S&P Global Ratings

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Lloyd's

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Lloyd's

Anchor	a+

Business Risk	Very Strong
Competitive position	Very strong
IICRA	Intermediate
Financial Risk	**Satisfactory**
Capital and earnings	Very strong
Risk exposure	High
Funding structure	Neutral

+

Modifiers	0

Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0

=

SACP	a+

+

Support	0
Group support	0
Government support	0

=

A+/Stable/--
Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Unique brand and reputation, based on its position at the center of underwriting specialist risks.	Headline underwriting performance has been unprofitable for the past four years.
Revenue comes from diverse geographic locations across several different property/casualty (P/C) product lines.	Lloyd's is still more heavily exposed to catastrophe risk than most its reinsurance peers, according to our metrics.
Management has taken swift action to maintain very strong levels of capital in the market following significant losses in recent years.	Management is undertaking a large modernization program, which carries significant execution risks.

U.K.-domiciled Lloyd's has a unique brand and place in the insurance industry. It enjoys worldwide recognition and is considered a leading center for the writing of specialist insurance risks. S&P Global Ratings expects the market will continue to attract business and loyalty from brokers, thanks to the depth of its underwriting expertise and face-to-face culture.

The market will continue to manage capital to at least very strong levels. Lloyd's capital position, as per our risk-based model, is now above our 'AAA' benchmark and we expect that it will remain at these levels through 2021-2022. Despite significant COVID-19 claims during 2020, management has worked quickly to ensure that the market maintains its excellent levels of capital adequacy. We base our view on recent recapitalizations following large losses and the measures the corporation has taken to reduce previously high levels of catastrophe risk.

Lloyd's still faces significant underlying problems with its business model that could affect its competitive position. Despite recent efforts by Lloyd's to improve underwriting performance, we still consider the market's underlying business model carries risk. The cost of doing business at the corporation is higher than that in many other (re)insurance centers and Lloyd's has an expense ratio near the top of its peer group. Since taking over in 2018, CEO John Neal has unveiled several ambitious measures to deal with this issue and other initiatives aimed at ensuring the competitiveness of the market. Although we view the program's aims positively, there will be significant execution risk.

Outlook: Stable

The stable outlook signifies that we expect management to continue to focus on Lloyd's underwriting performance and address its overall cost structure, which has hindered the market over the years. We also expect that the market will continue to hold capital exceeding our 'AAA' level.

Downside scenario

We could lower our ratings by one notch if Lloyd's cannot maintain capital above our 'AA' requirement through 2021-2023, or if its competitive strength significantly weakens. This could follow a further deterioration in underlying performance, compared with similarly rated reinsurers and insurers.

Upside scenario

We see limited upside to the rating over the next two years. We would have to see both a significant improvement in operating performance and a successful implementation of the management team's strategy to modernize the market before we could raise the rating.

Key Assumptions

- The global economy will recover from the pandemic in 2021 as vaccination roll-out progresses across the globe. We expect G-20 economies to bounce back, with growth of 6.4%.
- Investment returns will remain muted because interest rates are still low. We expect 10-year U.S. government bond yields to improve somewhat, to 2% in 2021.
- Pricing in Lloyd's reinsurance segment will improve, but lag behind the rate improvements we have seen in specialty and direct commercial business.
- We expect Hurricane Ida to be an earnings event, rather than a capital event, for the reinsurance and U.S. P/C insurers.

Lloyd's--Key Metrics

	2022f	2021f	2021 h1	2020	2019	2018	2017
GPW (Mil. £)	~36,500	~36,000	20,047.0	35,466.0	35,905.0	35,527.0	33,591.0
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Very strong	Satisfactory
Combined ratio (non-life; %)	~95	~97	92.2	110.3	102.1	104.5	114.0
Net investment yield (%) *	~2	~2	2.0	2.2	3.5	1.4	2.1
Net income (Mil. £)	~2.7	~2500	1,432.0	(887.0)	2,532.0	(1,001.0)	(2,001.0)
Financial leverage (%)*	~3.5	~3.5	3.6	3.6	3.1	2.8	2.9
Fixed-charge coverage (x)*	>30	>30	>30	(23.3)	31.7	(12.1)	(41.6)

Lloyd's--Key Metrics (cont.)							
	2022f	**2021f**	**2021 h1**	**2020**	**2019**	**2018**	**2017**
Return on shareholders' equity (%)	~8	~7.6	8.1	(2.8)	8.8	(3.7)	(7.4)

* 2021 Half year number is an estimate. f--Forecast. h1--First half. GPW--Gross premium written.

