

REVO Insurance SpA

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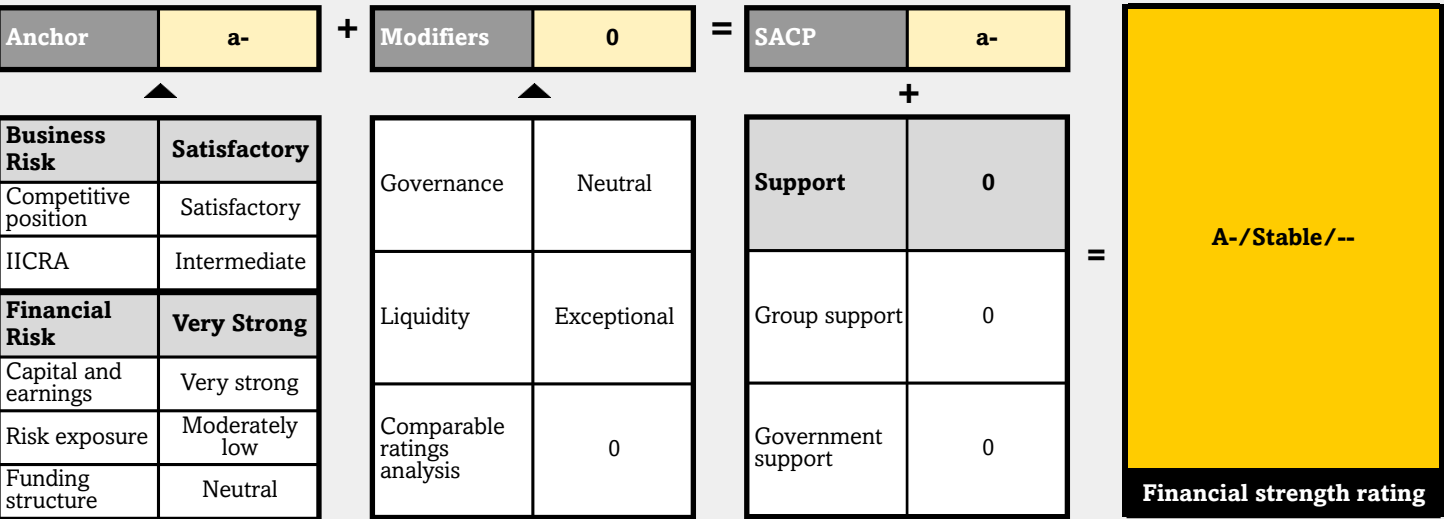
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IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview	
Key strengths	Key risks
Leading position in the Italian surety market for small and midsize enterprises.	Still relatively small absolute size in terms of insurance revenue.
Profitable diversification in specialty lines of business.	Rising cost base from quick expansion strategy.
Very strong capital and earnings backed by comprehensive reinsurance programs.	

We believe REVO Insurance SpA (REVO) has successfully diversified into specialty insurance lines in Italy. REVO has diversified its business mix over recent years, with the surety insurance segment accounting for around 31% of the €308.8 million gross premium written (GPW) in 2024 (compared with 65% two years ago). Notably, REVO has diversified into property, marine, and engineering, respectively 20.6%, 7.7%, and 7.1% of GPW. The remaining business lines account for around 34% of gross premiums. REVO remains concentrated in Italy but established a branch office in Spain at the end of 2024.

We believe the company's leadership in the niche Italian surety insurance market supports its satisfactory profitability. REVO underwrote €95 million of gross premiums of surety policies in 2024, representing about 10% of the overall market share. REVO's focus on small and midsize enterprises (SMEs) makes it particularly agile in terms of issuance and management of insurance contracts, supporting its strong technical performance. It reported a gross combined ratio of 85.8% at year-end 2024.

REVO's small premium base still makes it more sensitive to adverse changes in the competitive and market environment than larger, more diversified insurers. Coupled with the rapid growth that was close to +50% in insurance revenue in 2024, this determines the rationale for our choice of the lower anchor of 'a-' for REVO (rather than 'a').

We expect REVO to maintain its capitalization at our 99.99% capital adequacy as per our risk-based capital model.

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 will likely weigh on capital adequacy. The small absolute size of REVO's capital makes it more exposed to unexpected negative market and economic shocks.

REVO passes our sovereign stress test on Italy (BBB+/Stable). Given the weight of the surety business, we consider that REVO has high sensitivity to country risk. As such, we can rate REVO up to two notches above the sovereign credit ratings on Italy.

