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MS Amlin Group - Syndicate 2001

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Lloyd's Syndicate Assessment

4+/Stable

Financial Strength Rating
None

S&P Global Ratings' insurer financial strength rating on Lloyd's (Lloyd's or the market; A+/Stable) remains the primary indicator of the level of financial security that is afforded to a policyholder of any syndicate trading in the Lloyd's market.

Lloyd's Syndicate Assessments (LSAs) evaluate, on a scale of '1' (very high dependency) to '5' (very low dependency), the extent of a given syndicate's dependence on the Lloyd's market rating.

Rationale

Business Risk Profile

- Very strong competitive position, supported by a strong, leading franchise within Lloyd's.
- One of the largest syndicates at Lloyd's with a well-diversified book of business across several classes and geographies.
- We expect the syndicate to continue to represent a material portion of total group premium (near 50% or above even after merger with Mitsui Syndicate 3210 from January 2017) and form a key component of the group's international diversification strategy. We therefore consider it to be a core part of the MS Amlin group.

Financial Risk Profile

- Strong capital and earnings reflect the stringent capital requirements imposed by Lloyd's.
- High risk position reflects material exposure to potential capital volatility arising from catastrophic losses.
- Adequate financial flexibility as financial leverage and coverage at the group level continue to support the current assessment.

Other Factors

- Very strong combined enterprise risk management (ERM) framework and management and governance reflect our positive view of the group's risk management culture, risk controls, and strategic risk management. This provides one notch of uplift to the assessment.
- We view the syndicate as a core part of the MS Amlin group (core operating subsidiaries rated A/Stable/--) as it will continue to represent over 60% of the group's total premium and is a key component of the group's international diversification strategy. However, we attribute no additional notches beyond the stand-alone credit assessment of Syndicate 2001 as it represents such a large operation from a group perspective.

Outlook

The stable outlook reflects our view of the resilience of MS Amlin's competitive position within the Lloyd's market, balanced against its high risk profile. Furthermore, it reflects our expectation that the syndicate will remain a core part of the MS Amlin group.

Upside scenario

Upside in the LSA is currently limited by MS Amlin's relatively high exposure to catastrophe risk and the excess capacity in the market placing pressure on prices across most of the syndicate's business lines.

Downside scenario

We could revise the LSA down if the syndicate does not perform broadly in line with the Lloyd's market average, but do not consider this to be likely.

Base-Case Scenario

Macroeconomic Assumptions

- Government yields to increase over the next two-to-three years, but to remain below long-term historical norms until at least 2017.
- Economic growth in developed markets to improve, but remain sluggish and lag growth in developing markets.
- For detailed macroeconomic forecasts, see "Insurance Industry And Country Risk Assessment On The Global Property/Casualty Reinsurance Sector Is "Intermediate," published Sept. 8, 2015 on RatingsDirect).

Syndicate-Specific Assumptions

- Pricing in the main lines of business typically written at Lloyd's to decline by 0%-5%, on average, over the next two years, in the absence of any major loss event.
- For 2016, the syndicate's gross premium is likely to increase by about 5% in line with the rest of the group, mostly because of new business in non-catastrophe related segments. For 2017, growth is likely to increase to 20% because premium from the syndicate is likely to make up 15 percentage points of this growth.
- Profit before tax to be around £100 million in 2016 and increasing to about £110 million in 2017 mostly due to additional premium from Mitsui Syndicate.
- The combined (loss and expense) ratio to remain strong at nearly 95% over 2016-2017, including an average catastrophe load near 10 pps.
- Return on revenue to be nearly 8% a year over the same period.

Syndicate Profile: One Of The Largest Syndicates At Lloyd's

Syndicate 2001 remains the second-largest syndicate at Lloyd's based on gross premium of £1.6 billion in 2015, which represents 6% of the Lloyd's market. Capacity has been 100%-provided by the syndicate's fully-aligned capital provider MS Amlin PLC since 2004. We view the syndicate as a core component of the MS Amlin group as we expect it to contribute 50% or more of gross premium written (GPW) and form a key component of the group's international diversification strategy. We attribute no additional notches beyond the stand-alone credit assessment of Syndicate 2001 as it represents a large operation from a group perspective.

