



RATING ACTION COMMENTARY

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

Fri 24 Jun, 2022 - 6:19 AM ET

Fitch Ratings - London - 24 Jun 2022: 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). The Outlook is Stable. A full list of ratings is provided below.

KEY RATING DRIVERS

The affirmation of the 'AA-' IFS Ratings reflects the continuation of Lloyd's very strong business profile and capitalisation and leverage. The ratings also reflect strong and improved financial performance and earnings, and strong reserve adequacy.

Fitch ranks Lloyd's business profile as 'favourable' compared with that of global insurance and reinsurance companies. The ranking is driven by the Lloyd's market's strong franchise, large operating scale and significant diversification within property and casualty (P&C) insurance and reinsurance markets. Lloyd's is one of a small group of global (re)insurance providers capable of attracting high-quality and specialised business.

Fitch views Lloyd's capital position as very strong. This is supported by a solvency capital requirement coverage ratio on a central basis of 388% at end-2021 (end-2020: 209%), which strengthened significantly following the implementation of reinsurance cover against large losses. This is comfortably in excess of the market's risk appetite of 200%. The market-wide solvency ratio, including all risks and assets contributed by members, was 177% in 2021. Lloyd's Fitch Prism Factor-Based Model score of 'Very Strong' at end-2021 supports our assessment of Lloyd's capitalisation.

Lloyd's employs a unique to the market biannual 'coming into line' (CIL) 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. To date Lloyd's has successfully collected funds from members to fully cover large losses including pandemic-related losses. However, in the longer term, this resilience relies on the willingness and ability of members to recapitalise, following significant losses.

Lloyd's earnings significantly improved in 2021. The primary drivers behind the improvement were stronger underwriting performance and the absence of pandemic-related losses booked in 2020. The combined ratio improved to 93.5% in 2021 (2020: 110.3% or 97.0% excluding pandemic-related losses), helped by further reductions in its attritional loss and expense ratios. We expect Lloyd's to maintain similar underwriting performance in 2022, despite the current macroeconomic challenges and exposure to business lines that may be affected by the Russia-Ukraine conflict.

Lloyd's reported overall risk-adjusted price increases in 2021 of 10.9% (2020: 10.8%, 2019: 5.4%), due to the profitability reviews conducted since 2018, large catastrophe losses in 2020 and 2021, pandemic-related losses and rising inflation. We expect Lloyd's management actions and notably hardening pricing conditions to support underwriting performance in 2022, against the backdrop of rising inflation.

Lloyd's strong reserve adequacy is supported by continued reserve releases and stable market-level surplus in the held reserves. The view is reinforced by an independent reserve 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 rising inflation.

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 property business representing 43% of 2021 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 remaining above 104% (reported five-year average to 2021: 105%) 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

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 has an ESG Relevance Score of '4' for exposure to environmental impacts due to underwriting/reserving being 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	AA- Rating Outlook Stable
	Affirmed		
Lloyd's Insurance Company (China) Limited	Ins Fin Str	AA- Rating Outlook Stable	AA- Rating Outlook Stable
	Affirmed		
Lloyd's of London	Ins Fin Str	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-	A-
	Affirmed		

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 26 Nov 2021\) \(including rating assumption sensitivity\)](#)

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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UK Issued, EU Endorsed

Lloyd's Insurance Company SA

EU Issued, UK Endorsed

Lloyd's of London

UK Issued, EU Endorsed

The Society of Lloyd's

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