

Research Update:

Elba Assicurazioni Upgraded To 'BBB+' After Acquisition By Revo; Outlook Stable

December 6, 2021

Overview

- On Nov. 30, 2021, Revo SpA, a special-purpose acquisition company (SPAC), concluded the acquisition of Elba Assicurazioni for €164 million; Revo intends to merge with Elba in the course of 2022.
- Revo raised €220 million of equity when it was listed in May 2021; we believe its plans to use its capital to support Elba are beneficial to Elba's financial risk profile.
- We raised our rating on Elba on to 'BBB+' from 'BBB'.
- The stable outlook reflects our view that Elba will maintain a very robust capitalization and continue to grow profitably.

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Rating Action

On Dec. 6, 2021, S&P Global Ratings raised to 'BBB+' from 'BBB' its long-term insurer financial strength rating on Italy-domiciled Elba Assicurazioni SpA. The outlook is stable.

Rationale

The upgrade of Elba follows its acquisition by Revo SPAC on Nov. 30, 2021. Revo raised €220 million in equity when it was listed in May 2021. We believe that Revo will use its remaining funds mainly to support the organic growth of Elba and this is beneficial to the insurance company's financial risk profile.

While Elba's solvency II capital is very robust, with an estimated solvency ratio of 270% at end-September 2021, Elba's small absolute size of capital made it vulnerable to unforeseen risks. The acquisition by Revo, which has a wider capital base than Elba, has made the company more resilient to unexpected shocks. In addition, most of the excess cash currently on Revo's balance sheet will accrue to Elba once the two companies merge in 2022.

We also believe that Revo will focus on profitable growth when diversifying Elba in specialty lines beyond surety and in parametric insurance, and as such it will not materially increase the

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company's risk appetite in underwriting. Likewise, we forecast that Elba's existing prudent reinsurance policies will remain largely in place and that Revo will adjust Elba's investment policy mainly to reduce concentration on Italian government bonds rather than to boost returns. Our expectations are in line with Revo's target of maintaining Elba's Solvency II ratio above 200%. As such, we have revised our assessment of Elba's financial risk profile to very strong from strong and our assessment of liquidity to exceptional from adequate.

Considering Elba's 2021 performance and the enlarged capital base after its acquisition by Revo, we believe that Elba would be resilient to a default of Italy (unsolicited BBB/Positive/A-2). This is based on our Italian sovereign stress test, under which Elba does not entirely deplete its regulatory capital base.

Outlook

The stable outlook reflects our view that Elba will maintain very robust capitalization over the next two years and will continue to grow profitably in its surety insurance business.

Downside scenario

We could lower the rating on Elba if the growth strategy led to a material increase in volatility of underwriting results, combined with a weakening of capital and earnings. An unexpected reduction in the capital base could also put into question Elba's capacity to pass our sovereign stress test.

Upside scenario

We could raise the rating on Elba if we believed that Revo's growth strategy would translate into Elba diversifying profitably beyond surety, while maintaining an overall prudent approach on underwriting risk and reinsurance coverage.

Ratings Score Snapshot

Business Risk Profile	Fair	Fair
Competitive position	Fair	Fair
IICRA	Intermediate Risk	Intermediate Risk
Financial Risk Profile	Very Strong	Strong
Capital and earnings	Very Strong	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

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Financial Strength Rating **BBB+/Stable** **BBB/Stable**

* The 'bbb+' anchor is influenced by our view of Elba's small premium size

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | Specialty: Trade Credit Insurance Capital Requirements Under S&P Global Ratings' Capital Adequacy Model, Dec. 6, 2013
- 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

Ratings List

Upgraded

	To	From
Elba Assicurazioni SpA		
Financial Strength Rating		
Local Currency	BBB+/Stable/--	BBB/Stable/--

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