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Amlin Underwriting - Syndicate 2001

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Lloyd's Syndicate Assessment

4+/Stable

Financial Strength Rating
None

Standard & Poor's Ratings Services' insurer financial strength rating on Lloyd's (Lloyd's or the Market; A+/Positive) 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

- Extremely strong competitive position, supported by a strong, leading franchise within Lloyd's and successful track record of outperforming the market across the cycle.
- Second-largest syndicate at Lloyd's with a well-diversified book of business across several classes and geographies.
- The syndicate represents a material 60% of total group premium written in 2013 and forms a key component of the group's international diversification strategy. We therefore consider it to be a core part of the Amlin Group.

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.
- Adequate financial flexibility as financial leverage and coverage at the group level remain supportive of the current assessment.

Other Factors

- Very strong combined enterprise risk management (ERM) framework and management and governance reflect our positive view of the group's risk management culture, risk controls, and strategic risk management. This provides a notch of uplift to the assessment.

Outlook

The stable outlook on Amlin Underwriting - Syndicate 2001 reflects our view of the resilience of Amlin's competitive position within the Lloyd's market balanced against its high risk profile. Furthermore, it reflects our expectation that the syndicate will remain a core part of the Amlin group.

Upside scenario

Upside in the assessment is currently limited by Amlin's relatively high exposure to catastrophe risk and by our view of industry risk across the reinsurance sector.

Downside scenario

We could lower the assessment if the syndicate's track record for outperforming the market diminishes or if we have a less positive view of its competitive position and the diversity of its franchise within Lloyd's.

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 2015.
- Economic growth in developed markets to improve, but to remain sluggish, lagging growth in developing markets.
- For detailed macroeconomic forecasts, see "Insurance Industry And Country Risk for the Global Property/Casualty Reinsurance Sector Is Intermediate," published Sept. 6, 2013 on RatingsDirect).

Syndicate-Specific Assumptions

- Syndicate growth is likely to be between 3%-5% a year for 2014–2016 as rate improvements and underlying growth in the U.K. business offsets pricing pressure on reinsurance classes.
- The net combined ratio is expected to remain below 90%, net loss ratio below 50%, and return on revenue around 15% in 2014-2016, supporting the syndicate's cross-cycle outperformance.
- Pricing in Lloyd's major lines of business is expected to decline by 0%-5% on average over the next two to three years in the absence of any major loss event.

Syndicate Profile: Second-Largest Syndicate At Lloyd's

Syndicate 2001 remains the second-largest syndicate at Lloyd's based on gross premium of £1.5 billion in 2013, which represents 6% of the Lloyd's market. Capacity has been 100% provided by the company's fully aligned capital provider FTSE-listed Amlin PLC since 2004. We view the syndicate as a core component of the Amlin group as it contributed 60% of gross premium written (GPW) in 2013 and forms a key component of the group's international diversification strategy. We attribute no additional notches beyond the stand-alone credit assessment of Syndicate 2001 as it represents a large operation from a group perspective.

The syndicate writes a diverse portfolio of predominantly short-tail lines of business through two main divisions--Amlin London and Amlin UK--and is the largest catastrophe reinsurance underwriter at Lloyd's. Amlin London underwrites predominantly reinsurance, property/casualty (P/C), and marine and aviation. Amlin UK is dominated by fleet motor business, where Amlin is a market leader. This is supplemented by U.K. commercial, financial institutions, professional indemnity, and property and commercial combined.

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 P/C reinsurance sector and several primary markets across Europe, the U.K., and the U.S. Across the markets Amlin operates in, we see country risks as low, on average. We consider that Amlin's reinsurance operations are exposed to moderate industry risks. We see the industry's (and Amlin's) exposure to property catastrophe risks as increasing volatility. We do not expect significant changes in our assessment of 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.

Competitive position: Extremely strong; highly regarded syndicate with a successful performance track record

We view syndicate 2001's competitive position as extremely strong, 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 the second-largest syndicate at Lloyd's in 2013, syndicate 2001 has built a strong franchise for Amlin within Lloyd's to write 6% of the entire market and has a successful track record of outperforming the market. Amlin is a recognized leader within the Lloyd's market, allowing it to lead over 50% of its risks and enabling the development of a significant market share in several classes. This is reinforced by its ability to retain 86% of its business in 2013. The syndicate is also one of the largest catastrophe reinsurance writers at Lloyd's. Catastrophe reinsurance accounted for just over 20% of group premium in 2013.

We view the syndicate as a core part of the Amlin Group and an important part of the group's international diversification strategy. Its 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 competitive position is also derived from the syndicate's good diversification of its risks across more than 30 primary and reinsurance classes (see chart below), as well as geographically. Risk exposures are predominantly spread across the U.S. (43% of GPW in 2012), the U.K. (31%), and Europe (8%). We believe this has historically helped insulate cross-cycle earnings from volatility and allows Amlin the flexibility to reallocate capacity as needed.

