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MS Amlin Group - Syndicate 2001

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Lloyd's Syndicate Assessment

4+/Stable

Operating Company Covered By This Report
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 MS Amlin subgroup's (MS Amlin PLC and its subsidiaries) total premium (50% or above). We therefore consider it to be a core part of the MS Amlin subgroup.

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.

Other Factors

- Syndicate 2001's enterprise risk management (ERM) assessment is aligned with that of the MS&AD group because we consider the syndicate to be core to MS Amlin subgroup, and we assign the group's ERM score to MS&AD members, which we consider highly strategic
- We revise upward the syndicate's indicative LSA by one notch to capture a more holistic view of the syndicate's continuity. This is supported by the strength of the syndicate's ERM, which we believe will help it to revert its operating performance to levels broadly in line with the Lloyd's market.

Outlook

The stable outlook on the LSA on Syndicate 2001 reflects our view of the resilience of MS Amlin's competitive position within the Lloyd's market, balanced against its high risk profile.

Upside scenario

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

Downside scenario

We may lower our ratings if we lower the ratings on the core entity. We could revise the LSA down if the syndicate's performance does not revert to levels broadly in line with the Lloyd's market average.

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 2018.
- The global economy continues to improve into 2017, with the U.S. economy strengthening and eurozone recovery remaining resilient, albeit slightly decelerating in the face of rising populism and increasing political uncertainty.
- For detailed macroeconomic forecasts, see "Insurance Industry And Country Risk Assessment: Global Property/Casualty Reinsurance" published March 17, 2017 on RatingsDirect).

Syndicate-Specific Assumptions

- For 2017, the syndicate's gross premium is likely to increase by about 20% because premium from the Mitsui syndicate is likely to make up most of it. For 2018 and 2019, we expect the syndicate's premiums to increase in line with the Lloyd's market.
- We forecast that the syndicate is likely to post combined ratios just below 100%, broadly in line with the Lloyd's market. This partly reflects the difficult pricing conditions. Syndicate 2001's profit level is likely to be £50 million-£60 million annually over 2017-2018.

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 £1.83 billion in 2016, 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 subgroup as we expect it to contribute 50% or more of gross premium written (GPW).

The syndicate writes a diverse portfolio of predominantly short-tail lines of business and it is the largest catastrophe reinsurance underwriter at Lloyd's. In 2016, Mitsui Syndicate wrote around £380 million in gross premium, which is split by fire and other damages to property (35%), third party liability (38%), marine, and aviation and transport (27%). While we note that Mitsui Syndicate's business mix is less diverse than Syndicate 2001, we do not expect this to have a material effect 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 property/casualty (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 the syndicate's) exposure to property catastrophe risks as increasing in volatility. We do not expect significant changes in our assessment of the syndicate'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

In our view Syndicate 2001's competitive position is 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 subgroup and an important part of the group's international diversification strategy. Syndicate 2001's 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 45% of GPW), the U.K. (21%), and other EU (9%). 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 Syndicate 2001 the flexibility to re-allocate capacity as needed.

Table 1

MS Amlin - Syndicate 2001 -- Competitive Position					
	--Year-ended Dec. 31--				
(Mil. £)	**2016**	**2015**	**2014**	**2013**	**2012**
Gross premiums written	1,831	1,654	1,538	1,472	1,470
Change in gross premiums written (%)	10.7	7.5	4.5	0.1	12.9
Net premiums written	1,358	1,218	1,135	1,044	1,060
Change in net premiums written (%)	11.5	7.3	8.7	(1.6)	9.8
Net premiums earned	1,295	1,108	1,102	1,008	1,001
P/C: reinsurance utilization - premiums written (%)	25.8	26.4	26.2	29.1	27.9

P/C--Property/casualty.

We anticipate that the syndicate's competitive position is likely to remain very strong over the next two years. We expect the syndicate 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.

