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Research Update:

Lloyd's Syndicate Assessment On Amlin Underwriting - Syndicate 2001 Revised To '4+' On Criteria Change; Outlook Stable

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Overview

- Following a review of Amlin Underwriting - Syndicate 2001 under our revised Lloyd's Syndicate Assessment criteria, we are revising our assessment to '4+' from '4'.
- The revision predominantly reflects our view of the syndicate's very strong business risk profile and very strong enterprise risk management and management assessment. These are partly offset by an upper adequate financial risk profile that is heavily influenced by a high risk position.
- The stable outlook on Amlin reflects our expectation that the syndicate will maintain its extremely strong competitive position, supported by its continued outperformance of and leadership position within the Lloyd's Market.

Assessment Action

On March 14, 2014, Standard & Poor's Ratings Services revised its Lloyd's Syndicate Assessment on Amlin Underwriting - Syndicate 2001 (Amlin) upward by one notch to '4+' from '4'. The outlook is stable.

Rationale

We revised our assessment based on our view of Amlin's long-established, strong franchise within the Lloyd's Market and its strong track record of outperformance of the Market. We also view Amlin's enterprise risk management as strong, which, when combined with a satisfactory view of management and governance, provides a one-notch uplift to the '4' anchor. Our assessment also reflects Amlin's upper adequate financial risk profile, which is constrained by the potential for capital and earnings volatility from its exposure to catastrophe risk.

We view the syndicate as a core part of the Amlin Group (core operating subsidiaries rated A/Stable) as it represents over 60% of the group's total premium and is a key component of the group's international diversification strategy. However, we attribute no additional notches beyond the stand-alone credit assessment of Syndicate 2001 as it represents such a large operation from a group perspective.

Our assessment of Amlin's very strong business risk profile is based on its

intermediate industry and country risk assessment and its extremely strong competitive position. Amlin's insurance industry and country risk is well-diversified across the global P/C (property/casualty) reinsurance sector and several primary markets across Europe, the U.K., and the U.S. 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.

We view Syndicate 2001's competitive position as extremely strong. As the second-largest syndicate at Lloyd's in 2013, it has built a strong franchise for Amlin within Lloyd's and has a successful track record of outperforming the Market. The syndicate's competitive position is supported by its wide product range and the diversity of its book of business, which has historically helped manage earnings volatility. 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 89% of its business in 2013. Its book of business is well-diversified across more than 30 primary and reinsurance classes, as well as geographically. The syndicate wrote around 6% of total Market premium in 2012 and we expect it will continue to do so as we forecast overall gross premium income growth of about 3%-5% annually through to 2015, with growth from the U.K. business helping alleviate pressure in reinsurance lines.

We assess Amlin's capital and earnings as strong, based on the capital requirements Lloyd's imposes on all syndicates. The syndicate has a track record of delivering strong results exceeding the Lloyd's Market, though the magnitude of its outperformance has diminished in recent years. The syndicate's five-year (2008-2012) average combined ratio of 89.8% compares favorably with a market average of 93.7%. Similarly, Amlin's average return on revenue (ROR) of 15.5% exceeds Market return of 11.1% over the same five-year period. However, we do not consider outperformance consistent enough to revise our capital and earnings assessment further. In addition, the syndicate's reserves have been stable, with positive run-off in each of the last five years and total releases of £446 million (2008-2012). Under our base-case scenario, we expect the syndicate's underwriting performance will continue to exceed the Market and anticipate a combined ratio under 90% in 2014-2016 (assuming average historical catastrophe loss experience). Over the same period, we also expect the underlying loss ratio to remain strong at under 50% and an annual ROR of about 15%.

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. Catastrophe losses represent an average 8% of annual net premium earned, which we consider in line with peers. 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 of predominantly high-quality fixed-income assets (68% of invested assets). 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 sector, but no material obligor concentrations exist.

Financial flexibility is viewed as adequate. Amlin group's financial leverage (22%) and coverage levels (6x) support the current assessment. We expect this to continue through 2015 as Amlin's capital adequacy improves and its capacity to support the syndicate strengthens.

We assess Amlin's enterprise risk management (ERM) and management as very strong. This modifies the anchor upward by one notch. Our assessment of ERM reflects our positive view of the risk management culture, risk controls, and strategic and emerging risk management of the group, including the syndicate. We anticipate that the syndicate's ERM capabilities are consistent with the group's, and will enable it to continue to optimize capital allocation and earnings and enhance its risk-return profile.

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 at management level, and relatively conservative and sophisticated financial management. The 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.

Outlook

The stable outlook 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.

We might revise the assessment downward 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.

Upside is currently limited by Amlin's financial risk profile, due to the potential for capital and earnings volatility from its exposure to catastrophe risk and the reinsurance industry generally.

Assessment Score Snapshot

Lloyd's Syndicate Assessment	4+/Stable
Anchor	4
Business Risk Profile	Very Strong

IICRA	Intermediate Risk
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	+1
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

Related Criteria

- Insurers: Rating Methodology, May 7, 2013
- Lloyd's Syndicate Assessment Methodology, Oct. 31, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Related Research

- Standard & Poor's Assigns Insurance Industry And Country Risk Assessments, May 7, 2013

Assessment List

Revised upward

	To	From
Amlin Underwriting - Syndicate 2001 Lloyds Syndicate Assessment	4+/Stable	4/Stable

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