

**Sagicor Financial Company Ltd.**

**Third Quarter 2020 Earnings Conference Call**

Event Date/Time: November 20, 2020 — 11:00 a.m. E.T.

Length: 30 minutes

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## **CORPORATE PARTICIPANTS**

**Samantha Cheung**

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**Dodridge Miller**

*Sagikor Financial Company Ltd. — Group President and Chief Executive Officer*

**Andre Mousseau**

*Sagikor Financial Company Ltd. — Group Chief Financial Officer*

## **CONFERENCE CALL PARTICIPANTS**

**Meny Grauman**

*Scotiabank — Analyst*

**Darko Mihelic**

*RBC Capital Markets — Analyst*

## PRESENTATION

### Operator

Good morning. My name is Sylvie, and I will be your conference Operator today. At this time, I would like to welcome everyone to Sagicor Financial Company's third quarter 2020 earnings conference call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press \*, then number 1 on your telephone keypad. If you would like to withdraw your question, please press \*, followed by 2. Thank you.

Ms. Samantha Cheung, EVP of Investor Relations, you may begin your conference.

**Samantha Cheung** — Executive Vice President, Investor Relations, Sagicor Financial Company Ltd.

Hello, everyone, and thank you for joining our call today. A link to our live webcast and published information for this call is posted on our website at [sagicor.com](http://sagicor.com) under the Investor Relations tab.

Please refer to the cautionary language and disclaimers in our materials regarding the use of forward-looking statements and the use of non-IFRS financial measures which may be mentioned as part of our remarks today.

Unless otherwise noted, all dollar amounts referenced will be in US dollars, which is consistent with our reporting practice.

Joining me today are Dodridge Miller, our President and CEO; Andre Mousseau, our CFO; and Anthony Chandler, our Chief Controller. We'll begin with prepared remarks by Dodridge and Andre, followed by a question-and-answer session.

With that, I'll turn the call to our Group President and CEO, Dodridge Miller. Dodridge?

**Dodridge Miller** — Group President and Chief Executive Officer, Sagicor Financial Company Ltd.

Thank you, Samantha, and thanks to everyone for taking the time to join us.

Today, I will give some brief remarks focusing on our operating environment and our overall performance in general before turning the presentation over to our Chief Financial Officer, Andre Mousseau, who will provide more details on our performance for the quarter.

The operating environment in which the Sagicor Group operates continued to be challenging through our third quarter. While many of our countries began the process of reopening their economies, many maintain restrictive protocols to stem the spread of the virus. At the same time, many of our economies exhibited signs of economic recession.

In the Caribbean, the countries did a relatively good job at containing the virus. However, the significant level of unplanned COVID-19 expenditure, coupled with reduced revenues, particularly in tourism-dependent economies, threatened the near-term economic stability of these countries.

Within this environment, the Sagicor Group remained focused on long-term growth while transforming our operations to compete in a digitally oriented world to enhance our stakeholder engagement. We continue to look for inorganic opportunity to grow while introducing new products and services delivered to our customers in improved and innovative ways. We believe that this is a solid platform for future profitable growth.

Turning to our performance. Given the operating environment, the Sagicor Group delivered a solid performance for the third quarter of 2020. Total revenue was down by 2 percent against the same period last year, driven mainly by lower-than-planned new business as the countries gradually reopen for business.

Asset prices remained relatively stable during the quarter compared to the first two quarters of the year. In addition, experienced gains from long-term policyholder experience impacted different segments in different ways.

Our overall Group net income for the quarter was \$7 million, and net income to shareholders for the quarter was a loss of \$3 million compared to a profit of \$6.3 million for the same period last year. I consider this a stable performance for the quarter under the circumstances.

Turning briefly to our outlook. Overall outlook remains uncertain but optimistic. Our company remains financially strong, and our operations continue to improve quarter over quarter. However, the world appears to be entering another surge of the global pandemic. And while our countries generally managed through the first surge reasonably well, the prolonged impact of the pandemic adds economic and operating uncertainty.

