

RATING ACTION COMMENTARY

Fitch Affirms Beazley's IFS at 'A+'; Outlook Stable

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Fitch Ratings - London - 26 Apr 2024: Fitch Ratings has affirmed Beazley Insurance Designated Activity Company's (Beazley Insurance DAC) Insurer Financial Strength Rating (IFS) at 'A+'. It has also affirmed the Long-Term Issuer Default Ratings (IDR) of Beazley Insurance DAC and the ultimate parent and holding company of the group, Beazley plc (together, Beazley), at 'A'. The Outlooks are Stable.

The affirmation reflects Beazley's strong company profile, very strong financial performance and capitalisation, and conservative approach to reserving.

KEY RATING DRIVERS

Company Profile Constrains Ratings: Fitch views Beazley's company profile as strong. Its insurance written premiums (IWP), grew 7% to USD5.6 billion in 2023. Beazley's company profile score is supported by the group's favourable diversification by geography and business, but is constrained by its operating scale, which Fitch views as moderate compared with that of all other UK non-life insurance companies.

Very Strong Capitalisation: The assessment of Beazley's capitalisation is reflected in Fitch's Prism score of 'Extremely Strong' at end-2023 (end-2022, restated on IFRS17 basis: 'Extremely Strong'). During the year, the company transitioned from surplus over Lloyd's economic capital requirement to group solvency capital requirement (SCR) as the key performance indicator to report capital surplus.

At end-2023, the group reported a Solvency II ratio of 218% (end-2022: 244%), net of all distributions, including the share buyback of USD325 million announced by the company at end-2023. The company aims to maintain a Solvency II ratio in excess of 170% of SCR. Fitch expects Beazley's capital, as measured by Prism, to remain at least 'Very Strong' in the medium term.

Very Strong Financial Performance: Fitch expects Beazley's financial performance to remain very strong and in line with its guidance of a combined ratio in the low 80s for

2024. Beazley reported very strong underwriting performance in 2023 with a discounted combined ratio of 71% (2022: 79%) and insurance service result of USD1,251 million (2022: USD823 million). Strong investment performance, on the back of higher reinvestment yields, led to an overall investment income of USD480 million (2022: loss of USD180 million). As a result, overall profit before tax significantly increased to USD1,254 million at end-2023 from USD584 million at end-2022, with return on equity increasing to 30% (end-2022: 19%).

We expect Beazley to benefit from the strong property risks market in the US, as well as the increased reinvestment yields.

Exposed to Property and Cyber Risks: Our assessment of financial performance also considers the possibility of larger-than-expected losses from property and cyber risks. Beazley is growing its cyber risk portfolio outside of the US, as well as retaining more risk on its balance sheet following an equity raise in 2H22, through a reduction in quota share reinsurance. Beazley's property risk business has also significantly grown in 2023, driven by a strong rate environment, especially in the US market. Given the growth, the risk retention is also expected to increase on its property risks portfolio.

Very Strong Reserve Adequacy: Fitch believes that Beazley's reserve adequacy is very strong, which will continue to contribute to technical profitability. Beazley reported prior-year reserve releases of about USD110 million in 2023, which represents 2.5% of net insurance revenue, as a result of favourable reserve development across all businesses (other than cyber). As Beazley has transitioned to IFRS17 on 1 January 2023, the level of reserve redundancies has slightly declined but Fitch expects Beazley to maintain a very conservative reserving position.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating

Action/Upgrade:

-- An improvement in Beazley's company profile could result in an upgrade

Factors that Could, Individually or Collectively, Lead to Negative Rating

Action/Downgrade:

-- Prism score declining to the lower end of the 'Strong' category

-- A deterioration in profitability, reflected in a combined ratio above 100%, assuming normal levels of catastrophe losses

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕		PRIOR ↕
Beazley Insurance DAC	LT IDR	A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed		
subordinated	LT IFS	A+ Rating Outlook Stable	A+ Rating Outlook Stable
	Affirmed		
subordinated	LT	BBB+ Affirmed	BBB+
Beazley plc	LT IDR	A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed		

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Saad Pervaiz

Associate Director

Primary Rating Analyst
+44 20 3530 1762
saad.pervaiz@fitchratings.com
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf London E14 5GN

Graham Coutts, ACA

Senior Director
Secondary Rating Analyst
+44 20 3530 1654
graham.coutts@fitchratings.com

Federico Faccio

Senior Director
Committee Chairperson
+44 20 3530 1394
federico.faccio@fitchratings.com

MEDIA CONTACTS

Athos Larkou

London
+44 20 3530 1549
athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 04 Mar 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

ADDITIONAL DISCLOSURES

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ENDORSEMENT STATUS

Beazley Insurance DAC

UK Issued, EU Endorsed

Beazley plc

UK Issued, EU Endorsed

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