

# BEST'S RATING REPORT

## CONVEX GROUP LIMITED

**Domiciliary Address:** 2nd Floor, Dorchester House, 7 Church Street, HM1, Hamilton, Bermuda

**AMB #:** 044173

**NAIC #:** N/A

**FEIN #:** N/A

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## Best's Credit Rating Effective Date

April 22, 2021

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## Information

[Best's Credit Rating Methodology](#)

[Guide to Best's Credit Ratings](#)

[Market Segment Outlooks](#)

## Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

# Convex Group Limited

**AMB #:** 044173

**Ultimate Parent:** AMB # 044173 - Convex Group Limited

## Best's Credit Ratings - for the Rating Unit Members

### Financial Strength Rating (FSR)

<b>A-</b>
<b>Excellent</b>
Outlook: <b>Positive</b>
Action: <b>Affirmed</b>

### Issuer Credit Rating (ICR)

<b>a-</b>
<b>Excellent</b>
Outlook: <b>Positive</b>
Action: <b>Affirmed</b>

## Assessment Descriptors

Balance Sheet Strength	<b>Very Strong</b>
Operating Performance	<b>Adequate</b>
Business Profile	<b>Limited</b>
Enterprise Risk Management	<b>Appropriate</b>

## Rating Unit - Members

**Rating Unit:** Convex Group Limited | **AMB #:** 044173

**AMB #** 071499 **Rating Unit Members** Convex Insurance UK Limited

**AMB #** 071498 **Rating Unit Members** Convex Re Limited

## Rating Rationale - for the Rating Unit Members

The Issuer Credit Ratings and Financial Strength Ratings of the member operating companies of the rating unit are determined in accordance with Best's building block rating methodology as applied to the consolidated group's financial statements, and the supporting analytics and results are described in the following sections of this report.

### Balance Sheet Strength: **Very Strong**

- Convex Group Limited (Convex) is expected to maintain risk-adjusted capitalisation comfortably in excess of the minimum required for the strongest assessment, as measured by Best's Capital Adequacy Ratio (BCAR), taking into account AM Best's additional capital requirements for new company formations.
- The group's balance sheet strength is supported by good financial flexibility, notably demonstrated in the fourth quarter of 2020 by an equity capital raise of USD 1 billion and the issuance of perpetual preference shares of USD 500 million, of which USD 100 million has been drawn.
- A partially offsetting rating factor is Convex's material exposure to catastrophe risk and its dependence on reinsurance to manage this risk.

### Operating Performance: **Adequate**

- The assessment considers Convex's current five-year business plan, taking into account its competitive environment.
- The likelihood of successful execution of the business plan is enhanced by the strong track record of senior management and underwriters that have extensive experience in the (re)insurance industry and the group's demonstrated market acceptance to date.
- Potential earnings volatility is expected to be mitigated by prudent use of reinsurance.

### Business Profile: **Limited**

- Convex entered the very competitive specialty (re)insurance sector shortly after its creation in 2019. The group writes insurance and reinsurance from its London platform and reinsurance from its Bermuda platform.
- The group has demonstrated good market acceptance since its inception in 2019, exceeding USD 1 billion of consolidated gross written premium in 2020, its first full year of operation. Profitable growth is expected over the medium term.
- The group has a focused and scalable operating model that incorporates a modern IT infrastructure with no legacy systems as well as considerable use of outsourcing.

### Enterprise Risk Management: **Appropriate**

- The group's enterprise risk management (ERM) framework is considered to be appropriate for its risk profile.
- With operating entities domiciled in both the United Kingdom and Bermuda, the group has to comply with Solvency II and Bermuda Solvency requirements, which has assisted in expediting the formalisation of the ERM framework.
- Catastrophe risk is recognised as a key risk and managed with a combination of internal and external models.
- As the group executes its business plan, its ERM capabilities are expected to develop in tandem to remain commensurate with its risk profile.

### Outlook

- The positive outlooks reflect the expectation that Convex's portfolio of business will continue to grow and diversify in a sustainable manner as it develops its U.K. and Bermudian operations, which could lead to an improved business profile assessment. The group's balance sheet strength assessment is expected to be supported by BCAR scores comfortably in excess of the minimum required for the strongest assessment. The execution of the group's business plan is expected to result in adequate operating performance over the medium term, supported by the effective use of reinsurance to reduce earnings volatility and protect capital.