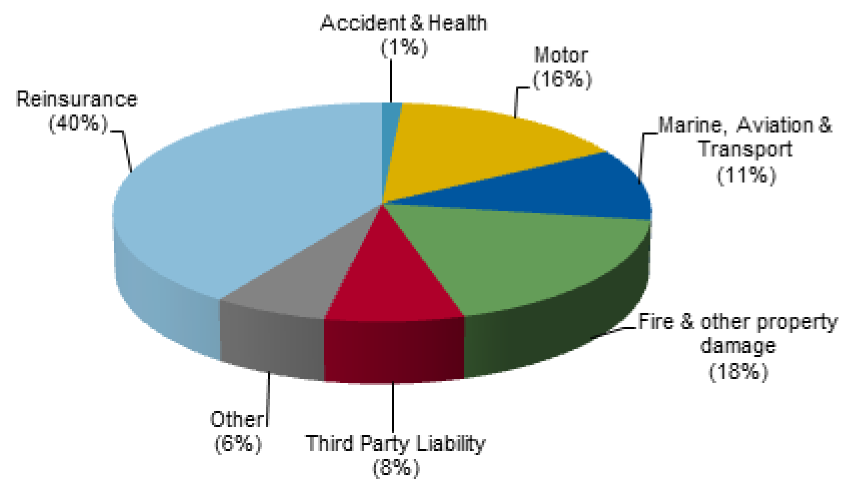
Table 1

Amlin Underwriting - Syndicate 2001 -- Competitive Position					
	--Year-ended Dec. 31--				
(Mil. £)	2013	2012	2011	2010	2009
Gross premiums written	1,471.7	1,470.1	1,302.7	1,212.2	1,075.5
Change in Gross Premiums Written (%)	0.1	12.9	7.5	12.7	27.7
Net premiums written	1,043.7	1,060.2	965.2	907.9	755.9
Change in Net Premiums Written (%)	(1.6)	9.8	6.3	20.1	20.4

Table 1

Amlin Underwriting - Syndicate 2001 -- Competitive Position (cont.)					
Reinsurance utilization (%)	29.1	27.9	25.9	25.1	29.7

Amlin Syndicate Line Of Business, 2013



Such diversification across classes should, in our opinion, help the syndicate maintain its outperformance relative to peers despite expected pricing pressure. 2013 saw premium staying flat at £1.5 billion despite pressure on reinsurance classes and a roughly £40 million one-off reduction for binder income estimation in 2013. Under our base case, we assume the syndicate will continue to write above 6% of the Lloyd's market and we forecast premium growth of 3%-5% a year for 2014-2016.

Financial Risk Profile

Syndicate 2001's upper adequate financial risk profile reflects its material exposure potential catastrophe losses. This is balanced against the sustained strength of its capital position and on-going support of its capacity provider, Amlin PLC.

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 moderately strong based on the stringent capital planning process and robust capital requirements Lloyd's imposes on all syndicates.

The syndicate has a strong track record of delivering strong results exceeding the Lloyd's market, though the magnitude of its outperformance has diminished in more recent years. The syndicate's five-year (2009-2013) average combined (loss and expense) ratio of 90.2% compares favorably with a market average of 92.5%. Amlin's average return on revenue (ROR) of 10.95% is slightly lower than a market return of 11.5% over the same five-year period. However, we do not consider outperformance to be consistent enough to further raise our capital and earnings assessment.

Investment yield in 2013 improved to 1.2% (2012: 1.1%) despite currently low interest rates. 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.

In addition, the syndicate's reserves have been stable, with positive run-off in each of the last five years and total releases of £405 million (2009-2013). Amlin estimates a reserve margin of over £160 million (2012: £160 million) over the actuarial best estimate at the group level.

We expect Syndicate 2001 to maintain strong capital and earnings through 2016 and that the syndicate's underwriting performance will continue to exceed the market. Our base-case scenario anticipates a net combined ratio of less than 90% and net loss ratio below 50% in 2014-2016 (assuming average historical catastrophe loss experience). Over the same period, we expect annual ROR of about 15%.

