Grade Debts: SFCL's investment portfolio has substantial, albeit declining, concentrations in Jamaica and Barbados sovereign debt, which are primarily used to meet local regulatory requirements and for asset/liability matching purposes. SFCL has a significant concentration of below-investment-grade debt as a result. Favorably, the company has reported a continued decline in the ratio of below-investment-grade investments over the last three years.

Rating Sensitivities

Criteria: Under its criteria, notching between actual and/or implied Insurer Financial Strength (IFS) "anchor" ratings and the IDR of a holding company compresses/expands by one notch when the anchor rating migrates between investment grade and noninvestment grade.

SFCL's implied anchor ratings would move between that cusp point if upgraded by one notch, implying the next potential upgrade in SFCL's holding company IDR and senior debt ratings would be by two notches.

Upgrade Sensitivities: Key rating sensitivities that could result in such a two-notch upgrade include capital deployment, in which SFCL deploys capital proceeds to grow operations in investment-grade jurisdictions, and a decline in financial leverage, as calculated by Fitch to be below 25%. The failure to reduce financial leverage below 25% would result in a revision of the Outlook to Stable from Positive.

Ratings

Sagicor Financial Company Limited

Long-Term IDR	BB

Sagicor Finance (2015) Limited

Senior Unsecured Debt	BB–

Outlook

Positive

Financial Data

Sagicor Financial Company Limited

(USD Mil.)	12/31/18	9/30/19
Total Debt	402	404
Total Assets	7,325	8,056
Total Equity	1,135	1,249
ROE (%)	7	7
ROA (%)	2.4	2.4
Adjusted Financial Leverage (%)	40	40
Operating Leverage (x)	10	10

Note: Reported on an IFRS basis.
Source: Fitch Ratings, Sagicor Financial Company Limited.

Applicable Criteria

Insurance Rating Criteria (March 2020)

Related Research

Fitch Upgrades Sagicor Financial Corporation Limited's IDR to 'BB'; Outlook Positive (February 2020)

Fitch Upgrades Sagicor Financial Corporation Limited's IDR to 'BB–'; Outlook Stable (February 2019)

Fitch Upgrades Jamaica to 'B+'; Outlook Stable (January 2019)

Fitch Ratings: Sagicor's Acquisition by Alignvest II a Credit Positive (November 2018)

Analysts

Nelson Ma
+1 212 908-0273
nelson.ma@fitchratings.com

Milena Carrizosa
+57 1 326-9999
milena.carrizosa@fitchratings.com

Business Profile

SFCL's overall less favorable business profile score considers the company's bespoke Industry Profile and Operating Environment (IPOE) score (see *Appendix A*), which reflects the company's primary regions of operations in Barbados, Jamaica, Trinidad and the U.S. SFCL's IPOE score reflects the skew of the company's business mix towards below-investment-grade jurisdictions, which remains the majority, but recognizes improvements in the increasing business mix in investment-grade countries. SFCL's overall business profile score also considers the company's favorable business profile ranking within its Caribbean markets and more limited market position and scale in the U.S.

Overall Business Profile Score Improved but Remains Driven by Concentration in Lower-Rated Jurisdictions

SFCL's overall business profile score reflects a concentration of operations in lower-rated sovereign jurisdictions, but also considers the company's shift in business mix towards greater contributions from investment-grade jurisdictions. Fitch's improving view of SFCL's business profile reflects the company's growth in earnings and assets in investment-grade jurisdictions over the last several years. Fitch expects SFCL's business profile to continue to shift more towards investment-grade jurisdictions given the company's strategy towards growth in Trinidad and the U.S., with expectations the company will continue to support capital needs in these regions.

Leading Financial Service Provider in Many Caribbean Markets

Fitch's view of SFCL's improving "less favorable" business profile considers the company's concentration of operations in lower-rated jurisdictions, which tend to have a dominant market position and most favorable operating scale, balanced with its more limited operating scale and market position in the U.S. Fitch's improving view of SFCL's business profile is driven by growth in earnings and assets, particularly in the U.S. operations over the last several years.

Fitch considers SFCL to be highly diversified relative to its business lines and geographies, and the company's business risk profile to be on par with life insurance peers. Fitch expects SFCL's business profile to continue to shift more towards investment-grade jurisdictions given the company's strategy to support growth and capital needs in Trinidad and the U.S. Growth in the company's Bermuda reinsurance entity will further support the shift of overall business mix to investment-grade jurisdictions.

SFCL is a Bermuda-based financial holding company and leading provider of insurance products and financial services in the Caribbean region. The company also provides banking and investment management services in Jamaica and insurance products in the U.S. SFCL's primary areas of focus are individual and group life insurance, annuities and health insurance. SFCL also offers property/casualty insurance, banking, asset management, property management and financial services through its bank in Jamaica and many subsidiaries in the Caribbean.