### Rating Drivers

- Positive rating pressure could arise should the group successfully deliver its business plan and become an established player in the specialty market, while maintaining adequate operating performance.
- Negative rating pressure may arise should the group not be able to execute its business plan resulting in weaker than anticipated operating performance and/or risk-adjusted capitalisation.

## Key Financial Indicators

### Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	85.9	80.4	77.9	77.2

Source: Best's Capital Adequacy Ratio Model - Universal

Key Financial Indicators	2020 USD (000)	2019 USD (000)	2018	2017	2016
Net Premium Written:					
Non-Life	674,474	26,154	...	...	...
Composite	674,474	26,154	...	...	...
Net Income	-179,263	-38,257	...	...	...
Total Assets	3,840,888	1,829,294	...	...	...
Total Capital and Surplus	2,478,283	1,634,128	...	...	...

Source: BestLink® - Best's Financial Suite

Key Financial Ratios (%)	2020	2019	2018	2017	2016	Weighted 5 Year Average
Profitability:						
Net Income Return on Revenue	-44.0	-85.7	...	...	...	...
Net Income Return on Capital and Surplus	-8.7	...	...	...	...	...
Balance on Non-Life Technical Account	-243,615	-80,835	...	...	...	...
Non-Life Combined Ratio	172.9	999.9	...	...	...	...
Net Investment Yield	1.2	...	...	...	...	...
Leverage:						
Net Premium Written to Capital and Surplus	27.2	1.6	...	...	...	...

Source: BestLink® - Best's Financial Suite

## Credit Analysis

### Balance Sheet Strength

The BCAR scores presented under the "Best's Capital Adequacy Ratio (BCAR) Scores (%)" section of this report are based on financial year-end data as at December 2020.

### Capitalization

Convex's balance sheet strength is underpinned by risk-adjusted capitalisation comfortably in excess of the minimum required for the strongest assessment, as measured by BCAR, taking into account AM Best's additional capital requirements for new company formations. Convex is in its start-up phase and AM Best expects BCAR scores to stabilise at circa 50% at the 99.6% confidence level at the end of the group's first five years of operation.

Convex's risk-adjusted capitalisation benefits from low underwriting leverage and a conservative asset management strategy. At year-end 2020, the company reported consolidated capital and surplus of USD 2.5 billion, a 52% increase from USD 1.6 billion in 2019. As market conditions improved in 2020, management opted to raise additional capital, culminating in a USD 1 billion equity capital injection from existing and new investors, and the issuance of USD 500 million of perpetual preference shares, of which USD 100 million was drawn down. AM Best considers that the addition of fresh capital further demonstrates Convex's financial flexibility and investor confidence in the venture.

The group's largest investor is Onex Corporation (Onex), a private equity investor and manager with a track record of investing in the insurance industry. The Convex management team has also personally invested USD 50 million into the group thereby aligning interests with other capital providers.

The investment horizon for the group's principal investor is 10 years, which is longer than is typical for private equity funds. This longer-term view should allow Convex's management to take a disciplined approach to growth. In addition, shareholders' expectations are not considered overly aggressive in the initial years of operation. Surplus capital, as defined by the Board, can be distributed to shareholders via annual dividends once the business has achieved a steady state and scale.

**Balance Sheet Strength (Continued...)**

<b>Capital Generation Analysis</b>	<b>2020 USD (000)</b>	<b>2019 USD (000)</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Beginning Capital and Surplus	1,634,128	...	...	...	...
Net Income after Non-Controlling Interests	-179,263	-38,257	...	...	...
Change in Paid-In Capital	1,023,418	1,672,385	...	...	...
Net Change in Capital and Surplus	844,155	1,634,128	...	...	...
Ending Capital and Surplus	2,478,283	1,634,128	...	...	...
Net Change in Capital and Surplus (%)	51.7	...	...	...	...

Source: BestLink® - Best's Financial Suite

<b>Liquidity Analysis</b>	<b>2020 USD (000)</b>	<b>2019 USD (000)</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Net Operating Cash Flow	228,789	-56,687	...	...	...
Liquid Assets to Total Liabilities (%)	214.5	836.3	...	...	...

Source: BestLink® - Best's Financial Suite

**Asset Liability Management - Investments**

The group maintains a conservative and liquid investment portfolio, consisting primarily of high quality assets with an average duration of 1.2 years at the end of 2020. In particular, the group operates with sufficient liquidity to withstand a 1-in-200 year combined risk event and be able to pay its obligations.

As at year-end 2020, the investment portfolio was well diversified across US treasuries, corporate bonds and high-grade structured securities, which together accounted for 88% of the portfolio, with the remainder relating to cash and cash equivalents (10%), and equities (2%).

