

Best's Credit Rating Effective Date

July 27, 2023

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Information

[Best's Credit Rating Methodology](#)

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Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

Lloyd's

AMB #: 085202 | **AIIN #:** AA-1122000

Ultimate Parent: AMB # 051215 - Society of Lloyd's

Best's Credit Ratings - for the Rating Unit Members

Financial Strength Rating (FSR)

A
Excellent
Outlook: Positive Action: Affirmed

Issuer Credit Rating (ICR)

a+
Excellent
Outlook: Positive Action: Affirmed

Assessment Descriptors

Balance Sheet Strength	Very Strong
Operating Performance	Strong
Business Profile	Favorable
Enterprise Risk Management	Appropriate

Rating Unit - Members

Rating Unit: Lloyd's | **AMB #:** 085202

AMB # 078649 **Rating Unit Members** Lloyd's Ins Co (China) Ltd

AMB # 095926 **Rating Unit Members** Lloyd's Insurance Co. S.A.

Rating Rationale

Balance Sheet Strength: **Very Strong**

- The market has the strongest level of risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR).
- A robust capital-setting regime, which incorporates a risk-based approach to setting member-level capital, helps protect risk-adjusted capitalisation from volatility.
- Member-level capital is subject to fungibility constraints as it is held on a several rather than joint basis.
- Balance sheet strength is underpinned by a strong Central Fund that is available, at the discretion of the Council of Lloyd's, to meet the policyholder obligations of all Lloyd's members.
- An offsetting factor is the market's significant, albeit reducing, exposure to catastrophe risk and its dependence on reinsurance to manage this risk.

Operating Performance: **Strong**

- Lloyd's is expected to report strong operating performance across the underwriting cycle, taking into account potential volatility due to its catastrophe exposure.
- Improving market conditions as well as the robust performance oversight by the Corporation have materialised in measurable improvements in underwriting performance, as evidenced by the year-end 2022 combined ratio of 91.9%.
- The market's expense ratio has been considered relatively high compared to that of peers. However, this has decreased from 39.2% in 2018 to 34.4% in 2022 supported by top-line growth and specific actions taken by syndicates to reduce costs.
- The market's consolidated operating performance cannot be viewed as a leading indicator of its future balance sheet strength to the same extent as it is for other insurers. Earnings generated by the market do not directly build or erode Lloyd's capital base, as profits and losses are distributed to the market's capital providers when a year of account is closed. Lloyd's continues to demonstrate that it is able to retain and attract capital to the market.

Business Profile: **Favorable**

- Lloyd's has a strong position in the global general insurance and reinsurance markets as a leading writer of specialty property and casualty risks.
- Although Lloyd's syndicates operate as individual businesses, the collective size of the market allows them to compete with international groups under the Lloyd's brand.
- The markets in which Lloyd's operates are highly competitive. Lloyd's reliance on brokers to underwrite specialty and reinsurance business makes it vulnerable to price-based competition.
- The portfolio is well diversified but with some geographical bias towards North America and product bias towards commercial specialty lines products.
- Product risk is moderate to high. Higher-risk lines include reinsurance, energy, aviation, some marine business and a high proportion of the casualty and property business written. The majority of small commercial and consumer business, as well as some of the business written through coverholders, is lower risk.

Enterprise Risk Management: **Appropriate**

- Lloyd's enterprise risk management framework is well developed and appropriate for the size and complexity of the Lloyd's market.
- Risk management capabilities are aligned with the market's risk profile.
- The Corporation's risk management function works closely across other functional areas of the Corporation to provide the market additional oversight.
- An internal capital model, in place since 2012, is used to calculate the solvency capital requirement under the Solvency II regime as well as to stress test the market's risk-adjusted capitalisation. In AM Best's opinion, the internal capital model strongly supports the Corporation's ability to assess the capital adequacy of the market.

Outlook

- The positive outlooks reflect AM Best's expectation that risk-adjusted capitalisation will remain at the strongest level, supported by Lloyd's capital and catastrophe management strategy, the continued availability of the Central Fund insurance, and the requirement for members to replenish their Funds at Lloyd's following losses. Operating performance is expected to remain strong over the underwriting cycle given the ongoing oversight. The successful execution of Blueprint 2 is expected to support Lloyd's ability to remain competitive.

Rating Drivers

- Positive rating pressure could arise following the successful execution of Lloyd's strategy, which leads to improvements in the resilience of the market's balance sheet and enhances its competitiveness against peers.
- Negative rating actions could arise should Lloyd's fail to maintain underlying performance in line with expectations.
- Negative rating actions could arise following a material deterioration in the market's risk-adjusted capitalisation, for instance, due to a substantial loss to the Central Fund or a reduction in member-level capital requirements set by Lloyd's.

Key Financial Indicators

AM Best may recategorize company-reported data to reflect broader international reporting standards and increase global comparability.

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	75.0	61.8	55.8	53.6

Source: Best's Capital Adequacy Ratio Model - Global

Key Financial Indicators	2022 GBP (000)	2021 GBP (000)	2020 GBP (000)	2019 GBP (000)	2018 GBP (000)
Net Premiums Written:					
Non-Life	34,570,000	28,439,000	25,826,000	25,659,000	25,681,000
Composite	34,570,000	28,439,000	25,826,000	25,659,000	25,681,000
Net Income	-769,000	2,277,000	-887,000	2,532,000	-1,001,000
Total Assets	161,530,000	138,155,000	128,304,000	119,878,000	118,008,000
Total Capital and Surplus	39,602,000	35,757,000	33,146,000	29,844,000	27,428,000

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2022 GBP (000)	2021 GBP (000)	2020 GBP (000)	2019 GBP (000)	2018 GBP (000)	Weighted 5-Year Average
Profitability:						
Balance on Non-Life Technical Account	2,641,000	1,741,000	-2,676,000	-538,000	-1,130,000	...
Net Income Return on Revenue (%)	-2.4	8.1	-3.2	8.9	-3.8	1.5
Net Income Return on Capital and Surplus (%)	-2.0	6.6	-2.8	8.8	-3.7	1.4
Non-Life Combined Ratio (%)	91.9	93.5	110.3	102.1	104.5	100.0
Net Investment Yield (%)	-0.5	1.8	2.2	3.5	1.4	1.6
Leverage:						
Net Premiums Written to Capital and Surplus (%)	87.3	79.5	77.9	86.0	93.6	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

Lloyd's balance sheet strength assessment of very strong is underpinned by risk-adjusted capitalisation at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR), as well as its strong financial flexibility. The market has significant exposure to catastrophe losses and is dependent on reinsurance to manage this risk. However, a robust market-wide capital-setting regime, which

Balance Sheet Strength (Continued...)

incorporates a risk-based approach to setting member-level capital and the requirement for members to replenish their Funds at Lloyd's (FAL) after a loss, helps protect risk-adjusted capitalisation against volatility.

