Lloyd's of London

and Operating Subsidiaries

Update

Key Rating Drivers

Favourable Business Profile: Fitch Ratings ranks Lloyd's of London's business profile as 'Favourable' compared with that of global insurance and reinsurance companies. The ranking is driven by the market's strong franchise, large operating scale and significant diversification within property and casualty (P&C) insurance and reinsurance. Lloyd's is one of a small group of global (re)insurance providers capable of attracting high-quality and specialised business.

Very Strong Capital Position: The Lloyd's central solvency coverage ratio was very strong at 395% at end-1H22 (end-2021: 388%), following the implementation of a reinsurance cover against large losses. This is comfortably in excess of the company's risk appetite of 200%. The market-wide solvency ratio was a strong and stable at 179% at end-1H22 (end-2021: 177%).

Unique Recapitalisation Process: Lloyd's employs a unique annual 'coming into line' process, which ensures a certain capital level is maintained and that all members have sufficient eligible assets to meet their current and future underwriting liabilities. Lloyd's successfully collected funds from members to fully cover large loss reserves including pandemic-related losses and those related to the war in Ukraine. However, in the longer term, this resilience relies on the willingness and ability of members to recapitalise following significant losses.

Strong Underlying Underwriting Performance: Lloyd's maintained strong underwriting performance in 1H22, despite booking GBP1.1 billion net loss for potential claims arising from the war in Ukraine. The combined ratio further improved to 91.4% (1H21: 92.2%), helped by further reductions in attritional loss ratio and expense ratio.

We also expect Lloyd's to maintain the improvements in its underlying underwriting performance, but the overall underwriting result to remain fairly volatile given the market's elevated – albeit reducing in risk-adjusted terms – exposure to catastrophe-exposed lines.

Net Loss Driven by Valuation Losses: Lloyd's reported an overall loss of GBP1.8 billion for 1H22, driven by valuation losses on its bond portfolio following the rise in interest rates, while the underwriting performance remained very strong. Given the short duration of the investment portfolio, Fitch expects these losses to reverse in 2023 and 2024 with improved reinvestment yields contributing strongly to overall earnings.

Favourable Pricing Conditions: In 1H22, Lloyd's reported strong growth in premiums of 17%. The strong growth was supported by favourable pricing conditions – in 1H22 Lloyd's reported overall risk-adjusted price rises of 7.7% (2021: 10.9%, 2020: 10.8%, 2019: 5.4%). We expect pricing conditions to remain favourable in 2023 amid inflationary pressures and Lloyd's approach on maintaining strong underwriting profitability.

Strong Reserve Adequacy: Fitch views Lloyd's reserve adequacy as strong supported by continued reserve releases and stable market-level surplus in the held reserves. This is reinforced by an independent review of reserves, which confirmed the market level of surplus estimated by Lloyd's. Our favourable view of reserve adequacy is further supported by robust market oversight of reserving practices, which is increasingly important given the rising inflation rate.

Ratings

Lloyd's of London

Insurer Financial Strength	AA-

The Society of Lloyd's

Long-Term IDR	A+
Subordinated Debt	A-

Lloyd's Insurance Company (China) Limited

Insurer Financial Strength	AA-

Lloyd's Insurance Company SA

Insurer Financial Strength	AA-

Outlooks

Insurer Financial Strength	Stable
Long-Term IDR	Stable

Financial Data

Lloyd's of London

(GBPm)	1H22	2021
Total assets	155,846	138,155
Total equity	35,705	35,757
Gross written premium	24,035	39,216
Net income	-1,801	2,277

Source: Fitch Ratings, Lloyd's of London

Applicable Criteria

Insurance Rating Criteria (July 2022)

Related Research

London Market Insurance Dashboard: 1H22 Update (September 2022)
Fitch Ratings 2023 Outlook: Global Reinsurance (September 2022)

Analysts

Federico Faccio
+44 20 3530 1394
federico.faccio@fitchratings.com

Ekaterina Ishchenko
+34 91 793 6798
ekaterina.ishchenko@fitchratings.com

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- A significant improvement in Lloyd's general competitive position. However, we view this as unlikely in the medium term.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A five-year average combined ratio remaining above 104% (reported five-year average to 2021: 105%) on a sustained basis or the underlying annual combined ratio, before major losses, weakening to above 92% on a sustained basis.
- Inability to recapitalise after a large loss event as part of the market's coming into line process.

Latest Developments

- In November 2022, Lloyd's said that it estimates net claims from the hurricane Ian to be between USD2.3 billion and USD3 billion, and its net market share of the industry loss to be 3%-5%. The net loss has no impact on Lloyd's solvency position, which is expected to remain very strong. The overall underwriting result for 2022 is also expected to remain strong, driven by an improving attritional loss ratio.
- Lloyd's has estimated potential net claims related to the war in Ukraine at GBP1.1 billion. Given that most of these claims are related to incurred but not reported losses, there is still a lot of uncertainty over the ultimate loss given that the conflict has not ended.
- Premiums grew strongly in 1H22, supported by favourable pricing conditions. Gross premiums increased by 17%, of which 7.7% were attributed to price rises, 4.7% to growth in volumes and 5% to favourable foreign-exchange movements.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.