Finally, during the quarter, Sagicor Group mourned the passing of our director and dear friend, John Shettle, Jr. John was a director of the Sagicor group for more than a decade and made significant contributions to the governance, growth, and development of our company. Directors reappointed Mr. Monish Dutt to the Sagicor board to replace John. Monish was a director of the Sagicor Group from 2011 through June of 2020 but had resigned as part of the Alignvest Sagicor transaction. We welcome Monish back to the board.

And with these brief remarks, I now turn the presentation over to Andre Mousseau. Thank you.

**Andre Mousseau** — Group Chief Financial Officer, Sagicor Financial Company Ltd.

Thank you, Dodridge, and good morning, everyone.

As Dodridge said, Q3 was another solid quarter in the context of the operating environment. We continue to see lower-than-targeted new business generation as the economies in which we operate suffer varying degrees of recession.

Q3 brought some stability to asset prices after the volatility of Q1 and Q2 and, therefore, some normalcy to our financial results. In Q3, we also returned to our practice of our detailed annual review of actuarial assumptions versus experience, which brought us some positive adjustments in Jamaica and negative adjustments in our US business.

Our total revenue for the quarter was \$402 million, down 2 percent from the same quarter last year. Total insurance premiums were \$265 million, 1 percent higher than last year. Our net investment income was \$103 million compared to \$95 million last year, aided by our investments, which continue to benefit from recovery in the capital markets.

Net benefits increased by less than 1 percent year over year to \$250 million. Other expenses decreased 4 percent to \$137 million as we recorded a decrease in administrative expenses compared to last year.

Group net income was \$7 million. Our primary metric, net income attributable to shareholders, that is excluding those losses or gains attributable to minority interests, was a loss of \$3 million, down from a profit of \$6.3 million the year before. Total comprehensive income to shareholders in the quarter was a profit of \$3.3 million as we recorded gains of \$6 million through other comprehensive income.

I'll speak now about the operating segments. For Sagicor Life Inc, our operations in the Southern Caribbean, revenue declined 2 percent to \$122 million, showing resiliency in the face of continued economic slowdown. As sales trended closer to plan than they had earlier in the year, net income to

shareholders improved compared to the first half of the year to \$8.4 million for the quarter, although that was still down 20 percent compared to the same period in 2019.

Like the rest of the Group, SLI conducted an update of its actuarial assumptions in Q3 and reflected positive emergence in mortality and strengthening of reserves for premium persistency and lapses. These changes ended up being a wash, with no effect to our income statement.

Sagicor Group Jamaica, on the other hand, had positive emergence from the Q3 actuarial update. But first, its revenues declined 20 percent, measured in US dollars, to US\$156 million, which included the effect of a 7 percent devaluation of the Jamaican dollar to the US dollar so far in 2020. The prior year comparative period also included a significant bulk annuity sale, which made Q3 a challenging comparator for revenue. Overall, Jamaica's operations have held up well with individual and group life continuing to perform well and investments in banking operations continuing to be profitable in spite of the economic environment.

Now, Sagicor Group Jamaica also updated its actuarial assumptions for experience and refined some of its models to reflect a lowering interest rate environment in Jamaica. The net effect of these was a \$19 million reduction in reserves, of which Sagicor Financial shareholders get just about half the benefit through our 49 percent ownership stake. Including these gains, our portion of Sagicor Group Jamaica's profits increased by 16 percent year over year to \$21.3 million.

Now to Sagicor USA. Total revenue, including premiums, increased 31 percent in the quarter compared to 2019 to \$113 million, although last year's Q3 was a particularly light quarter for production. Revenues continue to be positively impacted by higher net investment income resulting from the reversal of some of the unrealized mark-to-market losses that we saw earlier in the year.

Sagikor USA also conducted a thorough annual review of assumptions versus actual experience and closely examined its models for refinements. Out of that review, the US made multiple changes to take a more conservative approach to its liabilities, given the current interest rate environment.

There were several adjustments which, in aggregate, increased reserves by approximately \$18 million after tax. Inclusive of this strengthening of reserves, Sagikor USA had a net loss for the quarter of \$18.7 million.

