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

Dublin (27 June 2023)

KBRA Europe (KBRA) affirms the AA- insurance financial strength ratings of Lloyd’s of London (Lloyd’s) and Lloyd’s Insurance Company S.A. (Lloyd’s Europe). Lloyd’s is the world’s leading specialty (re)insurance marketplace. Lloyd’s Europe is one of the leading insurers in the European Economic Area (EEA) and provides customers access to the underwriting expertise and financial strength of Lloyd’s for risks located in the EEA. Lloyd’s Europe reinsures 100% of its business to syndicates operating in the Lloyd’s marketplace. 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 profile, diversified earnings sources, broad distribution channels, and effective risk management programme. At end-2022, Lloyd’s market wide solvency ratio was 181% (2021: 177%). Lloyd’s capital has grown at a compound annual growth rate of 8.1% over the last five years and is up 10.0% at end-2022 over the prior year. KBRA believes that Lloyd’s capital structure with multiple successive layers of claims paying resources and an end-2022 central solvency ratio of 412% (2021: 388%) materially enhances Lloyd’s financial position. At end-2022, Lloyd’s reported net earned held reserves included a £3.5 billion margin above signing syndicate actuaries’ best estimates and included explicit uplift for inflation across all underwriting years. Lloyd’s invests conservatively and holds approximately 81% of its investments in cash and liquid, high credit quality fixed income securities. As one of the largest insurance underwriters in the world, Lloyd’s utilizes its expansive distribution network to write business across all major sectors and covers over 60 lines of insurance and reinsurance in more than 200 countries and territories. Lloyd’s has a comprehensive, dynamic risk management framework and processes characterized by well-articulated risks and conservative risk tolerances which are regularly monitored and subject to various stress tests and scenario analysis.

The ratings also reflect Lloyd’s improved underwriting results over the past two years as well as numerous milestones achieved under the Blueprint Two programme. The significant effort to achieve underwriting profitability resulted in a 2022 combined ratio of 91.9% (2021: 93.5%), reflecting improvement in both losses and expenses and representing the second consecutive year that Lloyd’s reported a combined ratio below 100%. However, KBRA also notes that major claims in 2022 remained above the market’s five- and ten-year averages. KBRA expects that entities at higher rating levels will post combined ratios, inclusive of all catastrophes and major loss events, below 100% on a consistent year over year basis and through both hard and soft underwriting cycles. In 2022, Blueprint Two digital solutions were extended to the broader London market, data standards were agreed and the Faster Claims Payment solution was successfully launched. Recent progress notwithstanding, KBRA notes that Blueprint Two is a complex programme that continues to carry execution risk. KBRA believes that Lloyd’s market engagement during 2023 to achieve full adoption of the Blueprint Two solutions will be critical to the programme’s long-term success.

Balancing these strengths are heavy reliance on reinsurance and exposure to event risk. Lloyd’s is more heavily dependent on reinsurance than peers which utilise reinsurance more strategically although this weakness is partially offset by central oversight and selected management of counterparty credit risk across the Lloyd’s market. Due to its wide product and geographic footprints, Lloyd’s incurs claims for most catastrophic events around the world. While exposure aggregations are trending down and pricing is trending up, the impact of climate change and the continued urbanisation in catastrophe-exposed areas may test the adequacy of risk-adjusted pricing.

Rating Sensitivities

Consistent achievement of combined ratios, inclusive of catastrophes and major claims, below 100% over the medium term, successful market adoption of Blueprint Two solutions and successful execution of the Future at Lloyd’s programme could result in a positive rating action.

Unfavourable, or inconsistent, underwriting performance over the medium term, meaningful reduction in capital or a drop in solvency ratios below Lloyd's minimum targets could result in a negative rating action.

A full report will soon be available on www.kbra.com.

To access ratings 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.

Further disclosures relating to this rating action are available in the Information Disclosure Form(s) referenced above. Additional information regarding KBRA policies, methodologies, rating scales and disclosures are available at www.kbra.com.

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