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MS Amlin Group

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MS Amlin Group

SACP* Assessments				SACP*		Support		Ratings		
Anchor	a-	+	Modifiers	1	=	a	+	0	=	Financial Strength Rating
Business Risk			ERM and Management	1		Liquidity	0	Group Support	0	A/Stable/--
Strong			Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0	
Financial Risk										
Upper Adequate										

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Strong

- Intermediate industry and country risk exposure owing to significant product risks balanced with a diversified international book of business.
- Strong competitive position based on a long history of leadership and a strong, leading franchise in the Lloyd's market. This will be further strengthened with the integration of Mitsui Syndicate 3210.
- Stronger cross-cycle operating performance than global peers bolstered by diversified international platforms and the wide range of products it can offer.

Financial Risk Profile: Upper Adequate

- Strong capital and earnings likely to be supported by strong risk-based capital (measured using our model) and continued strong earnings generation.
- High risk position reflects material exposure to potential capital volatility arising from catastrophic losses. We do not expect the integration of MS Frontier Reinsurance Ltd. to deteriorate MS Amlin's risk position.
- Strong financial flexibility as financial leverage and coverage continue to support the current assessment.

Other Factors

- We combine our view of the group's strong business risk profile and upper adequate financial risk profile to derive an anchor of 'a-'.
- MS Amlin's group credit profile (GCP) is one notch higher than the anchor because of our combined view of its very strong enterprise risk management (ERM) framework and satisfactory management and governance. This reflects our positive view of the group's risk management culture, risk controls, and strategic risk management.
- We consider Amlin AG and Amlin Insurance SE as core to the MS Amlin group's credit profile.
- We treat MS Amlin as a subgroup and view it as strategic to MS&AD Insurance Group reflecting its integral role in the group's international expansion plan.
- The ratings on MS Amlin are therefore limited to one notch below the 'A+' ratings on MS&AD's core entities.
- Because MS Amlin's standalone group credit profile is 'a' it receives no uplift from its strategic importance to MS&AD.

Factors Specific To The Holding Company MS Amlin PLC

- The counterparty credit ratings on the intermediate non-operating holding company, MS Amlin PLC, are two notches lower than the insurer financial strength ratings on the core operating companies of MS Amlin to account for the structural subordination of MS Amlin PLC's creditors to the core entities' policyholders.

Outlook: Stable

The stable outlook on MS Amlin group reflects our view that MS Amlin will remain strategically important to MS&AD and will maintain at least strong capital adequacy. We also expect that its strong franchise, diversified platforms, and good cycle management will continue to support its strong operating performance.

Upside scenario

Although we do not envision an upgrade within the 12-24 month rating horizon, we could raise the ratings by one notch if we considered MS Amlin to be a core subsidiary of the MS&AD. This is possible over the longer term and will likely depend on the successful integration of the business and product strategy.

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

Upward revisions of MS Amlin's standalone GCP are unlikely, given the challenging pricing environment in most of MS Amlin's key lines of business.

Downside scenario

We are unlikely to lower the ratings on MS Amlin subsidiaries while MS Amlin remains strategic to MS&AD, as we maintain the rating at one notch below the ratings of the core entities of MS&AD. We could, however, take a negative rating action if our view of MS Amlin's strategic importance diminished, and its own capital adequacy deteriorated to materially below strong levels for a sustained period.

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, lagging 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.

Company-specific assumptions

- Pricing in MS Amlin's main lines of business to decline by 0%-5%, on average, over the next two years in the absence of any major loss event, reflecting an excess of capital.
- Overall, the underlying premium growth is likely to be 5% or just below over 2016–2018 and we expect the net combined ratio to remain at about 92.5%, (assuming average loss experience). Because of the Mitsui Syndicate 3210 merger from January 2017, we expect the 2017 premium to have an additional one-off increase at 15% (adding around £370 million) making total growth for the year of 20%.
- We expect return on equity to be between 9%-11% over the same period.
- Catastrophe risk exposure to remain within stated risk tolerances.

