



## RATING ACTION COMMENTARY

# Fitch Upgrades Sagicor Financial Company Following ivari Acquisition

Wed 04 Oct, 2023 - 4:18 PM ET

Fitch Ratings - New York - 04 Oct 2023: Fitch Ratings has removed Sagicor Financial Company Ltd (SFC) from Rating Watch Positive and upgraded the Long-Term Issuer Default Rating (IDR) to 'BBB-' from 'BB'. Fitch has also upgraded the senior unsecured debt to 'BB+' from 'BB-'. The Rating Outlook is Stable.

The upgrade follows SFC's announcement that it has received all regulatory approvals required to complete the agreement with Wilton Re Ltd. to acquire ivari. Fitch views the acquisition favorably, as it results in a material positive shift toward investment-grade foreign jurisdictions, a stronger company profile, competitive positioning, operating scale, and business mix.

Additionally, SFC's investment and asset risk will lessen due to an increased proportion of investment-grade assets, resulting in a reduction of the risky asset ratio. However, SFC's risky asset ratio will still remain elevated relative to the industry. The rating continues to reflect SFC's strong capitalization levels and solid operating performance.

## KEY RATING DRIVERS

**Improved Company Profile:** The acquisition of ivari strengthens SFC's company profile at the group operating company level, as it resides in a stronger operating environment and is rated higher than most of SFC's operating subsidiaries. ivari materially shifts SFCL's operating group's competitive positioning, operating scale, business mix, and geographic diversification toward investment-grade sovereign bonds. Additional material acquisitions are not expected, so if they occur they could generate changes in the operating environment and company profile.

**Financial Leverage and Interest Coverage Ratios in Line with Expectations:** Sagicor's financing plan considers new debt used for the ivari acquisition. The new debt is expected to be offset by capital accretion. Fitch expects the company's financial leverage as of YE2023 will be approximately 30.6%, down from 34.2% as 2Q23. From 2024 onwards, financial leverage is expected to be below 30% and the interest coverage will exceed 3.0x.

**Lower Exposure to Risky Assets:** SFCL's investment and asset rating driver improves with the purchase of ivari, as it results in a reduction of capital exposure to below-investment-grade bonds, but it still remains elevated relative to the industry. On a pro forma basis, the company's consolidated exposure to below-investment-grade assets as a percentage of shareholders' equity will be below 90% in 2024 (190% as 2Q23) and the risky asset ratio is expected to be below 210%. However, the ratio will continue to exceed peers, and is influenced by sovereign bonds rated below investment grade that the company must invest in to meet local regulatory needs.

**Strong Capitalization Levels:** SFCL's capitalization levels remain strong and supportive of the ratings. SFCL's strong capitalization is supported by a consolidated minimum continuing capital surplus requirements (MCCSR) of 286% as of 2Q23 and ivari's LICAT ratio of 123%. Operating leverage of 10.9x as of 2Q23 is expected to increase to 11x, which is very strong relative to life insurance peers.

**Financial Performance Improvement:** SFC's consolidated net income was USD60 million as 2Q23 compared with a loss of USD68 million at the same period of the previous year. This result was driven primarily by favorable net investment income from higher interest rates and positive mark to market movements on financial assets. The U.S. segment also benefited from changes in discount rates, reducing insurance contract liabilities. Fitch expects the acquisition of ivari will provide stronger diversification to the earnings profile of the group. Enhanced stability operating performance across segments, including ivari, would be viewed favorably.

## **RATING SENSITIVITIES**

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Significant improvement in SFCL's consolidated industry profile, operating environment and company profile;

--FLR ratio below 16% and Interest coverage ratio above 12x along with high levels of holding cash;

--Risky asset ratio below 150% and, along with an improvement in the sovereign credit rating and minimal exposure to sovereigns to capital specially Barbados, Jamaica and Trinidad;

--Stability in financial performance resulting in a ROAE continuously above 7%.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--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 would appear to be lower than expected;

--Financial leverage exceeding 35% and interest coverage ratio above 3.0x;

--Deterioration in key financial metrics, including consolidated MCCSR falling below 180%;

--Risky asset ratio above 270% and, along with an increase in the exposure to sovereigns to capital specially Barbados, Jamaica and Trinidad;

--Significant deterioration in the economic and operating environments and sovereigns of Jamaica, Trinidad and Barbados, which would lead to a material decline in operating performance and/or credit profile of SFCL's investment portfolio.

## **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.

## **PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS**

Sagicor has acquired ivari and both ratings are materially linked.

## **ESG CONSIDERATIONS**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

**RATING ACTIONS**

<b>ENTITY / DEBT</b> ⚡	<b>RATING</b> ⚡	<b>PRIOR</b> ⚡
Sagicor Financial Company Ltd.	LT IDR    BBB- Rating Outlook Stable  Upgrade	BB Rating Watch Positive
senior unsecured	LT    BB+    Upgrade	BB- Rating Watch Positive

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

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Sagicor Financial Company Ltd.

EU Endorsed, UK Endorsed

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