Research Update:

# REVO Insurance SpA Outlook Revised To Positive On Diversification Into Specialty Insurance; Rating Affirmed At 'BBB+'

**June 26, 2023**

## Overview

- REVO Insurance SpA (REVO) is rapidly diversifying into specialty insurance lines in Italy while maintaining a leading position in the Italian surety insurance market.
- REVO's capital and earnings remain very strong despite its significant growth.
- We therefore revised our outlook to positive from stable and affirmed our 'BBB+' financial strength rating on REVO.
- The positive outlook reflects our view that we could raise our rating in the next 12-24 months if REVO continues to diversify its premium beyond surety insurance in a profitable way while maintaining very strong capitalization and prudent risk management.

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## Rating Action

On June 26, 2023, S&P Global Ratings revised its outlook on Italian insurance company REVO Insurance SpA (REVO) to positive from stable. At the same time, we affirmed our 'BBB+' long-term financial strength rating on the company.

## Rationale

The outlook revision to positive reflects REVO's rapid and profitable diversification into specialty insurance lines in Italy while maintaining a leading position in domestic surety insurance. The expansion underlines management's goal to become a leader in providing a wide range of specialty line insurance policies to Italian small-to-midsize enterprises.

The combined effect of profitable growth and business diversification is a positive rating factor in our view, as the current rating is constrained by REVO's small size and concentration on the surety line of business in Italy.

REVO's gross premium written grew 70% to reach €131 million in 2022, its first year of growth in specialty lines following regulatory approval at end-March 2022. We expect annual insurance revenue growth of 30%-50% in the coming years.

The expense ratio rose to 58% last year as REVO continued its expansion. However, we expect future expenses to gradually decrease relative to the revenue base, and the expense ratio to fall below 40% by 2025.

REVO has a track record of low loss ratios, with a five-year average of below 20%. We anticipate that the average will deteriorate slightly toward 30%-35%, as the specialty lines have a structurally higher loss ratio than the surety lines. We expect REVO's technical profitability to become more resilient in the coming year thanks to its increased diversification.

We believe that, as per its strategy, REVO is maintaining its risk appetite in underwriting and the prudent and strategic allocation of assets in its investment portfolio. Likewise, we anticipate that REVO's existing prudent reinsurance policies will remain largely in place. In the surety business, premiums ceded to reinsurers on a quota-share basis in 2022 represented 40% of total gross premium. Our expectations are in line with REVO's target of a Solvency II ratio above 200% (270% at year-end 2022).

Considering REVO's diversification of assets outside Italy and its excellent capital base, we believe that the company would be resilient to a default of Italy (unsolicited BBB/Stable/A-2). This is based on our Italian sovereign stress test, which REVO passes as the test does not entirely deplete its regulatory capital base. At end-2022, REVO held about 49% of its investments in Italian government bonds and targets a further reduction to about 35% by 2025.

## Outlook

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 leads to a material increase in the volatility of REVO's underwriting results and a weakening of 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.

## Ratings Score Snapshot

| **Business risk profile** | **Fair** | **Fair** |
|---|---|---|
| Competitive position | Fair | Fair |
| IICRA | Intermediate | Intermediate |
| **Financial risk profile** | **Very strong** | **Very strong** |
| Capital and earnings | Very strong | Very strong |
| Risk exposure | Moderately low | Moderately low |
| Funding structure | Neutral | Neutral |
| Anchor* | bbb+ | bbb+ |
| **Modifiers** | | |
| Governance | Neutral | Neutral |
| Liquidity | Exceptional | Adequate |
| Comparable ratings analysis | 0 | 0 |
| **Financial strength rating** | **BBB+/Positive** | **BBB+/Stable** |

IICRA--Insurance industry and country risk assessment. *The 'bbb+' anchor reflects our view of REVO's small premium size.

## 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

- Elba Could Benefit From Diversification Into Speciality Lines Insurance, March 31, 2022

## Ratings List

**Ratings Affirmed; Outlook Action**

| | To | From |
|---|---|---|
| **REVO Insurance SpA** | | |
| Financial Strength Rating | | |
| Local Currency | BBB+/Positive/-- | BBB+/Stable/-- |