Primary insurance subsidiaries for SFCL include Sagicor Life Inc., which comprises insurance operations in Barbados and Trinidad; Sagicor Group Jamaica Ltd., which comprises financial services operations in Jamaica and the Cayman Islands; and Sagicor Life USA, the company's U.S. insurance operations. The company has leading market shares in Barbados, Trinidad and Tobago, Jamaica, Cayman Islands and other Caribbean markets.

In the U.S., SFCL is a relatively small but growing player, offering traditional life products and fixed annuities. The U.S. operations have become an increasing contributor to consolidated earnings and asset exposure over the last few years. Aside from the company's larger regions of operations, including Barbados, Trinidad, Jamaica and the U.S., the company also has insurance operations in many of the Eastern and Dutch Caribbean islands and select Latin American countries.

Concentration of Operations in Lower-Rated Sovereign Countries

A significant portion of the company's operations by capital and profitability are in below-investment-grade jurisdictions.

Total Revenue by Country

(%)	2017	2018
Barbados	14	11
Jamaica	46	38
T&T	14	11
Other Caribbean	13	10
U.S.	13	28
Total	100	100

T&T – Trinidad and Tobago.
Source: Sagicor Financial Company Limited.

Operating Earnings by Products

(%)	2017	2018
Individual Life, Health and Annuity	56	63
Group Life, Health and Annuity	25	19
Property/Casualty	3	3
Banking and Investment Management	13	12
Farming and Unallocated Revenues	3	2
Total	100.0	100.0

Source: Sagicor Financial Company Limited.

Jamaica's operational and economic risks factor heavily into SFCL's view of business profile due primarily to the country's significant earnings contribution and capital relative to the consolidated group. Jamaica operations represented approximately 40% of total profitability and roughly 28% of total capital over the last five years.

In addition, more than half of SFCL's below-investment-grade bond portfolio consists of Jamaican sovereign debt. The sovereign securities are used to fulfill local regulatory requirements or to currency-match insurance liabilities. Fitch's sovereign rating for Jamaica is 'B+'/Positive Outlook (Local and Foreign Currency IDR) and the Country Ceiling is 'BB–'.

While not as significant as Jamaica, SFCL's Barbados operations still represent a meaningful 17% of total profitability and 14% of total capital over the last five-year period. While Fitch does not publish a sovereign rating or a Country Ceiling for Barbados, it maintains internal viewpoints on the sovereign that were considered in SFCL's rating.

In 4Q19, Barbados completed restructuring and exchanged the external sovereign debt of the country, which did not result in SCFL incurring any additional material unexpected losses. In 2018, subsequent to the completion of the restructuring of the domestic Barbados debt, SFCL set aside gross credit loss provisions, which accounted for credit losses for both the domestic and external Barbados debt.

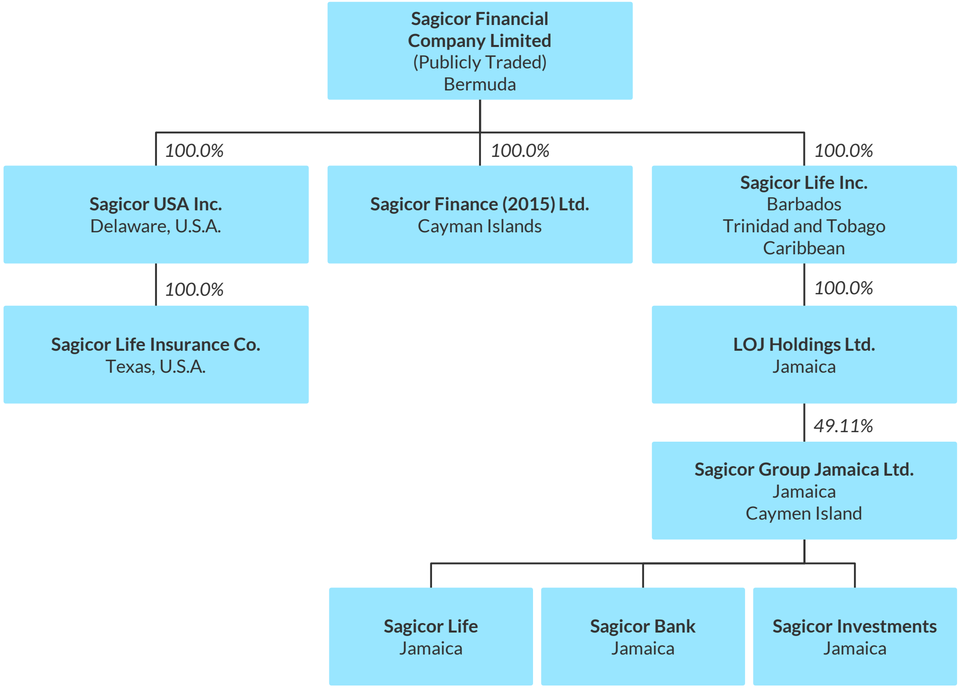
Continued Growth in Investment-Grade Jurisdictions Provide Positive Offset to Jamaica and Barbados Concentration

