

# Best's Rating Report



## SAGICOR LIFE INSURANCE COMPANY

Austin, Texas



A-

**Ultimate Parent:**  
**Sagicor Financial Corporation**  
**SAGICOR LIFE INSURANCE COMPANY**  
Exec/Admin: 4343 North Scottsdale Road, Suite 300  
Scottsdale, AZ 85251-3347  
Web: [www.sagicorlifeusa.com](http://www.sagicorlifeusa.com)

Tel: 480-425-5100 Fax: 480-425-5127  
AMB#: 006057 NAIC#: 60445  
Ultimate Parent#: 088130 FEIN#: 74-1915841

**BEST'S FINANCIAL STRENGTH RATING**  
Based on our opinion of the company's Financial Strength, it is assigned a Best's Financial Strength Rating of A- (Excellent). The company's Financial Size Category is Class VII.

### RATING RATIONALE

**Rating Rationale:** The rating of Sagicor Life Insurance Company (Sagicor Life Insurance) reflects the company's integral role within the Barbados-based Sagicor Financial Corporation (SFC), its continuing focus on organic growth in the U.S. marketplace through its life and annuity product portfolio, and its adequate level of risk-adjusted capitalization. The rating acknowledges SFC's absolute and unconditional financial guarantees through a net worth maintenance agreement as well as its planned periodic surplus contributions as it seeks to develop and grow the life insurance markets in the U.S. Partially offsetting these strengths are challenges of executing its new business growth strategy, continuing net operating losses due to new business strain, its large exposure to collateralized mortgage obligations (CMOs) within the fixed income portfolio and its

continuing dependency on the Federal Home Loan Bank (FHLB) program to enhance investment return.

Sagicor Life Insurance's parent, Barbados-based SFC, is one of the dominant financial services companies in the Caribbean. The group has operations in more than 22 countries, mainly in Latin America and the Caribbean. The group's acquisition of Sagicor Life Insurance represented a part of its diversification and expansion strategy in the U.S. market. Sagicor Life Insurance continues to seek organic growth through implementation of its new business plan, which includes direct marketing of its products while sustaining its current businesses through reinsurance and the acquisition of books of business. SFC is fully committed to supporting Sagicor Life Insurance's business growth strategy and maintaining adequate risk-based capitalization as evidenced by the net worth maintenance agreement and capital infusions. The company's current risk-based capitalization remains adequate relative to its investment and insurance risks as it continues to be supported by SFC through the net worth maintenance agreement.

Sagicor Life Insurance has reported mixed statutory net operating results over the last five years, including increased losses in the past three years. The underlying trends of the net operating results have been impacted by new business strain, expenses incurred to develop and establish several marketing and distribution initiatives. The company operates profitably on the IFRS basis, although A.M. Best notes that its forward-looking statutory operating results will continue to be negatively impacted over the next few years by expenses on new business as the company expands into the U.S. life insurance markets. Additionally, the increased exposure to interest-sensitive fixed

# Best's Rating Report



annuities in recent years could further challenge the company's statutory operating results as the low interest rate environment and spread compression persist going forward. Within the company's fixed income portfolio, the magnitude of and exposure to CMOs remain high and may pose prepayment risk to its balance sheet. In addition, its FHLB program remains high relative to its capital and surplus funds.

**Best's Financial Strength Rating: A-**

**Outlook: Stable**

## KEY FINANCIAL INDICATORS (\$000)

Year	Assets	Total Capital		Net		Net Income
		Surplus	Condit'l Reserve	Premiums Written	Invest Income	
2006	479,441	33,906	3,514	15,224	17,365	-1,208
2007	527,926	35,142	4,121	11,673	16,679	-3,523
2008	538,779	29,188	2,873	33,518	20,355	-21,226
2009	676,694	38,643	1,361	152,565	27,558	-23,761
2010	791,970	46,325	3,647	119,860	33,577	-20,204

## BUSINESS REVIEW

Sagicor Life Insurance Company (Sagicor Life Insurance) is a wholly owned subsidiary of Laurel Life Insurance Company (Laurel Life), a stock life insurance company domiciled in Texas. In October 2005, Sagicor Life Insurance and Laurel Life were acquired by Sagicor Financial Corporation (SFC). Barbados-based SFC is one of the dominant financial services companies in the Caribbean with operations in more than 22 countries, mainly Latin America and the Caribbean.

