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REVO Insurance SpA

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Anchor	bbb+
Business Risk	**Fair**
Competitive position	Fair
IICRA	Intermediate
Financial Risk	**Very Strong**
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral

\+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	bbb+

\+

Support	0
Group support	0
Government support	0

=

BBB+/Positive/--

Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview	
Key strengths	**Key risks**
Leading position in the Italian surety market.	Small absolute size in terms of premiums.
Sound and resilient technical performance.	Rising cost base resulting in quick expansion strategy.
Growing diversification in specialty lines of business.	

We believe REVO Insurance SpA's (REVO) niche position supports its technical profitability. REVO leads the niche Italian surety insurance market, with about €65 million (40% of which is surety) insurance revenues in June 2023 (€27 million in June 2022). Since its inception in 2007, it has outperformed its competitors in terms of growth and profitability, increasing its market share. Its focused market positioning makes REVO particularly agile in terms of issuance and management of insurance contracts, supporting its strong technical performance. It posted a gross combined ratio at half year of around 80%.

The company is rapidly diversifying into specialty insurance lines in Italy, but its historically narrow diversification still constrains our business risk assessment. REVO has diversified its business mix, with the surety insurance segment accounted for around 40% of top line at half-year 2023, significantly less than a year ago (65%). Notably, REVO has diversified into agroinsurance, property, and engineering, respectively 14%, 13%, and 10% of the top line. The rest of its business lines account for around 23%. REVO remains concentrated in Italy.

Although a leader in its niche, surety represents about 2% of the Italian P/C market. We also believe that REVO's small premium base still makes it more sensitive to adverse changes in the competitive and market environment than larger, more diversified insurers.

We expect REVO's capital adequacy to remain excellent. We forecast that REVO's capital will continue to grow over the next three years thanks to higher retained earnings and a moderate dividend policy. Nevertheless, growth in capital requirements spurred by business expansion and an expected reduction in reinsurance coverage will likely weigh on capital adequacy. The voluntary share buyback completed in May and June 2023 does not lead us to revise our assessment but had a negative 9.7 percentage points effect on REVO's Solvency II ratio, which reduced to 234.7% at June 30, 2023. The small absolute size of its capital limits our overall view of REVO's financial risk profile, making it more exposed to unexpected negative market and economic shocks.

Outlook: Positive

The positive outlook reflects our view that we could raise our rating in the next 12-24 months if REVO continued to diversify its premium beyond surety insurance while maintaining very strong capitalization and prudent risk management.

Downside scenario

We could revise our outlook on REVO to stable in the next 12-24 months if:

- The growth strategy increases the volatility of REVO's underwriting results and weakens its capital and earnings; or
- An unexpected reduction in the capital base calls into question REVO's capacity to pass our sovereign stress test.

Upside scenario

We could raise the rating on REVO in the next 12-24 months if the company:

- Continues to display low loss ratios while executing its diversification strategy;
- Reduces its expense ratio after its expansion phase as its premium base grows; and
- Maintains a prudent approach to underwriting risk and reinsurance coverage.

Key Assumptions

- We expect Italian real GDP to slightly increase by 0.9% in 2023, 0.7% in 2024, and then see higher growth of 1.2% in 2025.
- Insurance revenue will continue to outperform the Italian P/C market in the long term, increasing by 40% on average in the coming years.
- We expect technical profitability to remain strong, and the combined ratio to stay below 90% on average.
- Dividend payouts are expected to gradually increase from around 20% of profit before tax in 2023 to 35% in 2025.

REVO Insurance SpA--Key metrics and forecast								
	2024f	**2023f**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
Insurance revenues / Gross Premiums Written (mil. EUR)*	130-200	100-150	131.4	77.5	68.3	71.2	58.6	51.0
Net income (attributable to all shareholders) (€ mil)	10-20	5-15	5.1	14.3	13.0	12.6	7.1	5.7
Return on shareholders' equity (reported) (%)	5-10	2-7	3.5	21.1	23.7	29.6	21.3	21.1
P/C: net combined ratio (%)	<90	<90	83.0	54.5	52.2	53.4	54.5	68.4
S&P capital adequacy confidence level	Excellent	Excellent	Excellent	Excellent	Very Strong	Very Strong	Very Strong	Very Strong

*Insurance revenues under IFRS 17 starting 2023. f--S&P Global Ratings forecast.

