S&P Global
Ratings

RatingsDirect®

Sagicor Financial Company Ltd.

December 2, 2021

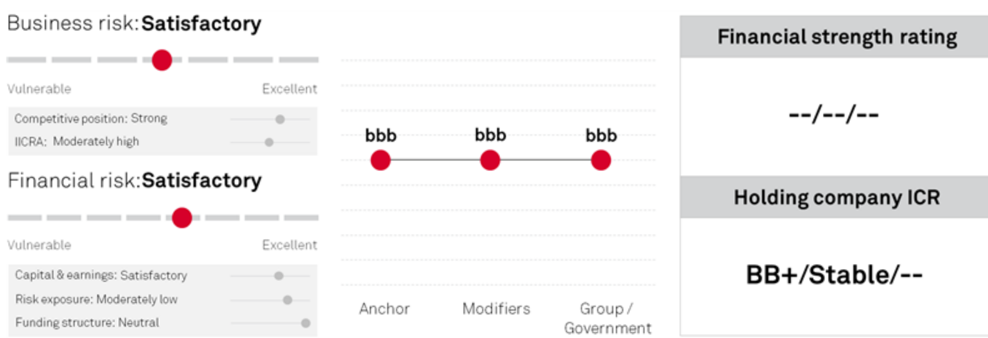
PRIMARY CONTACT

Camilo Andres Perez
Mexico City
52-55-5081-4446
camilo.perez
@spglobal.com

SECONDARY CONTACT

Sergio A Garibian
Sao Paulo
55-11-3039-9749
sergio.garibian
@spglobal.com

Ratings Score Snapshot



IICRA--Insurance Industry And Country Risk Assessment.

Credit Highlights

Overview

Key strengths	Key risks
High capital and liquidity buffers and good profitability prospects.	Operations partially based in low-rated jurisdictions with higher operational and regulatory risks.
Ample geographic and business diversification.	Rapid business growth could pressure capital adequacy beyond our current expectations.

We expect Sagicor group's (Sagicor) credit quality to remain stable in the next few years. It has a 'bbb' group credit profile (GCP), which reflects its strong competitiveness, well-diversified income sources, and satisfactory earnings prospects. In addition, we expect the group to retain comfortable capitalization and manageable debt in 2022-2023.

The group's earnings are rebounding rapidly. The pandemic and related global distress pressured Sagicor's profitability last year, but we expect its return on equity (ROE) to reach double digits in the next few years primarily because of the notable business growth in the U.S. and increasing cost efficiencies.

Sagicor holds very high capital and liquidity. This is due to the large capital injection the group obtained following the close of the combination transaction agreement with Alignvest Acquisition II Corp., a special purpose acquisition company (SPAC) that raised $450 million in the Canadian markets. We believe the group will be looking for growth opportunities to deploy part of the capital raised during the next several years.

Outlook

The stable outlook reflects our expectation that Sagicor will maintain total adjusted capital (TAC) above our 'A' category benchmark in the next two years, as well as stable debt. We also expect Sagicor Financial Co. Ltd. (SFC) to continue benefiting from dividends from multiple subsidiaries based in different regulatory jurisdictions (primarily from non-U.S. countries) in order to meet their financial needs.

Downside scenario

We could lower the ratings in the next 24 months if the group's TAC consistently falls below our 'A' category benchmark. This could happen if, for example, Sagicor experiences unexpected growth, leading to higher risk-based capital requirements, lower loss-absorbing capital, or a combination of both. We would also lower the ratings if the group's financial leverage ratio increases above 40% or if its relative exposure to high-risk sovereigns grows beyond our expectation.

Upside scenario

An upgrade of Sagicor is unlikely in the following 24 months given its still high concentration in speculative-grade assets. An upgrade would simultaneously require the credit quality of its financial assets to further improve and the group's prospective TAC to regularly remain at levels comparable with our 'AA' category benchmark, while all other credit fundamentals remain unchanged.

Assumptions

- We expect the real GDP to recover in 2021-2022 for most of the countries where the group operates. Particularly, we project U.S. GDP to grow 5.5% and Jamaica's GDP to grow 3.7% this year.
- Annual inflation to remain relatively stable in most of the countries where Sagicor operates in the next two years.
- Unemployment to continue decrease gradually in 2022 after the sharp rise in 2020 due to lockdowns.