Balance sheet strength is supported by a strong Central Fund that is available, at the discretion of the Council of Lloyd's, to meet the policyholder obligations of all Lloyd's members. It is the existence of this partially mutualising link that is the basis for a market-level rating.

The market's member-level capital is held on a several rather than joint basis and is only available to meet the liabilities of the providing member. The resulting fungibility constraints on capital, as well as the market's elevated exposure to catastrophe risk and dependence on reinsurance to manage this risk, are considered the primary offsetting factors for the balance sheet strength assessment.

Capitalisation

The BCAR scores shown in this report are based on the 2022 year-end figures published in the Lloyd's annual report, which contains the audited financial results of Lloyd's and its members in proforma financial statements and includes the financial statements of the Society of Lloyd's (referred to in this report as the Society or the Corporation). The proforma financial statements include the aggregated accounts, which are based on the accounts of each Lloyd's syndicate, members' FAL, and the Society's financial statements.

The Society was formed in 1871, when the then existing association of underwriters at Lloyd's was incorporated by the Lloyd's Act. The Society produces consolidated financial statements that cover Lloyd's activities outside the underwriting market and Lloyd's central resources (the Central Fund).

Lloyd's benefits from risk-adjusted capitalisation at the strongest level, as measured by BCAR. This assessment takes into account capital resources available at member level, in the form of Members' FAL, and centrally in the form of the Central Fund and net assets of the Corporation. Capital credit is given in BCAR for subordinated debt issued by the Society, as well as for FAL provided through LOCs, as if drawn these LOCs will turn into Tier 1 capital for Lloyd's. Nonetheless, the use of LOCs as FAL reduces somewhat the quality of available capital. AM Best does not give explicit credit for contingent capital in the 'callable layer', which is the ability of the Corporation to supplement central assets by calling funds from members of up to 5% of their overall premium limits.

Any assessment of Lloyd's capital strength is complicated by the compartmentalisation of capital at member level. Member-level capital in the form of FAL and members' balances are held on a several rather than joint basis, meaning that any member need meet only its share of claims. However, Lloyd's central assets are available, at the discretion of the Council of Lloyd's, to meet policyholder liabilities that any member is unable to meet in full. This link in the Chain of Security comprises of the Central Fund and other central assets, as well as subordinated debt. These central assets can be supplemented by funds called from members of up to 5% of their overall premium limits. It is the existence of this partially mutualising third link, and the liquid Central Fund in particular, that is the basis for a market-level rating.

During 2021, Lloyd's secured insurance for the Central Fund through a five-year, multi-layered cover, which will reimburse aggregate payments from the Central Fund that are in excess of GBP 600 million and up to GBP 1.25 billion. Cover is provided by international reinsurers of excellent credit quality. Furthermore, the first layer is supported by a specially created cell company, Constellation IC Limited, and financed by a global investment bank. The Central Fund insurance provides protection to the Central Fund, and therefore the market, against severe tail events.

Lloyd's Internal Model (LIM) captures Lloyd's unique capital structure and takes into account fungibility constraints on member-level capital and the mutual nature of central assets. If a severe market loss led to the exhaustion of some members' FAL, central assets would be exposed to any further losses faced by these members. The model captures this mutualised exposure, so that, at different return periods, the exposure of both member-level capital and central capital is demonstrated.

Lloyd's is subject to the Solvency II regulatory regime. As agreed with the UK regulator, the Prudential Regulation Authority (PRA), Lloyd's calculates two separate Solvency Capital Requirements (SCRs) and two separate SCR coverage ratios: a market-wide SCR (MWSCR) and a central SCR (CSCR). The MWSCR calculates the total capital consumed at a 99.5% value at risk (VaR) confidence level over a one-year period for the Lloyd's market as a whole (including the exposure of both member-level and central assets).

The CSCR is calculated at a 99.5% VaR confidence level over a one-year period in respect of risks facing the Society and its Central Fund. It captures exposure to losses that may not affect the majority of syndicates (and so would not erode capital at overall member level) but would have an impact on central assets. Calculating a CSCR addresses the fact that a 1-in-200 year loss to central assets

Balance Sheet Strength (Continued...)

could be bigger than the loss to central assets in a 1-in-200 year market loss event. By calculating both figures, Lloyd's has a better view of the likelihood that central and market level assets are sufficient.

Lloyd's has approval from the PRA to use existing LOCs, in the form that they are provided as FAL, as Tier 2 capital for Solvency II purposes. However, any new LOCs provided as FAL need to be individually approved. Under Solvency II, at least 50% of the solvency capital requirement must be met by Tier 1 capital.

Since 2018 Lloyd's has been implementing a phased reduction in the proportion of FAL that can be provided via LOCs, and, since December 2020 members' Tier 2 capital is not allowed to exceed 50% of their economic capital assessment (ECA) in order to minimise assets ineligible for regulatory capital credit. As at 31 December 2022, LOCs accounted for approximately 21% of total FAL and all Lloyd's Tier 2 assets were eligible to meet the MWSCR.

The MWSCR coverage ratio stood at 181% at year-end 2022 (2021: 177%) and the CSCR coverage ratio at 412% (2021: 388%). Lloyd's risk appetite for MWSCR coverage is a minimum of 125% and the CSCR coverage is a minimum of 200%. The MWSCR target is low relative to peers, but this should be seen in light of Lloyd's good financial flexibility and capital-setting process. The Lloyd's CSCR has improved materially in recent years, reflecting the reductions in the SCR primarily driven by the modelled benefits of the Central Fund insurance.