The syndicate writes a diverse portfolio of predominantly short-tail lines of business through two main divisions--Amlin London and Amlin UK--and is the largest catastrophe reinsurance underwriter at Lloyd's. Amlin London underwrites predominantly reinsurance, property/casualty (P/C), and Marine and Aviation. Amlin UK is dominated by fleet motor business, where MS Amlin is a market leader. This is supplemented by U.K. commercial, financial institutions, professional indemnity, and P/C combined. From January 2017, Mitsui Syndicate is likely to contribute around £370 million in gross premium, which is split by property (31%), casualty (17%), professional and commercial liability (15%), marine (25%), and aviation (11%). While we note that Mitsui Syndicate's business mix is less diverse than Syndicate 2001, we do not expect this to have a material impact on Syndicate 2001's business risk profile. This is mostly due to the smaller scale of Syndicate 3210.

Business Risk Profile: Very Strong

Our assessment of the syndicate's very strong business risk profile is supported by the strength of its franchise at Lloyd's, its highly diversified book of business, and a continued ability to outperform the market.

Insurance industry and country risk: Intermediate risk, owing to globally diverse insurance operations; limited by high product risk

The syndicate's industry and country risk exposure is well-diversified across the global P/C reinsurance sector and several primary markets across Europe, the U.K., and the U.S. Across the markets MS Amlin operates in, we see country risks as low, on average. We consider that MS Amlin's reinsurance operations are exposed to moderate industry risks. We see the industry's (and MS Amlin's) exposure to property catastrophe risks as increasing in volatility. We do not expect significant changes in our assessment of MS Amlin's industry and country risk over the next three years. For the purposes of our industry and country risk analysis, we view the syndicate's subscription business written at Lloyd's as reinsurance because we believe the risk profiles are similar.

Competitive position: Very strong; highly regarded syndicate with a successful performance track record

We view Syndicate 2001's competitive position as very strong, supported by a strong market position and reputation for high quality service within the Lloyd's market. Its product range and the diversity of its book of business has historically helped manage earnings volatility and supported its track record for cross-cycle outperformance.

As one of the largest syndicates at Lloyd's, Syndicate 2001 has built a strong franchise for MS Amlin within the market. It also has a successful track record of underwriting performance that is broadly in line with the Lloyd's market and is a recognized leader within the market. This allows it to lead over 50% of its risks and develop a significant market share in several classes. This is reinforced by its ability to retain nearly 90% of its business. The syndicate is also one of the largest catastrophe reinsurance writers at Lloyd's. Catastrophe reinsurance accounts for about 20% of the group premium.

We view the syndicate as a core part of the MS Amlin group and an important part of the group's international diversification strategy. Its reputation within Lloyd's, the technical expertise and skill set of its underwriters, and its ability to leverage Lloyd's licenses remain competitive strengths for the group in retaining and sourcing new revenue sources.

Our view of Syndicate 2001's competitive position is also derived from its good diversification by lines of business and geography. Risk exposures are predominantly spread across the U.S. (around 40% of GPW), the U.K. (30%), and other EU (10%). This is unlikely to change materially with the merger of Syndicate 3210. We believe this has historically helped insulate cross-cycle earnings from volatility and allows MS Amlin the flexibility to re-allocate capacity as needed. For example, despite the challenging pricing environment notably for the catastrophe related business, the syndicate's gross premium grew by 7% to £1.65 billion in 2015.

Table 1

MS Amlin Group - Syndicate 2001 Competitive Position					
	--Year-ended Dec. 31--				
(Mil. £)	**2015**	**2014**	**2013**	**2012**	**2011**
Gross premiums written	1,654	1,538	1,472	1,470	1,303
Change in gross premiums written (%)	7.5	4.5	0.1	12.9	7.5
Net premiums written	1,218	1,135	1,044	1,060	965
Change in net premiums written (%)	7.3	8.7	(1.6)	9.8	6.3
Net premiums earned	1,108	1,102	1,008	1,001	929
P/C: reinsurance utilization - premiums written (%)	26.4	26.2	29.1	27.9	25.9

P/C--Property/casualty.

We anticipate that the syndicate's competitive position is likely to remain strong over the next two years. We expect MS Amlin to withstand pricing pressure by deploying its capital in profitable lines and regions, in common with some other Lloyd's syndicates. We expect the proportion of business from the property business to fall slightly, mostly due to pricing pressure on the catastrophe-related property business. However, we forecast that the syndicate's premium is likely to increase by about 5% over 2016-2017 (excluding the impact of Syndicate 3210), mostly because of new business in non-catastrophe related segments.