Currently there is minimal exposure to foreign currencies; once the group reaches a steady state, around 80% of premium income is expected to be collected in USD. The next most significant currencies are expected to be GBP, JPY, EUR, CAD and AUD. In 2020, the company entered into USD-GBP forward contracts in order to help hedge GBP denominated costs associated with its UK operations.

<b>Composition of Cash and Invested Assets</b>	<b>2020 USD (000)</b>	<b>2019 USD (000)</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Total Cash and Invested Assets	2,923,242	1,632,156	...	...	...
Composition Percentages (%):					
Unaffiliated:					
Cash and Short Term Investments	47.4	10.3	...	...	...
Bonds	50.7	89.7	...	...	...
Stocks	1.9	...	...	...	...
Total Unaffiliated Cash and Invested Assets	100.0	100.0	...	...	...
Total Cash and Invested Assets	100.0	100.0	...	...	...

Source: BestLink® - Best's Financial Suite

**Reserve Adequacy**

Currently, Convex outsources certain aspects of the reserving process to a third party who carries out quarterly US GAAP reserve reviews as well as both Solvency II and Bermuda technical provisions and solvency capital requirements reporting.

The reserving process involves a high level of interaction between claims, underwriting, the wider portfolio optimisation functions and the third party partner. Reserves for attritional losses are determined using standard actuarial techniques, using market data. For large, catastrophe and complex losses there is significant input from the exposure management and claims teams where their evaluation of a realistic outcome guides the reserving process. Reviews performed by the outsourced actuarial function are presented to the Convex Reserve Committee where findings are discussed and challenged.

**Balance Sheet Strength (Continued...)****Holding Company Assessment****Financial Leverage Summary - Holding Company**

Financial Leverage Ratio (%)	4.00
Adjusted Financial Leverage Ratio (%)	1.20

<b>Holding Company Analytics</b>	<b>2020 USD (000)</b>	<b>2019 USD (000)</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Liquid Assets to Total Liabilities (%)	214.5	836.3	...	...	...

Source: BestLink® - Best's Financial Suite

**Operating Performance**

The operating performance assessment of adequate considers Convex's latest five-year business plan, taking into account its competitive environment and heightened execution risk during the start-up phase. For the year-ended 2020, the group generated a net loss of USD 179.3 million (2019: USD 38.3 million loss). Given the start-up nature of the business, with 2020 representing the first full year of operations, this is in line with AM Best's expectations.

**Underwriting Performance**

For the year-ended 2020, Convex recorded a USD 243.6 million underwriting loss, equivalent to a combined ratio of 172.9%, as calculated by AM Best. A number of factors contributed to the 2020 performance, including known catastrophe IBNR (Hurricane Laura and Iowa Derecho), COVID-19 IBNR, and a management margin over the best estimate. Given the lack of Convex specific data due to its short operating history, the group relies on market benchmark loss ratios in order to adequately calculate a best estimate reserve. The average market benchmark loss ratios used in the reserving process are greater than Convex's target loss ratios, and management feel that there is a considerable buffer within booked reserves, which negatively impacted 2020 underwriting results.

There is uncertainty behind the COVID-19 affected booked reserves, with almost 100% relating to IBNR. However, given the timing of Convex's entry to the market, and the scale that the group is expected to reach over the medium term, an adverse reserve development on COVID-19 losses would likely have only a limited bearing on Convex's prospective results.

The operating expense ratio - as calculated by AM Best - amounted to 64.0% in 2020, which is in line with AM Best's expectations for a start-up. Given the rapid scaling up of the business, AM Best expects economies of scale to significantly reduce the expense ratio over the medium term.

Convex is expected to produce adequate underwriting profits over the medium term, with the potential for earnings volatility mitigated by the prudent use of reinsurance. AM Best considers that the likelihood of successful execution of the business plan is enhanced by senior management and underwriting teams that have extensive experience in the insurance industry and the targeted classes of business. Projected accident-year loss ratios appear realistic when compared to the historical performance of peers and placed in the context of current market conditions. In addition, performance should benefit from a low cost infrastructure that makes extensive use of outsourcing.

**Investment Performance**

Convex achieved an investment yield including gains of 2.4% in 2020. Over the longer-term and once the business has reached a steady state, investment results are expected to be relatively stable, reflective of the group's conservative investment strategy, with the majority of earnings derived from underwriting activities. Given the current low interest rate environment, net investment yields are expected to fall in the range of 1% to 2%.