Outlook: Stable

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.

Key Assumptions

- We expect Italian real GDP to slightly decrease to 0.6% in 2025 and 1.0% in 2026 and 2027.
- Insurance revenue will continue to outperform the Italian P/C market in the long term, increasing by 20%-25% in 2025 and 2026.
- We expect technical profitability to remain strong, and the adjusted combined ratio to stay below 85% on average.
- Dividend payouts to remain around 30%-35%.

REVO Insurance SpA--Key metrics

	2026f	2025f	2024a	2023a	2022a
Insurance revenue / Gross premiums written (€m)	>300	>250	220	149	131
Net income (attributable to all shareholders) (€m)	30-35	25-30	19	11	5.1
S&P Global Ratings capital adequacy	99.99%	99.99%	99.99%*	99.99%	Excellent
Return on shareholder's equity (%)	>10	>10	7.9	4.8	3.5
P&C net combined ratio (%)	<75	<75	69.1	72.1	83
Adjusted P&C combined ratio* (%)	<86	<86	86.4	87.2	NA
Return on revenue (%)	>12	>12	10.4	7.2	8.9
Net investment yield (%)	>2	>2	2.3	1.7	1.1

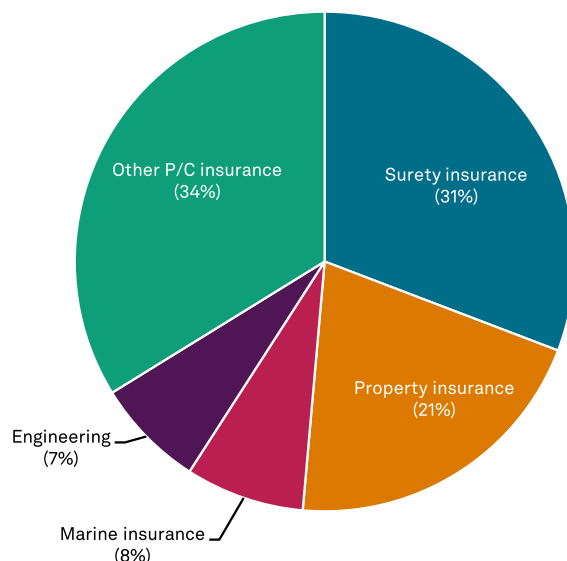
*Adjusted PC combined ratio = (Insurance service expense + result of reinsurance) / Insurance revenue. Forecast for year-end 2024. Gross premiums written for 2022.f--Forecast. A--Actual.

Business Risk Profile: Satisfactory

Headquartered in Milan, REVO has operations across Italy and currently sells its products via 118 multi-brand agents and 72 brokers at year-end 2024. 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's GPW grew significantly in the past three years, up by 43% to €309 million in 2024, 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. 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 a 20%-25% increase in insurance revenue for 2025 and 2026.

Chart 1

REVO has diversified away from its historical surety business - gross written premiums as of December 2024



Source: S&P Global Ratings based on company's data.

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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 think REVO's technical profitability has become more resilient thanks to its increased diversification.

REVO has delivered solid and stable technical performance since its incorporation, in our view. In 2023 and 2024, the combined ratio stood close to 70% under IFRS 17 reporting, with both numerator and denominator net of reinsurance. That ratio is distorted by reinsurance, considering that more than 50% of insurance revenue is ceded to reinsurers. The adjusted combined ratio stood at around 85%, and we expect it to remain below that in the coming years.

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 contributes to an average loss ratio consistently below 30% historically. We expect this loss ratio to increase to 35%-45% due to the diversification of its business lines.

REVO intends to innovate and 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, 46% of the top line REVO has underwritten in 2024 is P/C specialty lines (property, marine,

engineering and professional indemnity). Underwriting from property business doubled in 2024.