Business Risk Profile: Very Strong

In our opinion, 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. The expense of doing business at Lloyd's and its recent poor performance slightly offset these strengths.

We believe that Lloyd's brand and reputation will continue to be key differentiators for the rating. The availability of one-stop shopping for various niche and standard products, the expertise of the Lloyd's market underwriters, and the strong face-to-face culture will continue to attract policyholder and broker loyalty: we view this as a competitive strength.

We expect Lloyd's will continue to enjoy a leading position in the global reinsurance market, consistently ranking among the Top 5 global reinsurers, alongside peers Munich Re, Swiss Re, Hannover Re, and Scor. Lloyd's has been the leading excess and surplus writer in the U.S. since 2011 and we expect it to retain this position. In addition, the Lloyd's market is the leading (re)insurer for global marine and aviation business. Most of its revenue (66%) comes from the U.S., Canada, and the U.K., which are more credit-sensitive markets than those in continental Europe.

The cost of doing business at Lloyd's will likely remain a constraint on our assessment of the market's competitive position. Although the corporation's expense ratio fell in 2020 to 37.2% (2019: 38.7%) it is still higher than that of most of its peers: Allianz stood at 26.8% in 2020, Chubb at 27.6%, and Royal & Sun Alliance (RSA) at 31.2%. In the first half of 2021, Lloyd's expense ratio fell further to 35.8%, largely because of decreased acquisition costs (commissions and brokerage to brokers and agents) as the market reduced the amount of business derived from coverholders, who have traditionally produced nearly 30% of the market's premium. Management has started work on improving the market's efficiency by introducing initiatives such as electronic placement and simplifying claims handling. So far, we consider these programs have been more successful than previous attempts to modernize the market. The expense ratio is forecast to fall further in 2021-2023, reaching close to or below 35% by 2023.

The increasing amount of alternative capital in the wider reinsurance market has tested Lloyd's profitability by increasing competition and putting pressure on pricing. The market suffered from significant rate declines in 2012-2017 as nontraditional capital providers such as pension funds increased their appetite for reinsurance, and in particular catastrophe risk. However, the industry losses caused by significant catastrophes in 2017-2018 and the COVID-19-related losses in 2020 have helped rates strengthen recently. The Lloyd's market has reported 16 quarters of rate improvement and we expect this momentum will likely continue in 2021 and early 2022.

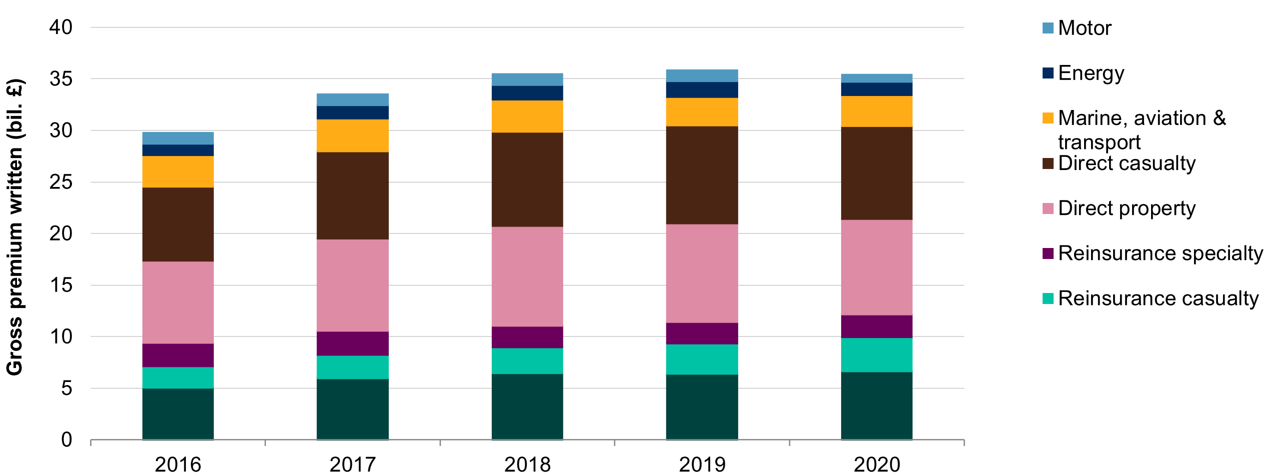
Lloyd's still has a significant amount of work to do to ensure that the market can maintain--and improve--its competitiveness against other major reinsurance hubs such as Bermuda, Zurich, and Singapore. The new management team has recognized the need for the market to change to keep its preeminent position, and held major consultations with stakeholders in 2018-2019 concerning its future. Following the consultation, the corporation launched its "Future at Lloyd's" blueprint, which lays out six initiatives management hopes will make the corporation "the most advanced marketplace in the world." We believe that the program is essential for Lloyd's to maintain and improve its competitive position, but recognize the significant execution risk involved and the strain it might place on the management team.