Lloyd's employs strict capital-setting criteria both at member level and centrally. Member-level capital is determined using syndicates' SCRs calibrated to correspond to a 99.5% VaR confidence level, provided on a one-year and -to-ultimate basis and calculated using syndicates' internal capital models. A 35% uplift is applied to the ultimate SCR to arrive at the FAL requirement. The stability in the market's solvency levels, as a result of the capital-setting process, is considered to be a strength for the balance sheet strength assessment.

Lloyd's members are required to replenish their FAL to meet their current underwriting liabilities as part of the "coming into line" process each year. However, Lloyd's can require a member to recapitalise outside of this process if deemed necessary. Most members underwrite with limited liability. However, if FAL are eroded due to losses, affected members will have to provide additional funds to support any outstanding underwriting obligations to continue to underwrite at Lloyd's. This requirement in effect provides the market with access to funds beyond those reflected in its capital structure.

Member contributions to the Central Fund reduced in 2016 to 0.35% of gross written premiums (from 0.50% of capacity) per annum, and have since remained at this level. The contribution rate can be increased to strengthen the Central Fund at any time.

Lloyd's good financial flexibility is enhanced by the diversity of its capital providers, which include corporate and individual investors. Traditional Lloyd's businesses remain committed to the market. In addition, Lloyd's continues to attract new investors, drawn by its capital efficient structure and global licences. As the capital to support underwriting at Lloyd's is supplied by members on an annual basis, an important factor in AM Best's analysis of the market is its ability to retain and attract the capital required for continued trading.

To this end, as detailed in the Future at Lloyd's prospectus, one of the objectives was to improve the ease of doing business at Lloyd's and, specifically, make it easier for capital to enter the marketplace. This included reinventing the way that capital comes into the market and making it flexible to access a diverse set of insurance risks on the Lloyd's platform.

In 2021, Lloyd's sponsored a new multi Insurance Special Purpose Vehicle (SPV), London Bridge Risk PCC Ltd. (LB1), which is a protected cell company, acting as a reinsurance risk transformation vehicle, onshore in the UK, to support the Lloyd's market and facilitate the participation of institutional investors in (re)insurance risk underwritten at Lloyd's. The SPV has been utilised twice since its inception.

In 2022, Lloyd's sponsored a second transformation vehicle; London Bridge 2 PCC Ltd (LB2). LB2 is different from the first SPV because it allows the issuance of both preference and/or debt securities to fund the reinsurance obligation of each cell. LB2 is different from the first SPV because it allows the issuance of both preference and/or debt securities to fund the reinsurance obligation of each cell. It also provides enhanced options for Lloyd's market participants to either raise corporate member capital to support underwriting plans; and/or transfer specific class(es) of business risk directly from syndicates, as part of the syndicate's outward reinsurance programs. In February 2023, LB2 was used for the first time. Importantly, the qualified investors that purchased the preference shares were all new investors in the Lloyd's market.

Balance Sheet Strength (Continued...)

Liquidity Analysis (%)	2022	2021	2020	2019	2018
Liquid Assets to Total Liabilities	68.1	69.8	70.7	69.9	67.5
Total Investments to Total Liabilities	78.6	82.0	84.0	81.3	78.6

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

The majority of Lloyd's investments are managed independently by the individual syndicates' managing agents, while the assets in the Lloyd's Central Fund are managed centrally by the Corporation. Although syndicates are able to define their own investment strategy, asset risk is generally low, with more than three quarters of the market's total investments held in bonds and cash/deposits or represented by LOCs.

Assets held by individual members are generally liquid, with the majority held in cash (which includes LOCs) and bonds. Exposure to shares and other variable yield securities accounted for circa 10% of invested assets in 2022. Lloyd's capital (FAL and the Central Fund) is largely matched in terms of currency to exposure.

In AM Best's opinion, Lloyd's maintains good overall liquidity. Managing agents are responsible for the investment of syndicate premium trust funds, although Lloyd's monitors liquidity levels at individual syndicates as part of its capital adequacy review. Overall, these funds exhibit a high level of liquidity, as most syndicate investment portfolios tend to consist primarily of cash and high-quality, fixed-income securities of relatively short duration. Lloyd's also monitors projected liquidity for its central assets, which are tailored to meet the disbursement requirements of the Central Fund and the Corporation (including its debt obligations).

An investment platform to pool assets across the market was launched in the second half of 2022. Lloyd's announced the appointment of Schroders Solutions as the platform investment advisor and Waystone as the platform operator in 2022. The initial platform fund, Lloyd's Private Impact Fund, was launched in Q1 2023 with additional funds to be launched over the remainder of the year. Should participation in the investment platform be in line with the Corporation's expectations this could lead to some meaningful enhancements in non-technical returns for members, particularly smaller managing agents. Through co-investment in private assets this is also a vehicle to support Lloyd's in achieving its Net-Zero commitments.

Composition of Cash and Invested Assets	2022 GBP (000)	2021 GBP (000)	2020 GBP (000)	2019 GBP (000)	2018 GBP (000)
Total Cash and Invested Assets	95,872,000	83,998,000	79,951,000	73,193,000	71,240,000
Cash (%)	12.8	13.0	13.1	13.2	15.3
Bonds (%)	63.7	60.6	59.7	60.4	58.5
Equity Securities (%)	10.1	11.4	11.3	12.4	12.0
Real Estate, Mortgages and Loans (%)	10.3	11.0	12.1	10.4	10.9
Other Invested Assets (%)	3.1	3.9	3.8	3.6	3.3
Total Cash and Unaffiliated Invested Assets (%)	100.0	100.0	100.0	100.0	100.0
Total Cash and Invested Assets (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Reserve Adequacy

Robust oversight of reserves is provided by the Corporation. In AM Best's opinion, reserving in the Lloyd's market tends to be prudent, with the majority of market participants incorporating an explicit margin in reserves above actuarial best estimates. Reserve surpluses, which are not fungible across the market, vary significantly between syndicates. However, signing actuaries note that at year-end 2022, 85% of syndicates held UK GAAP reserves above the Statement of Actuarial Opinion best estimate.