So, absent the reserve strengthening, the US segment would have been at or a bit below breakeven, reflecting slower-than-budgeted sales and a lowered interest rate environment. We will continue to monitor the US segment assumptions closely in the upcoming quarters to establish whether any other changes need to be made in light of these results.

Now in terms of the Group's capital position, our MCCR remains robust at 250 percent. Our book value per share was \$7.24 or about C\$9.65 per share. In the third quarter, we more aggressively repurchased our shares, buying a further 1.6 million for now a total of 2.6 million shares repurchased since we started the NCIB in June. And we also expanded the total allowed share buyback to 8 million shares. We continue to hold over 300 million in excess liquidity at our holding company level.

With that, Samantha, I'll pass it back to you.

### **Samantha Cheung**

Thank you, Andre. We are now ready to take your questions. We would kindly ask you to limit yourselves to two questions at a time. You are most welcome to re-queue for a follow-up.

Operator, please open the lines.

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### **Q&A**



**Operator**

Thank you. Ladies and gentlemen, we will now take questions from prequalified analysts. As stated, we do ask that you please limit yourself to two questions at a time.

To ask a question, you will need to press \*, followed by 1 on your touch-tone phone. And if you would like to withdraw your question, please press \*, followed by 2. And if you are using a speakerphone, we do ask that you please lift your handset before pressing any keys. Please go ahead and press \*, 1 now if you do have a question.

And your first question will be from Meny Grauman at Scotiabank. Please go ahead.

**Meny Grauman — Scotiabank**

Hi. Good morning. I just wanted some more information on your annual assumption review; just some more granularity. I'm trying to understand what drove the decline in reserves in Jamaica and then the need for increased reserve strengthening in the US. It seems like it's rates in both cases, but if you could just clarify. You have two different impacts, so what's driving the assumption review in each region?

**Andre Mousseau**

Okay. Thanks, Meny. Dodridge, should I take that?

**Dodridge Miller**

Sure, Andre. Go ahead.

**Andre Mousseau**

Okay. So we conducted the review in each of the segments, and each of the segments had different outputs that came out. And as you can appreciate, each of the segments operates in quite different interest-rate environments. And so in the US and in Jamaica where it was affected in both places,

it declined. But the US declined from an already low-rate environment down to virtually zero, whereas Jamaican rates fell, but by the North American standards, they're still relatively high.

So within Jamaica, there was a release of reserves, i.e. positive emergence of the actual experience versus assumptions, primarily related to mortality. And so we got some very good experience against that. And then that was netted against strengthening of reserves relative to our updating our assumptions under CALM for the current Jamaican interest rate environment.

So the net effect of those was a positive emergence, i.e., a reduction of reserves in Jamaica of approximately US\$19 million. So 1, 9. So there was a release of reserves around the mortality experience which was larger than that, which was partially offset by a strengthening of reserves for the interest rates. And so that is \$19 million on a gross basis to Sagicor Group Jamaica. And then economically, half of that rolls up to Sagicor Financial.

Within the US, there were multiple different adjustments and changes to models around our assumptions. And no one of them accounted for the majority of the changes, but it was primarily related to shifting assumptions around the interest rate environment and the spreads that we would earn on the products that we're selling there.

**Meny Grauman**

Okay. That's helpful. On the issue of mortality—

**Andre Mousseau**

Mm-hmm.

**Meny Grauman**

—what are you seeing in the US? And then more broadly, we've heard from other insurers that are sort of looking at the impact of COVID and basically expecting COVID to have a negative impact on

mortality. Do you share that view? What are you seeing in terms of, or what do you expect to see from a mortality point of view specifically tied to COVID?

**Andre Mousseau**

Well, we have not seen that yet. We've had the benefit of doing the refresh very recently. This was only finished in the last four or five weeks. And I think the overall view is that it has not hurt our long-term assumptions.

Now if you look at the composition of our book, there is much more mortality exposure proportionately in our Jamaica segment and our Sagacor Life in the Southern Caribbean than there is in the US where we're primarily selling annuities products.