Key Metrics

	2017f	2016f	2015	2014	2013
Gross premiums written	3,457	2,881	2,744	2,564	2,467
Change in gross premiums written (%)	20.0	5.0	7.0	3.9	2.6
Net income (attributable to all shareholders)	218	183	236	236	298
Return on revenue (%)	7.6	7.6	10.6	10.3	12
Return on shareholders' equity (%)	10.4	9.5	13	13.7	18.9
Net combined ratio (%)	92.5	92.5	88.1	88.0	85.7
S&P Global Ratings capital adequacy	Moderately Strong	Upper Adeqaute	Moderately Strong	-	-

f--Forecast.

Company Profile: Large And Successful Lloyd's Business Underpins An Increasingly Diversified Group

MS Amlin (rebranded following acquisition by MS&AD) is a large, diversified specialist commercial insurance and reinsurance group that wrote £2.7 billion of gross premiums in 2015. As the newly acquired subsidiary of MS&AD, MS Amlin will expand with the integration of Mitsui Syndicate 3210 and MS Frontier Reinsurance Ltd. (MSF). Syndicate 3210, which wrote a gross premium income £370 million in 2015, has a business mix geared towards property, casualty, and marine business. It is intended that syndicates 2001 and 3210 will merge from Jan. 1, 2017 increasing MS Amlin's scale. Syndicate 2001 remains the second-largest syndicate at Lloyd's and a key component of the group. Its underwriting capacity remained at £1.4 billion in 2015 to write a diversified book of more than 30 primary and

reinsurance classes around the world.

MSF (rated 'A+/stable/--' based on an unconditional guarantee by MS&AD), which wrote a gross premium income of \$179 million in 2015 with a capital base \$1.1 billion, is likely to be integrated into MS Amlin from 2017.

Both Mitsui syndicate and MSF underwriters are being integrated into MS Amlin's three business units: reinsurance, Marine and Aviation, and P/C.

The group has changed its exposure mix through the cycle as catastrophe risk has been reduced and balanced by diversifying the group's other underwriting platforms. Non-catastrophe classes have grown from 40% of the group's reinsurance premium to above 50% in 2015. The charts below show the group's premium split by business lines and geography.

