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Research Update:

Lloyd's Insurance Co. S.A. Assigned 'A+' Rating As Core Subsidiary Of Lloyd's Of London; Outlook Negative

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Overview

- Lloyd's Insurance Co. S.A. (Lloyd's Brussels) is a newly established Belgian subsidiary of the U.K.-based specialist insurance market Society of Lloyd's (Lloyd's). It was created to ensure Lloyd's can continue to provide cover to its EU-based customers after the U.K. leaves the EU.
- We assess Lloyd's Brussels as a core subsidiary of Lloyd's, based on the sizable revenue and profits it will generate for the overall group and the high level of reinsurance support it will receive from Lloyd's.
- We are assigning a rating of 'A+' to Lloyd's Brussels, equalized with the rating on its parent to reflect its status as a core subsidiary.
- The negative outlook is in line with our outlook on Lloyd's.

Rating Action

On June 25, 2018, S&P Global Ratings assigned its 'A+' financial strength rating to Lloyd's Insurance Co. S.A. (Lloyd's Brussels), a Belgian subsidiary of the U.K.-based specialist insurance market Society of Lloyd's (Lloyd's). The outlook is negative.

Rationale

Lloyd's Brussels has been incorporated to allow Lloyd's to continue to serve its EU-based customers following the U.K.'s exit from the EU. Lloyd's Brussels has been authorized by the National Bank of Belgium, and Lloyd's will start writing business through the subsidiary from January 2019. Lloyd's expects the subsidiary to write approximately €2 billion of gross written premium once fully operational. This would make up approximately 6% of the Lloyd's group's gross written premium in 2017 (using current exchange rates). The subsidiary will benefit from a 100% reinsurance agreement with Lloyd's, whereby the risk will flow back to the Lloyd's market. Due to the materiality of the subsidiary and the reinsurance support, we assess the Brussels entity as core to the Lloyd's group. We therefore equalize our rating on Lloyd's Brussels with the 'A+' rating on the Lloyd's market.

As a Belgium-domiciled insurance company, Lloyd's Brussels will be regulated under the EU's Solvency II framework. We expect that Lloyd's Brussels will

hold levels of capital comfortably in excess of its solvency capital requirement (SCR), with a target coverage level of 125% of its SCR. Due to the reinsurance cover from Lloyd's, we expect Lloyd's Brussels' solvency ratio to be less volatile than that of the group. Lloyd's itself reported an SCR of 144% at year-end 2017.

Outlook

The negative outlook on Lloyd's Brussels mirrors that on Lloyd's. As long as we continue to view it as a core subsidiary, the rating on Lloyd's Brussels will move in lockstep with the group.

Upside scenario

We could revise our outlook to stable if the market manages to remain attractive to its members and restores its capital position to the 'AAA' level in our model through strong earnings in 2018-2019.

Downside scenario

We could lower our ratings by one notch if Lloyd's is not able to restore its capital position to the 'AAA' level in our model in 2018-2019 through either further major losses or weaker earnings.

Related Criteria

- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- Lloyd's Outlook Revised To Negative On Hurricane Losses; Ratings Affirmed, Oct. 12, 2017
- Lloyd's, Sept. 13, 2017

Ratings List

New Rating; CreditWatch/Outlook Action

Lloyd's Insurance Co. S.A.
Financial Strength Rating

A+/Negative/--

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