S&P Global Ratings

RatingsDirect®

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.	Lloyd's is still much more exposed to catastrophe risk than most its peers, according to our metrics.
Revenue comes from diverse geographic locations across several different lines.	Management is undertaking a large modernization program, which carries execution risks.
Management's appropriate intervention in the market to improve underwriting discipline is paying dividends with a strong underwriting result in 2021 despite higher-than-average natural catastrophes.	

We expect Lloyd's management will maintain an 'AAA' level capital adequacy, measured by S&P Global Ratings' risk-based capital model, despite uncertainty around losses from the Russia-Ukraine conflict. Potential losses for Lloyd's and the wider (re)insurance market from the Russia-Ukraine conflict are still evolving and Lloyd's may face exposure from its credit, aviation, marine, cyber, and war/political risk books. However, Lloyd's capital position, under our risk-based model, is well above our 'AAA' benchmark. Lloyd's has also proved its ability to ask the market to recapitalize following major losses in 2017 and 2020. Therefore, despite the uncertainty around losses arising from the conflict, we expect Lloyd's will maintain an 'AAA' level of capital during 2023.

Lloyd's return to underwriting profitability has set it up well for 2022. Lloyd's year-end 2021 net combined ratio improved to 93.5% (2020: 110.3%), its first underwriting profit since 2016. This reflected management's remedial actions. Lloyd's continues to achieve positive rate momentum, leading to strong top-line growth in 2021. With a better-rated book of business compared to prior years, strict discipline in syndicate underwriting, and positive pricing momentum, Lloyd's is in a good position to navigate 2022.

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. We expect 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 corporation's "Future at Lloyd's" blueprint aims to improve its competitiveness compared to other major reinsurance hubs like Bermuda. We believe that the program is essential for Lloyd's to maintain and improve its competitive position but recognize the significant execution risk involved.

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.

Upside scenario

We could raise the ratings by one notch if Lloyd's demonstrates that it can maintain a strong underwriting performance and successfully implement its plans to modernize the market.

Downside scenario

We could lower our ratings by one notch if Lloyd's cannot maintain capital above our 'AA' requirement through 2022-2023, or if its competitive strength significantly weakens. This could follow a deterioration in underlying performance, compared with similarly rated reinsurers and insurers.

Key Assumptions

- The Russia-Ukraine conflict's global macroeconomic effects seem moderate for now after the world economy had a healthy start to 2022. But downside risks exist. We forecast global GDP growth of 3.6% in 2022, a 60-basis-point (bps) reduction relative to our previous quarterly update, followed by 3.5% in 2023.
- Global inflation has moved to the front and center as a policy challenge. Higher U.S. dollar rates will tighten financial conditions, moderate growth, and spill over to other economies, while the European Central Bank (ECB) tightening will be much more gradual. Global inflation is expected to increase to 5.9% in 2022 compared to 3.7% in 2021.
- We expect 10-year U.S. government bond yields to increase to 2.2% in 2022 from 1.4% in 2021.
- We believe global reinsurers will likely assume about one-half of the potential specialty insurance losses arising from the Russia-Ukraine conflict. Losses from specialty lines are likely to be an earnings event for most reinsurers but could become a capital event for a few outliers.
- At the same time, we expect reinsurance's positive pricing momentum to continue in the upcoming renewals in 2022. Furthermore, capitalization remains a key strength for the sector.

Lloyd's--Key Metrics							
	2023f	**2022f**	**2021**	**2020**	**2019**	**2018**	**2017**
GPW (Mil. £)	~40,800	~40,000	39,216.0	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
Net Combined Ratio (non-life, %)	~95.0	~95.0	93.5	110.3	102.1	104.5	114.0
Net investment yield (%)	~2.0	~2.0	1.8	2.2	3.5	1.4	2.1
Net income (Mil. £)	~2,900	~2,800	2,277.0	(887.0)	2,532.0	(1,001.0)	(2,001.0)
Financial leverage (%)	~3.5	~3.5	3.3	3.6	3.1	2.8	2.9
Fixed-charge coverage (x)	>30.0	>30.0	46.3	(23.3)	31.7	(12.1)	(41.6)
Return on shareholders' equity (%)	~7.0	~7.0	6.6	(2.8)	8.8	(3.7)	(7.4)

f--Forecast. 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 slightly offsets 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 specialty and reinsurance market, consistently ranking among the top-five global reinsurers, alongside peers Munich Re, Swiss Re, Hannover Re, and Scor and among U.S. primary insurers like AIG and Chubb. 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 (about 70%) comes from the U.S., Canada, and the U.K., which are more credit-sensitive markets than those in continental Europe.

