S&P Global
Ratings

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Research Update:

Society of Lloyd's Upgraded To 'AA-' From 'A+' On Strong Underwriting Discipline; Outlook Stable

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Overview

- We believe the Society of Lloyd's will sustainably maintain its strong performance in line with 'AA-' rated peers.
- This is supported by corrective underwriting actions in recent years, focused on enhancement of underwriting discipline through better oversight of syndicates, which we believe will help Lloyd's sustain its improved performance.
- We therefore expect the society to perform in line with 'AA-' rated peers, even if the pricing conditions were to face downward pressure.
- Hence, we have raised our financial strength ratings on the Society of Lloyd's to 'AA-' from 'A+'.
- The stable outlook reflects our expectation that Lloyd's will maintain its robust underwriting discipline, and this will help support its capital and earnings at an excellent level.

Rating Action

On Dec. 13, 2023, S&P Global Ratings raised its financial strength ratings on the Society of Lloyd's and its core operating entities (see ratings list) to 'AA-' from 'A+'. The outlook is stable.

Impact Of Revised Capital Model Criteria

The implementation of our updated criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions," published Nov. 15, 2023) was not the driver for raising the ratings; nor for the change in capital and earnings score. The reason for changing the capital and earnings score is because we removed the qualitative adjustment we had previously applied, as we explain in the rationale below.

Our revised capital model criteria led to some improvement in capital adequacy, primarily reflecting an increase in total adjusted capital owing to the removal of haircuts to liability adjustments, namely non-life reserves surplus and discounting, along with not deducting non-life deferred acquisition costs. We've also captured the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.

Credit Highlights

Overview

Key strengths	Key risks
Very strong competitive position, driven by a unique brand and reputation, based on its strong position at the center of underwriting specialty risks.	Lloyd's is exposed to catastrophe risk that can create capital and earnings volatility.
Revenue comes from diverse geographic locations across several different lines.	Casualty lines earnings could deteriorate if actual inflation is above expected levels.
Management's consistent focus on underwriting discipline coupled with a favorable pricing environment is paying dividends.	

Outlook

We expect the management to maintain Lloyd's underwriting discipline performance and continue to execute its expense reduction strategy. Furthermore, we expect Lloyd's will maintain its capitalization at an excellent level.

Downside scenario

We could take a negative rating action over the next 24 months if Lloyd's cannot maintain profitability levels in line with that of its closest peers or if we believe its capital levels will not comfortably navigate extreme stress levels. This could occur if the management:

- Does not maintain strong oversight over syndicates, particularly if the pricing conditions deteriorated against the current favorable rates;
- Compromises underwriting discipline over top-line growth; and
- Does not maintain the same level of close oversight on capital protection that helped it navigate the challenges posed during COVID-19, emergence of the Russia-Ukraine conflict, and rising inflation rates.

Upside scenario

We believe a positive rating action is unlikely over the next 24 months.

Rationale

Favorable pricing conditions in most lines and regions, coupled with strong oversight over syndicate performance, will help Lloyd's sustain its positive trajectory in underwriting results. We anticipate that Lloyd's is likely to report a combined ratio (loss and expense) below 90% for year-end 2023 considering its first-half 2023 results and low incidence of major losses during the second half of 2023. This, coupled with higher investment income due to both reversal of unrealized losses on the bond portfolio and higher investment returns, we estimate will likely lead to a net income close to £8 billion-£9 billion in 2023, considering Lloyd's actual performance in the year to November 2023. We expect the net combined ratio to be 90%-95% for 2024-2025 and a net income of near £8 billion-£9 billion, assuming contribution of major losses of 11 percentage points.

Lloyd's benefits from its unique brand; the attraction of being the world's largest subscription market; and its broad geographic presence, from which it distributes its wide product offering. Resulting from its structure, the cost of doing business at Lloyd's is higher than that of most of its peers such as Munich Re, Swiss Re, Hannover Re, and Chubb. Management has therefore been working on improving efficiency through digitalization and simplifying claims handling. So far, we consider that these programs have been more successful than previous attempts to modernize. Hence, we forecast the reported expense ratio will be close to 33%-35% in 2024 and reduce by two percentage points following full implementation of the cost reduction program over the next three years.

As per our risk-based capital model, Lloyd's capital exceeds the capital requirement for an extreme stress. On regulatory terms, Lloyd's market-wide regulatory solvency ratio (190%-200% for 2023) and its central solvency ratio (400%-450% for 2023) are expected to remain robust in 2024. In recent years, Lloyd's has acted promptly to address large claims events by accelerating capital collection from members. Should another significant claims event occur, like the 2017 hurricanes or COVID-19 pandemic, we expect management will again seek to quickly address any capital shortfalls. We expect robust earnings will also translate into building capital levels to the extent needed. Lloyd's has also substantially reduced its reliance on letters of credit during the past few years and we do not expect Lloyd's to materially increase its reliance of them from the current level. Hence, we no longer revise downward the capital model output through the use of the capital and earnings adjustment.

Fixed-charge coverage will remain comfortably above 4x. Lloyd's holds minimal leverage with a moderate amount of debt.

Ratings Score Snapshot

	To	From
Financial strength rating	**AA-/Stable**	**A+/Stable**
Anchor	aa-	a+
Business risk	Very Strong	Very Strong
IICRA	Intermediate	Intermediate
Competitive position	Very Strong	Very Strong
Financial risk	Strong	Satisfactory
Capital and earnings	Excellent	Very Strong
Risk exposure	High	High
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Adequate	Adequate
Comparable ratings analysis	0	0
Support		
Group support	0	0

	To	From
Financial strength rating	**AA-/Stable**	**A+/Stable**
Government support	0	0

IICRA--Insurance Industry And Country Risk Assessment. Our choice of anchor reflects Lloyd's significant geographic and product diversity, which we believe will continue to support its ability to report strong underwriting performance.

Environmental, social, and governance

In our view, Lloyd's is more exposed to environmental risks than the insurance industry average because it writes significant amounts of property reinsurance and insurance. That said, we recognize Lloyd's, just like its peers, has the option to reprice its catastrophe contracts annually or cede the risks to help it absorb a gradual increase in claims.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Upgraded

	To	From
Society of Lloyd's (The)		
Issuer Credit Rating		
Local Currency	AA-/Stable/--	A+/Stable/--
Lloyd's		
Underwriters at Lloyds of London, Kentucky		
Underwriters at Lloyds of London, Illinois		
Lloyd's Insurance Co. S.A.		
Lloyd's Insurance Co. (China) Ltd.		
Financial Strength Rating		
Local Currency	AA-/Stable/--	A+/Stable/--

Upgraded

	To	From
Society of Lloyd's (The)		
Subordinated	A	A-
Junior Subordinated	A	A-