Sagicor Financial Co. Ltd.--Key Metrics

(Mil. $)	2022f	2021f	2020	2019	2018
Total invested assets	9,729.0	8,422.0	7,885.1	7,336.4	6,028.3
Total shareholder equity	1,799.0	1,714.0	1,658.2	1,749.8	1,135.5
Gross premium written	1,760.0	1,660.0	1,502.0	1,323.3	1,141.4
Net income (attributable to all shareholders)	170.0 – 190.0	140.0 – 160.0	(15.1)	103.6	95.8

Return on shareholders' equity (%)	10.0 – 11.0	8.0 – 9.0	(0.9)	7.2	9.2
Return on assets (%)	2.9 – 3.1	2.8 – 3.0	0.9	2.8	2.9

f--S&P Global Ratings' forecast.

Business Risk

Insurance industry and country risk

Sagicor faces diverse economic, regulatory, and other operational-related risks in each of the countries where it has insurance operations. We base our assessment of these risks on our evaluation of the insurance industry and country risk assessment (IICRA) on the life, health, and property/casualty (P/C) sectors in the countries where the group operates. The group's premiums are mostly underwritten in the U.S. and Jamaica, which made up 40.6% and 23.9% of total gross premium written as of December 2020, respectively. Its underwriting in Trinidad and Tobago (T&T) makes up 15.6%, followed by Barbados (10.2%), Eastern Caribbean (4.6%) and other Caribbean countries (5.2%). In our view, the group's rapid growth in the U.S. would increase the premiums share in the country to about 50% in 2022-2023, which combined with the share of businesses in the Caribbean countries, would preserve our overall country and industry weightings per our IICRA assessment for the next few years.

We believe the U.S. life insurance sector benefits from strong regulatory oversight, institutional strengths, and extensive mortality experience. It also benefits from the U.S. economy's wealth, resilience, diversity, and proactive monetary policy. U.S. life insurers exhibited resilience during the public health crisis and recession caused by COVID-19. Over the next few years, we expect that life insurers will continue to deal with somewhat elevated defaults and write-downs in their investment portfolios, distribution challenges, and slightly elevated mortality claims as the pandemic subsides.

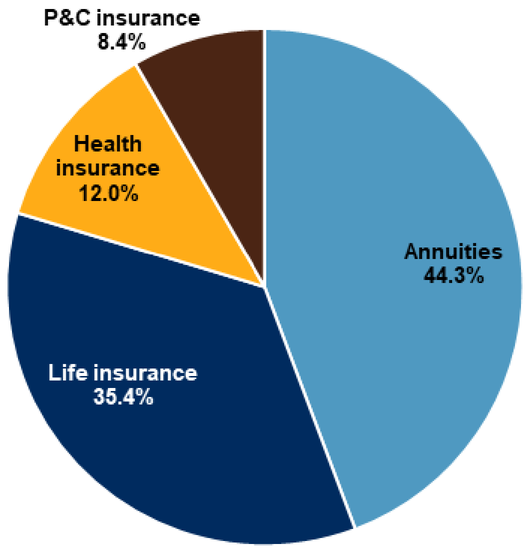
We see the risks of the pandemic for the Jamaican economy and public finances receding. The government's commitment to fiscal consolidation fosters macroeconomic stability--including stable inflation--and supports the country's creditworthiness. Although we expect the economy to recover in the next few years, we think Jamaica's average GDP growth will be lower than those of peers and will remain constrained by structural impediments such as high debt and vulnerability to external shocks. The Jamaican life insurance industry retains high profitability, partially driven by the high investment yields given the composition of the investment portfolios. In addition, we think the life industry is exposed to risks of asset-liability mismatch due to underlying risks of government debt restructures, given the high share of public securities in the investment portfolios. In our opinion, sovereign default risks have been decreasing in recent years, but the economy remains exposed to weather and external vulnerabilities that could revert achieved improvements. The market's stable composition and the market power of larger participants should continue supporting profitability in the next few years.