Chart 1

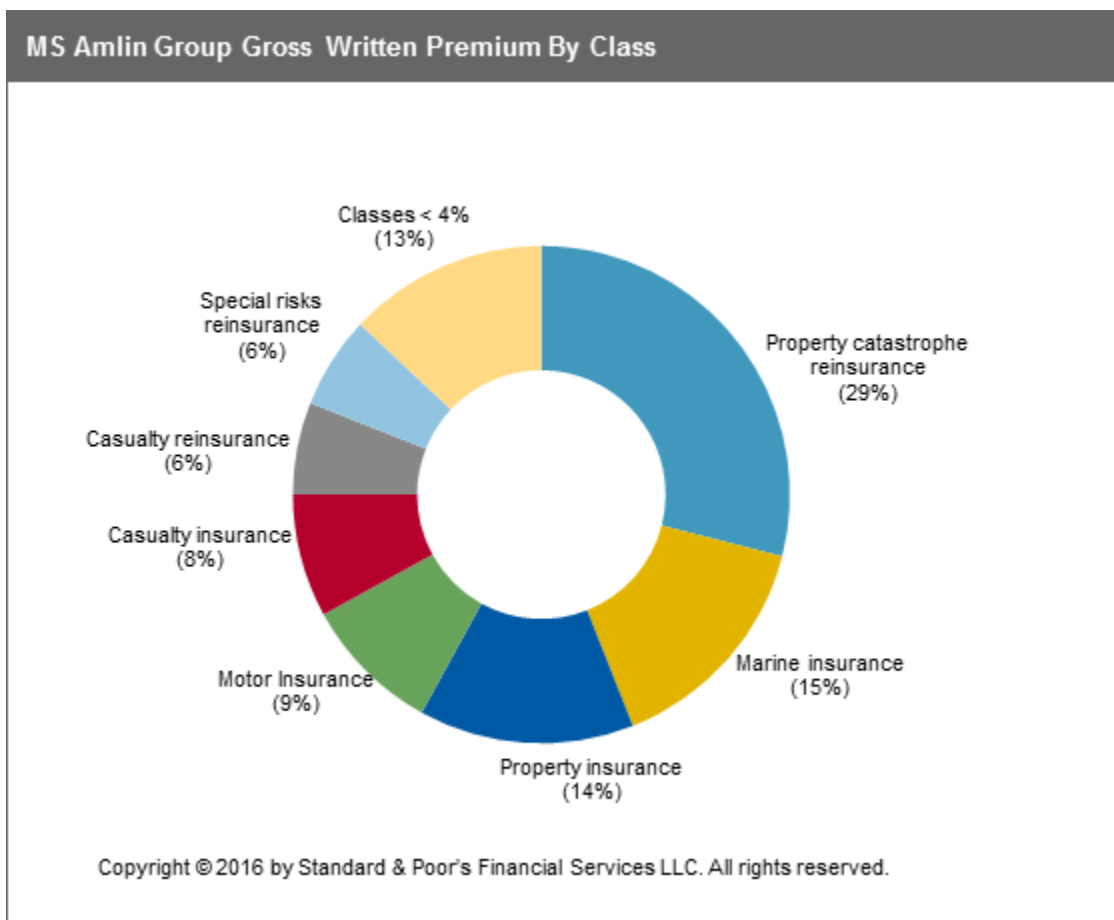
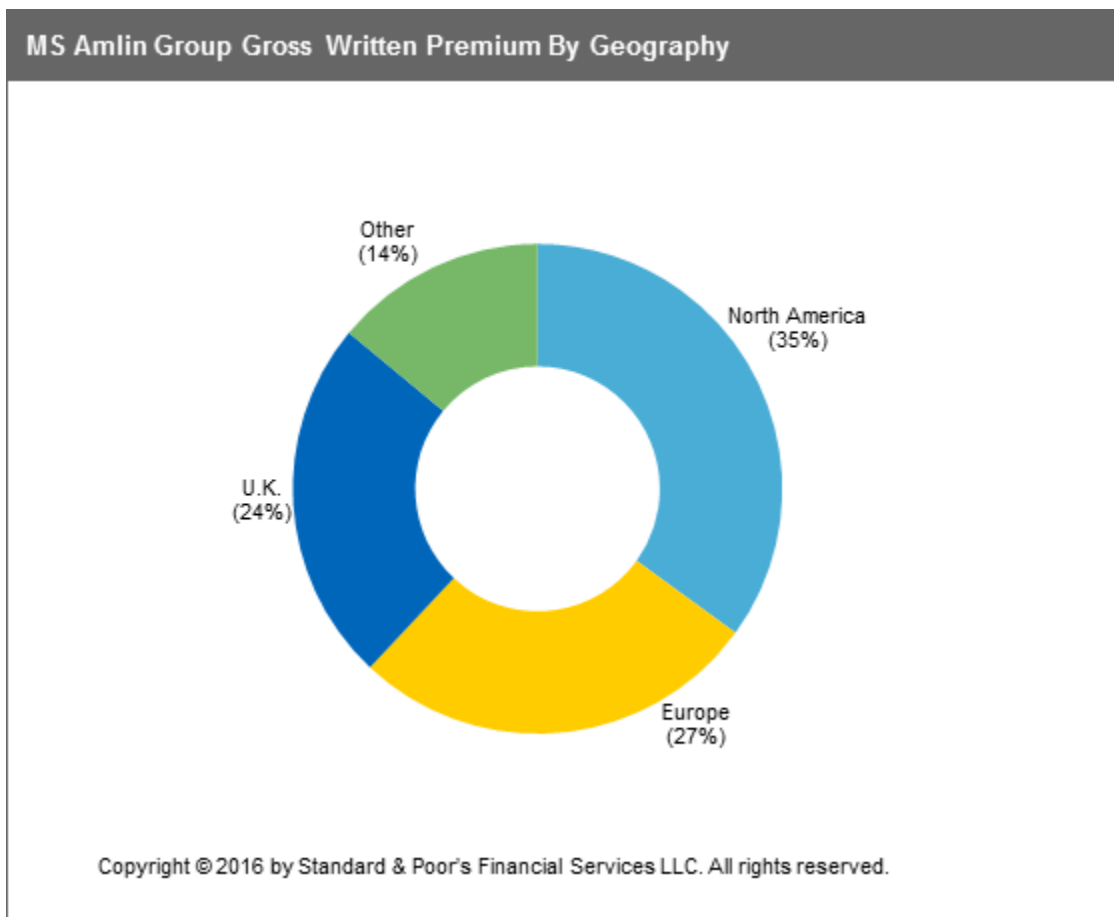