Senior management of SFCL has been focused on growing its insurance operations in investment-grade jurisdictions, mainly in Trinidad and the U.S. The company's operations in Trinidad and the U.S. provide a positive offset to the company's operational and sovereign concentration in Barbados and Jamaica. Trinidad, an investment-grade jurisdiction, is a region of primary operations and represents approximately 24% of SFCL's profitability and 19% of capital over the last five years. The company's U.S. operations are relatively small, but growing based on sales of individual fixed annuities and traditional life products. The U.S. operations accounted for 12% of overall profitability and comprised 22% of capital over the last five years.

Ownership Is Neutral to Rating

SFCL is a publicly owned company. Its common stock is listed on the Toronto Stock Exchange. Fitch considers the company's public ownership to be neutral to its ratings.

Simplified Organizational Structure



Source: Sagicor Financial Company Limited.

Capitalization and Leverage

Materially Improved Capitalization and Leverage

Financial Highlights

(As of Year End)	2015	2016	2017	2018	9/30/19	Fitch's Expectation
Financial Leverage [a] (%)	49	43	39	40	38	Fitch expects SFCL's strong capitalization metrics, including strong pro forma operating leverage levels at or below 8x, to persist over the intermediate term. Fitch expects financial leverage to fall below 25% over the near to intermediate term.
Asset Leverage (x)	13	12	11	12	12	
Operating Leverage (x)	11	11	9	10	10	
Minimum Continuing Capital and Surplus Requirement[b] (%)	301	291	258	234	246	

[a]Equity is adjusted to exclude noncontrolling Interests. [b]Based on consolidated accounts.
Source: Fitch Ratings, Sagicor Financial Company Limited.

Substantially Improved Capitalization and Reduced Financial Leverage Driven by AQY Equity Infusion

Fitch's view of SFCL's capitalization and financial leverage substantially improved following the AQY transaction. Fitch's improved view is primarily driven by the material reduction in financial leverage, which was historically high, to strong levels pro forma for the additional capital proceeds. Fitch considers SFCL's capitalization metrics to be strong and supportive of the ratings.

Improvement in Capitalization to Very Strong Levels from Additional AQY Capital Proceeds

SFCL has historically maintained strong capitalization metrics, which include MCCSR at 246% as of Sept. 30, 2019. Fitch estimates an increase of over 90bps in MCCSR pro forma for the additional capital proceeds. MCCSR is the principal standard used to assess the capital adequacy of SFCL's consolidated insurance operations. However, because of the variations in capital adequacy standards across jurisdictions, the consolidated result should be regarded as applicable to the group as a whole and not necessarily applicable to each individual segment, insurance subsidiary or insurance subsidiary branch.

SFCL adopted the Canadian MCCSR standard in accordance with its objectives for managing capital given that a number of jurisdictions in the Caribbean region have no internationally recognized capital adequacy requirements. Jamaica and the U.S. have recognized capital adequacy standards. The minimum standard recommended by the Canadian regulators for companies is an MCCSR of 150% and the company targets a minimum MCCSR of 175%. However, Fitch notes that SFCL is not subject to the oversight of Canadian regulators.

SFCL's operating leverage at approximately 10x as of Sept. 30, 2019 is considered to be strong and above expectations for the company's rating level. SFCL's pro forma operating leverage at 6x is considered low and very strong relative to life insurance peers.

Material Reduction in Financial Leverage

The material improvement in Fitch's view of capitalization and leverage is supported by the expectation that SFCL's financial leverage ratio will materially decline to approximately 27% pro forma for additional capital proceeds from 38% as of Sept. 30, 2019 (adjusted to exclude noncontrolling interests from equity). Fitch expects financial leverage to be maintained at financial leverage levels below 25% over the intermediate term.

