

RATING ACTION COMMENTARY

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

Mon 03 Jun, 2024 - 11:49 AM ET

Related Content:

[Lloyd's of London](#)

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-

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Graham Coutts, ACA

Senior Director

Primary Rating Analyst

+44 20 3530 1654

graham.coutts@fitchratings.com

Fitch Ratings Ltd

30 North Colonnade, Canary Wharf London E14 5GN

Harish Gohil, FIA

Managing Director

Secondary Rating Analyst

+44 20 3530 1257

harish.gohil@fitchratings.com

Alberto Messina

Senior Director

Committee Chairperson

+49 69 768076 234

alberto.messina@fitchratings.com

MEDIA CONTACTS

Athos Larkou

London

+44 20 3530 1549

athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com**PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

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)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Lloyd's Insurance Company (China) Limited

UK Issued, EU Endorsed

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

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following

<https://www.fitchratings.com/rating-definitions-document> details Fitch's rating

definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their

nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to

US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500.

Reproduction or retransmission in whole or in part is prohibited except by permission.

All rights reserved.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be.

Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.