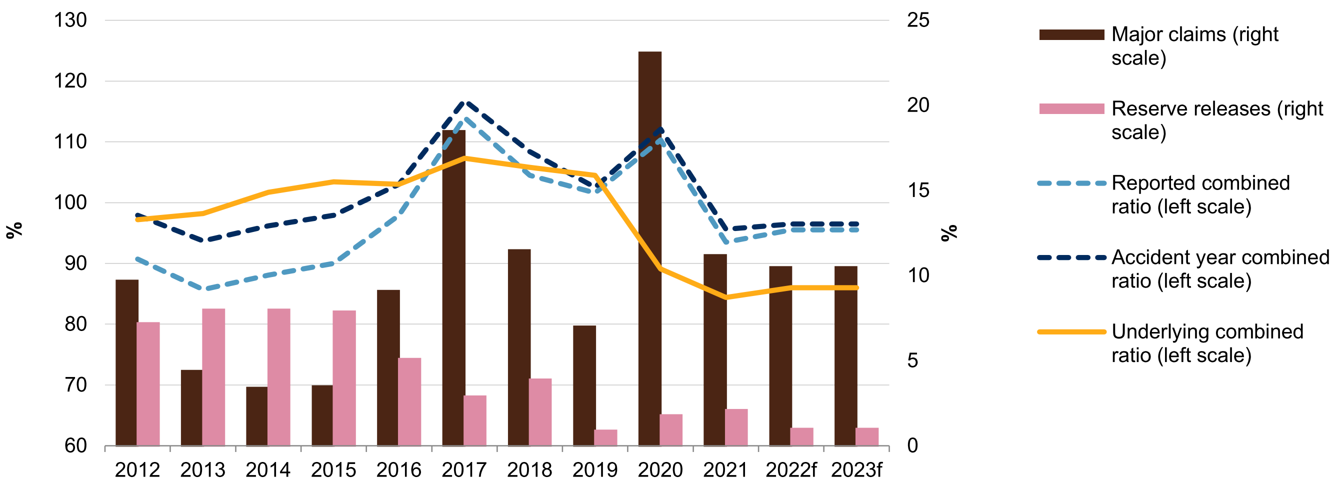
Our base-case assumption is that, with an average natural catastrophe load of 10 percentage points, Lloyd's net combined ratio will be around 95% in 2022-2023. Our base case is that the potential losses that could arise from the Russia-Ukraine conflict will unlikely be material enough to become a capital event for Lloyd's.

Lloyd's is entering 2022 from a position of strength. Its net combined ratio of 93.5% at year-end 2021, which improved below 100% after four years, was better than we expected and reflects management's remedial actions over the past four years. This was despite significant natural catastrophe losses that added 11.2 percentage points to the combined ratio, demonstrating Lloyd's better-rated book of business compared to prior years.

Lloyd's underlying loss ratio, which excludes catastrophe losses and prior-year developments, continued to improve to 48.9% in 2021 (2020: 51.9%; 2019: 57.3%). The improvement in Lloyd's underwriting has aligned its performance closer to the top U.S. primary insurers and has exceeded top global reinsurers' performance.

