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	**Strong**
Capital and earnings	Excellent
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
Lloyd's has a unique brand and reputation and is a center for underwriting specialist risks.	Underwriting performance has been unprofitable for the past three years and COVID-19's repercussions will likely propel another loss in 2020.
Revenue comes from diverse geographic locations across several different property/casualty (P/C) product lines.	Lloyd's is still more heavily exposed to catastrophe risk than the majority of its reinsurance peers, according to our metrics.
Management has taken swift action to maintain very strong levels of capital in the market following significant losses in recent years.	Management is undertaking a large modernization program, with significant execution risks.

U.K.-domiciled 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. S&P Global Ratings expects the market will continue to attract business and loyalty from brokers, thanks to the depth of its underwriting expertise and the market's face-to-face culture.

The market will continue to manage capital to at least very strong levels. Lloyd's capital position as per our risk based model is now above our 'AAA' benchmark and we expect that it will remain at these levels through 2022. Despite both the investments and underwriting losses Lloyd's will likely experience in 2020 due to COVID-19, we expect management will ensure that the market maintains sufficient capital adequacy. We base our view on recent recapitalizations following large losses and the measures the corporation has taken to reduce previously high levels of catastrophe risk.

Lloyd's still faces significant underlying problems with its business model that could affect its competitive position. Despite recent efforts by Lloyd's to improve underwriting performance, we still believe the market's underlying business model has risk. The cost of doing business at the corporation is higher than that in many other (re)insurance centers and Lloyd's has an expense ratio near the top of its peer group. In 2019, the corporation announced measures to deal with this issue and other initiatives aimed at ensuring the competitiveness of the market. While we view the program's aims positively, there will be significant execution risk.

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 at levels exceeding our 'AAA' level.

Downside scenario

We could lower our ratings by one notch if Lloyd's cannot maintain capital above our 'AA' requirement through 2020-2022, or if its competitive strength significantly weakens. This could follow a further deterioration in underlying performance, compared with similarly rated reinsurers and insurers.

Upside scenario

We see limited upside to the rating over the next two years. We would have to see both a significant improvement in operating performance and a successful implementation of the management team's strategy to modernize the market before we take a positive rating action.

Key Assumptions

- We forecast GDP will fall in 2020 by 4% in the U.S. and by 9.7% in the U.K.
- We expect central bank monetary policy responses will cement interest rates at a lower level for longer, stressing insurers investment yields. We expect U.S. 10-year yields will fall to 0.89% in 2020 then slightly increasing to 1.21% in 2022.
- Despite recent rate improvements in most lines, we believe the reinsurance sector will face another tough year in 2020 due to losses related to COVID-19, particularly in event cancellation, liability, and credit and surety lines.

Lloyd's--Key Metrics

(Mil. £)	2021f	2020f	2020H1	2019	2018	2017
GPW	~39,000	~37,000	20,047	35,905	35,527	33,591
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Very Strong	Satisfactory
Combined ratio (non-life; %)	~95%	~105%	1.1	102.1	104.5	114.0
Net investment yield (%) *	~1.5	~1.5	~1	3.5	1.4	2.1
Net income	~2,000	~0	(438)	2,532	(1,001)	(2,001)
Financial leverage (%)	~3	~3	3.4	3.1	2.8	2.9
Fixed-charge coverage (x)*	~25	<0	(12.0)	27.5	(12.1)	(41.6)
Return on shareholders' equity (%)	~7	~0	(1.4)	8.8	(3.7)	(7.4)

f--Forecast. GPW--Gross premium written. * 020 Half year number is an estimate.