Sagicor Life Insurance's growth strategy historically consisted of acquisitions, reinsurance transactions, and organic annuity growth. While the company continues to look for strategic acquisition and reinsurance transactions, it has turned its attention to developing organic strength in recent years. The historical block of life products consisted of universal life, term and whole life products. These products were designed for particular purposes, including providing low-cost long-term coverage, cash accumulation, estate planning, and mortgage protection. In 2006, the company began an aggressive program of product development. Since that time the company has brought to market several new term, universal life and whole life products featuring return of premium options as well as chronic illness benefits. The company has also developed a suite of indexed products (life and annuity) that features an innovative basket option for those policyholders looking for diversification without downside risk. The strategy has proven successful as ordinary life premiums have increased from approximately \$10 million in 2007 to over \$50 million in 2010, and individual annuity sales have gone from \$3.3 million in 2007 to over \$70 million in 2010. The company saw a spike in new business, especially annuity sales, in 2009 as the industry experienced a flight to quality. Since 2010, the company has focused, with success, on balancing its sales between the product lines.

The annuity portfolio historically consisted of single premium and flexible premium deferred annuities with varying benefits and interest rate guarantees. Sagicor Life Insurance developed a single premium annuity product with an initial five-year interest rate

guarantee period and options to renew for subsequent five-year rate guarantees. Interest rate bonuses are credited to the initial five-year guarantee period on policies that persist through the end of the tenth policy year. This product gave the customer an improved perspective of yields throughout the life of their annuity policy with the option to enhance those yields through renewal elections and was marketed from 1999 to 2007. In 2006, the company also developed several annuity products in conjunction with the product development program noted above. A shorter-term (six-year) single premium deferred annuity was developed as well as a fixed indexed single premium deferred annuity (part of the index suite discussed above). As noted, the sales of these products have been significant since 2009.

Sagicor Life Insurance has marketed its products through traditional agencies and financial institution general agencies through individually contracted personal producing general agents (PPGAs). In addition to direct marketing and growth through acquisition of blocks of business, the company acts as a third-party administrator for other insurers. Sagicor Life Insurance maintains a policy administration system that is continually being enhanced and provides flexibility and efficiency for processing life insurance products and has enabled the company to provide third-party administration services effectively to unaffiliated insurers. The company anticipates continued technological improvements and growth through joint venture arrangements, including providing third-party administrative services and related reinsurance.

## EARNINGS

Sagicor Life Insurance Company has reported operating losses over a five-year period through 2010 as the company has experienced new product launches, higher marketing and distribution costs, and new business strain. In addition, its net written premium declined in 2010 as the company refocused its marketing on Periodic and Single Premium life products. Investment income increased as invested assets grew and yields increased. The company offers a variety of life and annuity products in line with its new business plan supported by its diverse distribution platform. Both ordinary life and fixed annuity lines of business have been its core premium contributor over the last five years. Fixed annuity sales were lower in 2010 due to low interest rate spread margins and bond yields and the company's focus on life products.

Going forward, A.M. Best notes that Sagicor Life Insurance's operating results may continue to be impacted unfavorably due to its continuing focus on new product development and marketing results in additional expenses, along with the customary reserve strain from new ordinary life business. However, A.M. Best notes that the company's operating losses have been offset by surplus contributions from SFC.

## CAPITALIZATION

Sagicor Life Insurance Company's 2010 risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), remains low relative to its insurance and investment risks despite

# Best's Rating Report



the surplus contributions from its ultimate parent, Sagicor Financial Corporation. New business growth combined with continuing operating losses have been attributed to the company's low risk-adjusted capitalization. Over the past five years, which included \$27.4 million in contributions in 2010, SFC has provided a net worth maintenance agreement to Sagicor Life Insurance. As a result of the parent company's financial support, A.M. Best expects the company to sustain its risk-adjusted capitalization at an adequate level to support its new growth strategy while rejuvenating its internal business and operational infrastructure.