Chart 1

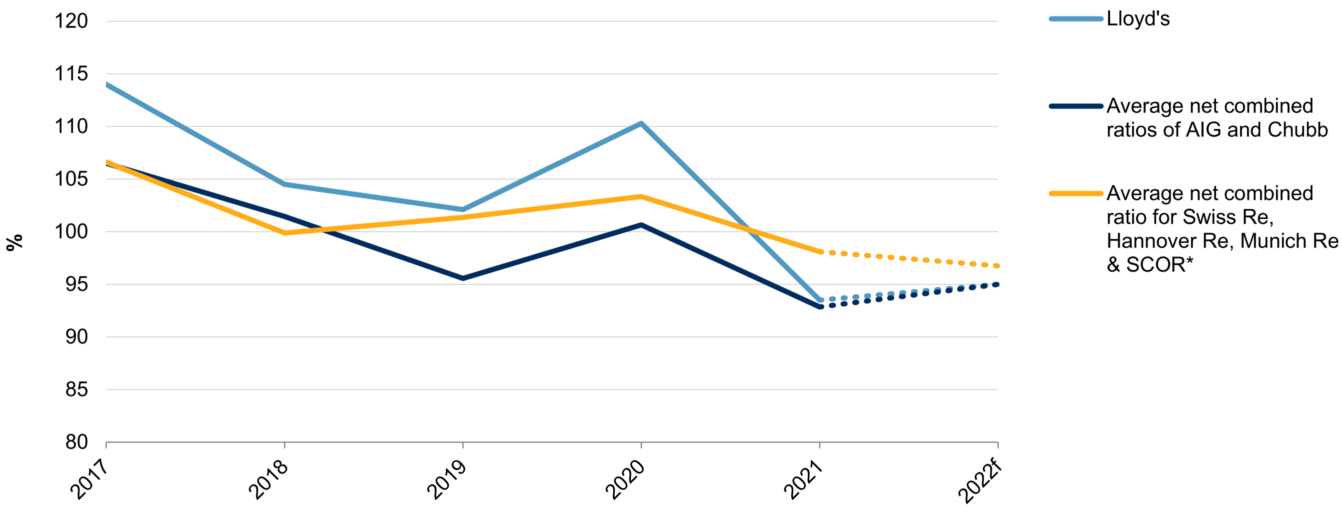
Lloyd's Underlying Performance Continues To Improve Reflecting Better-Rated Book Of Business Compared To Prior Years



f--Forecast. Source: S&P Global Ratings.

Chart 2

Lloyd's Improved Underwriting Performance In 2021 Is Aligned Closer To Top U.S. Primary Insurers' Performance And Exceeds Average Performance Of Top Global Reinsurers