Our review in the US did not have any meaningful changes in mortality for the year, whereas we had a modest positive emergence in the Southern Caribbean and a significant positive emergence in Jamaica. And so I think that is likely a function of kind of historic conservatism in the way in which the Jamaican book is reserved. And as experience comes on and we're made to update the assumptions, the positive experience accrues to us.

**Meny Grauman**

Thank you. And then if I could just ask, it was referenced about the second wave. And I'm just wondering if you could sort of update us, remind us about the state of digital sales across regions, especially in the Caribbean. And regulation pertaining to sort of binding policies electronically, is there any sort of barrier to doing that in any of the regions that you operate in?

**Dodridge Miller**

Andre, I will take that.

**Andre Mousseau**

Dodridge, would you like to take that?

**Dodridge Miller**

Yeah. Sure. Thank you. As part of our model, how we engage with our policyholders, we've moved swiftly towards far more digital engagement. And to your specific question about regulations, the regulations lag slightly behind, but we are seeing good progress with speaking with the regulators and we expect that this will not be a deterrent going forward. We're seeing a lot more of our sales coming in via digital forms and our back office has adjusted fairly swiftly to accommodate this. And even if there's a second surge, we do not expect to have the same impact this time around as we had in the second quarter of the year.

**Meny Grauman**

Thanks for that.

**Operator**

Thank you. As a reminder, ladies and gentlemen, if you do have a question, please press \*, followed by 1 on your touch-tone phone.

And your next question will be from Darko Mihelic at RBC Capital Markets.

**Darko Mihelic — RBC Capital Markets**

Hi. Thank you. I just wanted to revisit the interest rate issue. And I'm wondering if the interest rate changes—like effectively, I'm looking at your annual report and I'm looking at the ultimate rate of returns that are there for Barbados, Jamaica, Trinidad and Tobago, and all the way down to the US, and there's quite a wide range there. And this is what I'm curious about. Was this basically a large change to the URR? Where do you sit now? And you mentioned that you continue to monitor rates. Is there a

possibility that you have to do another change to the URR at year-end? Or is this something that you're contemplating doing again next year? Any sort of sensitivity around that would be helpful.

**Dodridge Miller**

Andre, want me to try to address that for you?

**Andre Mousseau**

Sure.

**Dodridge Miller**

So, Darko, in Jamaica, what we saw is a decision by the Bank of Jamaica to just reduce the rates. And that would've pushed us into a scenario where lower rates would trigger higher reserves in our books. We're not seeing that in the other Caribbean territories at this point.

In the US, there's a discussion around how low rates will go and when, ultimately, they will start to trend back up. And we are monitoring that. We saw some movement in the third quarter that we thought we should address, and we will continue to monitor it to see if further adjustments are required, but we're not either anticipating or predicting any changes in the fourth quarter, but we continue to keep it under review.

**Darko Mihelic**

Is there any kind of sensitivity you can offer us? And what is the benchmark rate we should be watching for?

**Dodridge Miller**

I'm subject to correction, but I think they were forecasting that the rate will go back to 1.72 over the end of 2022. And that has been moving around a little bit. And that also pushed some changes in our reserves in the US.

But that is something that we're continuing to watch. And if the economy needs further adjustment and the fed move rates lower, then we will have to adjust that as well.

**Darko Mihelic**

Okay. You mentioned 172 basis points. What is that? The 10, 30-year bond rate? Is that—

**Dodridge Miller**

Andre, do you remember what curve they were looking at, particularly in relation to the FHLB?

**Andre Mousseau**

I don't remember, but.

**Dodridge Miller**

I think it was the 10-year, but.

**Andre Mousseau**

I think it's the 10-year. But in particular, this is one particular assumption that we have running through one of our models. Darko, we can certainly follow up with you on that.

**Darko Mihelic**

Okay. That would be interesting and helpful to know. And my other question is with respect to Playa. It seems like it's still trading well below book value, and you have a methodology for marking it down. If it were to stay at this price level until year-end, would we see another significant markdown? It looks like it's about \$60 million shy right now of the book value. How should we think about that investment going into year-end?