Chart 2



Amlin Insurance SE (considered core to MS Amlin) focuses on U.K. commercial business.

Zurich-domiciled Amlin AG comprises reinsurance operation in Bermuda and Zurich. This enhances the group's European footprint by providing access to continental European reinsurance business not traditionally written through Lloyd's, while still maintaining its presence in international catastrophe reinsurance business through a branch in Bermuda.

Business Risk Profile: Strong

MS Amlin's business risk profile combines our view of its strong competitive position and its intermediate industry and country risk assessment.

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

The group'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., which we consider to have largely intermediate insurance industry and country risk. We consider that MS Amlin's reinsurance operations are exposed to moderate industry risks.

We see the industry's (and MS Amlin's) product risk via its exposure to property catastrophe risks as increasingly volatile. 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.

Table 1

Industry And Country Risk: Major Markets		
Insurance Sector	IICRA	Business mix*
Global P/C Reinsurance	Intermediate Risk	41
United Kingdom P/C	Intermediate Risk	19
United States P/C	Intermediate Risk	11
Netherlands P/C	Low Risk	8
Belgium P/C	Intermediate Risk	5
France P/C	Low Risk	3
Global P&I	Intermediate Risk	3
Ireland P/C	Intermediate Risk	3
New Zealand P/C	Intermediate Risk	2
Singapore P/C	Low Risk	2
Canada P/C	Low Risk	1
Mexico P/C	Intermediate Risk	1
Norway P/C	Low Risk	1
Wighted Average IICRA	Intermediate Risk	100

*Based on gross premiums written. P/C--Property and casualty. P&I--Protection and indemnity. IICRA--Insurance industry and country risk assessment.

Competitive position: Strong, diversified franchise with leading performance track record, targeting new sources of business

Table 2

MS Amlin Group Competitive Position					
	--Year-ended Dec. 31--				
(Mil. £)	2015	2014	2013	2012	2011
Gross premiums written	2,744	2,564	2,467	2,406	2,304
Change in gross premiums written (%)	7.0	3.9	2.6	4.4	6.1
Net premiums written	2,445	2,296	2,126	2,075	2,013
Change in net premiums written (%)	6.5	8.0	2.5	3.0	5.4
Net premiums earned	2,186	2,201	2,095	1,986	1,927
P/C: reinsurance utilization - premiums written (%)	10.9	10.5	13.9	13.8	12.6

P/C--Property/casualty.

We view MS Amlin's competitive position as strong (in common with its peers), based on the growing diversity of its operating platforms and its continued outperformance relative to its peers. The group leverages its position as one of the largest and most highly respected franchises at Lloyd's against its new, international operations throughout Europe. We believe that its product range and the diversity of its book of business help manage earnings volatility and should support its track record for cross-cycle outperformance. This is historically demonstrated by a five-year average net

combined ratio of 91%, which is better than the peer average.

