KBRA Affirms Ratings for Lloyd’s of London and Lloyd’s Insurance Company S.A.

Dublin (26 June 2024)

KBRA Europe (KBRA) affirms the AA- insurance financial strength ratings of Lloyd’s of London and Lloyd’s Insurance Company S.A., collectively referred to as Lloyd’s. The Outlook for both ratings is Stable.

Key Credit Considerations

The ratings reflect Lloyd’s strong risk-adjusted capitalisation, favourable capital trends, multi-faceted capital structure, very strong reserve position, high credit quality investment portfolio, strong liquidity position, effective risk management programme, and a third consecutive year of profitable underwriting results. At end-2023, Lloyd’s reported a market wide solvency coverage ratio of 207% (2022: 181%). Lloyd’s capital grew at a compound annual growth rate of 10.1% over the past five years and increased 12.5% in 2023 over the prior year. KBRA believes that Lloyd’s capital structure with multiple successive layers of claims paying resources and an end-2023 central solvency coverage ratio of 503% (2022: 412%) significantly enhances the market’s financial position. At end-2023, the margin in the syndicate held reserves increased to 8.0% (2022: 6.9%) according to syndicate Statements of Actuarial Opinion. Adding the central reserve margin increased the overall margin to 8.9%. Lloyd’s invests conservatively and holds approximately 82% (2022: 81%) of its investments in cash and liquid, investment-grade fixed income securities. Lloyd’s has a robust, ever-evolving risk management framework and processes characterized by well-articulated risks and conservative tolerances which are regularly monitored and subject to various stress tests and scenario analysis. For the third consecutive year, Lloyd’s reported a combined ratio below 100%, reflecting continued underwriting discipline, benign catastrophe claims, and a favourable pricing environment for most major lines of business. Favourable 2023 underwriting results of £5.9 billion (2022: £2.6 billion) and a combined ratio of 84.0% (2022: 91.9%) were supplemented by an investment return of £5.3 billion (2022: £3.1 billion loss) driven by recovery in the financial markets during the year. Expenses remained flat year-over-year at £0.4 billion, resulting in an overall profit of £10.7 billion (2022: £0.8 billion loss). Also, for the third consecutive year, the attritional loss ratio remained below 50%.

Balancing these strengths are upcoming critical milestones in the BluePrint Two programme, execution risk for an ambitious commercial strategy, and uncertainty surrounding the successful adaptation of principles-based oversight to sustain underwriting profitability in a soft pricing environment. BluePrint Two represents one of the most significant systems and process upgrades undertaken by Lloyd’s. Whilst a tremendous amount of work has been expended by market participants, the scope of deliverables has narrowed since project inception and progress has been slower than planned with deadlines pushed back to ensure the market is ready for adoption. KBRA believes that a smooth cutover to the new digital services is critical to market adoption, reducing the cost of doing business at Lloyd’s over time, attracting new market participants, and bringing the market in line with the digital maturity of peers. In addition to a digital platform, Lloyd’s wants to drive growth and continued relevance of the market in the global insurance industry through its commercial strategy. The goal is for a larger, simpler, and profitable market delivering growth through new market participants as well as higher underwriting volumes from existing market participants. Execution of the strategy entails changes across the market, capital framework and structure of the Corporation – each of which has the potential to change the risk profile of Lloyd’s. KBRA believes that careful attention by management will be essential to ensure all evolving risks are appropriately identified and prudently managed. KBRA believes that the ability of Lloyd’s to successfully adapt its principles-based oversight to the soft phase of the underwriting cycle is key to sustaining consistently profitable underwriting results.

Rating Sensitivities

Sustained reported combined ratios below 100% throughout the underwriting cycle, successful cut over and market adoption of BluePrint Two digital services, and tangible progress on executing the commercial strategy while appropriately managing evolving risks could result in a positive rating action.

A return to sustained unfavorable underwriting performance over the medium term, a meaningful decrease in capital and/or reduction in solvency coverage ratios below targets and the inability to successfully cut over and adopt BluePrint Two digital platform by the market could result in a negative rating action.

To access rating and relevant documents, click here.

Methodologies

- Insurance: Insurer & Insurance Holding Company Global Rating Methodology
- ESG Global Rating Methodology

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Disclosures

A description of all substantially material sources that were used to prepare the credit rating and information on the methodology(ies) (inclusive of any material models and sensitivity analyses of the relevant key rating assumptions, as applicable) used in determining the credit rating is available in the Information Disclosure Form(s) located here.

Information on the meaning of each rating category can be located here.

This credit rating is endorsed by Kroll Bond Rating Agency UK Limited for use in the UK. Information on a credit rating's endorsement status is available on its rating page at KBRA.com.

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