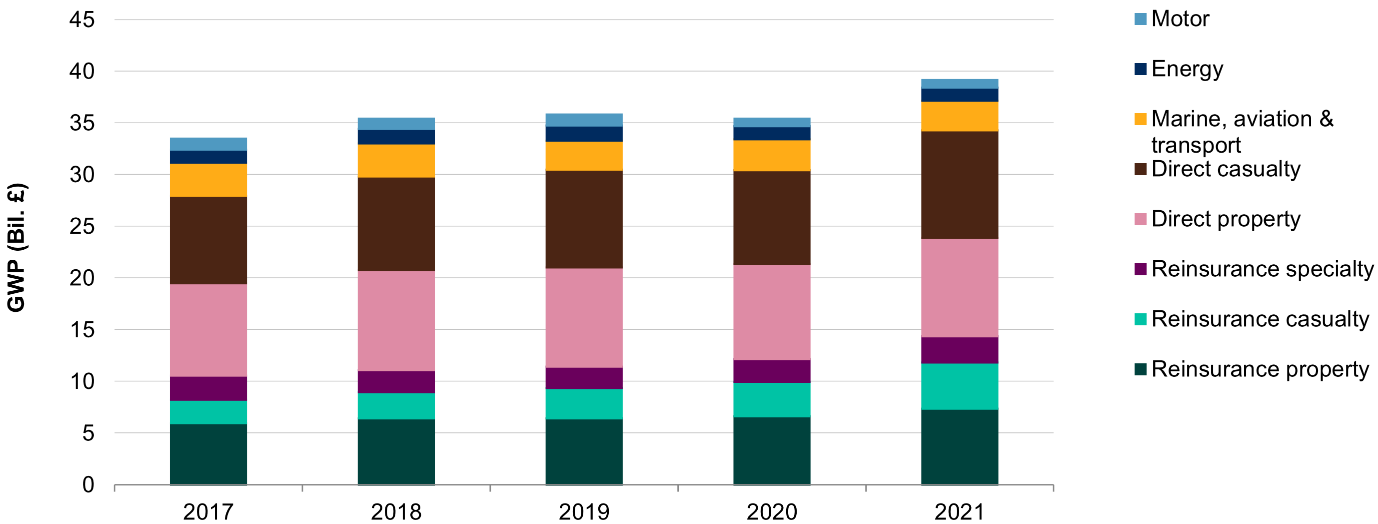


Source: S&P Global Ratings.*2021 net combined ratio for Swiss Re, Hannover Re and SCOR are as per ratios reported by company. Combined ratio for Munich Re includes P/C Reinsurance, P/C Germany and ERGO International.

We believe that Lloyd's management will maintain strict discipline in syndicate underwriting, with a focus on technical rates and ensuring that market participants are addressing the potential erosion of margins due to higher-than-expected inflation. The market has continued its positive rate momentum in 2022 and has now seen 17 consecutive quarters of rate improvement including Q1 2022. We expect this momentum will likely continue in 2022. Lloyd's achieved a 10.9% risk-adjusted rate increase in 2021 (2020: 10.8%) according to its own analysis; a more than 10.0% increase on its casualty book and a 5.0%-10.0% rate increase on all other major lines of business. These rate increases have outpaced the reduction in volumes and are reflected in Lloyd's top-line growth to £39.2 billion at year-end 2021, after plateauing at £35.5 billion-£36.0 billion in 2018-2020. For year-ends 2022 and 2023, we expect the gross written premiums base to grow to around £40.0 billion and £40.8 billion, respectively.

Chart 3

Positive Pricing Momentum Leads Lloyd's Toward Top-Line Growth After A Three-Year Plateau



GWP--Gross written premium. Source: S&P Global Ratings.

The cost of doing business at Lloyd's will likely remain a constraint to our assessment of the market's competitive position over the next two years. Although the corporation's expense ratio fell in 2021 to 35.5% (2020: 37.2%) it is still higher than that of most of its peers: Allianz stood at 26.7% and Chubb at 26.5% in 2021. Management has been working on improving the market's efficiency by introducing initiatives such as electronic placement and simplifying claims handling. So far, we consider that these programs have been more successful than previous attempts to modernize the market. The expense ratio is forecasted to be close to or below 35% in 2022-2023.

Lloyd's still has significant work to do to ensure that the market can maintain--and improve--its competitiveness against other major (re)insurance hubs such as Bermuda, Zurich, and Singapore. The "Future at Lloyd's" blueprint lays out six initiatives that 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. Although the pace of change in some areas slowed due to the pandemic, it 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.