Syndicate 2001 is the second largest at Lloyd's and writes just above 6% of the entire Lloyd's market. Its market share is likely to increase following the aforementioned merger with Mitsui syndicate 3210 from January 2017. Lloyd's global licensing, brand, diversity, and broker relationships provide MS Amlin with access to high-quality specialist business at a lower cost than if it were operating on a stand-alone basis. MS Amlin has a strong franchise at Lloyd's through its highly profitable property catastrophe reinsurance business. It is also a recognized leader in numerous business classes in the Lloyd's market.

Outside of London, we expect MS Amlin's competitive position to be supported by the growth of European reinsurance to compliment the reinsurance business written in Bermuda, enabling the group to access two of the world's most important markets. The group's company operations are likely to be strengthened with the integration of above-mentioned MSF. The European reinsurance business, though performing in line with management's expectations, is still nascent. We expect this operation will continue to make up around 10% of the group premium.

Strong diversification across more than 25 classes of commercial insurance and reinsurance and by geography allows the group flexibility in allocating capacity according to relative price adequacy.

We anticipate that MS Amlin's competitive position is likely to remain strong over the next two years. We expect the group to withstand pricing pressure, which has been particularly acute in catastrophe lines, by deploying its capital profitably in other lines and regions. In the absence of pricing improvement, we believe that the proportion of business from the catastrophe related lines is likely to fall slightly. This will be mitigated by new business from lines facing less pricing pressure. We forecast that the group's gross premium is likely to increase by about 5% (excluding the impact of Mitsui Syndicate 3210) or just below over 2016-2017, mostly because of new business in non-catastrophe related segments.

Financial Risk Profile: Upper adequate

Our view of MS Amlin's financial risk profile reflects its strong capital adequacy, high risk position, and strong financial flexibility.

Capital and earnings: Strong, reflecting good earnings generation, prudent reserving, and a robust internal capital model

We expect MS Amlin group's capital adequacy to reach the strong assessment level over 2016-2018 supported by retained earnings. For end-2016, we forecast that the group's risk-based capital (measured using our model) is likely to reduce slightly, mostly because we expect the group to call its £230 million hybrid at its first call date (December 2016). For 2017-2018, we forecast that the group will retain sufficient earnings to re-build its risk-based capital to strong (commensurate with the 'A' level).

We assess MS Amlin's economic capital model as good, leading us to give some additional quantitative credit in our model, according to our economic capital models criteria.

Over recent years, the group's performance has been broadly in line with its peers in London and Bermuda: its

five-year average net combined ratio of 91% compares favorably with the peer average. Return on revenue is broadly in line with peers at 7%. Reserve releases of £80 million for 2015 have contributed positively to the group's technical performance.

Our base-case expectations reflect continued delivery of strong earnings, with a net combined ratio at about 92% (assuming average catastrophe loss of 8 percentage points). We expect very modest growth (if any) and the group's direct business to offset pricing pressure in MS Amlin's reinsurance classes to give modest premium growth of 5% or just below. This should translate to return on equity between 9% and 11%. These earnings expectations should enable MS Amlin to reinforce its capital adequacy to be in the 'A' range, allowing for some capital distribution. Furthermore, we expect it to perform broadly in line with the global reinsurers for which we forecast combined ratios of 97%-102% for 2016 (for more information see "Smoke And Mirrors: Reinsurers' Strong 2015 Results Mask Weak Business Conditions In The Global Market," published March 24, 2016) reflecting the group's diversified portfolio by lines of business and geography.