Total prior-year reserve releases benefited the combined ratio by 3.6 percentage points (pp) in 2022, compared to a benefit of 2.1pp in the previous year. Releases were reported across all lines of business except for specialty reinsurance and casualty insurance. Strengthening across a number of casualty lines was due to both adverse experience and strengthening of reserving assumptions. In the current macro-economic environment, economic and social inflation are key areas of oversight for Lloyd's and enhanced data on inflation was collected to better understand syndicates' assumptions going into 2023.

Balance Sheet Strength (Continued...)

Lloyd's exposure to open run-off years has significantly reduced over the past decade, principally due to better management of these years. At the beginning of 2022, there were nine syndicates whose 2017, 2018 and 2019 underwriting years remained open. In 2022, these run-off years reported an aggregate loss of GBP 15 million, including investment return. There were seven syndicates whose 2017/2018/2019 underwriting years remained open post 31 December 2022. The total number of open underwriting years at 1 January 2023 remained nine.

Operating Performance

Lloyd's is expected to report strong operating performance across the underwriting cycle, taking into account potential volatility due to its catastrophe exposure.

The market's operating performance assessment is based on analysis of the overall consolidated performance of Lloyd's, considering the stability, diversity, and sustainability of the market's sources of earnings. The assessment also incorporates analysis of the performance of individual syndicates, including the spread between the strongest and worst performers, with a particular focus on the potential exposure of central capital resources to losses from individual members.

For several years, the market's underwriting performance was below AM Best's expectations for a strong assessment, demonstrated by five-year (2018-2022) and 10-year (2013-2022) combined ratios of 100% and 98% respectively. However, remedial work undertaken by the market and robust performance oversight by the Corporation, as well as improving market conditions in more recent years, have supported measurable improvements in underlying performance, with the accident-year combined ratio (excluding major claims) falling in each year since 2017. In 2022, the overall combined ratio fell to 91.9% from 93.5% in the previous year.

The strong pricing environment has been maintained in 2023, which together with a greater focus on underwriting discipline and risk selection by the market, should support good underlying performance this year. However, AM Best notes that rate increases are necessary to offset the impact of claims inflation and a trend of higher catastrophe losses.

Underwriting performance is subject to volatility due to the nature of business underwritten and in 2022 major claims contributed 12.7% to the combined ratio (2021: 11.2%). Natural catastrophe losses included Hurricane Ian, Hurricane Fiona and Australian floods. In addition, losses from the conflict in Ukraine had a material impact on the year's result. There is significant uncertainty as to the magnitude of potential direct and second-order losses associated with the conflict, and as at year-end 2022 the IBNR component represented more than 90% of the loss.

The attritional loss ratio improved again in 2022, falling by 0.5pp to 48.4%, despite the market reserving 2.9% for inflation (in addition to any implicit allowance included in reserving methodologies). Actions taken to drive sustainable profitable performance, as well as several years of cumulative risk-adjusted rate increases across a number of lines, continue to have a positive impact on the market's underlying performance. Prior-year reserve releases reduced the loss ratio by 3.6pp, compared to 2.1pp in 2021. An improvement in the market's expense ratio to 34.4% from 35.5% was primarily driven by the favourable impact of foreign exchange movements and better pricing on premiums, as well as a reduction in the acquisition cost ratio given the market's changing business mix.

In 2022, the market reported net investment losses of GBP 3.1 billion (2021: GBP 948 million profit), representing a negative return of 3.5% on invested assets, which offset the underwriting profit of GBP 2.6 billion (2021: GBP 1.7 billion). The overall results was a loss before tax of GBP 769 million (2021: 2.3 billion profit).

The Lloyd's market's consolidated operating performance cannot be viewed as a leading indicator of its future balance sheet strength to the same extent as it is for other insurers. Earnings generated by the market do not directly build or erode Lloyd's capital base. The capital to support underwriting at Lloyd's is instead supplied by capital providers. Therefore, AM Best considers the impact of the market's results on its ability to retain and attract the capital required for continued trading.

Despite reporting underwriting losses in the years 2017 to 2020, the market has continued to attract new capital, with several new syndicates launching during 2022. AM Best notes that there have been also a number of syndicate closures since 2018, coinciding with the Lloyd's Decile 10 review and the winnowing out of weaker performing syndicates from the market as part of the Corporation's Performance Management Directorate (PMD) strategy.

Underwriting Performance:

Operating Performance (Continued...)

Underwriting performance is subject to volatility due to the market's exposure to catastrophe and other major losses. Major claims for the market were GBP 4.1 billion (net) in 2022 and added 12.7pp (2021: 11.2pp) to the calendar-year combined ratio, compared to the five-year (2018-2022) and ten-year (2013-2022) averages of 10.5pp and 9.4pp respectively (excluding the impact of COVID-19 losses). Favourable prior-year reserve movements reduced the combined ratio by 3.6pp, compared to 2.1pp in 2021. Positive development in property, energy, and marine, aviation & transport classes offset strengthening in casualty.

The market's attritional accident-year combined ratio (excluding major claims) improved from 84.4% in 2021 to 82.8% in 2022. This compares well to the 2017 position of 98.4% and has been supported by the remedial actions of the PMD team and the favourable rate environment.

The market's operating expense ratio is high compared to peers, often in the mid-to-high 30% ranges. However, the ratio has been steadily decreasing over the last 5 years, from 39.2% in 2018 to 34.4% in 2022, due in part to changes in mix of business and helped by better pricing.

Actions are being taken through the Future at Lloyd's initiative to reduce the cost of placing business at Lloyd's, the benefits of which should start to be realised over the short term.

Underwriting Performance by Line of Business:

Performance across key lines of business was mixed in 2022. Although natural catastrophe activity remained elevated, accident year combined ratios for property reinsurance and property insurance fell. The accident year combined ratio for casualty insurance fell, despite economic pressures, whereas the ratio for casualty reinsurance deteriorated. Specialty reinsurance and marine, aviation and transport (MAT) lines were negatively impacted by losses associated with the conflict in Ukraine. On a calendar year basis, loss ratios for most lines benefited from stronger favourable reserve development; although casualty insurance and specialty reinsurance saw modest reserve strengthening. Overall, the combined ratio improved to 91.9% (2021: 93.5%).

