

Rating Action: Moody's upgrades MS Amlin's IFS ratings to A1; stable outlook

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London, 08 August 2017 -- Moody's Investors Service has today upgraded to A1 from A2, the insurance financial strength (IFS) ratings of Lloyd's Syndicate 2001 and MS Amlin AG, the main operating subsidiaries of MS Amlin plc ("MS Amlin", unrated). The outlook of all entities is stable.

MS Amlin plc is a fully-owned subsidiary of Mitsui Sumitomo Insurance Company, Limited ("MSI", A1 IFS rating, stable) since February 2016; MSI is part of the Japanese based MS&AD Insurance Group Holdings, Inc. group ("MS&AD" or "the Group", unrated).

RATINGS RATIONALE

--- RATING UPGRADE AND PARENTAL SUPPORT ---

The rating upgrade of MS Amlin's operating companies reflects the strong parental support from MSI and Moody's view that MS Amlin is a key component of MSI's strategy to grow and diversify outside its domestic Japanese market and, as a result, has high importance to the Group.

The Group has a strategic goal of growing its domestic life and international business to reach initially 30% of group core profit and 50% in the medium term, while maintaining its domestic P&C profitability levels. MS Amlin is already the Group's largest international business and accounts for approximately 20% of MSI net written premiums. Furthermore, MS Amlin's expertise in specialty and casualty commercial lines should enable MS&AD to expand within its domestic P&C market even as traditional consumer lines, such as auto insurance, will likely shrink.

In Moody's view, the rebranding of Amlin to MS Amlin, and the recently completed merger of MSI's existing Lloyd's and reinsurance operations into MS Amlin have increased the operational integration and reputational ties between MS Amlin and its parent. MS&AD is also committed to MS Amlin collaborating and sharing technical, risk management and innovative knowledge with the Group.

A further example of parental support in terms of capital and liquidity was the capital injection of GBP230 million by MSI in December 2016, which was subsequently used to redeem MS Amlin's outstanding debt obligations.

--- STANDALONE CREDIT FUNDAMENTALS ---

The A1 public IFS rating reflects the combination of the aforementioned parental support and the standalone A2 credit profile of MS Amlin's main operating entities.

MS Amlin's standalone credit profile reflects its strong franchise, good geographic diversification, prudent reserving and conservative investment strategy. The recent capital injection into MS Amlin has also boosted the company's quality of capital and, in Moody's view, the merger of MSI's existing Lloyd's and reinsurance operations has strengthened MS Amlin's market position by enhancing scale and future growth prospects, which should better enable MS Amlin to defend its market position and broaden its reach in a difficult market.

More negatively, Moody's highlights the inherent volatility and cyclical nature in a number of MS Amlin's lines of business and high exposure to natural catastrophe perils as key credit challenges. In this regard, Moody's also notes that property catastrophe reinsurance, the line most vulnerable to disruptive forces in the specialty (re)insurance market, accounted for a significant portion of MS Amlin's gross written premiums and operating profits.

Additional headwinds to MS Amlin's future profitability include low investment returns, tepid reinsurance demand and changing buyer behaviour. Notwithstanding some cost and growth synergies, the rating agency expects MS Amlin's profitability to remain below historic levels, which benefitted from below average natural catastrophe losses and high reserve releases. This view is supported by the reported 7ppt deterioration in MS Amlin's combined ratio to 97% in 2016, although Moody's acknowledges the material adverse impact of a number of exceptional items including the Ogden rate change in the UK.

WHAT COULD CHANGE THE RATING UP / DOWN

Moody's stated that there is unlikely to be upward pressure on the ratings in the short term. However, the following factors could further augment MS Amlin's standalone credit profile: (1) a meaningful increase in MS Amlin's market position within its core segments; (2) sustaining strong core earnings with return on capital above 10% over the underwriting cycle; and (3) enhanced capital adequacy reflected in gross underwriting leverage remaining below 3.0x.

Conversely, Moody's said the following factors could lead to downward pressure on MS Amlin's ratings: (1) a downgrade of MSI's IFSR; (2) a reduction in shareholders' equity in excess of 10% over a rolling 12 month period (including dividends); (3) a meaningful deterioration in underlying profitability with combined ratios consistently in excess of 97%; and/or (4) a material increase in catastrophe exposures or the general risk appetite.

LIST OF AFFECTED RATINGS -

The following ratings have been upgraded:

Lloyd's Syndicate 2001:

.Insurance financial strength rating to A1 from A2

Outlook remains stable

MS Amlin AG

.Insurance financial strength rating to A1 from A2

Outlook remains stable

MS Amlin reported gross premiums written of GBP2,744 million and profit before tax of GBP252 million for the 12 months ended 31 December 2015 with total equity of GBP1,849 million for YE2015.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Global Reinsurers published in April 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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