Business Risk Profile: Very Strong

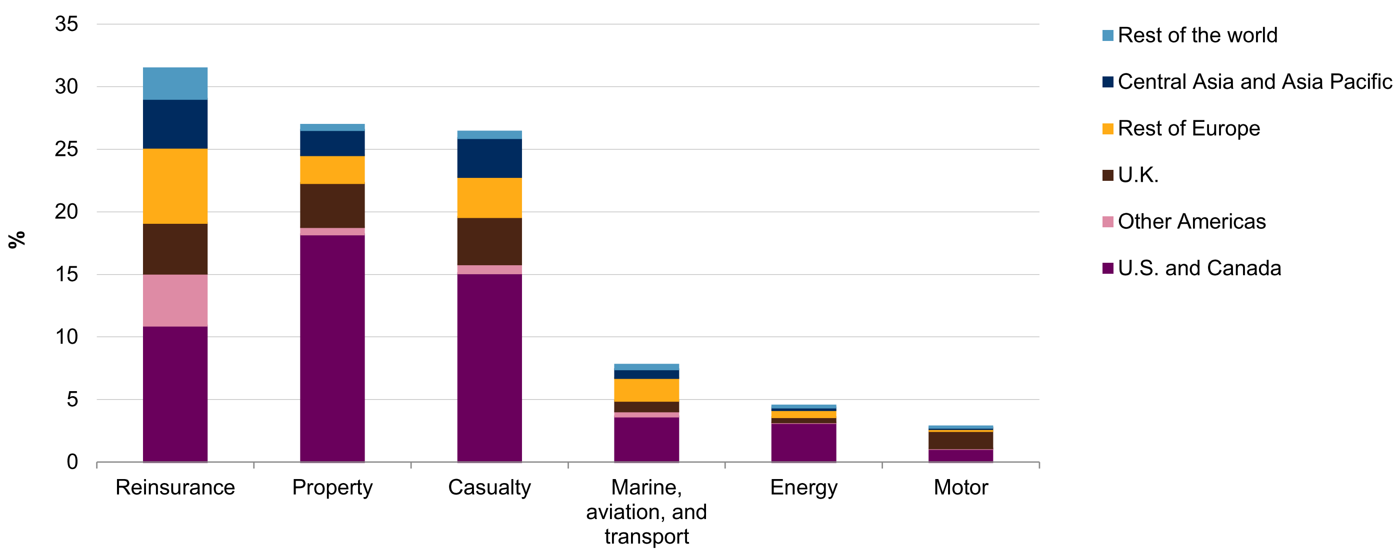
In our opinion, Lloyd's benefits from its unique brand, the attraction of being the world's largest subscription market, and its large geographic footprint from which it distributes its wide product offering. The expense of doing business at Lloyd's and its recent poor performance slightly offset these strengths.

We view the brand and reputation as a key differentiator 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 have led to policyholder and broker loyalty that we view as a competitive strength.

Lloyd's enjoys a leading position in the global reinsurance market, consistently ranking among the top five global reinsurers, and it has been the leading excess and surplus writer in the U.S. since 2011. The Lloyd's market is also the leading reinsurer for global marine business. However, a significant majority of its revenue (66%) comes from the U.S., Canada, and the U.K., which are particularly credit-sensitive markets compared with those in continental Europe.

Chart 1

Lloyd's Premium Base Remains Denominated By U.S. Dollars And Short-Tail Risks
Lloyd's premium by line of business and geography



Source: S&P Global Ratings.

The cost of doing business at Lloyd's somewhat constrains our assessment of the market's competitive position. The corporation's expense ratio is significantly higher than that of peers (38.7% in 2019, compared with that of peers like Allianz at 27.5%, RSA at 29.7%, and Swiss Re at 31.7%). This is fueled in part by high acquisition costs (the top five global brokers provide 50% of Lloyd's business) but also by Lloyd's dependence on coverholders who produce nearly

30% of its premium. The corporation's management is working to change its operating model to address this by introducing initiatives such as electronic placement and simplifying claims handling. We believe these programs have succeeded more than previous attempts to modernize the market.

The increasing amount of alternative capital in the wider reinsurance market also poses a risk to Lloyd's profitability via increased competition and pressure on pricing. The market suffered from significant rate declines in 2012-2017 as nontraditional capital providers (such as pension funds) increased their appetite for reinsurance and in particular catastrophe risk. However, the industry losses in 2017 and 2018 (because of significant catastrophes in those years) means rates have improved recently. The Lloyd's market has reported ten quarters of rate improvement and we expect this momentum is likely to carry on into 2021.

Lloyd's still has a significant amount of work to do to ensure the market can maintain--and improve--its competitiveness against other major reinsurance hubs such as Bermuda, Zurich, and Singapore. The new management team has recognized the need for the market to change to keep its preeminent position and held major consultations with market stakeholders in 2018-2019 concerning the future of the market. Following the consultation, the corporation launched its "Future at Lloyd's" blueprint, which lays out six initiatives 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. We expect that, due to the pandemic, the pace of change in some areas will slow. However, the pandemic has accelerated the market's use of electronic placement and proved the business can be placed without a physical market. We expect that management will work on the modernization program while maintaining the work it has performed recently in improving the market's underwriting performance.