Because of the pandemic, the pace of change in some areas will slow. However, the pandemic has also accelerated the market's use of electronic placement and proved business can be placed without a physical market. We expect management to work on the modernization program while maintaining recent progress in improving underwriting performance.

We forecast that Lloyd's premium base will stabilize as increased rates are offset by reductions in volume. This trend is likely to continue for the rest of 2021, although volume is unlikely to drop as far as in 2020 (12%). Lloyd's takes a hard line with syndicates that demonstrate poor performance, which resulted in a significant drop in volume in 2019-2020. That said, syndicates with strong underwriting performance should be able to take advantage of improving rates in many lines. Lloyd's may benefit from new business as insurers are forced to go outside their local markets due to a lack of capacity.

Chart 1

New Management Applies The Brakes: Lloyd's Top Line Plateaus Post-2018



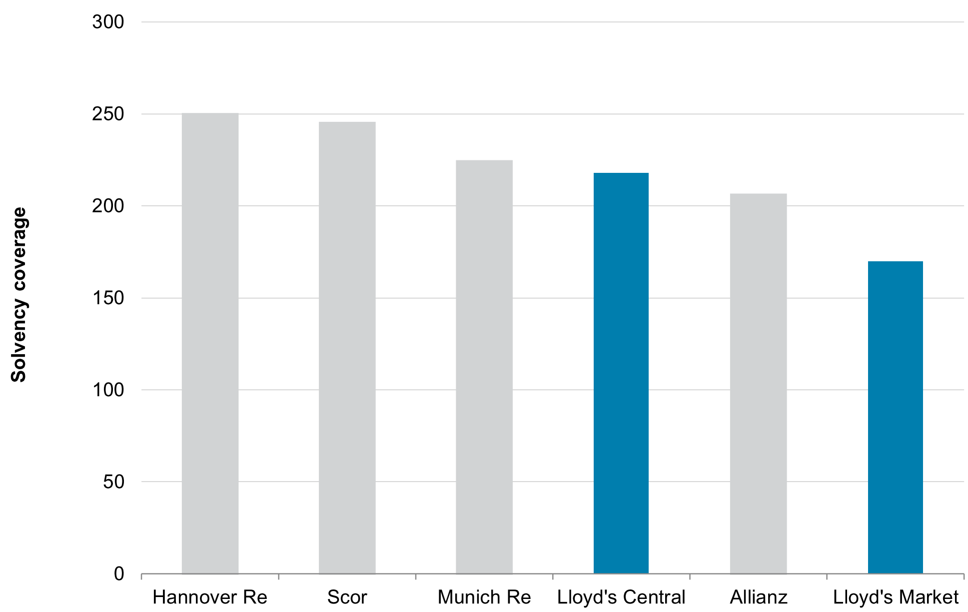
Financial Risk Profile: Satisfactory

Lloyd's has a very strong capital position, in our view, based on its excess of capital at the 'AAA' benchmark in our risk-based model. We expect Lloyd's to maintain this level of capital through year-end 2023.

In regulatory terms, Lloyd's holds comfortable capital surpluses in both its half-year marketwide regulatory solvency ratio of 170% and central solvency ratio of 218%. We expect that Lloyd's will maintain coverage levels similar to this throughout 2022-2023. In recent years, Lloyd's has acted quickly to address large claims events by accelerating capital collection from members. Should another significant claims event occur, similar to the 2017 hurricanes or COVID-19, we expect management will again seek to address any capital shortfalls quickly.