Financial Risk Profile: Upper Adequate

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 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 95.6% as of year-end 2016 broadly corresponds with the Lloyd's market (90.5%) and we expect it to continue performing roughly in line with Lloyd's. We note that the syndicate's performance was hit by large claims including the effect of the Ogden discount rate and one-off acquisition-related and other costs in 2016. For 2016, the syndicate's reserve releases remained flat (2016: £39.8 million) compared with the 2015 level (£38.3 million). We forecast that the syndicate will benefit from prior year reserve developments in line with previous years.

The investment yield in 2016 was 2%, 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. 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 (loss and expense) ratio of minus 98% for 2017-2019 (assuming average historical catastrophe loss experience). Over the same period, we expect annual return on revenue of about 2%-3%.

Table 2

MS Amlin - Syndicate 2001 -- Capital

	--Year-ended Dec. 31--				
(Mil. £)	**2016**	**2015**	**2014**	**2013**	**2012**
Member's balance	652	768	652	588	569
Change in member's balance (%)	(15.1)	17.8	10.8	3.3	7.4

Table 3

MS Amlin - Syndicate 2001 -- Earnings

	--Year-ended Dec. 31--				
(Mil. £)	**2016**	**2015**	**2014**	**2013**	**2012**
Total revenue	1,314	1,127	1,115	1,027	1,020
EBIT adjusted	(54)	121	69	99	71
Net income (attributable to all shareholders)	(35)	134	95	130	95
Return on revenue (%)	(4.1)	10.7	6.2	9.6	7.0
P/C: net expense ratio* (%)	44.1	43.3	38.6	40.4	39.0
P/C: net loss ratio (%)	62.8	48.6	54.9	51.3	54.7
P/C: net combined ratio (%)	106.9	91.9	93.5	91.7	93.8

*Including the personal expenses payable to the managing agency (£34.9 million in 2016). P/C--Property/casualty.

Risk position: High risk, given the exposure to catastrophe risks

In our opinion, the syndicate 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.

We believe the syndicate maintains a conservative investment portfolio that is predominantly short-dated, high-quality fixed-income securities (about 65% of invested assets in 2016) and cash. Exposure to high-risk assets, namely equities and property, remains manageable near 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.

Table 4

MS Amlin - Syndicate 2001 -- Risk Position

	--Year-ended Dec. 31--	
(Mil. £)	**2016**	**2015**
Total invested assets	1,976	1,775
Portfolio composition (% of general account invested assets)		
Cash and short-term investments (%)	7.6	6.0
Bonds (%)	60.3	67.4
Equity investments (%)	14.0	13.7
Property	7.3	6.7

Table 4

MS Amlin - Syndicate 2001 -- Risk Position (cont.)		
	--Year-ended Dec. 31--	
(Mil. £)	**2016**	**2015**
Other investments	10.7	6.2

Financial flexibility: Adequate, supported by MS Amlin subgroup

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 indicates its ability to access alternative capital. The MS Amlin groupwide reinsurance program and the five-year bank facility of £400 million should provide greater financial flexibility if the need arises for capital.

Other Assessments

Enterprise risk management: Adequate with strong risk controls reflecting MS&AD's ERM assessment

While we align the syndicate's ERM with that of its ultimate parent we recognize the strength of the syndicate's ERM. We believe its robust risk controls and strategic risk management framework place it well to perform successfully. In particular the decisions regarding the level of catastrophe risk appetite are taken within clear tolerance limits. The risk models used throughout are well embedded at syndicate level and are actively used for strategic decision making.

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: 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, benefited 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. MS Amlin's group business model is split into three strategic business units: reinsurance, P/C, and marine and aviation. Mitsui Sumitomo's Lloyd's underwriters are have been integrated into MS Amlin's marine and aviation and P/C business units.

Accounting Considerations

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

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 (2016: £34.9 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

- Ratings On U.K.-Based MS Amlin's Core Entities Affirmed At 'A'; Outlook Stable, June 15, 2017
- Insurance Industry And Country Risk Assessment On The Global Property/Casualty Reinsurance Sector Is "Intermediate," March. 17, 2017

Ratings Detail (As Of June 30, 2017)	
Operating Company Covered By This Report	
MS Amlin Underwriting - Syndicate 2001	
Domicile	United Kingdom

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' 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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