Debt Service Capabilities and Financial Flexibility

Improved Financial Flexibility and Debt Service Capabilities

Financial Highlights

(As of Year End)	2015	2016	2017	2018	9/30/19	Fitch's Expectation
Adjusted Interest Expense (USD Mil.)	30	38	35	37	31	Fitch expects fixed-charge coverage to improve from current reported levels given the company's increased financial flexibility. SFCL has committed to maintain liquid assets held at the holding company to cover at least 1x annual debt service going forward.
IFRS Interest Coverage (x)	5	4	3	3	4	
Fixed-Charge Coverage (x)	4	3	3	3	4	
Holding Company Cash Coverage (x)	N.A.	4	3	3	4	

N.A. – Not applicable. Note: Adjusted interest expense is reported interest expense, excluding make whole payments on debt. IFRS interest coverage consists of income attributable to common shareholders before interest and taxes divided by adjusted interest expense excluding preferred dividends. Holding company cash coverage is income attributable to common shareholders before interest and taxes plus holding company cash assets divided by adjusted interest expense excluding preferred dividends.
Source: Fitch Ratings, Sagicor Financial Company Limited.

Improved Financial Flexibility from Additional Capital Proceeds

The AQY transaction improved SFCL's financial flexibility given the capital proceeds held in the SFCL parent holding company and access to potential capital from new Canadian institutional and high-net-worth shareholders Fitch expects SFCL's fixed-charge coverage to improve from current levels given the company's increased financial flexibility.

AQY Transaction Improves SFCL's Financial Flexibility

Historically, SFCL's financial flexibility was limited due to the company's high financial leverage and limited holding company cash and liquid investments used to meet holding company needs. Holding company liquidity is primarily derived through internal funding provided by existing holding company cash balances and subsidiary dividends. After close of the AQY transaction, additional capital proceeds are held at the SFCL parent holding company and are expected to be deployed over time to fund organic growth and potential acquisitions. SFCL has committed to maintain liquid assets held at SFCL to cover at least 1x annual debt service.

As a result of the acquisition, SFCL delisted its public listing from the London, Trinidad & Tobago, and Barbados stock exchanges and is now publicly listed on the Toronto stock exchange. Sagicor Group Jamaica Ltd. remains publicly listed on the Jamaica exchange.

In addition to the existing retail and institutional Caribbean shareholders that rolled over their shares into the new SFCL shares, shareholders also include new large Canadian institutional holders and high-net-worth clients. The additional shareholders improve interest in the public shares, which could potentially support increased liquidity in the shares. SFCL also improved access to potential capital needs from its new Canadian institutional and high-net-worth shareholders.

Satisfactory Fixed-Charge Coverage Levels

SFCL's fixed-charge coverage ratio, as calculated by Fitch, was 3.5x as of Sept. 30, 2019. SFCL maintained satisfactory fixed-charge coverage levels at approximately 3.0x over the last four years, which were within rating expectations. Fitch expects SFCL's fixed-charge coverage to improve going forward given the company's increased financial flexibility.

Holding Company Long-Term Financial Debt Maturities

(USD Mil., as of Sept. 30, 2019)	
2020	92
2021	–
2022 or Later	345
Total	**437**

Source: Sagicor Financial Company Limited regulatory filings.

Financial Performance and Earnings

Strong Operating Performance Above Rating Expectations

Financial Highlights

(USD Mil., as of Year End)	2015	2016	2017	2018	9/30/19	Fitch's Expectation
Pretax Operating Income	124	150	124	147	117	Fitch expects Jamaica, Trinidad & Tobago, and the U.S. to continue to be primary drivers of overall profitability of the company over the medium term.
Net Income	98	108	105	96	79	
Net Income, Including Other Comprehensive Income[a]	(0.6)	97	179	39	116	
ROA (%)	2	2	2	2	2	
ROCE (%)	7	12	12	7	7	

[a]Other comprehensive income includes retranslation of foreign currency operations. ROCE – Return on common equity. Note: ROCE calculation excludes discontinued operations and foreign currency retranslation effects. Excludes restatements.
Source: Fitch Ratings, Sagicor Financial Company Limited.

Strong and Stable Profitability with Increasing Contributions from Investment-Grade Jurisdictions

SFCL has exhibited a strong and stable earnings trend that has been supported by strong contributions, primarily from the Jamaica, Trinidad, U.S. operations. Ongoing low interest rates continue to pressure earnings growth but Fitch believes the impact is manageable.

Strong and Stable Earnings Trend

SFCL's pretax operating income has been stable and strong over the last five years, with strong contributions from the company's Jamaica and Trinidad operations and increasing contributions from the U.S. This was partially offset by a decline in earnings in 2017 from Barbados due to changes in actuarial liabilities. Excluding the effects of foreign currency retranslation, operating profitability for consolidated SFCL is strong and above expectations for the current rating.