<b>Financial Performance Summary</b>	<b>2020 USD (000)</b>	<b>2019 USD (000)</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Pre-Tax Income	-178,596	-39,634	...	...	...
Net Income (after Non-Controlling Interests)	-179,263	-38,257	...	...	...

Source: BestLink® - Best's Financial Suite

**Operating Performance (Continued...)**

Operating and Performance Ratios (%)	2020	2019	2018	2017	2016
Overall Performance:					
Return on Assets	-6.3	...	...	...	...
Return on Capital and Surplus	-8.7	...	...	...	...
Non-Life Performance:					
Loss and LAE Ratio	108.9	165.0	...	...	...
Expense Ratio	64.0	999.9	...	...	...
Combined Ratio	172.9	999.9	...	...	...

Source: BestLink® - Best's Financial Suite

**Business Profile**

Convex's business profile is assessed as limited. Convex has demonstrated good market acceptance since its inception in 2019, and has significant profitable growth prospects over the medium term.

Convex is a specialty (re)insurance group headquartered in Bermuda with subsidiaries in the UK and Bermuda. Insurance and reinsurance is written from London and reinsurance from Bermuda. The group focuses on complex risks, primarily in the US, across a diverse range of business lines.

2020 represented the group's first full year of operations in the very competitive specialty (re)insurance market. Convex was able to raise an additional USD 1.5 billion of committed capital in 2020 and reported gross written premium (GWP) in excess of USD 1 billion, despite declining to write a material portion of business which did not meet the group's underwriting risk criteria. 2021 renewals reflect a continuation of the positive market sentiment experienced during the prior year, with the group expected to meet its medium term business plan targets and report GWP of around USD 2 billion at the end of the year.

2020 GWP was split as follows: property reinsurance 35%, aerospace 16%, casualty 13%, energy 11%, property 8%, marine 5%, casualty reinsurance 3% and other 9%. As evidenced by the split of 2020 GWP, the group has remained underweight on casualty reinsurance lines, reflective of management's view that casualty reinsurance rates remain inadequate. Approximately two thirds of the group's risks lie in the US, with the bulk of the remaining exposures in the UK, Europe, Japan and Australasia.

As a new entrant in the specialty (re)insurance sector, Convex faces strong competition from well-established peers and is highly reliant on brokers to access business. In recent years, market conditions, particularly in the reinsurance sector, have been strained given excess capacity and pressure on rates. However, Convex has entered the market at a time when strong rate increases have been noted on a range of specialty lines, and overall there is a positive outlook on the pricing environment. Regardless, it is still a difficult market in which to establish a new company. For Convex, market acceptance is likely to be aided by senior management and underwriting teams that have an excellent network and reputation in its target markets.

**Enterprise Risk Management**

Convex's enterprise risk management is considered supportive of an appropriate assessment. In 2020, the group focused on building the teams, systems, and laying the groundwork for a market leading control environment. Convex onboarded a Chief Risk Officer in 2019, who oversees the ERM function across the group.

The requirement of subsidiaries to comply with either Solvency II or Bermuda Solvency requirements has assisted in expediting the formalisation of the ERM framework. Risk management capabilities are expected to develop to remain aligned with the expanding risk profile of the group, supported by a clear sponsorship from the senior management team.

The group's Board consists of ten Directors including three independent non-executive Directors. Stephen Catlin is currently both the CEO and Chairman of the group's Board of Directors. However, AM Best expects these two roles to be separated in the first years of operation in line with strong governance practices.

**Reinsurance Summary**

The key objective of the reinsurance programme is to protect group capital, particularly in the start-up phase, by reducing the exposure to large single risk losses, catastrophe losses and an adverse aggregation of losses. A combination of proportional, non-proportional, and alternative capital cover has been used in the reinsurance programme. An intra-group quota share agreement is in place between Convex Insurance UK Limited and Convex Re Limited to optimise capital allocation.

**Enterprise Risk Management (Continued...)**

The use of external reinsurance will be high during the 'build-up' phase. The majority (75%) of the reinsurance panel are rated A- or above, with the remainder made up of exposures to collateralised reinsurers (collateral held by trustees with a rating of A or above). Concentration risk is closely monitored to ensure it remains in line with risk appetite.