Reinsurance - The reinsurance book consists of property, casualty and specialty reinsurance. In 2022, the performance of the property book improved even though it was once again affected by high severity catastrophic events, most notably Hurricane Ian and convective storms in the US. Overall prior-year development was favourable due to reductions in ultimate claims for 2017 hurricanes and 2019 typhoons. The overall combined ratio for the casualty reinsurance book also improved, despite an increase in the accident-year ratio. Reserves developed favourably, reducing the ratio by 2.9pp (2021: 8.1pp of strengthening). Social and economic inflation are increasing uncertainty in casualty lines, which is driving tighter policy coverage and price strengthening particularly for distressed and high exposure business. There was a marked deterioration in specialty results during the year due to the impact of the conflict in Ukraine on marine reinsurance composite programmes, which provide coverages such as political violence, strikes, riots, war and civil commotion. Overall, the reinsurance book has returned an underwriting loss of GBP 421 million over the 2018-2022 period, driven primarily by significant losses in the property book (2022: GBP 636 million profit).

Property - The property book is diversified and global, made up of predominately excess and surplus lines business, with a weighting in favour of the industrial and commercial sectors. Business is written through the broker network with a significant proportion through coverholders. In 2022, the attritional loss ratio fell, but catastrophe losses continued to weigh on performance, with Hurricane Ian having the greatest impact. Results benefited from releases on reserves for recent nat cat events, as well as business interruption claims related to the COVID-19 pandemic. Overall, this class has returned an underwriting loss of GBP 1.9 billion over the 2018-2022 period (2022: GBP 538 million profit).

Casualty - The casualty book is dominated by general liability and professional liability, but also includes shorter tails lines such as accident and health and cyber. In 2022, the segment produced its first underwriting profit since 2014, reflecting the impact of multiple years of material price increases and a pronounced shift away from certain underperforming lines, exposures, and occupations. In particular, cyber lines have seen significant repricing, with capacity also becoming more restricted for certain segments. However, increases are now slowing across casualty lines, despite economic headwinds and elevated social inflation. Prior years deteriorated during 2022, due to a combination of adverse experience and strengthening of reserving assumptions. Overall, this class has returned an underwriting loss of GBP 742 million over the 2018-2022 period (2022: GBP 536 million profit).

Marine, Aviation, & Transport (MAT) - The marine book is well diversified and includes cargo, hull, marine liability, specie and fine art. In aviation, Lloyd's writes across all main business sectors including airline, aerospace, general aviation, space, and war. Results have improved significantly in recent years due to remediation efforts, including consecutive years of rate increases, as well as tightening of wordings and conditions. However, in 2022, accident-year performance was adversely impacted by losses related to the conflict in Ukraine, notably for aviation and marine war lines. Underwriting profit was dependent on reserve releases, which were reported for

Operating Performance (Continued...)

most lines of business, across attritional and large claims. Overall, the MAT book has returned an underwriting profit of GBP 316 million over the 2018-2022 period (2022: GBP 280 million profit).

Energy - The energy book consists of onshore and offshore property and liability business. This incorporates the oil and gas industry and the growing renewable energy sector. In 2022, premium volumes were affected by disruption caused by the Russia Ukraine conflict, subsequent sanctions against Russian companies, and an increase in energy production elsewhere. In addition, loss activity in the second half of the year had an impact on profitability. Overall, this class has returned an underwriting profit of GBP 387 million over the 2018-2022 period (2022: GBP 97 million profit).

Motor - Lloyd's motor market primarily covers international motor with a large proportion written in North America and with an increasing focus on property damage over liability risks. International motor has continued to see positive pricing trends, as well as a focus on increased deductibles and tightening of terms and conditions. Reserve releases driven by favourable claims experience against expectation for both UK and overseas motor, on both small and large injury claims, had a material positive impact on the combined ratio. Overall, this class has returned an underwriting profit of GBP 168 million over the 2018-2022 period (2022: GBP 62 million profit).

Investment Performance:

Investment returns (including gains/losses) for the market were on average 1.0% in the period 2018-2022, ranging from 4.9% to -3.5%. In 2022, interest rates rose rapidly as Central Banks sought to contain higher levels of inflation. Higher yields pushed down the price of bonds, and the consequent unrealised losses underpinned the market's investment loss of 3.5%. Looking forward, as the majority of the market's portfolio is invested in high quality short duration bonds, losses are expected to unwind as investments mature, and there should be the opportunity to invest in instruments with significantly higher returns. Nevertheless, AM Best notes that investment returns are likely to remain volatile, against a backdrop of challenging global macroeconomic conditions.

Performance on a Year of Account Basis:

The 2020 YOA closed at the end of 2022 with an overall profit of GBP 290 million (2019: GBP 953 million loss). The 2020 pure underwriting year was adversely impacted by losses from COVID-19 as well as a number of catastrophes, including hurricanes Laura and Sally. Releases from 2019 and prior years, which were reinsured to close at the end of 2021, bolstered the underwriting result. These releases amounted to GBP 816 million. The positive underwriting result was partly offset by investment losses.

Financial Performance Summary	2022 GBP (000)	2021 GBP (000)	2020 GBP (000)	2019 GBP (000)	2018 GBP (000)
Pre-Tax Income	-769,000	2,277,000	-887,000	2,532,000	-1,001,000
Net Income after Non-Controlling Interests	-769,000	2,277,000	-887,000	2,532,000	-1,001,000

Source: BestLink® - Best's Financial Suite

Operating and Performance Ratios (%)	2022	2021	2020	2019	2018
Overall Performance:					
Return on Assets	-0.5	1.7	-0.7	2.1	-0.9
Return on Capital and Surplus	-2.0	6.6	-2.8	8.8	-3.7
Non-Life Performance:					
Loss and LAE Ratio	57.5	57.9	73.2	63.4	65.3
Expense Ratio	34.4	35.5	37.2	38.7	39.2
Non-Life Combined Ratio	91.9	93.5	110.3	102.1	104.5

Source: BestLink® - Best's Financial Suite

Business Profile

Lloyd's favourable business profile reflects its strong position in the global general insurance and reinsurance markets as a leading writer of specialty property and casualty risks. Its network of global licences is a key competitive strength. The portfolio is well diversified but with some geographical bias towards North America and product bias towards commercial specialty lines. Product risk is moderate to high. The markets in which Lloyd's operates are highly competitive. A reliance on brokers makes Lloyd's particularly vulnerable to price-based competition.