Chart 2

Lloyd's Central Solvency Ratio Is In Line With Its Peers But Its Marketwide Solvency Ratio Is Lower
For half year 2021



Source: S&P Global Ratings.

Not all the capital held by the corporation is fungible--only the central fund and corporation assets are available to pay all claims. However, this risk is offset by the corporation's strong history of managing capital at the syndicate level appropriately. The most recent central fund loss was from the 2007 year of account. It has also proved its ability to ask the market to recapitalize, as 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 losses.

We expect Lloyd's underlying operating performance (excluding catastrophe events and reserve releases) to improve further in 2021-2023. For the past four years, rates across the market have been improving and it has also seen some efficiency gains from the modernization program

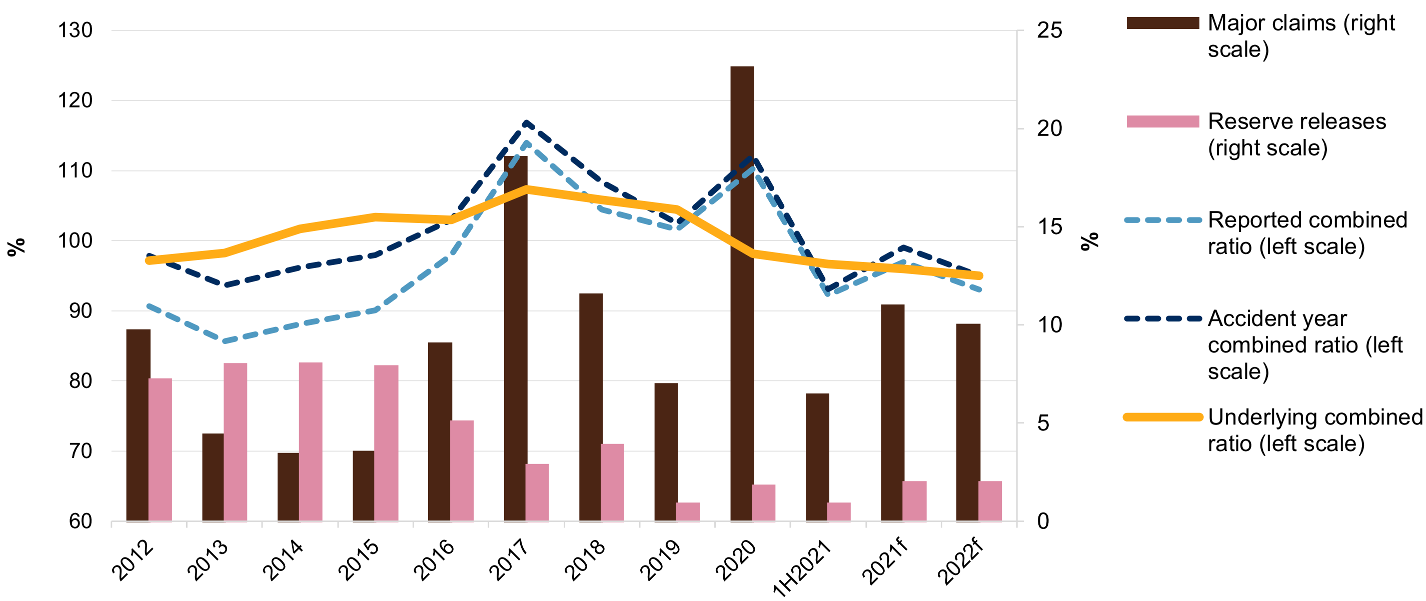
We do not expect the pandemic to have a significant effect on the market in 2021, due to the large provisions in place at the syndicate level. Lloyd's 2020 result was hit by £3.4 billion of net COVID-19 claims, largely from contingency polices (event cancellation) business interruption policies that cover pandemics, and credit (guarantee) business. At half-year 2021, the market recorded a strong combined ratio of 92.2% because of a relatively catastrophe-free six months and improving rates. Our base-case scenario assumes that Lloyd's will record a combined (loss and expense) ratio of between 95%-99% in 2021, taking into account the recent losses from Hurricane Ida and the remaining exposure to the North Atlantic hurricane season. Assuming an average natural catastrophe load of 10%, we forecast that Lloyd's will record combined ratios below 95% in 2022-2023.