In 2019, Lloyd's gross written premium increased by 1.1%, but excluding exchange rate movements had actually shrunk by 2.4%, which was smaller than we expected. We had expected a 5% fall in premium excluding foreign exchange movements, driven by corrective actions of the performance management division at year-end 2018 when many syndicates reduced or stopped some unprofitable lines of business. The decrease in volumes was, however, largely offset by improvement in rates (Lloyd's estimates a 5.4% improvement on average risk-adjusted rates).

At half year, gross written premiums were up by 2% on 2019. The increase was driven by the improving rates in the market with Lloyd's estimating that risk adjusted rates had improved by 8.7%. This significant increase was partially offset by a reduction in volume of 8.6% as the market continues its work to improve underperforming lines. We expect that the market will grow in 2020 despite the volume reductions and potential reduced premium in marine and aviation lines. We also expect the market's top line to expand by about 3% in 2020 and 5% in 2021. Our expectations for growth are based on both continued rate improvement and new business opportunities, as insureds are forced to go outside their local market due to a lack of capacity.

Financial Risk Profile: Strong

Lloyd's has a very strong capital position, in our view, based on its excess of capital at the 'AAA' benchmark in our risk-based model. We expect that Lloyd's will maintain this level of capital through the end of 2022.

In regulatory terms, Lloyd's holds comfortable capital surpluses in both its market wide regulatory solvency ratio of 155% and a central solvency ratio of 250%. Earlier in the year, the corporation forecast that their central solvency ratio had fallen to 205% because of COVID-19-related volatility. The improved ratio at half year reflects both a recovery in Lloyd's investment portfolio and two capital collections to fund COVID-19 related losses.

Not all the capital held by the corporation is fungible (only the central fund and corporation assets are available to pay all claims). However, offsetting this risk is the corporation's strong history of managing syndicate level capital appropriately (the most recent central fund loss was from the 2007 year of account) and its ability to ask the market to recapitalize. The ability to recapitalize was demonstrated in 2017 when the market injected £3 billion following Hurricanes Harvey, Irma, and Maria; and in 2020, with a further £3 billion following COVID-19 losses.

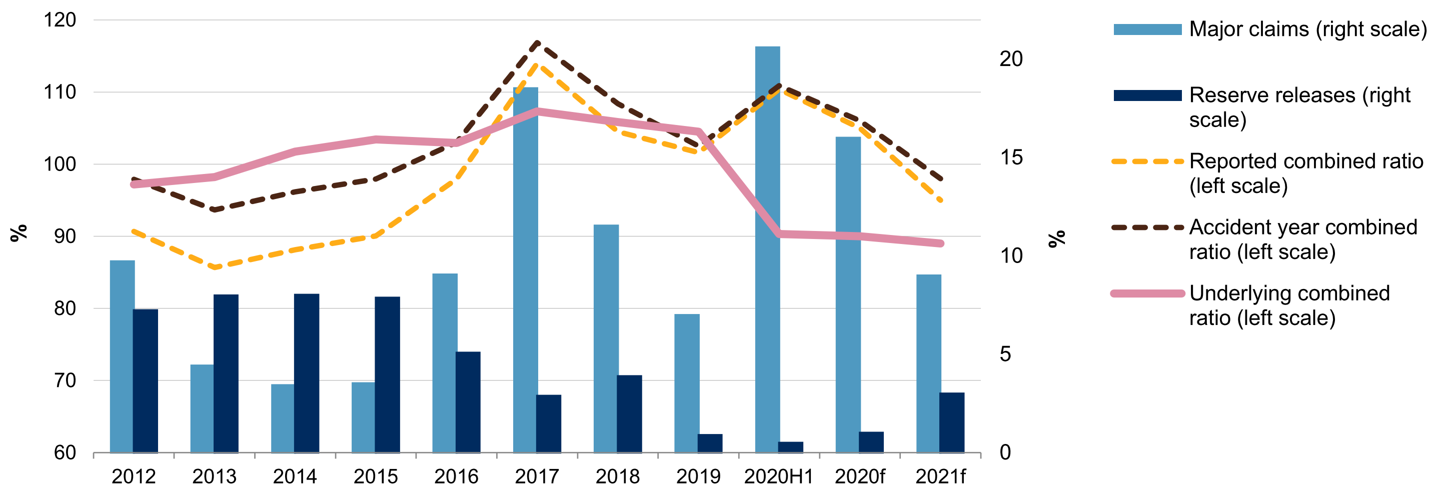
We expect Lloyd's underlying operating performance (excluding catastrophe events and reserve releases) to continue improving in 2020-2021. We base our expectation on the past two years of improving rates across the market and some efficiency gains from the modernization program. On a headline basis, however, the Lloyd's market is likely to record another year of significant underwriting losses due pandemic claims. Lloyd's has suffered significant claims from contingency polices (event cancellation) business interruption policies that cover pandemics and credit (guarantee) business. The quantum of these claims is very difficult to forecast because the claims' amount and size will depend on how long the pandemic and lockdown policies last. Our base-case scenario is that Lloyd's will record a combined ratio of 105% in 2020 but the ratio could fall anywhere in the 100%-115% range due to COVID-19 uncertainties and potential losses from hurricane season.