Table 2

Amlin Underwriting - Syndicate 2001 -- Capitalization Statistics					
	--Year-ended Dec. 31--				
(Mil. £)	**2013**	**2012**	**2011**	**2010**	**2009**
Members' Balances	588.0	569.0	529.7	580.1	604.9
Change in members' balances (%)	3.3	7.4	(8.7)	(4.1)	15.1

Table 3

Amlin Underwriting - Syndicate 2001 -- Earnings Statistics					
	--Year-ended Dec. 31--				
(Mil. £)	**2013**	**2012**	**2011**	**2010**	**2009**
Total revenue	1,027.2	1,019.7	947.7	859.7	720.9
EBIT adjusted	98.8	71.4	(30.2)	130.2	187.4
Net income	129.5	94.9	(31.0)	191.0	250.9
Return on revenue (%)	9.6	7.0	(3.2)	15.1	26.0
Net expense ratio (%)	40.4	39.0	37.8	37.8	39.1
Net loss ratio (%)	51.3	54.7	67.9	48.7	34.1
Net combined ratio (%)	91.7	93.8	105.7	86.5	73.1

Risk position: High risk, given exposure to catastrophe risks

In our opinion, Amlin exhibits a high risk profile due to its exposure to catastrophe risk, which we believe heightens potential for capital and earnings volatility. In our opinion, 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. Catastrophe losses represent an average 8% of annual net premium earned over the past five years. Although catastrophe exposure is still a material risk, we believe Amlin has exhibited less earnings volatility from catastrophe losses than most of its peers on average. We believe the syndicate maintains a conservative investment portfolio which is predominantly short-dated, high-quality fixed income securities (68% of invested assets in 2013). Exposure to high-risk assets, namely equities and property, remains manageable at 16%. The portfolio is diversified across asset classes and is somewhat weighted toward the financial services sectors, but no material obligor concentrations exist.

Table 4

Amlin Underwriting - Syndicate 2001 -- Risk Position

	--Year-ended Dec. 31--				
(Mil. £)	**2013**	**2012**	**2011**	**2010**	**2009**
Total invested assets	1,666.2	1,698.3	1,626.9	1,585.5	1,484.3
Net investment income	19.4	18.3	18.6	15.7	22.4
Net investment yield (%)	1.2	1.1	1.2	1.0	1.5
Net investment yield including realized capital gains/(losses) (%)	1.7	1.9	2.0	2.5	3.6
Portfolio composition (% of General account invested assets)					
Cash and short term investments (%)	8.6	11.5	10.9	5.6	0.0
Bonds (%)	32.8	60.2	66.9	55.9	58.9
Equity investments (%)	16.3	10.0	7.2	10.5	6.3
Other investments (%)	42.3	18.2	14.9	28.0	34.8

Financial flexibility: Adequate

Financial flexibility is viewed as adequate. Amlin group's financial leverage (22%) and coverage (6x) levels support the current assessment. We expect this to continue through 2016 as Amlin's capital adequacy improves and its capacity to support the syndicate strengthens.

Amlin group has a demonstrated ability to utilize various sources of additional capital as the need arises. Its successful issuance of ILS (insurance-linked securitization) is an indication of its ability to access alternative capital. The groupwide reinsurance program and the renegotiated bank facility of £300 million should provide greater financial flexibility if capital needs arise. Also, as a FTSE-listed company, Amlin has good and proven access to capital markets.

Other Assessments

We regard Amlin's combined enterprise risk management (ERM) and management and governance practices as very strong. We reflect the benefit of these by assessing its SACP at one notch higher than the anchor of '4'.

Enterprise risk management: Strong

Our assessment of the syndicate's strong ERM is based on our positive view of the risk management culture, risk controls, risk models, and strategic risk management of the group, including the syndicate. 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 syndicate's ERM capabilities are consistent with those of the group and believe that this will enable it to continue to optimize capital allocation and earnings and enhance its risk-return profile.

Management and governance: Satisfactory; with access to superior management expertise and conservative risk tolerances across the group

Syndicate 2001's management and governance is satisfactory, in our opinion. We believe the syndicate has a 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 Amlin's underwriting platforms has, in our view, benefitted from the robustness of its operating controls and thorough strategic planning process, which has allowed the syndicate to leverage on expertise and skills across the wider Amlin group.

We do not observe any governance deficiencies in our assessment.

Accounting Considerations

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

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. Standard & Poor's has made use of the annual accounts submitted to Lloyd's, as well as the published, audited three-year accounts, and we consider that they disclose the financial results adequately.

Assessment Score Snapshot

Table 5

Assessment Score Snapshot	
Lloyd's Syndicate Assessment	4+/Stable
Anchor	4
Business Risk Profile	Very Strong
IICRA	Moderate Risk

Table 5

Assessment Score Snapshot (cont.)	
Competitive Position	Extremely Strong
Financial Risk Profile	Upper Adequate
Capital and Earnings	Strong
Risk Position	High Risk
Financial Flexibility	Adequate
Modifiers	+1
ERM and Management	Very Strong
--Enterprise Risk Management	Strong
--Management and Governance	Satisfactory
Holistic Analysis	0
Support	0
Group Support	0
Government Support	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria And Research

- 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

Ratings Detail (As Of May 9, 2014)	
Amlin Underwriting - Syndicate 2001	
Holding Company	Amlin PLC
Domicile	United Kingdom

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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