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Research Update:

R.V.I. Guaranty Co. Ltd. 'BBB' Ratings Affirmed; Outlook Stable

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

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R.V.I. Guaranty Co. Ltd. 'BBB' Ratings Affirmed; Outlook Stable

Overview

- RVI has a less-than-adequate competitive position due to its narrow business focus as measured by gross premiums written.
- We are affirming our ratings on R.V.I. Guaranty Co. Ltd. and its subsidiary, R.V.I. America Insurance Co.
- The stable outlook reflects our view that RVI will maintain its competitive position while exploring growth opportunities.

Rating Action

On Sept. 15, 2016, S&P Global Ratings affirmed its 'BBB' financial strength and long-term counterparty credit ratings on R.V.I Guaranty Co. Ltd. and its operating subsidiary, R.V.I. America Insurance Co. (collectively, RVI). The outlook is stable.

Rationale

The affirmation reflects our view of RVI's fair business risk profile and moderately strong financial risk profile. Although RVI enjoys a favorable brand name and has extensive market knowledge in the residual value and leasing markets, we believe its business is narrowly focused and the sources of premiums are somewhat concentrated. However, with the Financial Accounting Standards Board and International Accounting Standards Board both issuing lease standards maintaining the benefits of finance lease accounting, the company may experience a rise in and diversification of premiums. RVI's capital is redundant at the extremely strong level, and we expect it to remain so through 2017 in our base-casescenario. However, the absolute size of the company's total adjusted capital at less than \$250 million limits the capital and earnings score, thereby limiting the financial risk profile score.

We have revised our assessment of RVI's enterprise risk management score to adequate with strong risk controls from adequate. The change in our assessment was the result of our favorable view of management's underwriting controls and reserves and claims-management controls. A conservative approach to underwriting has produced minimal losses for the company, and reserves have proven to be conservatively set.

We have a more-favorable view of RVI's management and governance, though the score remains unchanged at fair. The CEO continues to be involved in business development, but separate senior individuals have served for several years as

business-development leads for the commercial equipment (CE) and passenger vehicle (PV) businesses. The lead underwriters for PV and CE have been in place for over 12 years and have a broad knowledge of RVI's overall business. New hires in 2015 in the CE risk-management and business-development areas have further increased the depth of management.

Outlook

The stable outlook on R.V.I. Guaranty Co. Ltd. reflects our view that RVI will maintain its competitive position in the residual value market but will continue to explore opportunities to grow its franchise. We expect the company's financial risk profile to remain moderately strong with the support of an extremely strong capital position.

Downside scenario

We may lower our ratings if RVI cannot sustain its already constrained competitive position or if it significantly changes its capital-management strategy.

Upside scenario

We may raise the ratings in the next two years if the sources of premiums become more diverse, the absolute amount of premiums written rises meaningfully, and we view the level of premiums as sustainable.

Related Criteria And Research

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed

R.V.I. Guaranty Co. Ltd.

R.V.I. America Insurance Co.

Counterparty Credit Rating

Local Currency

BBB/Stable/--

Financial Strength Rating

Local Currency

BBB/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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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