Table 4

MS Amlin Group Earnings Statistics					
	--Year-ended Dec. 31--				
	2015	2014	2013	2012	2011
Total revenue	2,259	2,248	2,136	2,034	1,990
EBIT adjusted	240	231	257	193	(144)
EBITDA adjusted	240	231	257	193	(144)
Net income (attributable to all shareholders)	236	236	299	248	(150)
Return on revenue (%)	10.6	10.3	12.0	9.5	(7.2)
Return on shareholders' equity (reported) (%)	13.0	14.0	18.8	17.0	(9.5)
P/C: net expense ratio (%)	34.8	32.5	33.5	32.2	29.8
P/C: net loss ratio (%)	53.3	55.6	52.2	56.6	77.8
P/C: net combined ratio (%)	88.1	88.0	85.7	88.8	107.6

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 potential for material capital and earnings volatility. In our opinion, a large proportion of the group's capital is required for its exposure to natural catastrophe losses, consistent with other large global reinsurers. We believe MS Amlin 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. Despite MS Amlin's risk exposure being geographically well spread, we believe the insurer has relatively high catastrophe risk exposure compared with some peers. Catastrophe-exposed business is, however, offset by its non-subscription-based U.K. commercial lines written through Amlin UK, which should show good growth and prospective pricing improvements.

Other risk factors, such as reserving and investment risk exposure, are broadly neutral to the group's risk position, in our view. MS Amlin's reserves have been stable or have exceeded the amount required (enabling the group to release the excess) in each of the last 10 years, with a positive track record of reserve development and an identified surplus of approximately £150 million above the best estimate. We allow some quantitative credit for this in our calculation of the

group's total adjusted capital.

We believe MS Amlin maintains a relatively conservative investment portfolio, which is predominantly short-dated, high-quality fixed-income securities (around 65% of invested assets in 2015). Exposure to high-risk assets, namely equities and property, remains manageable at around 20%. The portfolio is diversified across asset classes and is somewhat weighted toward the financial service sectors and some corporate sectors, but no material obligor concentrations exist.

Table 5

MS Amlin Group Risk Position					
	--Year-ended Dec. 31--				
	2015	2014	2013	2012	2011
Total invested assets	4,638	4,564	4,510	4,396	4,224
Net investment income	38	36	33	42	54
Net investment yield (%)	0.8	0.8	0.7	1.0	1.3
Net investment yield including realized capital gains/(losses) (%)	2.6	1.9	2.7	1.3	2.1
Portfolio composition (% of general account invested assets)					
Cash and short term investments (%)	6.7	8.4	6.3	5.3	6.1
Bonds (%)	72.5	71.4	77.8	84.5	86.0
Equity investments (%)	13.0	14.4	11.6	6.5	4.9
Real estate (%)	7.6	5.6	4.0	3.5	2.8
Investments in affiliates (%)	0.2	0.2	0.3	0.2	0.2
Other investments (%)	0.0	0.0	0.1	0.0	0.1

Financial flexibility: Strong with a proven track record of accessing multiple sources of capital and ability to access MS&AD resources if needed

MS Amlin has a demonstrated ability to access various significant sources of capital, including the hybrid and equity markets, and by issuing insurance-linked securitization. MS Amlin's junior subordinated bond (£230 million) has a first-call date in December 2016 and our base-case scenario is that the group will call this in line with investor expectations. We believe that the group will manage the financing of its existing debt so that its risk-based capital is maintained within the 'A' range.

MS Amlin's proven track record of utilizing catastrophe bonds with issuances in 2011, 2013, and 2014 provide further sources of capital flexibility. MS Amlin also has majority ownership of Leadenhall Capital Partners (LCP), a dedicated insurance-linked securities (ILS) fund manager, which increases its ability to provide dedicated reinsurance solutions through the use of third-party capital (\$2.4 billion under management as of December 2015). For 2015, LCP earned £16.5 million in management and performance fees. The MS Amlin wide reinsurance program and the bank facility of £300 million (£157 million undrawn), which is committed until August 2017, should provide greater financial flexibility if need arises for capital. We assume financial leverage will drop below 20% after December 2016 because of the aforementioned call of the hybrid. EBITDA fixed-charge coverage will be well above 8x, given MS Amlin's strong earnings generation.