Table 1

Sovereign's forecast							
	2019	**2020**	**2021**	**2022**	**2023f**	**2024f**	**2025f**
Real GDP growth (%)	0.5	(9)	7.0	3.8	0.9	0.7	1.2
Inflation rate (CPI growth) (%)	0.6	-0.1	-1.9	8.7	6.3	2.3	2.1
Unemployment rate (%)	9.9	9.3	9.5	8.1	7.7	7.9	8.0
10-year government bond (%)	1.95	1.17	0.81	3.16	4.35	4.65	4.48

Business Risk Profile: Fair

Our assessment of REVO's business risk profile is supported by its niche positioning and technical profitability, but also incorporates its limited scale (€100 million-€150 million in insurance revenues at year-end 2023). The historical lack of diversification of operations, which still constrains the rating, is becoming less so as REVO expands into other lines of business.

REVO was established in 2007 under the name Elba Assicurazioni and mostly writes surety insurance policies, which consist of guaranteeing that a company will meet the obligation it has contracted with a public body. REVO has exhibited robust and regular growth in its core business (five-year compound annual growth rate of around 15%), far outperforming the market trend, which has been quite volatile over the past 10 years. As of year-end 2022, REVO was the largest in its niche.

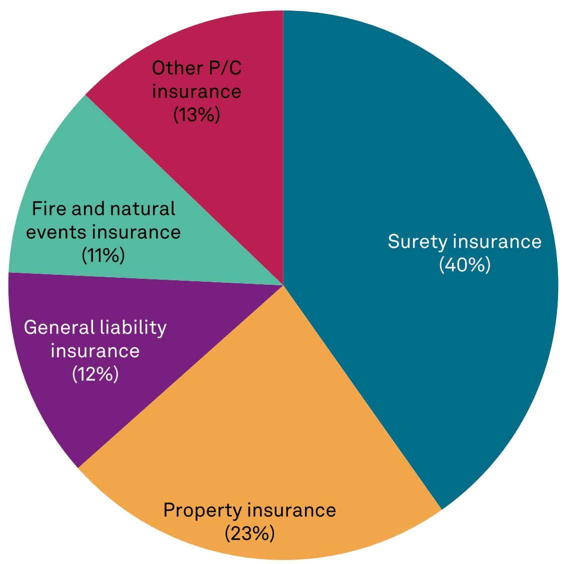
REVO changed its name from Elba Assicurazioni on Nov. 21, 2022 through its merger with REVO SPAC, a special purpose acquisition company (SPAC) listed on the Italian stock market that acquired Elba Assicurazioni in November 2021. The merger of REVO with the SPAC also coincided with the transfer of the share listing to the STAR segment, specialized in growth companies. Headquartered in Milan, the company has operations across Italy and currently sells its products via 118 multi-brand agents and 62 brokers (as of June 2023). REVO has built its market position by covering small short-term risks, supported by an agile information technology structure and the speed of its responses to customers' requests.

REVO has delivered solid and stable technical performance since its incorporation, in our view. Over 2017-2021, its combined ratio fluctuated between 50% and 70%, confirming the company's prudent approach to reserving and underwriting, which we consider its main risk given the high concentration in a single business line. In 2022, the reported net combined ratio reached around 83%, in line with the expansion strategy in less profitable lines of business.

In surety, REVO focuses on small-to-midsize risks, where there is less competition from larger players and more chance to recover outflows--on average, REVO is able to recover 30% of gross paid claims. Its limited exposure to single clients and its conservative underwriting standards contribute to an average loss ratio consistently below 30%, historically. We expect this loss ratio to increase to 30%-40% due to the diversification of business lines.

Chart 1

REVO's premium composition as of June 2023



Source:S&P Global Ratings.

We believe REVO will grow its top line by an average annual rate of 40% until 2025. Rather than grabbing market share from competitors, REVO intends to innovate to expand in the Italian insurance SME market, historically underpenetrated due to high costs. Growth relies on diversifying the product mix away from surety and into all other P/C specialty lines of business. As such, 60% of the top line REVO is underwriting is P/C specialty lines (casualty, property, marine, agriculture, credit, and parametric insurance) as of June 2023, versus 35% as of June 2022. We believe REVO's ambitious growth strategy could benefit from its strong track record. REVO has become the leading surety insurer in Italy exclusively via organic growth since its creation in 2008.

Nonetheless, this aggressive growth is likely to weaken REVO's profitability in the short term. REVO's combined ratio had already increased to around 83% in 2022 and we expect this to be higher than its excellent historical levels in the years to come, but remain below 90% on average.

Financial Risk Profile: Very Strong

In late 2021, Revo SPAC's acquisition of REVO significantly boosted its capitalization to comfortably above our most stringent confidence level. We forecast that capital will continue to grow over the next three years thanks to higher retained earnings and a moderate dividend policy. Nevertheless, capital requirements growth spurred by business expansion and an expected reduction in reinsurance coverage will likely weigh on capital adequacy.