**Financial Statements**

	12/31/2020		12/31/2019
<b>Balance Sheet</b>	<b>USD (000)</b>	<b>%</b>	<b>USD (000)</b>
Cash and Short Term Investments	1,386,261	36.1	168,404
Bonds	1,482,483	38.6	1,463,752
Equity Securities	54,498	1.4	...
Total Cash and Invested Assets	2,923,242	76.1	1,632,156
Reinsurers' Share of Reserves	247,817	6.4	63,665
Debtors / Amounts Receivable	443,932	11.6	83,774
Other Assets	225,897	5.9	49,699
<b>Total Assets</b>	<b>3,840,888</b>	<b>100.0</b>	<b>1,829,294</b>
Gross Technical Reserves:			
Unearned Premiums	513,581	13.4	84,943
Non-Life Reserves	417,723	10.9	7,019
Total Gross Technical Reserves	931,304	24.2	91,962
Other Liabilities	431,301	11.2	103,204
<b>Total Liabilities</b>	<b>1,362,605</b>	<b>35.5</b>	<b>195,166</b>
Capital Stock	124,272	3.2	16,725
Paid-in Capital	2,571,531	67.0	1,655,660
Retained Earnings	-217,520	-5.7	-38,257
<b>Total Capital and Surplus</b>	<b>2,478,283</b>	<b>64.5</b>	<b>1,634,128</b>
<b>Total Liabilities, Mezzanine Items and Surplus</b>	<b>3,840,888</b>	<b>100.0</b>	<b>1,829,294</b>

Source: BestLink® - Best's Financial Suite



				12/31/2020	12/31/2019
	Non-Life	Life	Other	Total	Total
Income Statement	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
Gross premiums written	1,095,258	...	...	1,095,258	101,482
Net Premiums Earned	334,297	...	...	334,297	3,453
Net Investment Income	...	...	26,481	26,481	25,099
Net realized gains/(losses)	...	...	16,372	16,372	725
Net unrealized gains/(losses)	...	...	12,529	12,529	15,290
Non-operating revenue	...	...	17,366	17,366	87
Total Revenue	334,297	...	72,748	407,045	44,654
Losses and Benefits	363,876	...	...	363,876	5,699
Net Operating Expense	214,036	...	...	214,036	78,589
Other Expense	...	...	7,729	7,729	...
Total Losses, Benefits, and Expenses	577,912	...	7,729	585,641	84,288
Earnings before interest & taxes (EBIT)	-243,615	...	65,019	-178,596	-39,634
Income Taxes Incurred	...	...	...	667	-1,377
Net income before Non-Controlling interests	...	...	...	-179,263	-38,257
Net income/(loss) from continuing operations	...	...	...	-179,263	-38,257
Net Income	...	...	...	-179,263	-38,257

Source: BestLink® - Best's Financial Suite

	12/31/2020	12/31/2019
Statement of Cash Flows	USD (000)	USD (000)
Net cash provided/(used) in Operating Activities	228,789	-56,687
Net cash provided/(used) in Investing Activities	-1,015,220	-1,574,755
Net cash provided/(used) in Financing Activities	1,023,418	1,674,794
Effect of Exchange Rates/Discontinued Operations on Cash	12,591	595
Total increase (decrease) in cash	249,578	43,947
Cash, beginning balance	43,947	...
Cash, ending balance	293,525	43,947

Source: BestLink® - Best's Financial Suite

**Last Update**

May 12, 2021

**Identifiers****AMB #:** 044173**LEI #:** 8945004K4ROMJFAF0241**Contact Information**Domiciliary Address:2nd Floor, Dorchester House,  
7 Church Street, HM1, Hamilton,  
Bermuda**Financial Data Presented**

The financial data in this report reflects the most current data available at the time the report was printed.

## Convex Group Limited

### Operations

**Date Incorporated:** October 24, 2018**Domiciled:** Bermuda**Business Type:** Property/Casualty

## Best's Credit Ratings

### Rating Relationship

**AM Best Rating Unit:** [044173 - Convex Group Limited](#)Refer to the [Best's Credit Report for AMB# 044173 - Convex Group Limited](#) for details regarding the rating rationale, credit analysis, and financial exhibits available at the time the credit analysis was performed.

AMB#	Rating Unit Members	Best's Credit Ratings	
		Financial Strength Rating	Long-Term Issuer Credit Rating
071499	Convex Insurance UK Limited	A-	a-
071498	Convex Re Limited	A-	a-

## Corporate Structure

**Ultimate Parent:** AMB # 044173 - Convex Group LimitedBased on AM Best's analysis, AMB# 044173 Convex Group Limited is the AMB Ultimate Parent and identifies the topmost entity of the corporate structure. Access in BestLink this company's current [Corporate Structure](#).

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

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