The main regional segments include Jamaica, Trinidad and Barbados, and all compare well in terms of profitability with local peers, but net income historically has been volatile due to currency retranslation, primarily from Jamaica. Operating profitability for the U.S. segment has been an increasingly material portion over the last five-year period and has been supported by greater retention of written business within the SFCL group. In the medium term, Fitch expects Jamaica, Trinidad, and the U.S. to continue to be primary drivers of overall profitability of the company.

Low Interest Rates Continue to Pressure Earnings Growth

There is some uncertainty regarding the need for further statutory reserve increases across product lines due to ongoing low interest rates and mismatches in duration, but Fitch believes the impact on SFCL's capital and earnings is manageable.

Uncertainty over low rates is also somewhat mitigated as SFCL reports under the IFRS framework, where SFCL liabilities are revalued on reporting date to reflect prevailing interest rates and changes in exchange rates. The impact of the revaluation flows through the income statement and is inherently more volatile than companies reporting under a U.S. GAAP framework, where liabilities are valued on best-estimate assumptions and not changed for future valuations unless it is determined that future income is no longer adequate.

Barbados External Sovereign Debt Restructuring Resolved

In December 2019, the government of Barbados cured the default on its external sovereign debt and completed the exchange of external debt with creditors, which included a moderate haircut applied to principal and past due interest. Favorably, SFCL had modest exposure to external Barbados sovereign debt, which amounted to approximately $40 million, and the company had already provisioned for credit losses in 2018, upon resolution of the domestic debt restructuring. The resolution of the Barbados external debt restructuring did not result in additional material losses for SFCL.

Investment and Asset Risk

High-Quality Portfolio with Manageable Exposure to Volatility

Financial Highlights

(As of Year End)	2015	2016	2017	2018	9/30/19	Fitch's Expectation
Cash and Deposits (USD Mil.)	250	279	360	359	329	SFCL's management plans to increase the share of investment-grade assets in the investment portfolio. SFCL has high concentrations of below-investment-grade assets in its portfolio, which is mainly driven by operations in Barbados and Jamaica, and the need to maintain sovereign bonds to meet local regulatory requirements and for asset/liability matching purposes.
Below-Investment-Grade Bonds/Equity (%)	243	233	188	134	139	
Below-Investment-Grade Loans/Equity (%)	N.A.	69	40	63	62	
Barbados and Jamaica Sovereigns to Equity (%)	164	141	122	101	102	

N.A. – Not available.
Source: Fitch Ratings, Sagicor Financial Company Limited.

High Concentrations of Below-Investment-Grade Assets

Fitch views SFCL's investment portfolio to have considerably above-average investment risk relative to the industry. SFCL's investment portfolio has substantial, albeit declining concentrations, in Jamaica and Barbados sovereigns, and as a result, has a significant concentration of below-investment-grade debt.

Concentration Risks in Jamaica and Barbados Sovereign Debt Limit View of Investment Portfolio

SFCL's invested assets were USD6.4 billion as of Sept. 30, 2019. SFCL invests in investment-grade-bonds, if available, and in local Caribbean sovereign bonds that match liabilities. SFCL's exposure to Barbados sovereign debt represents approximately 4% of the total investment portfolio and approximately 14% of SFCL's pro forma shareholders' equity. The company primarily holds Barbados sovereigns to meet regulatory requirements and currency match its insurance liabilities. The company's exposure to Jamaica sovereign debt is substantially higher at approximately 16% of total investments and 36% of pro forma shareholders' equity.

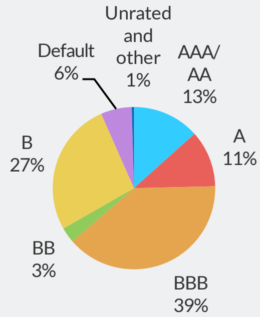
While the sovereign concentrations are reasonable given the company's operations in these two countries, the sovereign exposures represent a large concentration risk and a potential source of volatility to capital adequacy in the event of an adverse sovereign scenario. Favorably, the company implements strategies to minimize the concentration of sovereigns in their respective countries, including sales of USD liabilities in Jamaica and holding investments outside of minimum regulatory requirements in USD-denominated assets.

High, Albeit Reduced, Proportion of Below-Investment-Grade Assets to Equity

The company's overall exposure of below-investment-grade assets to shareholders' equity well exceeds the levels of peers, which is exacerbated by the company's investments in sovereigns to meet local regulatory requirements.