## INVESTMENTS AND LIQUIDITY

Over the past five years, both investment and insurance assets have grown consistently in line with the company's growth in premiums and capital and surplus funds. Sagicor Life maintains a diversified investment portfolio, primarily comprised of high credit quality fixed income securities, while its exposure to below-investment-grade bonds remain modest. The company's bond portfolio primarily consists of investment-grade government bonds, corporate issues and public utility bonds. The company maintains a portfolio of CMOs to support its participation in the Federal Home Loan Bank (FHLB) lending program, which provides the company with net investment income to support its operating performance, as well as a source for liquidity, if needed. The mortgage loans portfolio has continued to decline in recent years and represents approximately 3% of total invested assets. The remainder of Sagicor Life Insurance's investment portfolio consists principally of policy loans and preferred and common stock holdings. Investment portfolio performance improved in 2010 due to stable financial markets in the U.S. Nonetheless, more than \$9.0 million in realized investment losses have been recorded over the past five years, approximately 1.4% of the average admitted assets over the period.

## MANAGEMENT

**Officers:** President and Chief Executive Officer, Dodridge D. Miller; Chief Risk Officer, Tyler Denison; Senior Vice Presidents, Bernard R. Gaffney (Investments), Michael P. Stricker (MIS); Vice Presidents, James Burke (Corporate Communications), Jim Golembiewski (Legal & Compliance), Catherine Hauck (Human Resources), Steven W. Mills (Administration), James R. Weiskircher (Finance); Secretary, Sandra K. Osborne; Treasurer, Chief Operating Officer and Chief Financial Officer, Bart F. Catmull.

**Directors:** John A. Bethell, Todd M. Campbell, William Lucie-Smith, Kendrick A. Marshall, Stephen McNamara, Dodridge D. Miller, Ravi C. Rambarran, John F. Shettle, Beverly Sisson.

## TERRITORY

The company is licensed in the District of Columbia, AL, AZ, AR, CA, CO, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, MD, MA, MI, MN, MS, MO, MT, NE, NV, NJ, NM, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VA, WA, WV, WI and WY. It is qualified or accredited for reinsurance in Maine and Vermont.

## Balance Sheet Assets (\$000)

	12/31/2010
*Total bonds	\$660,871
*Total preferred stocks	7,200
*Total common stocks	5,294
Mortgage loans	23,502
Real estate	719
Contract loans	29,064
Cash & short-term inv	26,391
Premis and consids due	2,225
Accrued invest income	10,290
Other assets	26,414
<b>Assets</b>	<b>\$791,970</b>

## Liabilities (\$000)

Net policy reserves	\$581,907
Policy claims	4,007
Deposit type contracts	16,136
Interest maint reserve	8,934
Comm taxes expenses	2,511
Borrowed money	119,341
Asset val reserve	3,647
Other liabilities	9,164
<b>Total Liabilities</b>	<b>\$745,645</b>
Common stock	2,500
Paid in & contrib surpl	119,183
Unassigned surplus	-75,358
<b>Total</b>	<b>\$791,970</b>

\*Securities are reported on the bases prescribed by the National Association of Insurance Commissioners.

# Best's Rating Report



## Why is this Best's® Rating Report important to you?

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. The Best's Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of an insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Best's Financial Strength Rating is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

A Best's Financial Strength Rating is assigned after a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile.

Best's Financial Strength Ratings are assigned according to the following scale:

### Secure Best's Financial Strength Ratings

A++ and A+	Superior
A and A-	Excellent
B++ and B+	Good

### Vulnerable Best's Financial Strength Ratings

B and B-	Fair
C++ and C+	Marginal
C and C-	Weak
D	Poor
E	Under Regulatory Supervision
F	In Liquidation
S	Rating Suspended

For the latest **Best's Financial Strength Ratings** and *AMB Credit Reports* visit the A.M. Best web site at [www.ambest.com](http://www.ambest.com). You may also obtain *AMB Credit Reports* by calling our Customer Service department at +1-908-439-2200, ext. 5742. To expedite your request, please provide the company's identification number (AMB #).