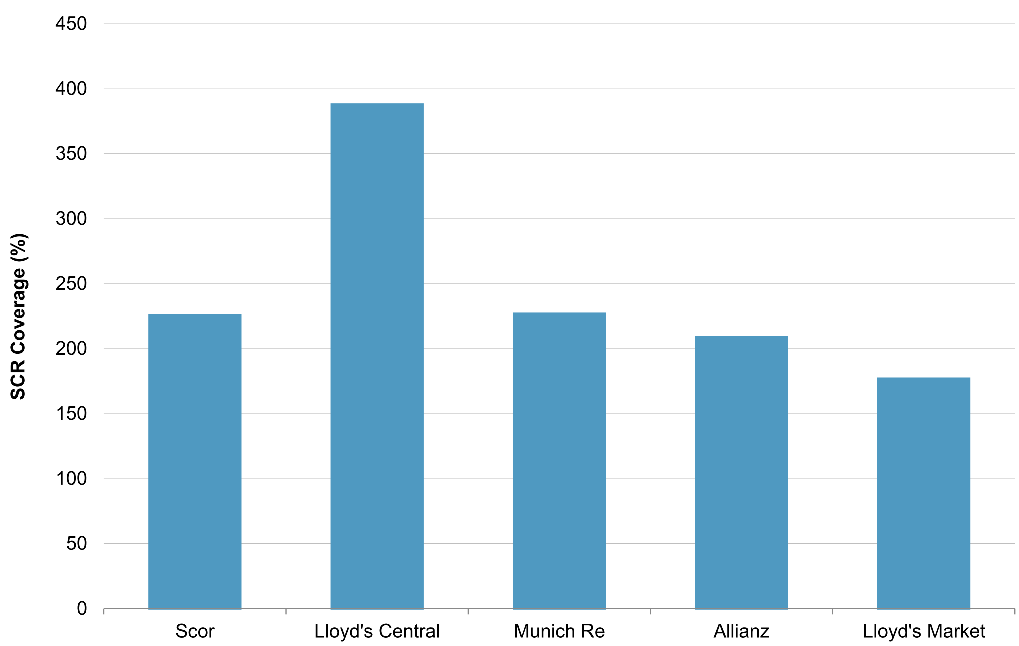
Financial Risk Profile: Satisfactory

Lloyd's has a very strong capital position, in our view, based on its excess of capital at the 'AAA' benchmark as per our risk-based model. Potential losses for Lloyd's and the wider (re)insurance market from the nonrecovery of planes leased to Russian airlines remain uncertain and evolving, considering the cancellation of all insurance business with Russia-based entities as part of U.K. and EU sanctions. Lloyd's direct exposure to the Russia/Ukraine conflict in terms of premiums and assets was minimal prior to the sanctions, but it may face exposure in its credit, aviation, marine, cyber, and war/political risk books. Our base case assumes losses related to this conflict are likely to be an earnings event. Although it is not our base case, even if Lloyd's were to report a net combined ratio well above 100% for year-end 2022 and all other bases case assumptions remain unchanged, its capital adequacy would still be managed at the 'AAA' level.

In regulatory terms, Lloyd's holds comfortable capital surpluses in both its year-end market-wide regulatory solvency ratio of 177% and central solvency ratio of 388%. We expect that Lloyd's will maintain strong coverage levels 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, like the 2017 hurricanes or COVID-19, we expect management will again seek to quickly address any capital shortfalls. For example, it purchased a reinsurance cover to protect the capital position of the central fund.

Chart 4

Although Lloyd's Central Solvency Ratio Is Stronger Than Peers', Its Market Wide Solvency Ratio Is Lower



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 appropriately at the syndicate level. 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.

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. Its recently launched investment platform may provide an opportunity to reduce investment expense and increase returns.

Lloyd's holds minimal levels of leverage. It has subordinated debt of £796 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.

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	2,020.0	2,030.0	No equity content	Private placement
Society of Lloyd's	40.0	0.0	2,020.0	2,031.0	No equity content	Private placement
Society of Lloyd's	70.0	0.0	2,020.0	2,035.0	No equity content	Private placement
Society of Lloyd's	130.0	0.0	2,020.0	2,045.0	No equity content	Private placement
Subordinated						
Society of Lloyd's	300.0	0.0	2,017.0	2,047.0	Intermediate equity content	XS1558089261
Society of Lloyd's	500.0	0.0	2,014.0	2,024.0	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. We consider the management team, which has been in place for over three years now (under the guidance of chairman Bruce Carnegie-Brown) has made a positive impact and demonstrated its willingness to address Lloyd's key challenges. This is evidenced by the above-mentioned 2021 strong underwriting performance.

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. In particular, Lloyd's introduced Blueprint Two in 2020, which is a key program under Future at Lloyd's to digitize the Lloyd's market, and partnered with Schroders Solutions on a new investment platform in March 2022. These are in addition to the reinsurance cover purchased to protect the central fund.

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 securities 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 insurance industry average because it writes significant amounts of property reinsurance and insurance. However, Lloyd's catastrophe exposure is in line with that of most P/C reinsurance or specialty writers. Lloyd's exposure to environmental risk mainly stems from the prospect of increased claims from extreme weather events, including windstorms, wildfires, or floods, due to climate change. That said we recognize Lloyd's (in common with its peers) has the option to reprice its catastrophe contracts annually or cede the risks to help it absorb a gradual increase in claims.

In 2017 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. We do not believe the corporation's exposure to social risks materially differs from other P/C and reinsurance players.

