

Lloyd's Subordinated Debt Rating Raised To 'A-' On Strong And Sustainable Solvency

January 13, 2023

LONDON (S&P Global Ratings) Jan. 13, 2023--S&P Global Ratings today raised its issue-level rating on the Society of Lloyd's (Lloyd's) subordinated Tier 2 notes to 'A-' from 'BBB+'.

Lloyd's (A+/Stable) market-wide regulatory solvency ratio and central solvency ratio remained stable over 2022, despite significant reserving for the Russia-Ukraine conflict and Hurricane Ian, rising interest rates, and investments in private assets through its newly launched investment platform. Lloyd's holds comfortable capital surpluses in both its half-year 2022 market-wide regulatory solvency ratio of 179% (year-end 2021 177%) and central solvency ratio of 395% (year-end 2021 388%). We expect both market-wide and central solvency ratios to remain robust even in extreme stress scenarios, such as catastrophic events, or if the current inflationary environment continues in 2023 and 2024. Hence, our rating on Lloyd's Tier 2 subordinated notes is now two notches below the long-term issuer credit rating on Lloyd's:

- One notch to reflect the notes' subordination to the company's senior obligations; and
- One notch (previously two notches) to reflect the payment risk created by the mandatory and optional coupon deferral features.

We previously applied two notches to reflect the higher payment risk due to coupon deferral compared with similar hybrids rated in the 'A' category. This is because we considered Lloyd's solvency level in the past to be materially closer to the point of mandatory deferral (below 100% solvency capital requirement) when considering its sensitivity to severe events.

We note that Lloyd's significant exposure to natural catastrophe risk, the challenging macroeconomic environment due to rising inflation, and uncertainty around the Russia Ukraine conflict provide the potential for volatility in the level of its solvency cover. However, this is offset by the stability in the solvency ratio maintained in 2022, better operating performance expectations, and ability to recapitalize when needed. The latter was demonstrated in 2017 when the market injected £3 billion following Hurricanes Harvey, Irma, and Maria; and in 2020, when it injected a further £3.5 billion following COVID-19-related losses.

We expect Lloyd's to report a combined ratio of about 95% at year-end 2022. This takes into account its combined ratio of 91.4% at half-year 2022, and reserving £1.1 billion for the Russia-Ukraine conflict and £2.2 billion for Hurricane Ian. For 2023, we forecast a combined ratio of close to 95%.

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Related Criteria

- 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
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Full Analysis Report: Lloyd's, Oct. 18, 2022

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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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