



RATING ACTION COMMENTARY

Fitch Places Sagicor Financial Company Ltd. on Rating Watch Positive

Fri 26 Aug, 2022 - 1:07 p. m. ET

Fitch Ratings - New York - 26 Aug 2022: Fitch Ratings has placed Sagicor Financial Company Ltd's (SFC) 'BB' Issuer Default Rating (IDR) and senior unsecured debt ratings of 'BB-' on Rating Watch Positive (RWP). This follows the company's announcement of its intended acquisition of ivari, a leading middle-market insurer in Canada, and reflects prospective improvement in the credit quality of SFC's insurance operating company group. The transaction is expected to close in the next 6-12 months, subject to regulatory approval.

KEY RATING DRIVERS

The RWP is supported by a stronger company profile at the group operating company level that would result from the acquisition of ivari, which is rated higher than that of most of SFC's other operating subsidiaries at IFS 'A-/RWN and operates in a stronger operating environment. This will result in a material positive shift in SFC's operating group's competitive positioning, operating scale, and business mix, including geographic diversification towards investment grade sovereign

jurisdictions. Additionally, on a consolidated basis, SFC's investment and asset risk factor will improve due to a higher proportion of investment grade assets that will result in a reduction in the risky asset ratio.

While the acquisition of ivari will lead to a material improvement in SFC's operating environment and company profile, this improvement is counterbalanced by SFC's historically higher financial leverage ratios, which could be driven up by the additional debt needed to finance the deal and puts downward pressure on holding company notching.

In addition, future cash flows from ivari available to SFC to service debt at the holding company level will be subject to greater regulatory restrictions than those from most of SFC's developing market subsidiaries. Such regulatory restriction can temper some of the benefits of improved financial strength at the operating company level related to the IDR and debt ratings at the holding company level, under Fitch's notching methodologies.

The transaction is taking place during a period of heightened economic uncertainty, including rising interest rates and inflation in key markets and the introduction of IFRS 17. Fitch believes these factors somewhat heighten uncertainty about ivari's future capital and balance sheet position.

After the transaction closes, Fitch will review leverage and capitalization levels compared with original rating expectations. Fitch will also review the level of the new cash flow derived from ivari, along with any other developments with respect to ivari's standalone credit quality. In resolving the Rating Watch, Fitch will balance the credit positives tied to improvements in the group operating company credit quality relative to the credit negatives tied to the impact of higher financial leverage, while also balancing regulatory restrictions on the acquired cash flows.

RATING SENSITIVITIES

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

--Significant improvement in SFC's consolidated industry profile, operating environment and company profile achieved by the closing of the ivari acquisition, and Fitch's view that it materially enhances the operating group's overall credit quality;

--FLR ratios maintained at or below current levels (42% on a pro-forma basis excluding non-controlling interest)

--Fixed charge coverage ratio of at least 5x.

--Economic uncertainties do not result in a decline in ivari's stand-alone credit quality implied at the current 'A-' IFS rating.

--No material deterioration in economic and operating environments and sovereigens of Jamaica, Trinidad, and Barbados;

--Below investment grade to capital ratio close to 130% and Risky asset ratio below 240% and, along with minimal exposure to sovereigens to capital specially Barbados, Jamaica and Trinidad.

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

The ratings could return to Stable Outlook if:

--The transaction is not completed;

--There is a decline in ivari's IFS rating on a standalone basis to below 'A-' and/or available cash flows available to the holding company appear to be lower than expected.

There could be negative rating actions/downgrade if:

--Significant deterioration in the economic and operating environments and sovereigens 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 MCCSR falling below 180% and financial leverage exceeding 50% and ROE below 5% on a sustained basis.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond 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>

Criteria Variation

Bespoke IPOE

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 'bb+' to 'b-', reflecting its primary regions of operations. SFCL's IPOE range continues to reflect the skew of its business mix toward below-investment-grade jurisdictions, which remains the majority but recognizes continued growth in the U.S. over the last several years.

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.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ⇅

RATING ⇅

PRIOR ⇅

Sagicor Financial Company Ltd.

LT IDR

BB Rating Watch Positive

Rating Watch On

BB Rating Outlook
Stable

senior unsecured

LT

BB- Rating Watch Positive

Rating Watch On

BB-

[VIEW ADDITIONAL RATING DETAILS](#)**FITCH RATINGS ANALYSTS****Jack Rosen**

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 15 Jul 2022\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

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ENDORSEMENT STATUS

Sagicor Financial Company Ltd.

EU Endorsed, UK Endorsed

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