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Research Update:

Ratings On U.K.-Based MS Amlin's Core Entities Affirmed At 'A'; Outlook Stable

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Overview

- We are revising our view of MS Amlin subgroup's group status in the Japan-based MS&AD Insurance Group to highly strategic from strategically important, reflecting the subgroup's enhanced degree of integration with MS&AD.
- The ratings on MS Amlin subgroup's core entities are therefore one notch below the 'A+' ratings on MS&AD's core entities.
- We are affirming our 'A' rating on MS Amlin's core entities.
- The stable outlook reflects the outlook on the ratings on the MS&AD Insurance Group and our expectation that MS Amlin will remain highly strategic to MS&AD.

Rating Action

On June 15, 2017, S&P Global Ratings affirmed its 'A' long-term issuer credit and insurer financial strength ratings on the core operating entities of MS Amlin subgroup (MS Amlin PLC and its subsidiaries). We also affirmed the issuer credit rating on the group's non-operating holding company, MS Amlin PLC, at 'BBB+' and our Lloyd's Syndicate Assessment (LSA) of '4+' on MS Amlin's Lloyd's operation, Syndicate 2001. The outlooks on all ratings and the LSA remain stable.

Rationale

The ratings on the core entities of MS Amlin subgroup (MS Amlin) reflect its highly strategic status to Japan-based MS&AD Insurance Group Holdings Inc. (MS&AD Group; core subsidiaries rated A+/Stable). The ratings on MS Amlin's core entities are therefore limited to one notch below the 'A+' ratings on MS&AD's core entities.

Our assessment reflects the group's strong commitment to MS Amlin and we believe that the rest of the MS&AD group would likely support MS Amlin in almost all foreseeable circumstances. This is partly supported by MS Amlin's brand and identity, which we believe is closely linked with the group; Syndicate 2001 (about £1.8 billion GWP in 2016) has taken the renewals of MS Syndicate 3210 (about £400 million in premium in 2016) from January 2017; the integration of MS Frontier into MS Amlin; and MS&AD's capital injection (£230 million) which was used to redeem the MS Amlin hybrid debt toward the end of 2016. Furthermore, Mitsui syndicate and MS Frontier underwriters have been integrated into MS Amlin's three business units: reinsurance, marine and

aviation, and property/casualty. We believe that MS Amlin is likely to make up a material part of MS&AD's revenues and earnings, particularly its international business.

We note that MS Amlin's as well as the syndicate's performance was hit by large claims and one-off acquisition-related and other costs in 2016. We believe that MS Amlin's performance is likely to improve to levels broadly in line with its peers from year-end 2017. In particular 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 between £50 million-£60 million annually over 2017-2018.

We continue to view MS Amlin's rated operating subsidiaries and Syndicate 2001 as core members of MS Amlin subgroup. We therefore equalize the ratings of MS Amlin AG and Amlin Insurance SE with the group credit profile of MS Amlin at 'a'. Syndicate 2001 represents more than 50% of the MS Amlin's total premium. Therefore, we do not include any uplift from MS Amlin subgroup.

We are aligning the syndicate's enterprise risk management assessment (ERM) 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 are therefore revising down our assessment of the syndicate's ERM to adequate with strong risk controls, from very strong. However, we continue to believe that the syndicate benefits from a solid risk management framework with robust risk modelling and strategic risk management.

Our changed assessment of the syndicate's ERM leads us to revise down our indicative Lloyd's Syndicate Assessment to '4' from '4+'. However, we uplift it 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 the syndicate to revert its operating performance to levels broadly in line with the Lloyd's market.

Outlook

The stable outlook on MS Amlin PLC and its core subsidiaries reflects the stable outlook on Japan-based MS&AD Insurance Group. We expect MS Amlin to retain its highly strategic status to MS&AD.

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

Although an upgrade within the next 12-24 months is unlikely, we could raise the ratings by one notch if we considered MS Amlin to be a core subsidiary of MS&AD group. This is possible over the longer term and will likely depend on

the successful integration of its business and product strategy.

While unlikely at this stage given the stable outlook on MS&AD, we could also raise the rating if we were to raise the ratings on MS&AD.

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 entities of MS&AD Group. We would take a negative rating action if our view of MS Amlin's highly strategic importance diminished.

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.

Ratings Score Snapshot

	To	From
Lloyd's Syndicate Assessment	4+/Stable	4+/Stable
Anchor	4	4
Business Risk Profile	Very Strong	Very Strong
IICRA	Intermediate Risk	Intermediate Risk
Competitive Position	Very Strong	Very Strong
Financial Risk Profile	Upper Adequate	Upper Adequate
Capital and Earnings	Strong	Strong
Risk Position	High Risk	High Risk
Financial Flexibility	Adequate	Adequate
Modifiers	+1	+1
ERM and Management	Strong	Very Strong
Enterprise Risk Management	Adequate with strong risk controls	Very Strong
Management and Governance	Satisfactory	Satisfactory
Holistic Analysis	+1	0
Support	0	0
Group Support	0	0
Government Support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

MS Amlin PLC

Counterparty Credit Rating BBB+/Stable/--

Amlin Insurance SE

MS Amlin AG

Counterparty Credit Rating A/Stable/--

Financial Strength Rating A/Stable/--

Assessment Affirmed

MS Amlin Underwriting - Syndicate 2001

Lloyds Syndicate Assessment 4+/Stable

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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