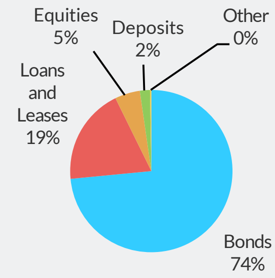
The company reported a decline in the ratio of below-investment-grade bonds to equity to 139% and 134% as of Sept. 30, 2019 and 2018 respectively, from 188% in 2017 and 233% in 2016. The decline was due to somewhat lower concentrations of below-investment-grade bonds and an increase in shareholders' equity due to retained earnings. The below-investment-grade bonds are comprised of Barbados and Jamaica debt, as well as exposure to other lower-rated local Caribbean government authority bonds and some high-yield corporate exposure.

Investment Portfolio by Rating
(As of Dec, 31 2018)



Source: Sagicor Financial Corporation Limited.

Investment Portfolio by Asset Type
(As of Dec, 31 2018)



Source: Sagicor Financial Corporation Limited.

Asset/Liability and Liquidity Management

Moderate View of Asset/Liability Management

Financial Highlights

(USD Bil., as of Year End)	2015	2016	2017	2018	9/30/19	Fitch's Expectation
Total Liabilities	5.7	5.7	5.9	6.2	6.8	Fitch expects ratios to remain relatively unchanged and liquid assets to remain high relative to reserves.
Liquid Assets/Actuarial Reserves	0.5	0.4	0.5	0.7	0.7	
Liquid Assets/Total Policy Liabilities	0.4	0.4	0.3	0.4	0.5	

Source: Fitch Ratings, Sagicor Financial Company Limited.

Reasonably, Well-Designed ALM Process Limited by Investment Restrictions

Fitch considers SFCL's asset/liability management (ALM) capabilities to be moderate, supported by a reasonably, well-designed cash flow and duration matching. SFCL manages interest rate risk in markets where longer-dated assets do not exist and is required to set aside additional reinvestment risk reserves associated with the duration mismatch. SFCL manages its exposure to local currency risk by its net long USD asset position to reduce currency fluctuations.

Adequate ALM but with Limitations

SFCL's ALM process is reasonably well designed and provides management with good monitoring and matching techniques. Management applies standard cash flow and duration matching processes. The company mainly invests in investment-grade bonds, but is constrained by limitations in many jurisdictions that impose foreign investment restrictions. The group manages its interest rate risk by a number of measures, including matching the maturities of asset and liabilities, to the extent possible. In certain Caribbean markets where availability of suitable investments is often a challenge, the group holds many of its fixed-rate debt securities to maturity, and therefore, mitigates the transient interest rate changes in these markets.

Insurance subsidiary assets and liabilities are relatively well matched by duration with the exception of Barbados and Trinidad, where assets of sufficient duration simply do not exist. The lack of suitable long-term assets and derivatives in Barbados and Trinidad, and the resulting duration mismatch, exposes the company to reinvestment risk. Fitch notes that the company's actuarial liabilities are established based on the Canadian reserving framework, which requires SFCL to set aside additional reserves to address the reinvestment risk associated with the duration mismatch.

Relatively High Level of Liquid Assets

The coverage of liquid assets to reserves is high relative to rating expectations. As of Sept. 30, 2019, the liquid assets-to-actuarial reserves ratio was 0.7x, which is considered favorable for the business profile. The risk in mismatch duration between assets and liabilities is partially mitigated with ample liquidity ratios and conservative reserving standards.

SFCL uses the Canadian accepted actuarial standards to determine the actuarial liabilities of long-term insurance contracts. The Canadian asset/liability method and policy premium method are asset/liability matching methodologies that assign specific assets to cover the future liability cash flows.

Currency Risk Exposure

The group's major currency exposures are to the Jamaican dollar (JMD), Barbados dollar (BBD), Trinidad dollar (TTD) and the U.S. dollar. The BBD is currently fixed, TTD appreciated modestly 0.7% to 9M19 from 2018, while the JMD depreciated approximately 6% during this period.

SFCL tries to closely match its assets and liabilities by currency exposure, which keeps exchange rate risk manageable, in Fitch's opinion. The company tracks the currency exposure of SFCL as well as by geographic region. SFCL monitors its net exposures to its foreign currency positions and assumes a depreciation stress, particularly on the floating-rate currencies, including JMD, TTD and British pound, such that the net effect of an immediate 15% depreciation in all floating-rate currencies remains manageable. Overall, the group tends to be net long USD assets to reduce currency fluctuations. However, currency translation risks remain for the group as its reporting currency is in USD.

Appendix A: Industry Profile and Operating Environment

SFCL's primary operations are located in four jurisdictions: Barbados, Jamaica, Trinidad and the U.S. Given the company's insurance operations across the Caribbean and the U.S., SFCL's IPOE score is an amalgamated IPOE range of 'bbb−' to 'b', reflecting the company's primary regions of operations. SFCL's IPOE range continues to reflect the skew of the company's business mix towards below-investment-grade jurisdictions, which remains the majority, but recognizes improvements in the increasing business mix in investment-grade countries.

