S&P Global Ratings

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Research Update:

Slovakian Insurer Novis Insurance Assigned 'BB-' Rating; Outlook Stable

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Overview

- We believe Novis Insurance Co. has grown fast and has attracted distribution partners in different European markets, while its competitive position remains in a buildup phase.
- Novis' financial risk profile is significantly sensitive to assumption changes such as lapses of value in its force book, and its funding structure relies heavily on reinsurance and capital markets for financing acquisition costs.
- We assigned our 'BB-' long-term issuer credit rating to Novis.
- The stable outlook reflects our view that Novis will continue to expand its franchise, maintain regulatory solvency capital well above 100%, and maintain capital adequacy according to S&P Global Ratings' capital model above the 'A' range from 2021-2023.

Rating Action

On Oct. 11, 2021, S&P Global Ratings assigned its 'BB-' long-term issuer credit rating to Slovakia-based life insurer Novis Insurance Co. The outlook is stable.

Rationale

We believe Novis has grown fast since its foundation in 2012 and has attracted distribution partners in different regional markets in Europe. The insurer writes unit-linked business with additional protection coverage on mortality, morbidity, accidents, and disability. Novis writes business in a number of markets in the EU. Main markets include Italy, Iceland, Slovakia, Hungary, and Germany.

In 2020 and first-half 2021, business growth was affected by the pandemic and, to a lesser extent, interim regulatory measures, including fines. Consequently, gross written premiums declined by 7% in 2020 and new business 16% in first-half 2021. However, in that period, Novis continued to generate new business. Under our base-case scenario, we assume the company will maintain full license to continue to write business in the target markets. While an interim measure was withdrawn in April 2021, we will closely monitor regulatory actions on Novis and their implications for its competitive position. The company distributes via third parties, so we believe its competitive position depends significantly on reinsurance support or capital market financing to cover acquisition costs for new business. In 2020, reinsurance utilization was above 80% based on premiums and liabilities toward reinsurers were about 32% of its total balance sheet. Under our base-case scenario, we believe gross premiums will increase 5%-10% in 2021-2022.

We believe Novis' financial risk profile reflects the company's sufficient solvency position, with a 137% solvency ratio as of year-end 2020 and capital adequacy above the 'A' range according to our capital model. The company's capital adequacy under our capital model and regulatory solvency consists predominantly of value in force, which in our view creates a high sensitivity toward lapses and assumption changes such as administrative expenses on portfolio profitability. This makes Novis' capital base more sensitive to assumption changes and less fungible compared with that of higher-rated peers. Moreover, the company's absolute size of capital makes it more vulnerable to adverse economic developments than larger, more diverse peers. We believe capital adequacy will remain in the 'A' range and the Solvency II ratio at 140%-160% in 2021-2023, although sensitivity toward lapses and assumption changes will persist. We believe additional open items with the regulator on lapse assumptions could further stress the Solvency II ratio, but this is partly offset via a subordinated convertible bond issuance of €20 million, which we believe will be fully paid in 2021 and accepted under regulatory solvency. The insurer maintains a conservative investment portfolio, with the majority of investments in government bonds that have an average rating of 'A' on them.

Novis reported return on equity of 10%-12% in 2019-2020, with a net income of about €4 million, and we assume net income of €5 million-€10 million in 2021-2023. The company's gross revenue, however, consists of more than 50% of changes in insurance contracts' value and reinsurance commissions, highlighting the company's dependance on up-front financing and assumption changes, in particular on costs and lapse development. Under our base-case scenario, we believe Novis will continue to write profitable new business, which will help increase the value of its insurance portfolio that flows through the company's profit and loss account.

We believe Novis' funding structure will change in 2021-2023. The company started to issue a subordinated convertible bond in 2021 with a €20 million volume, and we expect Novis to issue material senior debt to finance its acquisition costs from 2021-2025. At the same time, we believe the insurer will reduce its reinsurance protection, which capital market financing will gradually replace. We therefore believe that financial leverage will increase strongly, to 60%-80% in 2021-2023, creating significant dependance on this source of financing and high fixed charges. We assume the fixed charge coverage will remain at 2x-4x in 2021-2023.

Novis, as a joint stock company, has about 20 shareholders. Board members hold shares, but no shareholder holds more than 10%. We believe the company's management team is sufficiently experienced in the insurance sector and the corporate governance structure and risk management capabilities are in line with industry standards. We do not see governance issues apart from the regulatory measures on products and solvency ratio calculations, which we will continue to monitor closely.

Outlook

The stable outlook reflects our view that Novis will continue to expand its franchise, maintain regulatory solvency capital well above 100%, and maintain capital adequacy according to S&P Global Ratings' capital model above the 'A' range over 2021-2023.

Upside scenario

A positive rating action within 12 months would largely depend on the insurer's ability to:

- Continue generating profitable growth, gain scale, and develop the franchise in line with the business plan in target markets; and
- Reduce sensitivities toward lapses and its dependencies to reinsurers and capital market debtors.

Downside scenario

A negative rating action in the next 6-12 months could follow if:

- Regulatory measures on its product portfolio or sales activities are affecting the company's competitive position;
- Solvency under Solvency II drops to 100% or below;
- Capital adequacy according to S&P Global Ratings' capital model sustainably deteriorates below the 'A' range;
- Novis fails to fund acquisition costs via capital markets or reinsurance financing, which could affect its competitive position; or
- The company loses access to key distribution partners, in particular in Italy and Iceland.

Ratings Score Snapshot

Business Risk Profile	**Fair**
Competitive position	Fair
IICRA	Intermediate risk
Financial Risk Profile	**Marginal**
Capital and earnings	Satisfactory
Risk exposure	Moderately low
Funding structure	Negative
Anchor*	**bb-**
Modifiers	0
Liquidity	Adequate
Comparable ratings analysis	0
Issuer Credit Rating	**BB-/Stable**

*This reflects Novis' sensitivity toward lapses and assumption changes in its financial risk profile.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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

New Rating	
NOVIS Insurance Company	
Issuer Credit Rating	
Local Currency	BB-/Stable/--