Business Profile (Continued...)**Market Position:**

Lloyd's occupies an excellent position in the global general insurance and reinsurance markets as a leading writer of specialty property and casualty risks. The market's position is particularly strong in non-life reinsurance, where Lloyd's was ranked as the 4th largest global non-life reinsurer based on 2021 gross written premiums (GWP). Lloyd's is also a market leader in marine insurance, and has a strong position in aviation, energy, and specialty property and casualty insurance.

Although Lloyd's syndicates operate as individual businesses, the collective size of the market allows them to compete with major international groups under the Lloyd's brand. The market's competitive strength stems from its strong brand, licences, and reputation for innovative and flexible underwriting, supported by the pool of underwriting expertise in London.

While Lloyd's position remains excellent in its core markets, it should be noted that the level of competition in these markets is very high.

Product Diversification and Product Risk:

Lloyd's is a significant writer of catastrophe and reinsurance business and is also a leading player in its core marine, aviation, energy and specialty property and casualty markets. Insurance business accounted for 67% of premium revenue in 2022 (2021: 63%), and reinsurance accounted for the balance. This split has been relatively stable in recent years.

Overall GWP grew by 19.1% in 2022 to GBP 46.7 billion (2021: GBP 39.2 billion) due to a combination of risk-adjusted rate change, foreign exchange movement and exposure growth from the better performing syndicates.

The market is well diversified by line of business, although very little life business is written (<0.1% of GWP in 2022) and there is a bias towards commercial lines business over personal lines. Product risk is moderate-to-high, as the business that comes to Lloyd's is predominantly specialty business that requires expert underwriting. High product risk lines include reinsurance, energy, aviation, most marine business, and a high proportion of the casualty and property business written (although some of the property and casualty business written through coverholders is lower risk).

Reinsurance is the market's largest segment and accounted for 33% of GWP in 2022. Reinsurance business comprises of property, casualty and specialty reinsurance (primarily marine, aviation and energy reinsurance). Lloyd's is a leading player in the global reinsurance space, ranking as the 7th largest by reinsurance GWP based on 2021 premiums and the 4th largest when life premiums are excluded.

Casualty business is Lloyd's second largest segment in 2022, having previously been somewhat smaller than the direct property book. In 2022, casualty business accounted for 28% of GWP. The book has a focus towards the US, but the UK, Canada, and Australia are also significant markets. The main products written are general liability and professional indemnity. Accident and health business is also accounted for within this segment.

Property insurance business is now Lloyd's third largest segment, accounting for 26% of GWP in 2022. The property book is a global book but with some concentration towards US excess and surplus lines business. There is also a bias towards commercial risks with residential risks written being mainly on a non-standard basis. The book also includes terrorism, power generation, engineering and nuclear risks.

The remaining lines of marine, aviation, and transport (8%), energy (3%), motor (2%), and life (<0.1%) together accounted for approximately 14% of GWP in 2022. Lloyd's is a leader within the marine market, writing a diversified marine book, including cargo, hull, marine liability, specie and fine art. The energy book consists of onshore and offshore property and liability risks. The motor book is focused on the UK covering commercial and personal motor business (with a focus on niche personal risks). An international book is also written, with a focus on North America. Aviation business includes airlines, general aviation, space and war.

Geographical Diversification:

Lloyd's writes a global portfolio, albeit with some bias to North America, which accounted for over 50% of GWP in 2022. The remainder was split across the rest of Europe, UK, Central Asia and Asia Pacific, Other Americas and rest of the world. The market's network of licences provides syndicates with access to a wide international client base, which is of benefit in particular to the syndicates that are not part of global insurance groups.

Business Profile (Continued...)

Lloyd's US domiciled business consists primarily of reinsurance and surplus lines insurance, which can be written in all 50 states. Lloyd's participation in admitted US business (i.e. insurance business excluding surplus lines) is relatively modest. Lloyd's has admitted licences in Illinois, Kentucky and the US Virgin Islands and also writes non-surplus insurance business in lines exempt from surplus lines laws (principally marine, aviation and transport risks).

In Canada, Lloyd's writes primarily insurance business, with reinsurance business accounting for a smaller share. In order to comply with local regulations, all Canadian business is written in Canada.

Over the past 20 years, Lloyd's has built out its licence network considerably, to be able to write insurance and/or reinsurance business in Brazil, Mexico, Colombia, Dubai, China, Singapore, and India, as well as a number of smaller markets. This work was undertaken in response to the growth of local and regional (re)insurance hubs and the preference of clients to place business locally. More recently, the Corporation has prioritised the remediation of performance and market modernization over geographical growth.

In order to continue to access insurance business in the EU and wider European Economic Area (EEA) after the UK's exit from the EU and its single market (referred to as "Brexit"), Lloyd's has established an insurance company domiciled in Belgium. Lloyd's Insurance Company S.A. (Lloyd's Brussels) is a wholly owned subsidiary of The Society of Lloyd's. The entity is incorporated, capitalised and has received regulatory approval. It started writing business at 1 January 2019. On 25 November 2020, Lloyd's received final approval to transfer EEA non-life business written by Lloyd's between 1993 to 2020 to Lloyd's Brussels. For the year-ended 31 December 2022, Lloyd's Brussels wrote EUR 3.7 billion of premiums.

The unique Lloyd's structure subjects the market to regulatory event risk, as the risk of it losing its licence in a jurisdiction following regulatory changes are higher than for an insurance company. The licencing of Lloyd's often relies on unique solutions and agreements that reflect its structure. A mitigating factor is the significant expertise and experience of Lloyd's in dealing with regulatory and licence related issues.