Financial Risk Profile: Upper Adequate

Syndicate 2001's upper adequate financial risk profile reflects its material exposure potential catastrophe losses. This is balanced against the sustained strength of its capital position and on-going support of its capacity provider, Amlin PLC.

Capital and earnings: Strong, reflecting stringent Lloyd's requirements, positive member balances, and favorable group support

We assess Syndicate 2001's capital and earnings as moderately strong based on the stringent capital planning process and robust capital requirements Lloyd's imposes on all syndicates.

The syndicate performs broadly in line with the Lloyd's market. Its five-year average combined ratio of 95.3% as of year-end 2015 broadly corresponds with the Lloyd's market (90%) and we expect it to continue performing roughly in line with Lloyd's. For 2015, the syndicate's reserve releases increased significantly (2015: 38.3 million) when compared with the 2014 level (£8.2 million). We forecast that the syndicate will benefit from prior year reserve developments in line with previous years.

Investment yield in 2015 was 1.8%, which is in line with the previous year and reflects the low interest rate environment. In view of the syndicate's conservative investment strategy, we do not expect material improvements in investment returns beyond 2% for the next two years.

We expect Syndicate 2001 to maintain strong capital and earnings through 2017. We do not expect Syndicate 3210 to place pressure on Syndicate 2001's financial profile, a view partly supported by its strong performance in 2014-2015, albeit partly due to the absence of large losses and material reserve releases. Furthermore, any potential adverse impact will be mitigated by Syndicate 2001's material size relative to Syndicate 3210 and by management action (that is, portfolio pruning) if needed.

Our base-case scenario anticipates a net combined ratio of 95% for 2016-2018 (assuming average historical catastrophe loss experience). Over the same period, we expect annual return on revenue of about 8%.

Table 2

MS Amlin Group - Syndicate 2001 Capitalization Statistics					
	--Year-ended Dec. 31--				
	2015	**2014**	**2013**	**2012**	**2011**
Members' balance	768	652	588	569	530
Change in members' balance (%)	17.8	10.8	3.3	7.4	(8.7)

Table 3

MS Amlin Group - Syndicate 2001 Earnings Statistics					
	--Year-ended Dec. 31--				
	2015	**2014**	**2013**	**2012**	**2011**
Total revenue	1,127	1,115	1,027	1,020	948
EBIT adjusted	121	69	99	71	(30)
Net income (attributable to all shareholders)	134	95	130	95	(31)
Return on revenue (%)	10.7	6.2	9.6	7.0	(3.2)
P/C: net expense ratio (%)	43.3	38.6	40.4	39.0	37.8
P/C: net loss ratio (%)	48.6	54.9	51.3	54.7	67.9
P/C: net combined ratio (%)	91.9	93.5	91.7	93.8	105.7

P/C--Property/casualty.

Risk position: High risk, given exposure to catastrophe risks

In our opinion, MS Amlin exhibits a high risk profile due to its exposure to catastrophe risk, which we believe heightens the potential for capital and earnings volatility. We think Syndicate 2001 maintains a relatively high catastrophe risk appetite with significant net maximum line size for high severity classes such as aviation, marine, and property catastrophe risks. Although catastrophe exposure is still a material risk, we believe MS Amlin has, on average, exhibited less earnings volatility from catastrophe losses than most of its peers. We believe the syndicate maintains a conservative investment portfolio that is predominantly short-dated, high-quality fixed income securities (65% of invested assets in 2015) and cash. Exposure to high-risk assets, namely equities and property, remains manageable at 20%. The portfolio is diversified across asset classes and is somewhat weighted toward the financial service sectors, but no material obligor concentrations exist. We do not expect Syndicate 3210 to worsen Syndicate 2001's already high risk position either through catastrophe exposure or investments. This is supported by the strong performance of Syndicate 3210 in recent years, although partly attributable to the absence of major catastrophe losses; and significant reserve releases in 2014 & 2015 (reducing combined ratio by more than 10pps).