Lloyd's has a fairly conservative approach to investments and, as such, we expect future returns on investment to be relatively muted. According to our base-case scenario, Lloyd's will see net investment income of about 2% over the next two years. This reduction in yield reflects both the continuing low-interest-rate environment and Lloyd's reduction of risk in the investment portfolio backing its central fund in 2020.

Lloyd's holds minimal levels of leverage. It has subordinated debt of £794 million and £300 million of senior notes (which do not qualify as capital in our model). These comprise just over 3% of the market's capital. We do not expect Lloyd's capital structure to change significantly over the next two-to-three years.

Chart 3

Lloyd's Underlying Performance Continues To Improve But Heightened Major Claims Since 2017 Have Subdued Headline Results



F--Forecast. 1H--First half. Source: S&P Global Ratings.

Capital Structure And Equity Content

Issuer	Amount (Mil. £)	Coupon	Issue Date	Maturity Date	Equity Content	ISIN
Senior						
Society of Lloyd's	60.0	0.0	2020	2030	No equity content	Private placement
Society of Lloyd's	40.0	0.0	2020	2031	No equity content	Private placement

Capital Structure And Equity Content (cont.)						
Issuer	**Amount (Mil. £)**	**Coupon**	**Issue Date**	**Maturity Date**	**Equity Content**	**ISIN**
Society of Lloyd's	70.0	0.0	2020	2035	No equity content	Private placement
Society of Lloyd's	130.0	0.0	2020	2045	No equity content	Private placement
Subordinated						
Society of Lloyd's	300.0	0.0	2017	2047	Intermediate equity content	XS1558089261
Society of Lloyd's	500.0	0.0	2014	2024	No equity content	XS1130913558

Other Key Credit Considerations

Governance

We have a positive view of the market's governance, reflecting the significant expertise and experience of Lloyd's managing agents and the market's overall governance. However, the corporation itself has seen significant turnover in its senior executives in recent years. Most of the top executive team has been replaced in the past four years, including the CEO, chief financial officer, and chief operating officer. In 2020, the performance management director responsible for many of the programs to improve underwriting at Lloyd's left, and a new head of markets was announced in 2021. That said, we consider that the new team, under the guidance of the chairman, Bruce Carnegie-Brown, has quickly made a positive impact and demonstrated its willingness to address Lloyd's key challenges.

We view the corporation's robust strategic planning process, established and improved by its performance management and finance directorates in recent years, as positive. Initiatives include a stringent business planning process and benchmarking exercises, and have fueled significant improvements in performance standards and measurement. We have not identified any governance deficiencies in our assessment.

Liquidity

Lloyd's premium income flow provides readily available liquidity. The market also has a highly liquid asset portfolio that contains more than £60 billion in marketable securities. Most of the chain of security could be liquidated within 90 days. We also credit the market's ability to call on members for capital injections throughout the year and withhold profits to ensure claims are paid as a positive factor for its liquidity assessment.

Environmental, social, and governance

In our view, Lloyd's is more exposed to environmental risk than the industry average because it writes significant amounts of property reinsurance and insurance. In particular, it is more exposed to natural catastrophe risk than some other large non-life insurers like RSA or Mapfre, which can increase capital and earnings volatility. In 2017, for example, we revised our outlook on Lloyd's to negative from stable after the corporation suffered significant catastrophe claims. Its 2017 reported losses amounted to £4.5 billion, representing about 16% of total reported capital. Lloyd's catastrophe exposure is in line with that of most P/C reinsurance or specialty writers. We do not believe the corporation's exposure to social risks materially differs from other P/C and reinsurance players.

