

RATING ACTION COMMENTARY

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

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Fitch Ratings - London - 03 Jun 2024: Fitch Ratings has affirmed Lloyd's of London's (Lloyd's), Lloyd's Insurance Company (China) Limited's and Lloyd's Insurance Company SA's Insurer Financial Strength (IFS) Ratings at 'AA-' (Very Strong). The Outlooks are Stable. A full list of rating actions is below.

The affirmation reflects Lloyd's very strong company profile and capitalisation and leverage. The ratings also reflect strong and improved financial performance and earnings, as well as strong reserve adequacy.

KEY RATING DRIVERS

Very Strong Company Profile: Fitch ranks Lloyd'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: Lloyd's central solvency coverage ratio was very strong at 503% at end-2023 (end-2022: 412%). This is comfortably in excess of the company's risk appetite. The market-wide solvency ratio was also very strong at 207% at end-2023 (end-2022: 181%).

Unique Recapitalisation Process: Lloyd's employs a unique to the market annual 'coming into line' process, which ensures a certain capital level is maintained and that all members have sufficient eligible assets to meet their underwriting liabilities. In the longer term, this resilience relies on the willingness and ability of members to recapitalise following significant losses. A failure to recapitalise would result in the member being unable to continue underwriting through Lloyd's.

Underwriting Drives Strong Financial Performance: 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 underwriting performance was very strong in 2023, the combined ratio improved to 84.0% (2022: 91.9%), helped by lower major loss activity.

Record Profit in 2023: Lloyd's reported an underwriting profit of GBP5.9 billion in 2023 (2022: GBP2.6 billion), benefiting from lower natural catastrophe claims during the year, although the underlying combined ratio (excluding major claims) remained broadly flat at 80.5% (2022: 79.2%). Investment returns were strong, with a total return of GBP5.3 billion in 2023 (2022: GBP3.1 billion loss) driven by higher interest rates and the unwind of previously booked mark-to-market losses on the bond portfolio. These factors contributed to record profits in 2023 of GBP10.7 billion.

Favourable Pricing Conditions: In 2023, Lloyd's reported strong growth in gross written premiums of 11.6%. The strong growth was supported by favourable pricing conditions, with reported rate rises of 7.2%, and volume growth of 4.3%. Fitch expects pricing conditions to remain favourable in 2024, although it expects any further pricing improvements to be moderate. We expect the current market conditions to support Lloyd's strong underwriting profitability and capital generation in 2024.

Strong Reserve Adequacy: We view Lloyd's reserve adequacy as strong, supported by stable market-level surplus in the held reserves and continued reserve releases. 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 further supported by robust market oversight of reserving practices, which is increasingly important, given the impact of inflation and, in particular, US social inflation.

RATING SENSITIVITIES

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

-- Increasing diversification away from US catastrophe risk exposure while maintaining a favourable competitive position.

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 2023: 96.4%) 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.

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 has an ESG Relevance Score of '4' for exposure to environmental impacts due to underwriting/reserving being exposed to natural catastrophe risks, with its reinsurance and property business segments representing 51% of 2023 gross written premiums.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕		PRIOR ↕
Lloyd's Insurance Company SA	LT IFS	AA- Rating Outlook Stable	AA- Rating Outlook Stable
	Affirmed		
Lloyd's Insurance Company (China) Limited	LT IFS	AA- Rating Outlook Stable	AA- Rating Outlook Stable
	Affirmed		

Lloyd's of London	LT IFS	AA- Rating Outlook Stable	AA- Rating Outlook Stable
	Affirmed		
The Society of Lloyd's	LT IDR	A+ Rating Outlook Stable	A+ Rating Outlook Stable
	Affirmed		
subordinated	LT	A- Affirmed	A-

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 04 Mar 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Prism Global (ex-U.S.) Model, v1.8.1 (1)

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

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