Competitive position

Sagicor's leading position in the Caribbean, its improving earnings capabilities and growing diversification of income sources in recent years support its strong competitive position. Sagicor benefits from solid brand recognition and has been able to maintain strong relationships with policyholders and dealers in most of the countries where it operates, particularly in Jamaica, T&T, and Barbados, where it is a market leader. On the other hand, although Sagicor is still a small player in the U.S., it has been rapidly expanding its underwriting of annuities, taking advantage of the economic recovery and healthy demand for life and retirement products along with the offering of competitive interest rates in the multi-year guarantee annuity segment. This has been driving the group's business expansion: for example, in 2020, premiums underwriting in U.S. increased 33.5% while non-U.S. premiums grew only 3.0%.

The group has healthy income diversification by business line and geography because it underwrites life, health, and P/C insurance in several U.S. states and in more than 10 countries in the Caribbean and Central America. In addition, Sagicor's banking operations in Jamaica boost revenue diversification.

Sagicor's Premiums Breakdown
Jun. 2021



Source: SFC.

The pandemic-induced lockdowns and strains on the global economy took a toll on the group's earnings in 2020; however its high capitalization and liquidity, along with business and geographic diversification, enabled it to adequately absorb the shock. Sagicor's ROE contracted 0.9% last year from 7.2% in 2019 due to lower investment gains amid volatile capital markets in the first half of that year and, to a lesser extent, because of the increasing claims in the health and life segments. However, the group's earnings capability recovered during 2021 principally thanks to sound underwriting in the U.S. and the rebound of investment income, which should propel ROE to 8%-9% at 2021 year-end. In addition, we expect stabilization of capital markets and morbidity and death trends, along with the group's focus on efficient growth and conservative underwriting, to continue supporting satisfactory profits in the next few years with ROE at 10% to 12%.

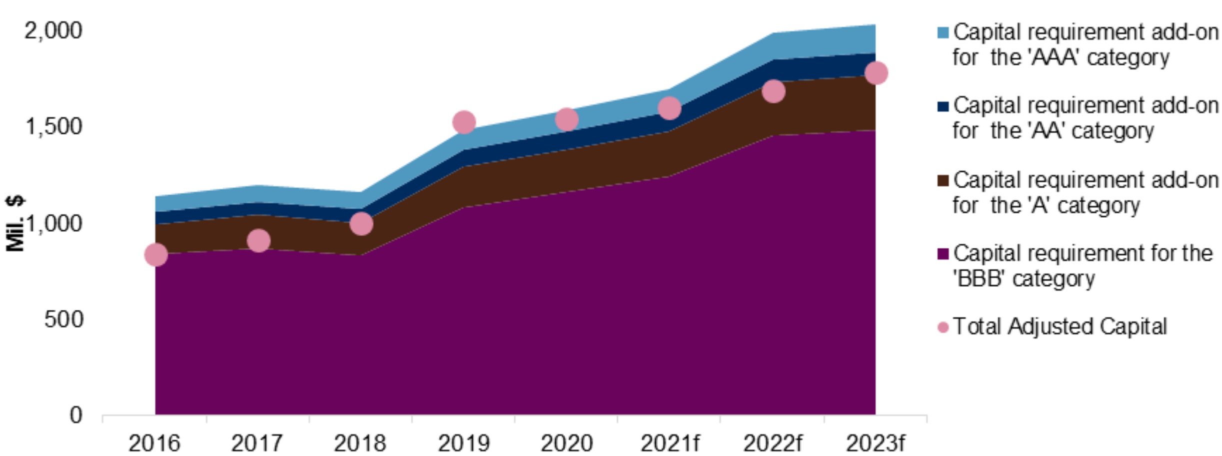
Financial Risk

Capital and earnings

Currently, Sagicor has strong capitalization because it obtained over $450 million of net cash after the close of the merger with Alignvest. Sagicor will use part of the capital injection to fund growth initiatives in the U.S. and the Caribbean. For example, the group has agreed to acquire the insurance portfolios of both Colonial Life Insurance Co. (Trinidad) Ltd. (CLICO) and British American Insurance Co. (Trinidad) Ltd. (BAT); the transaction is still pending regulatory approvals.