Distribution Channels:

The distribution of Lloyd's business is dominated by insurance brokers, and in particular by the top three largest global brokers. Lloyd's brokers play an active part in the placement of risks and in providing access to regional markets.

In addition, a significant part of Lloyd's business is distributed via coverholders (accounting for circa 30% of GWP), which write business on behalf of syndicates under the terms of a binding authority. Coverholders are important in bringing regional business to Lloyd's and providing the market with access to small and medium-sized risks. The growth in coverholder business in recent years has contributed to the higher expense ratio albeit this trend has been reversing given additional oversight from the PMD.

The Lloyd's distribution model is expensive, with business often passing through several distribution links before arriving at Lloyd's. Lloyd's reliance on brokers also makes the market vulnerable to price-based competition. Although Lloyd's overall is important to the large global brokers (as well as to the specialised London market brokers) the importance of individual syndicates is less. Overall, the Lloyd's distribution model is considered to place the Lloyd's market at a competitive disadvantage compared to the large global reinsurance groups, which have stronger individual positions with brokers as well as being able to distribute some of their business direct to cedants.

Modernisation Programme:

In May 2019, Lloyd's management team unveiled a modernisation plan called the Future at Lloyd's. The proposed reforms include plans to radically reduce the cost of doing business and creating new digital platforms for placing insurance risk and streaming claims services. If the plan is successfully implemented, meaningful cost reductions will support profitability. In AM Best's view, the modernisation programme is making important progress towards modernising the market's operations.

The latest areas of focus highlighted in Blueprint Two (published in November 2020) sets out a vision for the end-to-end modernisation of business models, practices, and systems within Lloyd's - this is to overhaul paper-based processes and implement a more digital, data-led and automated approach.

Some of the Blueprint's features - expected to be effective in 2024 - are the use of a core data record (CDR) for consistent data standards and an intelligent market reform contract (IMRC). Moreover, the newly established London Market Data Council agreed the scope and approach of the CDR and IMRC to standardise the data Lloyd's uses across the London market. Successful delivery of these much-needed modernisation initiatives should support the market to become better-equipped to meet evolving customer needs and realise future cost savings.

Business Profile (Continued...)

Failure to deliver on these initiatives successfully could reduce the confidence and support of the market in the Corporation's wider future at Lloyd's ambitions in the short-term. Over the longer-term, it may reduce the attractiveness of Lloyd's as capital providers choose more cost effective insurance hubs to operate in.

Corporate Overview:

Lloyd's is the London-based market where approximately 100 individual syndicates underwrite all types of insurance and reinsurance business, apart from long term life insurance. Each syndicate is formed by one or more members of Lloyd's, who join together to provide capital and accept insurance risks. Lloyd's members are mainly corporate members although a small proportion of Lloyd's underwriting capacity continues to be provided by private individuals.

In 1871, the then existing association of underwriters at Lloyd's was incorporated by the Lloyd's Act as the Society and Corporation of Lloyd's (referred to in this report as the Society or the Corporation), making the Society the legal entity which oversees the Lloyd's market. Its purpose is to facilitate the underwriting of insurance business by Lloyd's members, to protect members' interests in this context and to maintain Lloyd's Central Fund. The Society is also the holding company for Lloyd's Insurance Company S.A. and Lloyd's Insurance Company (China) Limited.

Enterprise Risk Management

The enterprise risk management (ERM) of Lloyd's is assessed as appropriate. The market's enterprise risk framework is considered to be developed and risk management capabilities are aligned to the risk profile.

Lloyd's ERM is designed to manage risks arising from the market and the Society. It provides an extra layer of oversight over the market's risks that are also managed through the risk functions of individual managing agents. Nonetheless, there are limitations on the ability of the Corporation to actively manage the market's risks, as it is supervising individual and competing syndicates each with their own risk appetites and commercial strategies.

Under the Lloyd's Act 1982, the Council of Lloyd's (the Council) is responsible for the management and supervision of the market as the governing body of the Society. The key committees of the Council are the Audit Committee, the Market Supervision and Review Committee and the Risk Committee. The Risk Committee is responsible for the identification and management of Lloyd's key risks. From 1 January 2017, the Risk Committee became a non-executive committee, with members drawn from the Lloyd's Council. Lloyd's Chief Risk Officer, a position established in 2014, attends Council meetings.

The Council manages risks by setting and monitoring a risk appetite framework. The risk appetites are reviewed on a regular basis and may be updated as required. The framework includes 14 key risks and a number of underlying monitoring metrics. The risk appetites are structured under the three risk objective pillars of sustainability, solvency, and operational.

Over the past several years, there has been a much tougher tone and more active approach taken by the Corporation's oversight functions to managing under-performing syndicates as well as the under-performing lines of generally well performing syndicates. The enhanced oversight has led to some syndicates being put into run-off as well as others exiting certain loss-making lines of business. This additional scrutiny has led to meaningful improvements in underlying performance over the last several years.

The Society of Lloyd's and its managing agents are regulated by The Bank of England, acting through the PRA, as well as by the Financial Conduct Authority (FCA). Lloyd's remains subject to the Solvency II regulatory and capital regime, which came into force on 1 January 2016. It applies to the "association of underwriters known as Lloyd's" as a collective entity.

Lloyd's uses an internal capital model to calculate its SCR and SCR coverage ratios, with approval from the PRA. An internal model has been in use since 2012, although the current model has undergone radical change since then. In AM Best's opinion, the Corporation's ability to assess the capital adequacy of the market has been strongly improved by its capital modelling work.

Lloyd's recognises that one of the greatest risks to the Central Fund is the market's exposure to natural catastrophes, albeit risks from non-natural catastrophe losses, such as cyber and liability, are growing. The catastrophe model component of Lloyd's internal capital model allows the Corporation to assess catastrophe risk across return periods and, in AM Best's opinion, has improved its ability to monitor the market's aggregate catastrophe exposure against a defined risk appetite. An enhancement noted in 2020, was the introduction of the Catastrophe Risk Oversight Framework, now a Principle within the RIO framework, which limits the exposure growth of syndicates with poor performance track records and catastrophe risk management capabilities. Due to the nature of business written, Lloyd's has significant exposure to catastrophe losses, making this aspect of risk management particularly important.