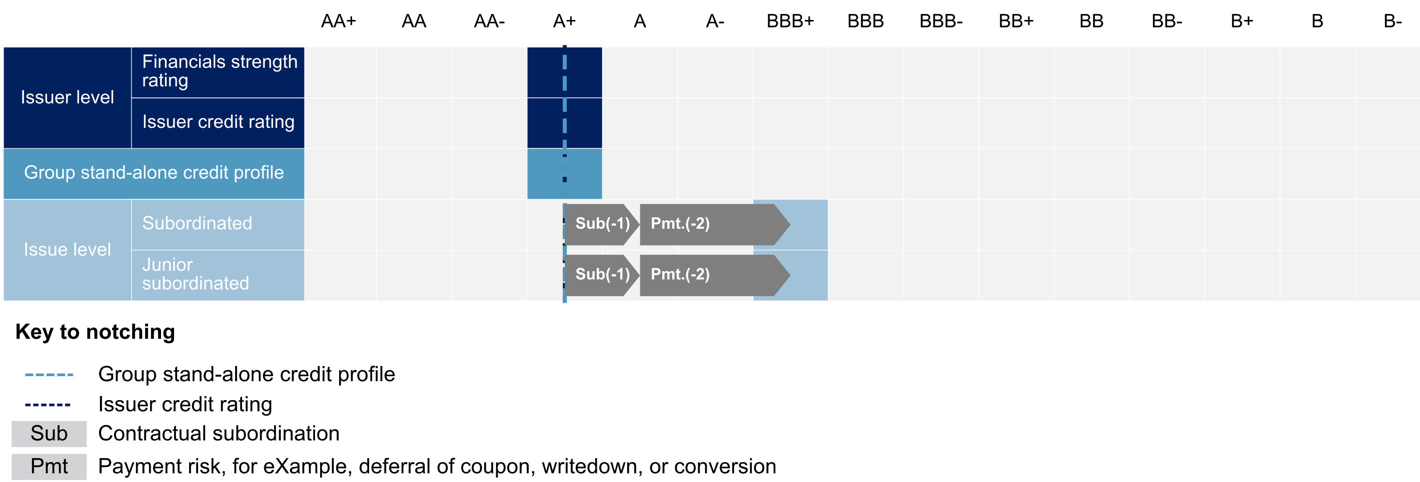
Accounting considerations

Although the Lloyd's market itself is not a legal entity, the corporation provides an audited pro forma set of financial statements that combine the financial results of the market's members, allowing comparison with other insurance companies. These accounts are prepared, where practicable, under U.K. generally accepted accounting principles. We view the market's financial communication and disclosure as sound and transparent.

Hybrid and senior debt issue ratings

We rate Lloyd's debt instruments according to their respective features (see chart 4).

Society of Lloyd's: Notching



Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on July 1, 2019.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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

Appendix

Lloyd's--Credit Metric History		
S&P Global Ratings capital adequacy	Excellent	Excellent
Total invested assets	79,835	73,098
Total shareholder equity	33,146	29,844

Lloyd's--Credit Metric History (cont.)		
Gross premium written	35,466	35,905
Net premium written	25,826	25,659
Net premium earned	25,876	25,821
Reinsurance utilization (%)	27.2	28.5
EBIT	(828.0)	2,583.0
Net income (attributable to all shareholders)	(887.0)	2,532.0
Return on revenue (%)	(5.1)	5.7
Return on assets (excluding investment gains/losses) (%)	(1.4)	1.7
Return on shareholders' equity (%)	(2.8)	8.8
Property/casualty: Net combined ratio (%)	110.3	102.1
Property/casualty: Net expense ratio (%)	37.2	38.7
Property/casualty: Return on revenue (%)	(3.6)	7.1
EBITDA fixed-charge coverage (x)	(23.3)	31.7
EBIT fixed-charge coverage (x)	(23.9)	31.5
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	(14.0)	50.6
Financial obligations/adjusted EBITDA (x)	(0.9)	0.6
Financial leverage including pension deficit as debt (%)	3.6	3.1
Net investment yield (%)	2.2	3.6
Net investment yield including investment gains/(losses) (%)	3.0	4.9

Business And Financial Risk Matrix

Business risk profile	**Financial risk profile**							
	Excellent	Very Strong	Strong	**Satisfactory**	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	**a+/a**	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of October 6, 2021)*

Holding Company: Society of Lloyd's (The)	
Issuer Credit Rating	
Local Currency	A+/Stable/--
Junior Subordinated	BBB+
Subordinated	BBB+
Operating Companies Covered By This Report	

Ratings Detail (As Of October 6, 2021)*(cont.)	
Lloyd's	
Financial Strength Rating	
Local Currency	A+/Stable/--
Lloyd's Insurance Co. (China) Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Lloyd's Insurance Co. S.A.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Underwriters at Lloyds of London, Kentucky	
Financial Strength Rating	
Local Currency	A+/Stable/--
Domicile	United Kingdom

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.