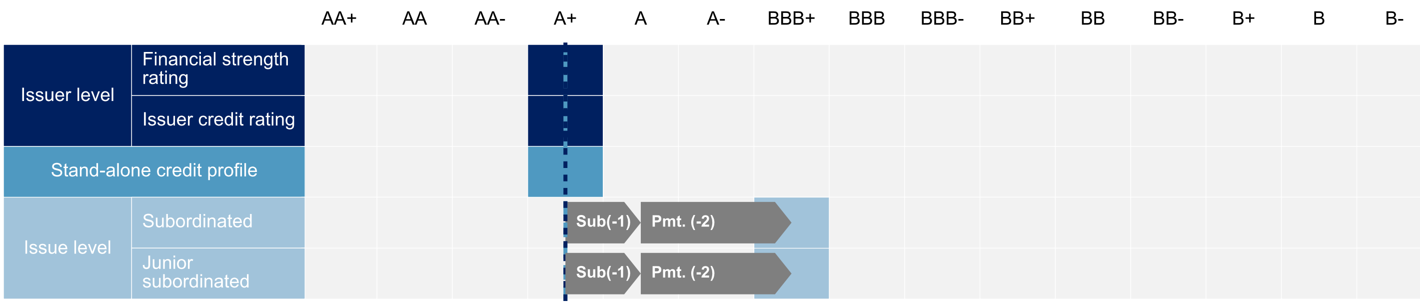
Accounting considerations

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 Lloyd's syndicates, members funds at Lloyd's, and results of the Society of Lloyd's, allowing comparison with other insurance companies. These accounts will continue to be 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



Key to notching

Stand-alone credit profile

Issuer credit rating

Sub Contractual subordination

Pmt. Payment risk for example deferral of coupon or write down or conversion

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 2 of our “Hybrid Capital: Methodology And Assumptions” criteria, published onJuly, 1, 2019.

Related 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: 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

Related Research

- Russia-Ukraine Conflict Adds To A Bumpy Start To 2022 For Global Reinsurers, March 31, 2022
- Global Economic Outlook Q2 2022: No Cause For Complacency As The Russia-Ukraine Conflict Modestly Dents Growth, March 31, 2022
- Economic Outlook U.S. Q2 2022: Spring Chills, March 29, 2022
- Lloyd's Strong 2021 Results Set It Up Well For 2022, March 24, 2022
- Global Macro Update: Preliminary Forecasts Reflecting The Russia-Ukraine Conflict, March 08, 2022

Appendix

Lloyd's--Credit Metric History

(£ mil.)	2021	2020	2019
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent
Total invested assets	83,906.0	79,835.0	73,098.0
Total shareholder equity	35,757.0	33,146.0	29,844.0
Gross premium written	39,216.0	35,466.0	35,905.0
Net premium written	28,439.0	25,826.0	25,659.0
Net premium earned	26,657.0	25,876.0	25,821.0
Reinsurance utilization (%)	27.5	27.2	28.5
EBIT	2,339.0	(828.0)	2,583.0
Net income (attributable to all shareholders)	2,277.0	(887.0)	2,532.0
Return on revenue (%)	10.1	(5.1)	5.7
Return on assets (excluding investment gains/losses) (%)	2.7	(1.4)	1.7
Return on shareholders' equity (%)	6.6	(2.8)	8.8
Property/casualty: Net combined ratio (%)	93.5	110.3	102.1
Property/casualty: Net expense ratio (%)	35.5	37.2	38.7
Property/casualty: Return on revenue (%)	11.4	(3.6)	7.1
EBITDA fixed-charge coverage (x)	46.3	(23.3)	31.7
EBIT fixed-charge coverage (x)	46.0	(23.9)	31.5
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	37.7	(14.0)	50.6
Financial obligations/adjusted EBITDA (x)	0.4	(0.9)	0.6
Financial leverage including pension deficit as debt (%)	3.3	3.6	3.1
Net investment yield (%)	1.8	2.2	3.6
Net investment yield including investment gains/(losses) (%)	1.2	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 April 20, 2022)*

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	
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, Illinois	
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.