As of the end of 2020, Sagicor's TAC was slightly below our 'AAA' benchmark, according to our risk-based capital model for insurers. However, we estimate capital adequacy decreased moderately this year due to rapid growth of underwriting in the U.S., and that it will continue lowering in 2022 as the group incorporates the assets and liabilities of CLICO and BAT's insurance portfolios, if the acquisitions conclude. However, we think the group will consistently retain TAC levels above our 'A' rating category benchmark by 2023.

Sagicor's TAC Versus Capital Requirements



f- Forecast.

Source: S&P Global Ratings.

Our assessment also reflects the group's record of active capital deployment in new businesses, including recent rapid growth in the U.S. and acquisitions of insurance assets in Jamaica and T&T, as well as its continued search for new investment opportunities, which could pressure its capitalization beyond our current expectations.

Risk exposure

Sagicor benefits from good investment and insurance portfolio diversification because it holds life, health and P/C businesses in a large range of countries in the Caribbean and in the U.S. The group's investment portfolio mostly consists of securities issued by local governments, corporates and financial institutions, while exposure to equity securities remain limited to less than 10% of the portfolio. Moreover, we consider that the insurer has adequate risk controls and that it is proactive in managing risk exposures. The insurer isn't exposed to other relevant sources of risk or volatility beyond those our capital model captures.

Funding structure

We expect Sagicor's debt to remain manageable during the next few years. Its financial leverage ratio closed at 26% in 2020, and we estimate it will close near to 29% this year because in May 2021 the group issued $400 million new notes due in 2028 and redeemed its SF15 $320 million notes in the second half of the year. We believe solid and growing earnings will continue to allow the group to serve its debt comfortably, with a fixed-charge coverage ratio consistently above 8x in 2022-2023.

Other Credit Considerations

Governance

Sagicor and its operating subsidiaries have adequate governance standards, in our view. The group has a record of diligent strategic planning, resulting in satisfactory financial and operational results in recent years. Management and board of directors focus on maintaining business sustainability by establishing relationships with distribution partners and clients. The group has a well-defined enterprise risk management model that includes a clear risk appetite framework for each material risk exposure the companies face. We expect Sagicor's business strategy and risk appetite will remain largely unchanged after the recent changes in the stakeholder base, focusing on markets and products where the group has a track record.

Liquidity

Sagicor has consistently maintained excellent liquidity ratios in recent years because of the strength of its available liquidity sources and an asset portfolio that contains highly liquid and marketable securities. The group has kept very high liquid positions until now, in part because of the cash injection following the close of Alignvest transaction. In addition, the amount of principal payments expiring during the next year is immaterial. We don't think debt covenants represent a burden to the company's liquidity position.

Factors specific to the holding company

We rate SFC two notches below Sagicor's GCP because of the companies' structural subordination to the policyholder obligations of the group's operating companies. SFC is the ultimate parent at the top of the Sagicor group's structure. The issue-level rating on SFC's $400 million senior unsecured notes due in 2028 is the same as that on its issuing entity SFC because of the notes' seniority. Currently, the holding company has very high liquidity due to the capital obtained after the close of the Alignvest transaction and following the debt issuance in 2021, but we expect the majority of resources to be deployed to support growth in the next several years. Sagicor will continue to benefit from dividends from its different regulated operating subsidiaries.

Environmental, social, and governance

ESG factors have no material influence on our credit rating analysis of Sagicor.

Pandemic Update

S&P Global Ratings believes the new omicron variant is a stark reminder that the COVID-19 pandemic is far from over. Although already declared a variant of concern by the World Health Organization, uncertainty still surrounds its transmissibility, severity, and the effectiveness of existing vaccines against it. Early evidence points toward faster transmissibility, which has led many countries to close their borders with Southern Africa or reimpose international travel restrictions. Over coming weeks, we expect additional evidence and testing will show the extent of the danger it poses to enable us to make a more informed assessment of the risks to credit. Meanwhile, we expect the markets to take a precautionary stance in markets and governments to put into place short-term containment measures. Nevertheless, we believe this shows that, once again, more coordinated, and decisive efforts are needed to vaccinate the world’s population to prevent the emergence of new, more dangerous variants.

Related Criteria

- General Criteria: Environmental Social And Governance Principles In Credit Ratings, Published Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, Published July 1, 2019
- General Criteria: Group Rating Methodology, Published July 1, 2019
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Published Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Published Feb. 16, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, Published June 7, 2010

RatingsDetail