Enterprise Risk Management (Continued...)

Lloyd's Realistic Disaster Scenarios (RDSs) continue to play a critical role in exposure management at Lloyd's, both as benchmark stress tests validating the internal model output and as a source of data. The scenarios are defined in detail annually by Lloyd's and are used to evaluate aggregate market exposures as well as the exposure of each syndicate to certain major events. Syndicate-level scenarios are prepared by each managing agent, reflecting the particular characteristics of the business each syndicate writes. In addition, Lloyd's asks for syndicates' aggregate exceedance probability (AEP) loss at a 30-year and 1-in-200 return period for various regional perils. As the Lloyd's RDSs represent different return periods for different syndicates, collecting this additional data helps to ensure a uniform treatment of syndicates' exposure to large losses.

Reinsurance Summary

Lloyd's use of reinsurance is relatively high when compared to other large specialty insurers and reinsurers. This is due to the nature of the market, which consists of small-to-medium sized business that independently purchase reinsurance. The market as a whole ceded 26% of its GWP in 2022. This amount includes reinsurance from syndicates to their related groups as well as reinsurance between individual Lloyd's syndicates.

Lloyd's oversight function monitors individual syndicates' reinsurance placements to ensure the appropriateness and credit quality of the market's overall use of reinsurance.

Environmental, Social & Governance

As a writer of global commercial property policies, Lloyd's is exposed to the impacts of changing climate trends, namely the increased severity and frequency of natural catastrophe losses. The market uses reinsurance to manage climate risk and increased oversight by the Corporation has led to a reduction in those syndicates approved to write catastrophe-exposed business (based on their past performance). Catastrophe modelling and accumulations are managed to ensure that the market's exposure to natural catastrophes is maintained within its risk appetite.

Furthermore, to actively support the transition to a low-carbon economy, the Corporation published best practice directional guidance to the market on how to embed ESG frameworks and strategies across their operations, underwriting, and investments. As part of the 2023 business planning exercise, ESG strategies of all syndicates were reviewed by the Corporation. No mandated exclusions from certain industries have been required.

Lloyd's has a large book of US casualty business which is susceptible to adverse social inflation trends. AM Best defines social inflation as the rise in cost of current and future claims caused by higher court awards and legislated rises in claims payments driven by changing social behaviour. This has contributed to reserve strengthening of casualty provisions over the last several years and has been an area of focus by the Corporation's actuarial team who performed a thematic review of reserving practices across the market and shared their findings including recommendations on best practice. This has led to increased prudence, through the selection of higher loss picks, being noted across the market.

In recent years, Lloyd's has strengthened its position in the sector in terms of ESG leadership by becoming the leader of the SMI Insurance Task Force. The Corporation also established the Lloyd's ESG Committee of the Council, which is responsible for driving action and providing robust challenge across their environmental and social priorities and commitments. Despite this, Lloyd's has been the target of various climate activist campaigns, which could potentially damage the market's reputation over the short- and medium-term.

Financial Statements

	12/31/2022		12/31/2022
Balance Sheet	GBP (000)	%	USD (000)
Cash and Short Term Investments	12,289,000	7.6	14,822,500
Bonds	61,072,000	37.8	73,662,604
Equity Securities	9,638,000	6.0	11,624,970
Other Invested Assets	12,873,000	8.0	15,526,898
Total Cash and Invested Assets	95,872,000	59.4	115,636,972
Reinsurers' Share of Reserves	34,255,000	21.2	41,317,011
Debtors / Amounts Receivable	24,467,000	15.1	29,511,117
Other Assets	6,936,000	4.3	8,365,926
Total Assets	161,530,000	100.0	194,831,025
Unearned Premiums	23,228,000	14.4	28,016,684
Non-Life - Outstanding Claims	80,905,000	50.1	97,584,375
Total Gross Technical Reserves	104,133,000	64.5	125,601,059
Debt / Borrowings	906,000	0.6	1,092,781
Other Liabilities	16,889,000	10.5	20,370,836
Total Liabilities	121,928,000	75.5	147,064,676
Retained Earnings	-769,000	-0.5	-927,537
Other Capital and Surplus	40,371,000	25.0	48,693,885
Total Capital and Surplus	39,602,000	24.5	47,766,348
Total Liabilities and Surplus	161,530,000	100.0	194,831,025

Source: BestLink® - Best's Financial Suite
 US \$ per Local Currency Unit 1.20616 = 1 British Pound (GBP)

	12/31/2022			12/31/2022	
Income Statement	Non-Life GBP (000)	Life GBP (000)	Other GBP (000)	Total GBP (000)	Total USD (000)
Gross Premiums Written	46,705,000	...	...	46,705,000	56,333,703
Net Premiums Earned	32,458,000	...	...	32,458,000	39,149,541
Net Investment Income	...	...	-429,000	-429,000	-517,443
Realized capital gains / (losses)	...	...	-415,000	-415,000	-500,556
Unrealized capital gains / (losses)	...	...	-2,284,000	-2,284,000	-2,754,869
Total Revenue	32,458,000	...	-3,128,000	29,330,000	35,376,673
Benefits and Claims	18,655,000	...	...	18,655,000	22,500,915
Net Operating and Other Expense	11,162,000	...	282,000	11,444,000	13,803,295
Total Benefits, Claims and Expenses	29,817,000	...	282,000	30,099,000	36,304,210
Pre-Tax Income	2,641,000	...	-3,410,000	-769,000	-927,537
Net Income before Non-Controlling Interests	...	...	...	-769,000	-927,537
Net Income/(loss)	...	...	...	-769,000	-927,537

Source: BestLink® - Best's Financial Suite
 US \$ per Local Currency Unit 1.20616 = 1 British Pound (GBP)

Related Methodology and Criteria

[Best's Credit Rating Methodology, 11/13/2020](#)

[Catastrophe Analysis in A.M. Best Ratings, 03/10/2023](#)

[Available Capital & Holding Company Analysis, 10/13/2017](#)



[Rating Lloyd's Operations, 03/20/2023](#)

[Scoring and Assessing Innovation, 02/27/2023](#)

[Understanding Global BCAR, 07/06/2023](#)

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