**Dodridge Miller**

So, Darko, this is Dodridge. Playa is not a material investment for the Sagicor Group itself. The investment in Playa is largely in a real estate fund that we participate in and manage, but the exposure is pretty small for us.

In relation to your specific point, there were no impairments in the third quarter in relation to Playa, but the X Fund did pick up its share of operating losses in Playa. So the valuation for the third quarter suggested there was no further impairment required, but in any event, Playa is immaterial impact on Sagicor Group itself.

**Darko Mihelic**

Okay. I will requeue just in case there's somebody else with a question. Thank you.

**Operator**

Please go ahead and continue Mr. Mihelic.

**Darko Mihelic**

Oh. Okay. Good. So getting back to the US, Andre, you mentioned that revenues were down 20 percent—or, sorry, I apologize. Not the US. Jamaica.

**Dodridge Miller**

Mm-hmm.

**Darko Mihelic**

You had revenues down 20 percent; 7 percent because of the currency and also a bulk annuity sale last year. If you adjust for those, what would the revenue number look like? Sorry, the growth rate year over year. So if you take out the bulk annuity from last year and we adjust for the currency, so we use it on a constant currency basis, would we still see a decline in revenue in Jamaica?

**Andre Mousseau**

Without the bulk annuity in Jamaican dollars, it may have been, there might have been modest year-over-year growth.

**Darko Mihelic**

Okay. And then turning to the US, which is what I was originally looking at here on my notes here, so it seems as though, if I'm looking at this correctly, and I'm just going to go back to the—yes. Okay. Yeah. So I guess what I can't tell from here is, now that you've made these—I mean, your revenues are very closely tied to the sales. And what I can't tell is now, in this low-rate environment, whether or not your sales, especially after the adjustments that you've made to your assumptions, if your sales are as profitable as they were before. Can you give me some sort of indication?

Typically, when we speak with other life cos, we use new business gains—

**Andre Mousseau**

Mm-hmm.

**Darko Mihelic**

—to discuss. Is there something similar that you can tell us with respect to the US business on that measure?

**Andre Mousseau**

Our models still show our new business sales in the US as profitable, and so the net income in our quarters would, one-off adjustments aside, is going to be quite tied to the new business generation, to the new sales. And so we do take positive net income.

And so as I said in the commentary, if you look at 2019, we generated more of our sales in the first half of the year than in the second half of the year, and that was essentially a tactical function of where we're continually adjusting our crediting rates on our policies, depending on how attractive we find



the spread. So all things being equal, the more we sell in a quarter, the higher the net income the US would book.

And so I do think that what we've seen at the emergence of the sales in the US was that, in the third quarter, it picked up towards the end. So September was significantly ahead of where July and August were. And if you extrapolate that, I think we would see production in Q4 being higher than what it was in Q3. And so what that would tell you would be, if you look at the US's quarter, as I said, just about breakeven in the third quarter, at that production level, we would expect that, actuarial adjustments aside, to be stronger than that in Q4.

**Darko Mihelic**

Okay. But there's no measure for me, for example, dollar-for-dollar sales. If you did \$100 of sales last year, you would've booked, I don't know, \$5 of profit, and this year, \$100 of sales would produce X amount of gains. You can't offer anything like that. Can you?

**Andre Mousseau**

No. We're not offering guidance that specifically. It definitely depends on business line. And even so, there's a huge difference between annuity and life. And even within the annuities bucket, it's a different number for the deferred annuities versus the fixed index.

But I think you might get a better sense of that when you see the Q4 results and are able to compare that on production compared to Q3.

**Darko Mihelic**

Okay. Okay. Thank you very much.

**Operator**

Thank you. Ladies and gentlemen, as a reminder, if you do have any questions, please press \*, followed by 1 on your touch-tone phone.

And at this time, Ms. Cheung, we have no further questions registered.

**Samantha Cheung**

Great. Thank you, everyone, for joining. The transcript will be available on our website after the call. Thanks again.

**Operator**

Thank you. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines. Have a good weekend.