SFCL's overall amalgamated IPOE score as well as the various components of the IPOE score remain heavily influenced by the economic environment and sovereign risks of Barbados and Jamaica given the company's considerable operations in those countries. The improvement in SFCL's IPOE score reflects a shift in business mix towards more investment-grade jurisdictions, driven by growth in the company's U.S. operations over the last several years. From an earnings perspective, contributions from the U.S. operations grew to 20% in 2019 from 5% of consolidated group earnings in 2015. Total earnings from investment-grade countries grew over the last five years to comprise approximately 40% of the consolidated result in 2019 from approximately 28% in 2015. Additionally, asset exposure to investment-grade countries similarly increased to roughly 43% in 2019 from approximately 36% in 2015.

Regulatory Oversight

SFCL adopted the Canadian MCCSR standard in accordance with its objectives for managing capital given that a number of jurisdictions in the Caribbean region have limited and developing to no internationally recognized capital adequacy requirements. Jamaica and the U.S. have recognized risk-based capital adequacy standards.

Technical Sophistication of Insurance Market; Diversity and Breadth

The technical sophistication of some of SFCL's markets in the Caribbean are developing and, in some cases, lacking. Products sold in these markets tend to be simple. The U.S. life insurance sector is very sophisticated technically, with diverse and very deep product offerings.

Competitive Profile

SFCL has a dominant market position and most favorable operating scale in many of SFCL's Caribbean markets. In the U.S., the company has a more limited, but growing market position and operating scale.

Financial Markets Development

Financial market development of some of SFCL's markets in the Caribbean is limited or not very developed. The U.S. has the largest and most developed financial markets in the world.

Country Risk

Barbados

Barbados is an independent member of the British Commonwealth and is dependent on tourism and offshore financial services, the majority of which are of U.S. or Canadian origin. Economic performance has been poor since the global financial crisis. Real GDP growth averaged an estimated 0.5% between 2010 and 2019. Government debt continued to rise during this period, with gross public sector debt reaching an unsustainable 159% of GDP in 2017.

A new government elected at the end of May 2018, headed by Mia Mottley of the Barbados Labour Party, quickly announced it would cease payments on external market debt in June and seek support from the IMF for a program of economic recovery and fiscal consolidation. The government also asked domestic debt holders to roll over principal ahead of a potential restructuring.

Restructuring of domestic and external debt was completed by YE 2019, reducing the overall government debt burden (though this remains high), lowering debt service and lengthening maturities. The authorities are seeking to maintain a long-standing peg of the Barbados dollar to the U.S. dollar. Having dwindled to critically low levels by 2017, foreign exchange reserves at the Central Bank of Barbados have since recovered on lower external debt service payments and IMF balance of payments support. The Financial Services Commission regulates insurance and pension business. The regulation requires a minimum capital and minimum deposits per business.

Jamaica

Fitch affirmed Jamaica's foreign currency IDR at 'B+' in January 2020 and revised the Outlook to Positive from Stable. The Positive Outlook reflects a steady reduction of Jamaica's debt to GDP and interest to revenue ratios since 2014. The government is working to consolidate the institutional improvements that occurred during the IMF programs, notably by creating a fiscal council and passing a new law for the Bank of Jamaica. Headline GDP growth remains below rating peers, but it accelerated in the last couple years.

Governance indicators, ease of doing business and GDP per capita compare favorably with rating peers. There is broad agreement among political parties on monetary and fiscal policy. However, Jamaica is exposed to extreme weather events, high dependence on the U.S. economy, swings in oil and alumina prices, and a net external debt that is about twice the 'B' range median.

Trinidad and Tobago

Trinidad's relatively high income and government sovereign foreign asset holdings support higher ratings relative to Barbados and Jamaica, but commodity dependence is high and is increasingly so as non-energy sectors remain stagnant. Low ease of doing business coupled with FX queueing continues to hinder improvement in the non-energy sector and development of small and medium companies. Oil and gas allowed Trinidad and Tobago to become one of the highest-income countries in Latin America and the Caribbean. The oil and gas sector accounted for 86% of exports in 2018.

The sovereign net foreign asset position is currently very strong. Policymakers prioritize exchange rate stability, closely managing the TTD. Central government debt at over 60% of GDP is higher than the 'BBB' median.

U.S.

A majority of North American life insurers in Fitch's rated universe have IFS ratings in the 'AA' and 'A' categories and Stable Outlooks. These ratings reflect the sector's very strong balance sheet profile and stable financial performance, which benefited from cyclical economic improvement, higher interest rates and benign credit.

