S&P Global Ratings

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Research Update:

REVO Insurance SpA Upgraded To 'A-' On Sustained Profitable Diversification Into Specialty Insurance; Outlook Stable

June 20, 2024

Overview

- REVO Insurance SpA (Revo) has grown profitably into specialty insurance lines in Italy while maintaining its leading position in Italian surety insurance.
- The company benefits from robust reinsurance coverage and an experienced management team, supporting this profitable growth.
- Revo's capital and earnings continues to remain excellent, above our 99.99% confidence level according to our updated criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions," published on Nov. 15, 2023.
- We therefore raised our long-term financial strength rating to 'A-' from 'BBB+'.
- The stable outlook reflects our view that Revo will maintain its capitalization at least at the 99.99% confidence level with sound technical profit and prudent risk management.

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Rating Action

On June 20, 2024, S&P Global Ratings raised its long-term financial strength rating on Italy-based insurer REVO Insurance SpA (Revo) to 'A-' from 'BBB+'. The outlook is stable.

Impact Of Revised Capital Model Criteria

- The implementation of the revised capital model criteria doesn't lead to any change in Revo's capital adequacy as it remains above our 99.99% confidence level.
- Some of the increase in capital adequacy results from enhancing consistency in assessing liability-related risks by aligning the treatment of trade credit insurance with other non-life business lines.
- We've captured the benefits of risk diversification more explicitly in our analysis, which

supports capital adequacy.

- The recalibration of our capital charges to higher confidence levels, higher interest risk charges, and overall increase in business volume for Revo somewhat offsets these improvements.

Credit Highlights

Overview

Key strengths	Key risks
Leading position in the Italian surety market.	Still relatively small absolute size in terms of premiums.
Growing diversification in specialty lines of business while maintaining sound and resilient technical performance.	Rising cost base from quick expansion strategy.
Very strong capital and earnings.	

Outlook

The stable outlook reflects our view that Revo will continue to grow profitably by diversifying away from surety insurance in Italy (its core business) in the next two years, while maintaining very strong capitalization and prudent risk management.

Downside scenario

We could lower our rating on Revo in the next two years 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

Ratings upside is unlikely in the next two years as it would require significant additional improvement in Revo's competitive strength and diversification, or its capital base.

Rationale

The upgrade reflects our view that Revo has successfully diversified its earnings from surety insurance business into more specialty insurance lines in Italy while maintaining a leading position in domestic surety insurance. The expansion underlines management's goal to provide a wide range of specialty line insurance policies to Italian small and midsize enterprises.

Revo's gross premium written grew significantly in the past two years, up by 65% to €216 million in 2023 and by 70% to €131 million in 2022, which was its first year of growth in specialty lines following regulatory approval at end-March 2022. We expect annual insurance revenue growth of 35-40% in 2024 and 20%-25% thereafter. The substantial increase in business volumes goes along with disciplined underwriting, and extensive reinsurance coverage. These policies are a positive development in its business risk profile.

We expect Revo to maintain its capitalization at least at our 99.99% capital adequacy as per our risk-based capital model. We expect Revo will generate net income of more than €20 million in 2024 gradually increasing to €30 million in 2025, with a combined ratio (loss and expense) below 85% for 2024-2025.

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 35%-40%, as the specialty lines have had structurally higher loss ratios than the surety lines. We expect Revo's technical profitability to become more resilient in the coming year, thanks to its increased diversification.

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-2023, Revo had reduced its investments in Italian government bonds to 38% of its portfolio and targets a further reduction to about 35% by 2025.

Ratings Score Snapshot

	To	From
Financial strength rating	A-	BBB+
Anchor	a-*	bbb+
Business risk	Satisfactory	Fair
IICRA	Intermediate	Intermediate
Competitive position	Satisfactory	Fair
Financial risk	Very Strong	Very Strong
Capital and earnings	Very Strong	Very Strong
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0

IICRA--Insurance Industry And Country Risk Assessment. *We choose the lower anchor due to small size and potential volatility from fast growth.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- 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

Related Research

- REVO Insurance SpA, Nov. 08, 2023
- Research Update: REVO Insurance SpA Outlook Revised To Positive On Diversification Into Specialty Insurance; Rating Affirmed At 'BBB+', June 26, 2023

Ratings List

Upgraded; Outlook Action

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