



## RATING ACTION COMMENTARY

# Fitch Affirms Beazley's IFS at 'A+'; Outlook Stable

Tue 09 May, 2023 - 5:12 AM ET

Fitch Ratings - London - 09 May 2023: Fitch Ratings has affirmed Beazley Insurance Designated Activity Company's (Beazley Insurance DAC) Insurer Financial Strength Rating (IFS) at 'A+'. It has also affirmed the Long-Term Issuer Default Ratings (IDR) of Beazley Insurance DAC and the ultimate parent and holding company of the group, Beazley plc (together, Beazley), at 'A'. The Outlooks are Stable.

The affirmation reflects Beazley's very strong capitalisation, strong financial performance and company profile, and conservative approach to reserving.

## KEY RATING DRIVERS

**Company Profile Constrains Ratings:** Fitch views Beazley's company profile as strong. Its gross written premiums (GWP) grew 14% to USD5.3 billion in 2022 (2021: USD4.6 billion). Beazley's company profile score is supported by the group's favourable diversification by geography and business, but is constrained by its operating scale, which Fitch views as moderate compared with that of all other UK non-life insurance companies.

**Very Strong Capitalisation:** Fitch's assessment of Beazley's capitalisation is reflected in Fitch's Prism Factor-Based Model (Prism FBM) score of 'Extremely Strong' at end-2022, an improvement from 'Very Strong' at end-2021, mainly as a result of an increase in equity. Beazley raised USD404 million of new equity capital in November 2022 to take advantage of strong property reinsurance rates, to grow the North American primary property business and to improve balance sheet resilience following an extreme event.

Approximately two-thirds of the capital raised will be used to grow the property risks division, and the remainder to retain more cyber and specialty risk via a reduction in quota share reinsurance. Fitch expects Beazley to grow into its expanded capital base and for capital, as measured by Prism FBM, to remain at least 'Very Strong' in the medium term.

**Strong Financial Performance:** Beazley reported very strong underwriting performance in 2022 with a combined ratio of 89% (2021: 93%) and underwriting profit of USD402 million (2021: USD216 million). However, rising interest rates resulted in mark to market investment losses and an overall investment loss of USD180 million (2021: USD116 million gain). As a result, overall profit before tax was lower at USD191 million (2021: USD369 million) and return on equity (ROE) fell to 7% (2021: 16%). We expect Beazley to maintain its very strong underwriting performance and to benefit from increasing reinvestment yields and the unwinding of unrealised losses as bonds mature.

**Exposed to Property and Cyber Risks:** Fitch expects Beazley's financial performance to remain strong and in line with the company's guidance of a combined ratio in the high 80's for 2023, but sees potential losses stemming from property and cyber risks. Beazley is growing its cyber risk portfolio with a fast-growing international portfolio as well as retaining more risk on balance sheet following the equity raise through a reduction in quota share reinsurance. Beazley is also growing its property risk business although the overall risk appetite relative to capital has been reducing in recent years.

**Very Strong Reserve Adequacy:** Fitch believes that Beazley's reserve adequacy is very strong, which will continue to contribute to technical profitability. Beazley reported prior-year reserve releases of USD132.6 million in 2022 (2021: USD209.8 million), which represents 3.7% of net earned premium (2021: 6.7%), as a result of favourable reserve development across all businesses. As Beazley transitions to IFRS 17, the level of reserve redundancies may slightly decline but Fitch expects Beazley to maintain a very conservative reserving position.

**Strong Debt Service Capability:** Fitch views Beazley's debt-servicing ability as strong, reflected in a five-year average fixed charge coverage (FCC), excluding realised and unrealised gains and losses, of 6x at end-2022 (end-2021: 7x). In 2022 the FCC ratio was 14x (2021: 8x).

## **RATING SENSITIVITIES**

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

-An improvement in Beazley's company profile could result in an upgrade. However, we view this as unlikely in the medium term

## Factors that Could, Individually or Collectively, Lead to Negative Rating

### Action/Downgrade:

- Prism FBM score declining to the lower end of the 'Strong' category

-A deterioration in profitability, reflected in a combined ratio above 100%, assuming normal levels of catastrophe losses

## 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

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

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## RATING ACTIONS

ENTITY / DEBT ⇅

RATING ⇅

PRIOR ⇅

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Beazley Insurance DAC	LT IDR	A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed		
	LT IFS	A+ Rating Outlook Stable	A+ Rating Outlook Stable
	Affirmed		
subordinated	LT	BBB+	Affirmed
			BBB+
Beazley plc	LT IDR	A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed		

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**APPLICABLE CRITERIA**

[Insurance Rating Criteria \(pub. 15 Jul 2022\) \(including rating assumption sensitivity\)](#)

**APPLICABLE MODELS**

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

Prism Factor-Based Capital Model, v1.8.0 (1)

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Beazley Insurance DAC

UK Issued, EU Endorsed

Beazley plc

UK Issued, EU Endorsed

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