Other Assessments

We regard MS Amlin's ERM and management and governance practices as very strong, and therefore assess its indicative GCP as one notch higher than the anchor of 'a-'.

Enterprise risk management: Very strong, supported by strong risk controls and good economic capital modelling

Our assessment of the group's very strong ERM is based on our positive view of the risk management culture, risk controls, risk models, and strategic risk management of the group. 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 locally and are actively used for strategic decision making. We anticipate that the group's ERM will enable it to continue to optimize capital allocation and enhance its risk-return profile. Our assessment of the group's economic capital model, which we consider to be good, enhances our assessment of its ERM.

The 2014 reorganization into strategic business units (SBUs; see below) with strengthened centralized functions (e.g. risk, actuarial, underwriting) improved consistency, alignment, and integration of the local risk units.

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

Management and governance: Satisfactory, supported by extensive management expertise and conservative risk tolerances across the group

MS Amlin's management and governance is satisfactory, in our opinion. We do not anticipate major changes in the group's day to day operations following the acquisition by MS&AD. This is partly driven by MS Amlin's good track record of strategic planning, wide depth and breadth of expertise within the management ranks, and relatively conservative and sophisticated financial management. 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 various operating entities to leverage on expertise and skills across the wider MS Amlin group and therefore manage earnings volatility.

Over the past 24 months, the group moved to an operating model based on SBUs (that is, reinsurance, mergers and acquisitions, and P/C). We believe this will provide clients full expertise across each SBU and help MS Amlin to navigate through the challenging pricing environment.

We do not observe any governance deficiencies in our assessment.

Liquidity: Strong given the liquidity of the investment portfolio

MS Amlin's liquidity is considered strong, due to the liquid resources available to it--mainly premium income and a liquid asset allocation. MS Amlin's investment portfolio of £4.7 billion is 78% invested in cash, fixed-income securities, or liquid funds, which is almost twice the amount of net claims reserves.

Group status: Significant role in the group's international expansion plan

MS Amlin's strategic status to MS&AD reflects its significant role in the group's international expansion plan as well as its material scale by premium, profit, and capital within the MS&AD group. MS Amlin makes above 5% of MS&AD's total adjusted capital and we expect it to contribute a material amount to MS&AD's total profit. In terms of business mix and operating performance, MS Amlin provides good diversification to MS&AD. MS Amlin provides re-insurance cover to commercial enterprises across the globe while MS&AD focuses on Japan's non-life insurance market with around 30% market share by direct premium.

We believe that MS Amlin will play a key role in MS&AD's international platform as demonstrated by the merger of Mitsui Syndicate 3210 into MS Amlin Syndicate 2001 from 2017. Both Mitsui syndicate and MS Frontier underwriters are being integrated into MS Amlin's three business units: Reinsurance, Marine and Aviation, and P/C.

Accounting Considerations

MS Amlin reports financial results under International Financial Reporting Standards. The annual accounts are audited by PricewaterhouseCoopers. We view accounting as broadly transparent and reflective of the group's economic substance.

Related Criteria And Research

Related criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General: Enterprise Risk Management, May 7, 2013
- General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- General: A New Level Of Enterprise Risk Management Analysis: Methodology For Assessing Insurers' Economic Capital Models, Jan. 24, 2011
- General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks Sept. 14, 2009
- General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related research

- MS Amlin Group - Syndicate 2001, June 17, 2016
- MS&AD Insurance Group's Core Subsidiaries, May 31, 2016

Ratings Detail (As Of June 17, 2016)**Operating Company Covered By This Report****Amlin AG**

Financial Strength Rating

Local Currency

A/Stable/--

Counterparty Credit Rating

Local Currency

A/Stable/--

Related Entities**Amlin Insurance SE**

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

MS Amlin PLC

Issuer Credit Rating

Local Currency

BBB+/Stable/--

Subordinated

BBB-

Domicile

Switzerland

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