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Research Update:

Reinsurer Amlin PLC And Core Subsidiaries Ratings Affirmed On Very Strong ERM; Outlook Remains Stable

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

Reinsurer Amlin PLC And Core Subsidiaries Ratings Affirmed On Very Strong ERM; Outlook Remains Stable

Overview

- In our view, U.K.-based (re)insurance group Amlin PLC's enterprise risk management and capital adequacy have improved.
- We have reviewed Amlin's economic capital model, giving us more insight into its capital adequacy. Supported by strong earnings, we believe the group will maintain capital and earnings to at least strong levels over the next 24 months.
- At the same time, we have revised our assessment of enterprise risk management (ERM) to very strong for Amlin's Lloyd's operations, Syndicate 2001.
- We are affirming our 'A' ratings on the group based on its strong business risk profile and upper adequate financial risk profile, and affirmed our '4+' assessment on the syndicate.
- The stable outlook reflects our expectations that Amlin will maintain its capital strength over the next 12-24 months and that its strong franchise, diversified platforms, and good cycle management will continue to support its superior operating performance.

Rating Action

On July 31, 2014, Standard & Poor's Ratings Services affirmed its 'A' insurer financial strength and counterparty credit ratings on Amlin AG, the core subsidiary of Amlin PLC. We also affirmed the counterparty credit rating on Amlin PLC at 'BBB+'. The outlook on all ratings remains stable. At the same time, we affirmed the Lloyd's Syndicate Assessment (LSA) of '4+' on Amlin's operation at Lloyd's, Syndicate 2001. The outlook is stable.

Rationale

Our review of Amlin's economic capital model (ECM), which we assess as good, has given us greater insight into capital adequacy across the whole group, leading us to revise our assessment of its enterprise risk management (ERM) to very strong. This enables us to give extra quantitative credit in our assessment of the group's capital adequacy, in line with our criteria. We anticipate that the group's ECM and ERM capabilities will enable it to continue to optimize capital allocation and earnings and enhance its risk-return profile. We also view Syndicate 2001's ERM capabilities as very strong--the syndicate benefits from the group's risk management framework as a

core part of the business. This reassessment has no impact on the final LSA.

In addition to the quantitative credit given from our ECM review, Amlin's capital adequacy has improved in its own right. In line with our expectations, strong performance in 2013 has allowed Amlin to rebuild its capital position back to at least strong levels after significant erosion in 2011/2012, and demonstrate capital strength supportive of the current ratings. Across the cycle, Amlin continues to outperform its peers: its five-year average net combined (loss and expense) ratio of 89% compares favorably to a peer average of 95% over the same period, while return on revenue is broadly in line with peers at 11%.

Our base-case expectations reflect continued delivery of strong earnings, with a net combined ratio below 90% (assuming average historical catastrophe loss experience). We expect modest group premium growth of 3%-5% as growth in Amlin Europe and the group's direct business offset pricing pressure in Amlin's reinsurance classes. This should translate to return on equity and return on revenues exceeding 15%, in line with group targets.

The ratings reflect our view of the group's strong business risk profile and upper adequate financial risk profile. We combine these factors to derive an anchor of 'a-'. The group credit profile is then one notch higher, based on our view of the group's very strong ERM and satisfactory management and governance.

Outlook

The stable outlook reflects our expectations that Amlin will maintain its capital strength over the next 12-24 months and that its strong franchise, diversified platforms, and good cycle management will continue to support its superior operating performance.

Although we view downward rating actions as unlikely, we might lower the ratings if, contrary to our expectations:

- Amlin's capital adequacy deteriorates below the 'A' range according to our model over the next 12-24 months; or
- We have a less positive view of Amlin's competitive position within the reinsurance sector or the London market.

Upward rating actions are similarly unlikely, as a softening market cycle and increasing competition in Amlin's key lines of business hinder upward potential. However, we may raise the ratings on Amlin Group if:

- Amlin is able to sustain its strong outperformance of peers, demonstrating resilience of its competitive position to pricing pressure across its reinsurance and specialty classes; and
- The build-out of Amlin Europe proves beneficial in the long term to Amlin's overall brand and reputation, particularly in continental Europe, evidenced by its sustained, profitable top-line growth and contribution of a greater proportion of group earnings.

Ratings Score Snapshot

	To	From
Amlin PLC		
Financial Strength Rating	A/Stable	A/Stable
Anchor	a-	a-
Business Risk Profile	Strong	Strong
IICRA	Intermediate	Intermediate
Competitive Position	Strong	Strong
Financial Risk Profile	Upper Adequate	Upper Adequate
Capital & Earnings	Strong	Strong
Risk Position	High	High
Financial Flexibility	Strong	Strong
Modifiers	+1	+1
ERM and Management	+1	+1
Enterprise Risk Management	Very Strong	Strong
Management & Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Strong	Strong
Support	0	0
Group Support	0	0
Government Support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria And Research

Related criteria

- Lloyd's Syndicate Assessment Methodology, Oct. 31 2013
- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed

Amlin PLC

Counterparty Credit Rating	BBB+/Stable/--
Subordinated	BBB-

Amlin AG

Counterparty Credit Rating	A/Stable/--
Financial Strength Rating	A/Stable/--

Assessment Maintained

Amlin Underwriting - Syndicate 2001

Lloyds Syndicate Assessment	4+/Stable
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