

23 May 2019 | Affirmation

Fitch Affirms Lloyd's of London IFS at 'AA-'; Outlook Negative

Fitch Ratings-London-24 May 2019: Fitch Ratings has affirmed Lloyd's of London's (Lloyd's), Lloyd's Insurance Company (China) Ltd's and Lloyd's Insurance Company S.A.'s Insurer Financial Strength (IFS) Ratings at 'AA-' (Very Strong). Fitch has also affirmed the Long-Term Issuer Default Rating (IDR) of Society of Lloyd's at 'A+' and its subordinated bonds at 'A-'. The Rating Outlooks remain Negative.

Key Rating Drivers

The Negative Outlook on the ratings reflect our view that the financial performance of Lloyd's remains challenging, with high attritional losses and a stubbornly high expense ratio. The ratings reflect the company's very strong business profile in insurance and reinsurance classes, very strong capitalisation and strong reserve adequacy. These positives are somewhat offset by the underlying pressure on underwriting performance, together with Fitch's belief that exposure to catastrophe risk remains high relative to that of its peers.

In 2018 the net combined ratio, excluding major claims, was 92.9% (2017: 95.5%) reflecting continuing pressure on risk-adjusted premium rates and expense ratios. Lloyd's embarked on a profitability review in 2018 with a focus on the worst performing classes of business across the market and the worst 10% of each individual syndicate's portfolio. Fitch expects corrective underwriting actions taken by syndicates should meaningfully improve the combined ratio for Lloyd's but that it will take time for the benefit of these actions to have an impact on earnings.

As a result of the corrective actions, alongside the significant natural catastrophe losses of the past two years, Lloyd's reported overall risk-adjusted price rises in 2018 of 3% (2017: 2% fall). This still leaves risk-adjusted rates well below historical highs. From 2010 to 2017, real risk-adjusted rates at Lloyd's declined by 20%. Rates in the London market have now increased quarter-on-quarter for the last seven quarters and Fitch expects rates to continue to improve throughout the rest of 2019.

We view Lloyd's exposure to worldwide catastrophes as high although Lloyd's has managed this down in recent years. 2018 was the fourth-most expensive year for catastrophe losses on record and as a result Lloyd's reported a combined ratio of 104.5% (2017: 114%). This was an improvement on 2017, which represented the worst year for catastrophe losses on record, but still

represented a significant underwriting loss.

Fitch believes that the capital position of Lloyd's remains resilient, as evidenced by the Lloyd's central solvency coverage ratio at 249% (end-2017: 215%). We consider this ratio, which reflects the vulnerability of the central fund, to be the primary metric when assessing Lloyd's capitalisation. This is comfortably in excess of the risk appetite of 200%, showing a good level of resilience to catastrophe losses. However, in the longer term this resilience relies on the willingness and ability of members to recapitalise following significant losses.

The business profile of Lloyd's remains very strong and supports the group's rating. It is one of a small group of global (re)insurance providers capable of attracting high-quality and specialised business. It operates as a global insurance and reinsurance market comprising more than 100 syndicates, writing business from more than 200 countries and territories, and reported gross written premiums of GBP35.5 billion in 2018.

Rating Sensitivities

The ratings are likely to be downgraded if the net combined ratio, excluding major claims, remains above 91% (2018: 92.9%). Underperformance or a proportionally larger net catastrophe loss compared with peers or market share could also lead to a downgrade.

A return to a Stable Outlook is likely if the net combined ratio of Lloyd's, excluding major claims, improves to below 91% and if it maintains its risk-adjusted capital exposure to catastrophe losses at a level that is commensurate with peers'.

Lloyd's of London; Insurer Financial Strength; Affirmed; AA-; RO:Neg

The Society of Lloyd's; Long Term Issuer Default Rating; Affirmed; A+; RO:Neg

----subordinated; Long Term Rating; Affirmed; A-

Lloyd's Insurance Company (China) Limited; Insurer Financial Strength; Affirmed; AA-; RO:Neg

Lloyd's Insurance Company S.A.; Insurer Financial Strength; Affirmed; AA-; RO:Neg

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Applicable Criteria

[Insurance Rating Criteria \(pub. 11 Jan 2019\)](#)

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