



RATING ACTION COMMENTARY

Fitch Affirms Lloyd's at IFS 'AA-'; Outlook Stable

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Fitch Ratings - London - 08 Jul 2021: Fitch Ratings has affirmed Lloyd's of London's (Lloyd's), Lloyd's Insurance Company (China) Ltd's and Lloyd's Insurance Company S.A.'s Insurer Financial Strength (IFS) Ratings at 'AA-' (Very Strong). Fitch has also affirmed the Long-Term Issuer Default Rating (IDR) of Society of Lloyd's at 'A+' and its subordinated bonds at 'A-'. The Outlook is Stable.

KEY RATING DRIVERS

The affirmation of the 'AA-' IFS Ratings reflects Lloyd's very strong business profile and capitalisation and leverage. These strengths are partially offset by Fitch's assessment that Lloyd's financial performance and earnings are more consistent with the agency's 'a' rating category, although its underlying underwriting performance substantially improved in 2020.

Fitch ranks Lloyd's business profile as 'Favourable' compared with that of global insurance and reinsurance companies. The ranking is driven by the company'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.

Lloyd's central solvency coverage ratio was very strong on a central fund basis at 209% at end-2020 (end-2019: 238%). This was in excess of the company's risk appetite of 200%. The reduction from 2019 was driven by updated internal capital model parameters reflecting a more conservative view of the economic environment. Lloyd's

implemented central fund insurance in 2021 to protect the central fund from large unexpected losses, which it expects to further strengthen its capital position and reduce the volatility of regulatory capital ratios following large losses.

Lloyd's employs a biannual 'coming into line' process, which is unique to the market and keeps capital levels constant and ensures that all members have sufficient eligible assets to meet their current and future underwriting liabilities. It successfully collected funds from members in June and December 2020 to fully cover pandemic-related losses. However, in the long term, this resilience relies on the willingness and ability of members to recapitalise, following significant losses.

Lloyd's reported GBP3.4 billion pandemic-related losses in 2020, leading to a GBP0.9 billion overall loss and a combined ratio of 110.3% (97% without pandemic-related losses). The losses were mainly driven by contingency and property classes. The company estimated its net ultimate losses from the pandemic at GBP3.6 billion at end-2020. Lloyd's pandemic-related losses are of a similar magnitude to peers' and we view them as manageable for Lloyd's and one-off in our analysis.

Despite the significant impact of the pandemic, Lloyd's underlying underwriting performance has continued to improve, reversing the trend of worsening underwriting performance for Lloyd's over the last four years. We expect Lloyd's to report improving underwriting profits, excluding major losses, supported by robust performance management and hardening market conditions.

Lloyd's underlying combined ratio before major losses improved to 87.3% in 2020 from 95.1% in 2019, reflecting the positive result of performance-management actions initiated in 2018. The attritional loss ratio fell to 51.9% in 2020 from 57.3% 2019. Following a profitability review, significant catastrophe losses of the past two years and pandemic losses, Lloyd's reported overall risk-adjusted premium rates rose in 2020 by 10.8% (2019: 5.4%; 2018: 3.3%).

Lloyd's has an ESG Relevance Score of '4' for Exposure to Environmental Impacts due to underwriting/reserving exposed to natural catastrophe risks, with its property business representing 45% of 2020 gross written premiums.

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, excluding 2020 pandemic-related losses, rising above 104% (reported five-year average to 2020: 103%) 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 could lead to a downgrade.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit

<https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Lloyd's of London has an ESG Relevance Score of '4' for Exposure to Environmental Impacts due to underwriting/reserving exposed to natural catastrophe risks, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being

managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Lloyd's Insurance Company SA	Ins Fin Str	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
Lloyd's Insurance Company (China) Limited	Ins Fin Str	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
Lloyd's of London	Ins Fin Str	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
The Society of Lloyd's	LT IDR	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 15 Apr 2021\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.7.2 (1)

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Lloyd's Insurance Company SA	EU Issued, UK Endorsed
Lloyd's of London	UK Issued, EU Endorsed
The Society of Lloyd's	UK Issued, EU Endorsed

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