

Research Update:

# Convex Re Outlook Revised To Positive On The Back Of Improved Performance; 'A-' Rating Affirmed

June 18, 2024

## Overview

- Convex Re Ltd. (Convex, or the group) has successfully built its operations since launching in 2019, writing more than \$4 billion of gross premiums written (GPW) in 2023.
- The group recorded its second year of underwriting profit in 2023 along with a positive net income and we expect that the group will report combined ratio (loss and expense) of about 90% for next two years, assuming an average level of catastrophe losses.
- We expect the group will remain well capitalized with an excess of capital above our 99.99% benchmark over the next two years.
- We revised our outlook on Convex and its other core operating entities, Convex Insurance UK Ltd., Convex Guernsey Ltd., and Convex Europe S.A., to positive from stable and affirmed our 'A-' ratings on the entities.
- The positive outlook reflects our expectation that Convex will continue to expand broadly in line with its business plans and achieve a combined ratio of about 90% over the next two years, assuming an average level of catastrophe losses, while maintaining capital adequacy in line with our extreme stress benchmark (99.99% confidence level).

### PRIMARY CREDIT ANALYST

**Maren Josefs**  
London  
+ 44 20 7176 7050  
maren.josefs  
@spglobal.com

### SECONDARY CONTACT

**Ali Karakuyu**  
London  
+ 44 20 7176 7301  
ali.karakuyu  
@spglobal.com

## Rating Action

On June 18, 2024, S&P Global Ratings revised the outlook on the Convex group's operating subsidiaries: Convex Re Ltd., Convex Insurance UK Ltd., Convex Guernsey Ltd., and Convex Europe S.A. to positive from stable and affirmed its 'A-' insurer financial strength ratings on all the entities.

## Impact Of Revised Capital Model Criteria

- The implementation of our updated criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions," published Nov. 15, 2023) was not the driver for the outlook revision.

- The application of our revised capital adequacy framework has no material effect on the Convex group's capital adequacy. We expect capital adequacy will remain redundant at the 99.99% confidence level over the forecast period (2024-2026).
- The improvement in total adjusted capital under the revised methodology was primarily driven by removing haircuts on the property/casualty (P/C) loss reserve discounting and not deducting P/C deferred acquisition costs.
- Under the new criteria, we have also captured the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.
- The recalibration of our capital charges to higher confidence levels, as well as increased natural catastrophe risk charges, somewhat offsets these improvements.

## Credit Highlights

### Overview

Key strengths	Key risks
Capital in line with our 99.99% benchmark as per our S&P Global Ratings' risk-based capital model.	Ambitious growth targets, which could put pressure on capital and earnings.
Lower legacy insurance liabilities or operating issues, given that it is a recently formed group.	Material exposure to natural catastrophe risk.
Management team's experience and reputation.	Operational risk generated due to the outsourcing of several functions.

### Outlook

The positive outlook reflects our expectation that Convex will continue to expand broadly in line with its business plans with a combined ratio of about 90% over the next two years, while maintaining capital adequacy in line with our extreme stress benchmark (99.99% confidence level).

### Downside scenario

We could revise the outlook to stable if:

- We thought Convex's capital levels would fall consistently below our extreme stress benchmark (99.99% confidence level); or
- The group's underwriting results deteriorate and are below our expectations and worse than its peers.

### Upside scenario

We could raise the rating by one notch over the next two years if Convex generates underwriting results that are at least in line with 'A' rated peers while retaining risk-based capital adequacy in line with our extreme stress benchmark (99.99% confidence level).

## Rationale

Since launching late in 2019, Convex has quickly built a significant scale, while achieving its underwriting profitability goals in the past two years. At the end of 2023, the group passed the \$4.2 billion GPW mark, and we expect it will surpass the \$5 billion mark at year-end 2024. 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 insurance and reinsurance markets.

Convex has shown significant growth since it started operations. The group has quickly established itself and continues to meet its growth objectives. Underwriting performance to date is slightly better than expected, while the group operates within its risk appetite, benefits from strong pricing, and fosters its key client relationships. We expect Convex's portfolio to be balanced between property, casualty, and specialty business.

Convex recorded its second year of underwriting profit (\$255 million) and first year of positive net income for year-end 2023. The net combined ratio was 88.8% with a net income of \$503 million attributable to common shareholders. We expect Convex to report a combined ratio of about 90% for 2024-2026 with net income of about \$400 million-\$500 million each year.

Convex's capital remains robust with significant redundancy at the 99.99% level as measured by our risk-based capital model, aided by good results and investing in growth rather than paying dividends. Its solvency ratio measured by Bermuda solvency capital requirements for the year-end 2023 was also strong at 328%, but as the business continues to grow, we expect this ratio to come down and settle at 270%-280% over the next few years. Financial leverage remains modest at 16%, and we do not expect it to go up significantly with strong fixed-charge coverage of at least 5x.

Convex is currently majority owned by Onex, who we view as a financial sponsor and who we expect to be supportive of the group's growth strategy.

## Ratings Score Snapshot

### Convex Re Ltd.--Ratings score snapshot

	To	From
<b>Financial strength rating</b>	<b>A-/Positive</b>	<b>A-/Stable</b>
Anchor*	a-	a-
<b>Business risk</b>	<b>Satisfactory</b>	<b>Satisfactory</b>
IICRA	Intermediate	Intermediate
Competitive position	Satisfactory	Satisfactory
<b>Financial risk</b>	<b>Strong</b>	<b>Strong</b>
Capital and earnings	Excellent	Excellent
Risk exposure	High	High
Funding structure	Neutral	Neutral
Modifiers	0	0
Governance	Neutral	Neutral
Liquidity	Adequate	Adequate
Comparable ratings analysis	0	0

**Convex Re Ltd.--Ratings score snapshot (cont.)**

Support	0	0
Group support	0	0
Government support	0	0

IICRA--Insurance Industry and Country Risk Assessment. \*We select the higher anchor to reflect the group's successful build up of its business.

**Related Criteria**

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- 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

**Ratings List**

**Ratings Affirmed; Outlook Action**

	To	From
<b>Convex Re Ltd.</b>		
<b>Convex Insurance UK Ltd.</b>		
<b>Convex Guernsey Ltd.</b>		
<b>Convex Europe S.A.</b>		
Financial Strength Rating	A-/Positive/--	A-/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceid/504352>. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings). Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.spglobal.com/ratings](http://www.spglobal.com/ratings) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.spglobal.com/usratingsfees](http://www.spglobal.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.