S&P Global Ratings

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REVO Insurance SpA

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REVO Insurance SpA

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+/Stable/--
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.	High business concentration on surety insurance.
Growing diversification outside surety insurance.	Rising cost base resulting in quick expansion strategy.

S&P Global Ratings believes REVO Insurance SpA's (REVO) niche positioning supports technical profitability. With about €77.5 million of total gross premiums written (GPW) in 2021, REVO is leader in the niche Italian surety insurance market. 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 (five-year average combined ratio [loss and expense] below 60%).

The company's historically narrow diversification constrains our business risk assessment. REVO's activity is highly concentrated, in terms of both geography and business line. Indeed, about 80% of premiums are generated in the surety insurance segment and the remaining 20% in property/casualty (P/C) and civil liability. Although a leader in its niche, surety represents about 2% of the Italian P/C market.

Additionally, we believe that REVO's small premium base and focus on a limited product range make it more sensitive to changes in the competitive and market environment than larger, more diversified insurers.

REVO will accelerate growth in 2022-2024 The company's business plan to quickly diversify insurance premiums beyond surety could improve its creditworthiness if successfully implemented. First-half 2022 results confirmed REVO's plan to increase premiums by 40% on average until 2025 through additional products, focussing on small and midsize enterprises (SMEs), and offering more tailored solutions globally. GPW reached €56.2 million at end-June 2022, corresponding to a 44% year-on-year increase. REVO targets its GPW to reach €300 million by year-end 2025.

Outlook: Stable

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

Downside scenario

We could lower the rating on REVO 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 REVO's capacity to pass our sovereign stress test.

Upside scenario

We could raise the rating on REVO if we believed that its growth strategy would translate into profitable diversification beyond surety, while maintaining an overall prudent approach on underwriting risk and reinsurance coverage.

Key Assumptions

- We expect Italian real GDP to increase by 3.8% in 2022, slightly decline by 0.1% in 2023, and recover in 2024.
- GPW growth will continue to outperform the Italian P/C market in the long term, increasing by 40% per year until 2024.
- We expect technical profitability to remain strong, and the combined ratio to stay below 90%.
- Dividend payouts are expected to slightly increase.

Table 1

Sovereign's Forecast

	2019	2020	2021	2022f	2023f	2024f
Real GDP growth (%)	0.3	-9.1	6.7	3.8	-0.1	1.4
Inflation rate (CPI growth) (%)	0.6	-0.1	1.9	8.5	6.1	2.3
Unemployment rate (%)	9.9	9.3	9.5	8.2	8.5	8.4
10-year government bond (%)	1.9	1.2	0.8	3.2	4.7	5.1

f--Forecast. CPI--Consumer price index.

REVO--Key Metrics And Forecast

	2023f	2022f	2021	2020	2019	2018	2017
Gross premiums written (Mil. €)	>150	120	77.5	68.3	71.2	58.6	51.0
Net income (attributable to all shareholders) (Mil. €)	>10	1-10	14.3	13.0	12.6	7.1	5.7
Return on shareholders' equity (reported) (%)	>10	>1	21.1	23.7	29.6	21.3	21.1
P/C: net combined ratio (%)	<90	<90	54.5	52.2	53.4	54.5	68.4
S&P capital adequacy confidence level	Excellent	Excellent	Excellent	Very strong	Very strong	Very strong	Very strong

P/C--Property and casualty. f--S&P Global Ratings forecast.

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 (€120 million in premiums expected for 2022) and lack of diversification.

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. The remaining 20%-25% of the premiums it writes consist of P/C and civil liability insurance. REVO has exhibited robust and regular growth in its core business (five-year compound annual growth rate of 15%), far outperforming the market trend, which has been quite volatile over the past 10 years. As of year-end 2021, REVO was the largest in its niche.