Financial Risk Profile: Very Strong

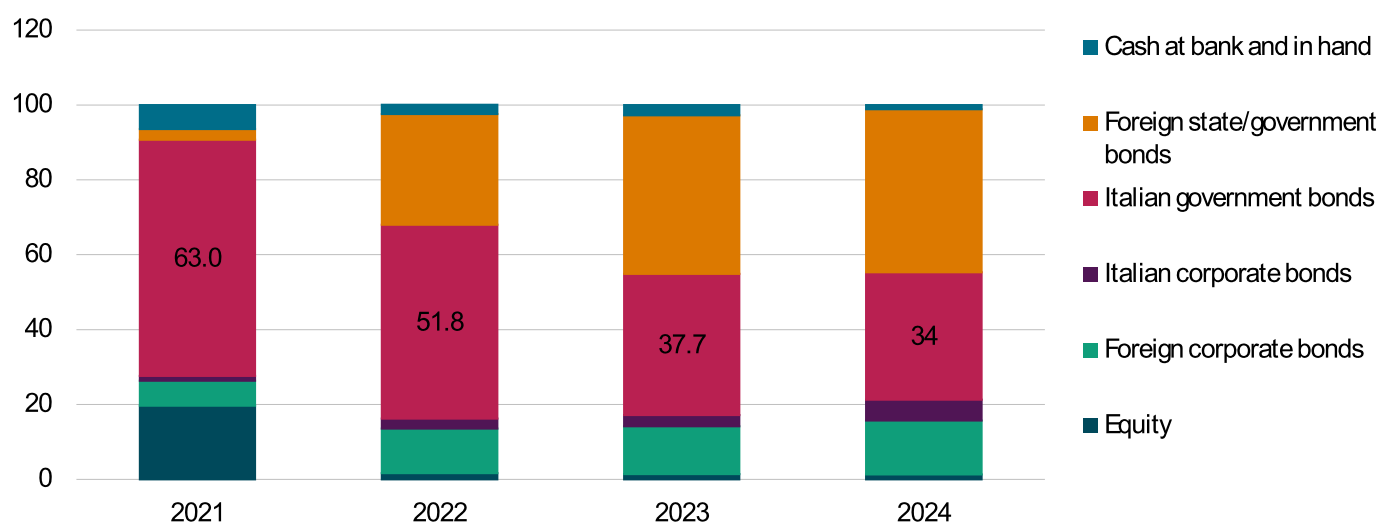
We believe REVO will maintain its capital adequacy above our 99.99% confidence-level as per our risk-based capital model. We forecast REVO will grow net income between €25 million-€30 million in 2025 and between €30 million-€35 million in 2026. The retained earnings will grow the capital base sufficiently to match the increase in capital requirements linked to business growth and expansion in Spain.

Under the Solvency II framework, REVO adopted undertaking-specific parameters and group-specific parameters for the credit and suretyship classes at the beginning of 2025. This drove an improvement of the SII ratio, reaching 236.7% at year-end 2024, versus 212% a year before. This did not lead to a change in our view of the company's capital and earnings, nor its financial strength rating. The company intends to maintain this ratio above 180%.

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 within its premium reserves (€40 million at year-end 2024 under local GAAP, compared to €35 million the previous year). 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.

Chart 2

REVO decreased its exposure to Italian stress by reducing government bonds in its asset allocation



Source: S&P Global Ratings based on company data.

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REVO's investment portfolio is almost entirely invested in bonds, with a pocket of cash. As of December 2024, its Italian government bond allocation further decreased to 34% of the investment portfolio, while the other European government bond allocation grew to 44% and corporate bonds increased to 20%. The average credit quality of the fixed-income portfolio is in the 'A' range. We note that the average maturity of REVO's bond portfolio is relatively short, with about 49% of bonds maturing within two years as on December 2024.

REVO reinsures a significant portion of its technical risk. Based on our calculations, around 56% of insurance revenue was reinsured in 2024. 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 and adequate risk controls for underwriting and reserving, and its comprehensive reinsurance program.

Liquidity

We regard REVO's liquidity as exceptional, mostly because of its liquid investment portfolio, which is invested in short- and medium-term bonds, of which sovereign bonds represent nearly 50% of investments at year end 2024.

Ratings above the sovereign

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-2024, REVO had reduced its investments in Italian government bonds to 34% of its portfolio. Given the weight of the surety business' contribution in overall profitability, we consider REVO has high sensitivity to country risk. That means that we can rate REVO up to two notches above the ratings on Italy.

Environmental, social, and governance

We consider REVO's exposure to environmental and social risks to be in line with that of the insurance sector in European region.

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

- Bulletin: REVO Insurance SpA Gains Room For Growth Following Regulatory Capital Relief, Feb. 6, 2025
- Research Update: REVO Insurance SpA Upgraded To 'A-' On Sustained Profitable Diversification Into Specialty Insurance; Outlook Stable, June 20, 2024

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 April 25, 2025)*

REVO Insurance SpA

Financial Strength Rating

Local Currency

A-/Stable/--

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.

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