We expect that, despite some volatility in the financial markets relating to COVID-19, the corporation will record an investment gain in 2020. Equity price falls and widening credit spreads in March and April led to an investment loss for the market of about £1.1 billion but at half year these had somewhat reversed. At half-year the market recorded a gain of about $940 million. We expect that investment gains will allow the market to record an overall break-even result in 2020. We then expect Lloyd's to return to profit in 2021 (assuming an average year of catastrophe losses) with a combined ratio of 95% and overall profit of around £2 billion.

Lloyd's holds minimal levels of leverage, with subordinated debt of £794 million and £300 million of senior notes (which do not qualify as capital in our model), making up 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.

Chart 2

Turnaround In Lloyd's Underlying Performance



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

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. However, the corporation has seen significant turnover in its senior executives in recent years. The majority of the top executive team has been replaced in the past three years, including the CEO, CFO, and COO. In 2020, the performance management director left and has yet to be replaced. However, we believe that the new team, under the guidance of Chairman Bruce Carnegie-Brown, has quickly made a positive impact and demonstrated its willingness to address Lloyd's key challenges.

We view positively the corporation's robust strategic planning process, which its performance management and finance directorates have established and improved in recent years. Initiatives include a stringent business planning process and benchmarking exercises, and have fueled significant improvements in performance standards and measurement. We have not identified any governance deficiencies in our assessment.

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. The vast majority of the chain of security could be liquidated in 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 industry average because it writes significant amounts of property reinsurance and insurance. In particular, it is more exposed to natural catastrophe risk than some other large nonlife insurers like RSA or Mapfre, which can increase capital and earnings volatility. We revised our outlook on Lloyd's to negative from stable after the corporation suffered significant catastrophe claims in 2017, for example. It reported losses of £4.5 billion, representing about 16% of total reported capital. Lloyd's catastrophe exposure is in line with that of most P/C reinsurance or specialty writers. 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 market's members, allowing comparison with other insurance companies. These accounts are prepared where practicable under U.K. generally accepted accounting principles. We view the market's financial communication and disclosure as sound and transparent

Related Criteria

- 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
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Appendix

Lloyd's--Credit Metrics History		
	--Fiscal year ended Dec. 31--	
	2019	**2018**
S&P Global Ratings capital adequacy	Excellent	Very strong
Total invested assets	73,098	71,203
Total shareholder equity	29,844	27,428
Gross premium written	35,905	35,527
Net premium written	25,659	25,681
Net premium earned	25,821	25,178
Reinsurance utilization (%)	28.5	27.7
EBIT	2,591	(962)

Lloyd's--Credit Metrics History (cont.)

	--Fiscal year ended Dec. 31--	
	2019	2018
Net income (attributable to all shareholders)	2,532	(1,001)
Return on revenue (%)	5.7	(1.8)
Return on assets (excluding investment gains/losses) (%)	1.7	(0.5)
Return on shareholders' equity (%)	8.8	(3.7)
Property/casualty: Net combined ratio (%)	102.1	104.5
Property/casualty: Net expense ratio (%)	38.7	39.2
Property/casualty: Return on revenue (%)	7.1	(0.6)
EBITDA fixed-charge coverage (x)	27.5	(12.1)
EBIT fixed-charge coverage (x)	27.4	(12.3)
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	43.9	(24.7)
Financial obligations/adjusted EBITDA (x)	0.6	(1.7)
Financial leverage including pension deficit as debt (%)	3.1	2.8
Net investment yield (%)	3.6	1.4
Net investment yield including investment gains/(losses) (%)	4.9	0.7

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 October 7, 2020)*

Operating Company Covered By This Report	
Lloyd's	
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.