S&P Global
Ratings

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Research Update:

Convex Re Ltd. 'A-' Rating Affirmed On Continuing Improvements to Scale And Underwriting Profitability; Outlook Stable

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Overview

- Convex Re Ltd. (Convex, or the group) has successfully built up its operations since launching in 2019, writing more than $2 billion of premium in 2021.
- We expect that the group will record its first underwriting profit in 2022, assuming an average level of catastrophe losses for the rest of the year. The group will likely remain well capitalized with an excess of capital above our 'AAA' benchmark over the next two years.
- We affirmed our 'A-' rating on Convex's core entities.
- The outlook is stable, reflecting our expectation that the group will continue to increase in size while maintaining underwriting profitability.

Rating Action

On Sept. 23, 2022, S&P Global Ratings affirmed its 'A-' long-term insurer financial strength and issuer credit ratings on the Convex group's core operating subsidiaries (see ratings list below). The outlook is stable.

Rationale

Since launching late in 2019, Convex has quickly built up a significant premium base. At the end of 2021, the group passed the $2 billion gross written premium mark and we expect it will be about $3 billion in 2022. The success in building its premium base reflects the strong reputation Convex had when it first came to market and the improving trading conditions seen in the (re)insurance markets since 2019. In our view, Convex is more of a greenfield insurer than a start-up since most of the group's management and a significant amount of its underwriting staff previously worked for the Catlin Group.

Convex has yet to return an underwriting or bottom-line profit in its two full years of operations because its earned premium base has failed to keep up with the group's expense base, reflecting the group's rapid growth. The group's expense ratio in 2021 was 40%; however, as the group's premium base increases, we expect the expense ratio to drop to about 30% by the end of 2024. A higher-than-expected amount of natural catastrophe claims driven by Hurricane Ida, European floods, and Storm Uri also affected the group's 2021 combined (loss and expense) ratio of 116.8% (indicating an underwriting loss). Despite losses from natural catastrophes in the first half of the year and some exposure to losses from the Russia-Ukraine conflict, we expect that, assuming a normalized experience for the rest of the second half of 2022, the group should record its first underwriting profit with a combined ratio close to 95%. Convex, like its peer group, suffered material mark-to-market losses in its investment portfolio over the first half of 2022 as interest rate increases led to a reduction in bond prices. On an economic basis, an increased discount rate will offset the impact of these losses. Over the longer term, the increase in interest rates should be positive for Convex, increasing the yield on its investment performance.

Convex's significant growth over the past two years has led to a reduction in the significant buffer it had above our 'AAA' benchmark when it launched. However, we expect Convex will maintain robust capital adequacy with a small excess above our 'AAA' level for the next two to three years as it retains earnings rather than paying dividends. Convex's growth in 2021-2022 has also reduced the group's exceptional levels of liquidity. However, the group still has ample levels of liquid assets to cover a stressed liquidity scenario.

Outlook

The stable outlook signifies that we expect Convex to expand broadly in line with its business plans over the next two years, while maintaining capital that exceeds our 'AAA' benchmark. We also anticipate that Convex will start generating underwriting profits by year-end 2022.

Upside scenario

We could take a positive rating action over the next two years if Convex recorded underwriting results that were at least in line with the industry average while maintaining excess capital above our 'AAA' benchmark.

Downside scenario

We could lower the ratings if:

- We thought Convex capital levels would fall consistently below our 'AAA' benchmark; or
- The group's underwriting results significantly deviated from its plans, with combined ratios materially above 100% in 2022-2023 (excluding the impact of significant catastrophes).

Ratings Score Snapshot

Ratings Score Snapshot -- Convex Re Ltd.

	To	From
Financial strength rating	A-/Stable	A-/Stable
Anchor	a-	a-

Ratings Score Snapshot -- Convex Re Ltd. (cont.)

	To	From
Business risk	Satisfactory	Satisfactory
IICRA	Intermediate	Intermediate
Competitive position	Satisfactory	Satisfactory
Financial risk	Strong	Strong
Capital and earnings	Excellent	Excellent
Risk exposure	High	High
Funding structure	Neutral	Neutral
Modifiers	0	0
Governance	Neutral	Neutral
Liquidity	Adequate	Exceptional
Comparable ratings analysis	0	0
Support	0	0
Group support	0	0
Government support	0	0

IICRA--Insurance Industry and Country Risk Assessment.

ESG credit indicators

E-4, S-2, G-2

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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
- 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

Ratings Affirmed	
Convex Re Ltd.	
Convex Insurance UK Ltd.	
Convex Guernsey Ltd.	
Convex Europe S.A.	
Financial Strength Rating	
Local Currency	A-/Stable/--