

Research Update:

# Sagicor Financial Co. Outlook Revised To Positive From Stable On Proposed Acquisition Of ivari, 'BB+' Ratings Affirmed

August 26, 2022

## Overview

- On Aug. 25, 2022, the Sagicor group announced that it has entered into an agreement to acquire 100% shares of Canadian life insurer, ivari.
- If the acquisition is completed, ivari would represent about half of the Sagicor group's assets and liabilities, 40% of equity, and 30% of premiums.
- We're revising the outlook on Sagicor Financial Co. Ltd. (SFC) to positive from stable and affirming our 'BB+' ratings on the company and on its senior debt issuance.
- The positive outlook reflects the likelihood of an upgrade if the proposed acquisition closes as planned. This is because we believe it would add value to Sagicor's credit profile given the prospective business and geographic diversification, ivari's good capital adequacy, and better asset quality in the group's investment portfolio.

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## Rating Action

On Aug. 26, 2022, S&P Global Ratings revised the outlook to positive from stable on its issuer credit rating on Bermuda-based nonoperating holding company (NOHC), SFC. We also affirmed our 'BB+' ratings on SFC and on its \$550 million senior unsecured notes due 2028.

## Rationale

**SFC announced that it has entered into a definitive agreement to acquire ivari.** We expect the transaction to close during the second half 2023, subject to the satisfaction of customary conditions, including required regulatory approvals. ivari provides protection and wealth management services, including individual life insurance, and critical illness insurance solutions for the middle market in Canada. It distributes its products mainly through a large network of independent advisors.

**We believe that SFC's group credit profile will improve if the proposed acquisition is completed as expected.**

We consider SFC's overall economic, regulatory, and operating risks would be lower if ivari is incorporated into the group, because the Canadian life insurance sector benefits from lower country and industry risks than those in the Caribbean and even the U.S. The group's premiums would be mostly underwritten in Canada and the U.S., each country to make up about one-third of the group's premiums, while the remaining share would be underwritten in the Caribbean.

Incorporating ivari would broaden the group's business and geographic diversification, because the potential subsidiary operates in Canada and underwrites mostly universal and traditional life insurance policies. However, the counterbalancing factor would be SFC's overall lower competitive advantage because about 60% of its insurance underwriting would be done in Canada and U.S., markets where SFC is still a small player, the brand is relatively new, and it will mostly use noncontrolled channels to sell its products.

We consider that ivari's incorporation into Sagicor will benefit the group's capitalization, according to our risk-based capital model. This is because we consider ivari as well capitalized because it follows Canada's conservative regulations, and its investment portfolio mainly consists of Canadian highly-rated fixed-income securities, with some equity positions that would be fully divested in the next few months, according to ivari's future investment strategy. In addition, our base-case considers that ivari's transaction-related goodwill will be very low.

SFC is in the process to acquire the insurance portfolios of Colonial Life Insurance Co. (Trinidad) Ltd. (CLICO) and British American Insurance Co. (Trinidad) Ltd. (BAT), for which regulatory and legal approvals may be concluded by 2024. If both the ivari and CLICO/BAT acquisitions are concluded, SFC's capital adequacy will be lower than if only the ivari transaction closes.

We also expect the group to continue deploying capital in new businesses during the next several years, including the continued rapid growth in the U.S., Jamaica, and Trinidad & Tobago, along with searching for new investment opportunities.

We consider SFC's debt will remain manageable if ivari's purchase closes. Its financial leverage ratio will remain stable at about 31% after the group raises additional debt to finance part of the acquisition and once it consolidates the new company. In addition, we believe rising earnings will continue to allow the group to service its debt comfortably.

Although SFC's liquidity could decrease after the close of the ivari transaction, we expect it to still have sufficient liquidity to cover its financial obligations. In addition, we view as positive that SFC will benefit from more diverse sources of dividends from its various regulated operating subsidiaries.

## Outlook

The positive outlook on SFC for the next 12-24 months reflects an at least a one-in-three chance of an upgrade if ivari's acquisition concludes. This is because it would improve the group's investment portfolio credit quality, lower its country and industry risks, and increase its revenue and earnings diversification. If ivari acquisition is completed, we could upgrade SFC by up to two notches depending on its prospective capital metrics, which will be impacted by, among other things, the mix of completed and planned acquisitions.

## Downside scenario

We would revise the outlook on SFC to stable if ivari's acquisition doesn't proceed, while plan to incorporate the CLICO/BAT portfolios remains in place.

## Ratings Score Snapshot

Business risk profile	Satisfactory
Competitive position	Strong
IICRA	Moderately high risk
Financial risk profile	Satisfactory
Capital and earnings	Satisfactory
Risk exposure	Moderately low
Funding structure	Neutral
Anchor	bbb
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

## Ratings List

**Ratings Affirmed; CreditWatch/Outlook Action**

	To	From
<b>Sagicor Financial Co. Ltd.</b>		
Issuer Credit Rating	BB+/Positive/--	BB+/Stable/--

**Ratings Affirmed;**

<b>Sagicor Financial Co. Ltd.</b>		
Senior Unsecured	BB+	BB+

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