

RESEARCH

Research Update:

**RVI National Insurance Co. Assigned 'A' Rating;
Outlook Negative**

Publication date: 12-Dec-2006
Primary Credit Analyst: Damien Magarelli, New York (1) 212-438-6975;
damien_magarelli@standardandpoors.com
Secondary Credit Analyst: Taoufik Gharib, New York (1) 212-438-7253;
taoufik_gharib@standardandpoors.com

Rationale

On Dec. 12, 2006, Standard & Poor's Ratings Services assigned its 'A' counterparty credit and financial strength ratings on RVI National Insurance Co. (RVI National) based on its core status to R.V.I. Guaranty Co. Ltd. (collectively, RVI). The outlook is negative.

RVI National is core to RVI Guaranty due to an 85% quota share agreement from RVI Guaranty and an excess of loss reinsurance agreement as well. Furthermore, the companies share management teams, brand name, and are aligned from a competitive position standpoint. Lastly, RVI National was capitalized with \$15 million in statutory surplus.

The ratings on RVI Guaranty and RVI National are based on the company's strong, but volatile, earnings; leadership position (supported by the management team) within the residual value insurance market; conservative investments; and strong liquidity. RVI's capital adequacy is strong and measures about 155% based on our model. Standard & Poor's expects RVI to maintain excess capital to compensate for its net income and reserve volatility. Offsetting these positive factors are the company's changing risk profile, including exposure to larger real estate risks; concentrated client base; and increased competition within real estate and passenger vehicle, though commercial equipment has shown increased strength in the first half of 2006.

Outlook

The negative outlook is expected to be resolved with year-end 2006 figures. If RVI's real estate business has losses greater than what is currently expected, the rating could be lowered one notch, or if increased competition within the asset classes continues, that could also lower the rating by one notch. A decline in earnings could also lead to a lowering of the rating, as earnings might decline if volume continues to be reduced once the unearned premium revenue is not as significant. However, Standard & Poor's expects that RVI will maintain underwriting discipline and risk selection even as volume declines. Furthermore, RVI is expected to maintain a combined ratio of about 90% and a capital adequacy ratio of about 150% to compensate for potential volatility. If the previously mentioned issues develop favorably, the outlook could be revised to stable.

Ratings List

New Rating; CreditWatch/Outlook Action

RVI National Insurance Co.
Counterparty Credit Rating
Local Currency
Financial Strength Rating

A/Negative/--

Local Currency

A/Negative/--

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Copyright © 1994-2007 Standard & Poor's, a division of The McGraw-Hill Companies.
All Rights Reserved. [Privacy Notice](#)

The McGraw-Hill Companies