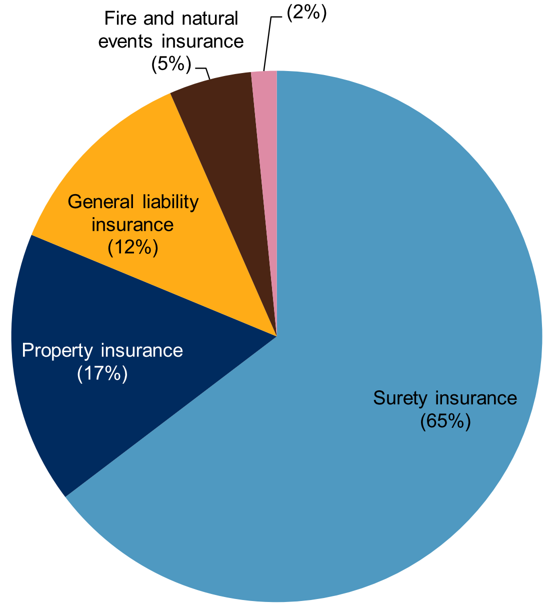
REVO changed its name from Elba Assicurazioni on Nov. 21, 2022 through its merger with REVO SPAC, a special purpose acquisition company (SPAC) listed on the Italian stock market that acquired Elba Assicurazioni in November 2021. The merger of REVO with the SPAC also coincided with the transfer of the 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 108 multi-brand agents and 26 brokers. It targets sales through 120 agents and 40 brokers at year-end 2022. 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 the past five years, its combined ratio has fluctuated between 50%-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.

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%.

Chart 1

REVO's Premium Composition At Year End 2021



P/C--Property and casualty. Source: S&P Global Ratings.

REVO targets a 40% average annual growth in GPW 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. The growth relies on diversifying the product mix away from surety and into all other P/C specialty lines of business. REVO targets €300 million in GPW by 2025, of which only 25% will be generated by surety and the remainder split between casualty, property, marine, agriculture, credit, and parametric insurance. We believe REVO's ambitious growth strategy can 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. We expect the company to post a higher combined ratio than the excellent historical levels, yet remain below 90% in the next two years. The technical result declined temporarily to €5.9 million at end-June vs €10.4 million last year for the same period. This drop is due to one-off costs in technology and human capital.

Financial Risk Profile: Very Strong

The acquisition of REVO by Revo SPAC significantly boosted its capitalization to a level comfortably above our 'AAA' 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 the reinsurance coverage will likely weigh on capital adequacy.

Nonetheless, 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 (€27 million in 2021) 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 Solvency II own funds compared with International Financial Reporting Standards. REVO's Solvency II ratio stood at 263% at June 30, 2022, and it intends to maintain this ratio above 180% in the next three years.

REVO's investment portfolio is almost entirely invested in bonds, with a pocket of cash. Italian government bonds represented 53%, other European government bonds 24%, and corporate bonds 17%. Accordingly, the average credit quality of its fixed-income portfolio is in the 'BBB' range. The medium-term target of REVO is to further reduce the weight of Italian government bonds to about 35% by 2025. The rise in interest rates has led to €4.8 million of negative value adjustments on investments in first-half 2022. These adjustments reflect the Italian accounting principles of "lower cost of market" valuation, and the company will make up for them over the next few quarters as its bonds near maturity. We note that the average maturity of REVO's bond portfolio is relatively short, with about 26% of Italian government bonds maturing within a year as of June 30, 2022.

REVO reinsures a significant portion of its technical risk. In the surety business, premiums ceded to reinsurers on a quota-share basis in 2022 represented 40% of total GWP. In addition, REVO 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 will maintain prudent reinsurance policies in place in the future.

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 77% at June 30, 2022.

Ratings above the sovereign

Taking into account REVO's pro-forma capital net of intangibles of €125 million at June 30, 2022 and its Italian government bond exposure of €77 million at the same date, we believe that REVO would be resilient to a default of

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
- 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

Appendix

REVO Insurance SpA--Credit Metrics History

Ratio/Metric	2021	2020	2019	2018
S&P Global Ratings capital adequacy	Very strong	Very strong	Very strong	Very strong
Total invested assets	125.0	101.3	99.8	75.5
Total shareholder equity	73.6	61.4	48.4	37.1
Gross premiums written	77.5	68.3	71.2	58.6
Net premiums written	45.9	39.8	40.6	33.2
Reinsurance utilization (%)	40.7	41.8	43.0	43.4
EBIT	18.5	17.7	17.0	13.3
Net income (attributable to all shareholders)	14.3	13.0	12.6	7.1
Return on revenue (%)	43.4	45.8	46.6	45.5
Return on assets (including investment gains/losses) (%)	13.8	14.1	16.2	11.6
Return on shareholders' equity (reported) (%)	21.1	23.7	29.6	21.3
P/C: net combined ratio (%)	54.5	52.2	53.4	54.5
P/C: net expense ratio (%)	40.0	36.6	33.8	34.8
P/C: return on revenue (%)	49.1	45.8	46.6	45.5
Net investment yield (including investment gains/losses) (%)	1.0	0.3	3.2	(3.1)

P/C--Property and casualty.

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 December 20, 2022)*

REVO Insurance SpA	
Financial Strength Rating	
Local Currency	BBB+/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.