The small absolute size of capital limits our overall view of REVO's financial risk profile, making it more exposed to unexpected negative market and economic shocks.

As required by the Italian regulator for surety insurance providers, REVO built up a supplementary reserve (€30 million in 2022) within its premium reserves. This reserve will last for four years after a contract is created, even if the policy has matured in the meantime. In the case of REVO, about half of the reserve relates to matured policies. This reserve is a key part of the higher amount in its Solvency II own funds compared with International Financial Reporting Standards. REVO's Solvency II ratio stood at 235% at June 2023, compared with 247% at June 2022. The company intends to maintain this ratio above 180%.

REVO's investment portfolio is almost entirely invested in bonds, with a pocket of cash. As of June 2023, its Italian government bond allocation decreased to 41% of the investment portfolio (53% as of June 2022), while the other European government bond allocation grew to 40% (versus 24%) and corporate bonds reduced to 15%. Accordingly, the average credit quality of the fixed-income portfolio improved to the 'A-' range from the 'BBB' range. REVO's medium-term target is to further reduce the weight of Italian government bonds to about 35% by 2025. The rise in interest rates has led to €9.3 million of unrealized losses on bonds at the end of June 2023. We note that the average maturity of REVO's bond portfolio is relatively short, with about 42% of Italian government bonds maturing within two years as of June 30, 2023 (26% a year ago).

REVO reinsures a significant portion of its technical risk. In the surety business, premiums ceded to reinsurers on a quota-share basis in 2023 represented 40% of total GWP. REVO also has an excess-of-loss cover absorbing losses over €2 million in surety. We forecast that REVO will gradually reduce its quota-share reinsurance in surety but maintain significant quota-share reinsurance in other lines of business and prudent reinsurance policies.

Other Key Credit Considerations

Governance

Our view of REVO's risk management benefits from the issuer's generally prudent approach to underwriting, reserving, and reinsurance, as proven by its solid track record. We consider that the company has adequate risk controls for its major risks, namely underwriting and reserving.

Liquidity

We regard REVO's liquidity as exceptional, mostly because of its liquid investment portfolio, which is almost entirely invested in short- and medium-term bonds, of which sovereign bonds represent 81% at June 30, 2023.

Ratings above the sovereign

Taking into account REVO's Solvency II eligible own funds of €147 million at June 30, 2023, and its Italian bond (government and corporate) exposure of €92 million at the same date, we believe that REVO would be resilient to a sovereign default (Italy; unsolicited BBB/Stable/A-2). This is based on our Italian sovereign stress test, under which REVO does not entirely deplete its regulatory capital base. Therefore, we do not cap our rating on REVO at the level of the unsolicited long-term sovereign credit rating on Italy.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 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

Related Research

- REVO Insurance SpA Outlook Revised To Positive On Diversification Into Specialty Insurance; Rating Affirmed At 'BBB+', Jun 26, 2023

Appendix

REVO Insurance SpA--Credit metrics history

Ratio/Metric	2022	2021	2020	2019	2018
S&P Global Ratings capital adequacy	Excellent	Very Strong	Very Strong	Very Strong	Very Strong
Total invested assets	193.2	125.0	101.3	99.8	75.5
Total shareholder equity	216.6	73.6	61.4	48.4	37.1
Gross premiums written	131.4	77.5	68.3	71.2	58.6
Net premiums written	77.6	45.9	39.8	40.6	33.2
Reinsurance utilization (%)	41.0	40.7	41.8	43.0	43.4
EBIT (adjusted)	5.4	18.5	17.7	17.0	13.3
Net income (attributable to all shareholders)	5.1	14.3	13.0	12.6	7.1
Return on revenue (%)	8.9	43.4	45.8	46.6	45.5

REVO Insurance SpA--Credit metrics history (cont.)

Ratio/Metric	2022	2021	2020	2019	2018
Return on assets (including investment gains/losses) (%)	2.0	13.8	14.1	16.2	11.6
Return on shareholders' equity (reported) (%)	3.5	21.1	23.7	29.6	21.3
P/C: net combined ratio (%)	83.0	54.5	52.2	53.4	54.5
P/C: net expense ratio (%)	58.3	40.0	36.6	33.8	34.8
P/C: return on revenue (%)	19.2	49.1	45.8	46.6	45.5
Net investment yield (including investment gains/losses) (%)	1.0	1.0	0.3	3.2	-3.1

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	**Very Strong**	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	**a-/bbb+**	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of November 8, 2023)*

REVO Insurance SpA	
Financial Strength Rating	
Local Currency	BBB+/Positive/--
Holding Company	None
Domicile	Italy

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.