Table 4

MS Amlin Group - Syndicate 2001 Risk Position					
	--Year-ended Dec. 31--				
	2015	**2014**	**2013**	**2012**	**2011**
Total invested assets	1,786	1,786	1,666	1,698	1,627
Net investment income	19.2	12.7	19.4	18.3	18.6
Net investment yield (%)	1.1	0.7	1.2	1.1	1.2
Net investment yield including realized capital gains/(losses) (%)	2.3	1.8	1.7	1.9	2.0
Portfolio composition (% of general account invested assets)					
Cash and short term investments (%)	5.9	6.5	8.6	11.5	10.9
Bonds (%)	26.6	25.3	32.8	60.2	66.9
Equity investments (%)	67.3	68.0	16.3	10.0	7.2
Other investments (%)	0.2	0.2	42.3	18.2	14.9

Financial flexibility: Adequate, supported by MS Amlin Group

Our assessment of financial flexibility as adequate is supported by the MS Amlin group's financial leverage and coverage levels. We expect this to continue through to 2017.

The MS Amlin group has a demonstrated ability to use various sources of additional capital as the need arises. Its successful issuance of insurance-linked securitization (ILS) indicates its ability to access alternative capital. The MS Amlin groupwide reinsurance program and the bank facility of £300 million (£157 million undrawn), committed until August 2017, should provide greater financial flexibility if the need arises for capital. Also, as a FTSE-listed company, MS Amlin has good and proven access to capital markets.

Other Assessments

We regard MS Amlin's combined enterprise risk management (ERM) and management and governance practices as very strong. We reflect the benefit of these by assessing its SACP at one notch higher than the anchor of '4'.

Enterprise risk management: Very strong driven by the MS Amlin group

Our assessment of the syndicate's strong ERM is based on our positive view of the risk management culture, risk controls, risk models, and strategic risk management of the group, including the syndicate. Our assessment is further enhanced by the existence of strong controls for catastrophe risk. The decisions regarding the level of catastrophe risk appetite are taken within clear tolerance limits. The risk models used throughout the group are well embedded at syndicate level and are actively used for strategic decision making. We view the syndicate's ERM capabilities as consistent with those of the group and believe that this will enable it to continue to control its risk-return profile.

Following the integration within MS&AD Insurance Group, we do not expect the ERM framework to be materially transformed given MS Amlin's advanced ERM framework.

Management and governance: Satisfactory; with access to management expertise and defined risk tolerances across the group

Syndicate 2001's management and governance is satisfactory, in our opinion. We anticipate major changes in the group's day to day operations following the acquisition by MS&AD. This is partly driven by the syndicate's good track record of strategic planning, wide depth and breadth of expertise within the management ranks, and relatively conservative and sophisticated financial management.

The increasing global scale and complexity of MS Amlin's underwriting platforms has, in our view, benefitted from the robustness of its operating controls and thorough strategic planning process, which has allowed the syndicate to leverage on the expertise and skills across the wider MS Amlin group. During the last quarter of 2014, the MS Amlin group has undertaken a global re-organization whereby the business is split into three strategic business units: reinsurance, P/C, and marine and aviation. This is with a view to offering full expertise across each unit. If managed well, we believe this is likely to bring operational benefits. Mitsui Sumitomo's Lloyd's underwriters are being integrated into MS Amlin's three business units: reinsurance, Marine and Aviation, and P/C.

We do not observe any governance deficiencies in our assessment.

Accounting Considerations

Syndicate 2001 reports financial results under U.K. generally accepted accounting practices. The annual accounts are audited by PricewaterhouseCoopers.

The key elements of the syndicate accounts include technical and nontechnical profit and loss accounts, a balance sheet, statement of cash flows, an auditor's report, and a managing agent's report and accompanying notes. We include the personal expenses payable to the managing agency of (2015: £33.6 million) in our expense ratio calculation.

Related Criteria And Research

Related Criteria

- Lloyd's Syndicate Assessment Methodology, Oct. 31, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related research

- MS Amlin Group, June 17, 2016
- Insurance Industry And Country Risk Assessment On The Global Property/Casualty Reinsurance Sector Is

"Intermediate," Sept. 8, 2015

Ratings Detail (As Of June 17, 2016)	
MS Amlin Underwriting - Syndicate 2001	
Holding Company	MS Amlin PLC
Domicile	United Kingdom

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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