Insurers' ratings are unconstrained by sovereign risk issues as Fitch maintains a 'AAA' country rating with a Stable Outlook on the U.S. The rating is supported by structural strengths, including the size of the economy, high per capita income, strong institutions, dynamic business environment and the world's pre-eminent reserve currency. Partially offsetting these are concerns tied to government spending and financing activity, particularly growth in government deficits and the ability to meet long-term obligations, such as retirement and healthcare entitlements.

Appendix B: Additional Financial Exhibits

Currency Exchange Rate

	2018		9/30/19	
	Closing	Average	Closing	Average
Barbados Dollar	2.0	2.0	2.0	2.0
Eastern Caribbean Dollar	2.7	2.7	2.7	2.7
Jamaica Dollar	127	129	134	132
T&T Dollar	6.8	6.7	6.7	6.8
Pound Sterling	0.8	0.8	0.8	0.8

T&T – Trinidad and Tobago.
Source: Sagicor Financial Company Limited.

Appendix C: Peer Analysis

Improving Business Profile and Capitalization with Above-Average Investment Risk

SFCL's closest peers are the largest Latin American insurance companies. The company's rating is driven by its improving business profile given growth in earnings and assets in investment-grade jurisdictions, strong capitalization and substantial decline in financial leverage, and above-average investment risk relative to the industry.

SFCL's operating leverage is within the range of peers and is reasonable given the company's mix of business while pro forma financial leverage at 27% as of Sept. 30, 2019 remains somewhat high relative to peers. The company's rating also reflects higher exposure to below-investment-grade assets, which are driven by the exposure to below-investment-grade government securities and are used to meet local regulatory requirements in SFCL's primary regions of operation. SFCL's exposure to Jamaica and Barbados sovereign debt exposure is significant.

Peer Comparison

(USD Mil., as of YE 2018)	Country	IDR/IFS Rating[a]	NPW	Total Equity	Liabilities/ Equity (x)	Assets/ Equity (x)	ROE (%)	ROAA (%)	Liquid Assets/ Reserves (x)	Financial Leverage (%)
Sagicor Financial Co. Limited	Bermuda	BB	1,054	1,135	10	12	7	2.4	0.7	40
Sulamerica	Brazil	BB–	5,289	1,622	3.1	4.1	15.2	3.7	1.2	19
Ohio	Chile	BBB+	220	79	14.4	13.8	4.3	0.1	0.9	0.2
Pacifico Peruano	Peru	BBB+	1.023	621	4.6	5.5	15.9	3.0	1.3	8.7
RIMAC	Peru	BBB [a]	1,443	478	7.5	8.4	11.3	1.5	1.3	3.6

[a]The IDR of SFCL and Sulamerica is provided in this table, but the IFS is listed for peers. IDR – Issuer Default Rating. IFS – Insurer Financial Strength. NPW – Net premiums written.
Source: Fitch Ratings, issuers, regulators.

Appendix D: Other Ratings Considerations

Below is a summary of additional ratings considerations that are part of Fitch's ratings criteria.

Group IFS Rating Approach

Not applicable.

Notching

For notching purposes, Fitch views the regulatory environment of the key group members: Barbados, Jamaica and Trinidad as being Limited in Scope, and classified as Other under its notching criteria. Although SFCL was redomiciled in Bermuda, which we view as having Group Solvency regulation, resources assigned to SFCL remain limited relative to the assets of the consolidated group.

Notching Summary
Holding Company IDR
The IDR of the holding company was notched one below the implied IDR of the operating companies, consistent with notching criteria for a non-investment-grade company in a regulatory environment classified as Other.
Holding Company Debt
A baseline recovery assumption of Below Average was applied to the senior unsecured debt. Standard notching relative to the IDR was used.
IFS – Insurer Financial Strength. IDR – Issuer Default Rating.

Short-Term Ratings

Not Applicable.

Hybrid – Equity/Debt Treatment

Not Applicable.

Corporate Governance and Management

Corporate governance and management are adequate and neutral to the rating. The majority of the board of directors is independent. The board of directors presently consists of 14 members, 11 of whom are independent, non-executive directors.

PricewaterhouseCoopers (PwC) is SFCL's independent auditor. PwC audited key matters, including actuarial methodologies and assumptions used to value insurance liabilities, and expected credit losses in relation to financial assets the valuation and impairment and valuation of Government of Barbados debt. PwC found estimates and assumptions used by management to be reasonable in the key audited matters.

Transfer and Convertibility Risk (Country Ceiling)

None.

Criteria Variations

None.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.