Lloyd's of London and Operating Subsidiaries

Update

Key Rating Drivers

Very Strong Company Profile: Fitch Ratings ranks Lloyd's of London's business profile as 'Favourable' compared with that of global insurance and reinsurance companies. The ranking is driven by the market's strong franchise, large operating scale and significant diversification within property and casualty insurance and reinsurance. Lloyd's is one of a small group of global (re)insurance providers capable of attracting high-quality and specialised business.

Very Strong Capital Position: The insurer's central solvency coverage ratio was very strong at 438% at end-1H23 (end-2022: 412%), demonstrating the market's strong capitalisation. This is comfortably in excess of the company's risk appetite of 200%. The marketwide solvency ratio was very strong at 194% at end-1H23 (end-2022: 181%).

Unique Recapitalisation Process: Lloyd's employs a unique annual 'coming into line' process, which ensures a certain capital level is maintained and that all members have sufficient eligible assets to meet their current and future underwriting liabilities. Lloyd's collected funds from members to fully cover large loss reserves, including pandemic-related losses. In the longer term, this resilience relies on the willingness and ability of members to recapitalise following significant losses.

Strong Financial Performance Driven by Underwriting: Fitch's assessment of Lloyd's financial performance is driven by the level and volatility of the underwriting results. We expect Lloyd's to maintain the improvements in its underlying underwriting performance, but the overall results are likely to remain volatile, given its exposure to catastrophe-exposed lines. Lloyd's maintained strong underwriting performance in 1H23, demonstrated in a robust underwriting profit of GBP2.5 billion with a combined ratio of 85.2% (1H22: 91.4%).

Lloyd's reported a profit before tax of GBP3.9 billion in 1H23, a significant improvement from the GBP1.8 billion loss reported in 1H22 which was driven by valuation losses on the bond portfolio following the rise in interest rates. The 1H23 result was driven by positive investment returns and underwriting profit.

Favourable Pricing Conditions: In 1H23, Lloyd's reported strong growth in premiums of 21.9%. The strong growth was supported by strong risk-adjusted rate increases of 9.1% (2022: 7.7%). We expect pricing conditions to remain favourable in 2024 amid inflationary pressures and limited capacity in some business lines. These favourable pricing conditions should support Lloyd's strong underwriting profitability and capital generation.

Strong Reserve Adequacy: Fitch views Lloyd's reserve adequacy as strong, supported by continued reserve releases and stable market-level surplus in the held reserves. This is reinforced by an independent review of reserves, which confirmed the market level of surplus estimated by Lloyd's. Our favourable view of reserve adequacy is supported by robust market oversight of reserving practices, which is increasingly important given the impact of inflation.

Ratings

Lloyd's of London

Insurer Financial Strength	AA-

The Society of Lloyd's

Long-Term IDR	A+
Subordinated Debt	A-

Lloyd's Insurance Company (China) Limited

Insurer Financial Strength	AA-

Lloyd's Insurance Company SA

Insurer Financial Strength	AA-

Outlooks

Insurer Financial Strength	Stable
Long-Term IDR	Stable

Financial Data

Lloyd's of London

(GBPm)	1H23	2022
Total assets	166,510	161,530
Total equity	40,150	39,602
Gross written premium	29,306	46,705
Net income	3,920	-769

Source: Fitch Ratings, Lloyd's of London

Applicable Criteria

Insurance Rating Criteria (July 2023)

Related Research

London Market Insurance Dashboard: 1H22 Update (September 2022)

Fitch Ratings 2023 Outlook: Global Reinsurance (September 2023)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- A big improvement in Lloyd's general competitive position. However, we view this as unlikely over the medium term.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A five-year average combined ratio above 104% (reported five-year average to 2022: 100.5%) on a sustained basis 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 as part of the market's 'coming into line' process.

Latest Developments

- In its 1H23 results, Lloyd's announced a combined ratio of 85.2% (1H22: 91.4%), reflecting the positive rating environment as well as the low major claims acitivity.
- Gross written premiums grew strongly in 1H23 to GBP29.3 billion, a significant rise of 21.9% from 1H22, driven by risk-adjusted rate increases, foreign-currency movements, and growth from both new and existing syndicates.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.