



RATING ACTION COMMENTARY

Fitch Affirms Admiral's IFS Ratings at 'A+'; Outlook Stable

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Fitch Ratings - London - 04 Nov 2022: Fitch Ratings has affirmed Admiral Group plc's (Admiral) two main operating entities, Admiral Insurance (Gibraltar) Limited and Admiral Insurance Company Limited, at Insurer Financial Strength (IFS) Ratings of 'A+' (Strong). The agency has also affirmed Admiral's Long-Term Issuer Default Rating (IDR) at 'A'. The Outlooks on the IFS Ratings and IDR are Stable. A full list of ratings is detailed below.

The ratings affirmation reflects Admiral's very strong financial performance and earnings, as well as strong business profile and capitalisation. The rating also reflects Admiral's heavy reliance on reinsurance and co-insurance arrangements, particularly with Munich Reinsurance Company (IFS: AA/Stable).

KEY RATING DRIVERS

Moderate Business Profile: Admiral's moderate business profile compared with other UK insurers constrains its ratings. UK motor is the main contributor to the group's profit and accounted for 72% of the group's total written premiums and the major part of profits in 2021.

Admiral has leading position within the UK motor market and strong consistent growth in customer numbers year-on-year; however, it has struggled to develop its operations outside of the UK. Although businesses outside of the UK have grown substantially, they remain small-scale and challenging to grow and to provide profit diversification.

Very Strong Financial Performance: Admiral's ratings reflect the group's record of very strong underwriting profitability, which Fitch expects to continue despite the current inflationary environment. This expectation is underpinned by Admiral's prudent underwriting: reported five-year average combined ratio of 87%, which is substantially lower than most of its peers'. Admiral also generates revenue from add-on products and receives fees and profit commissions from co-insurance and reinsurance partners for profitable underwriting performance.

The UK motor insurance market is currently facing difficult trading conditions due to weak pricing and high claims inflation. Admiral has been taking proactive measures to counteract the impacts of higher claims inflation by increasing prices - since December 2021 the prices were increased in line with the market and since March 2022 to July 2022 by about 16% - substantially higher than the market. We expect these measures to support Admiral's financial performance and underwriting result to continue to outperform the market, despite the headwinds.

Strong Capitalisation and Leverage: Admiral's risk-adjusted capitalisation is 'Extremely Strong', as measured by Fitch's Prism Factor-Based Capital Model (Prism FBM). This is supported by substantial co-insurance and reinsurance arrangements that provide significant capital relief for the group. Admiral's Fitch-calculated financial leverage ratio (FLR) improved to 14% at end-2021 (end-2020: 17%). Fitch views this level of FLR as positive for the rating.

Co-Insurance Arrangement Beneficial: Admiral's capitalisation benefits from significant use of co-insurance and reinsurance arrangements. Admiral shares 40% of its UK motor insurance risks with Munich Reinsurance Company and its subsidiary Great Lakes. The arrangements provide substantial capital relief to Admiral. The co-insurance agreement is in place until 2029.

Significant Reliance on Reinsurance: In addition to the quota share arrangement with Munich Re stated above, the group also cedes a further 38% of its UK risks under quota-share contracts with a panel of reinsurers. The high usage of reinsurance is mitigated by the high credit quality and the stable and strong relationships with its reinsurance counterparties, in our view.

Very Strong Reserve Adequacy: Admiral has a prudent reserving strategy. Over the past five years, prior-year reserve releases on its original net share averaged 18% of net earned premiums. The insurer's strategy is to maintain a buffer above actuarial best estimate, allowing the group to support underwriting results with reserve releases every year. We believe Admiral is well-positioned to cope with inflationary pressures, given its conservative approach to reserving.

Loans Business Neutral to Ratings: Admiral operates a small unsecured personal loan and car finance business. At end-1H22, Admiral Money reported its first pre-tax profit of GBP0.2 million (1H21: loss of GBP1.9 million, 1H20: loss of GBP9.4 million), supported by strong interest income on the back of loan growth. The approach to underwriting remains cautious and Admiral further tightened its underwriting criteria in light of weak prospects for the UK economy in 1H22. We expect Admiral to continue growing its loans business, but we believe this growth will be cautious amid difficult trading conditions as households' available income is squeezed. However, we expect the loan business to start modestly contributing to group's profits in the next two years.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--An improvement in our view of the business profile could lead to an upgrade of Admiral's ratings. However, we view this as unlikely in the medium term

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Marked deterioration in technical or overall profitability, particularly compared with peers', could result in a downgrade

--Substantial erosion of capital equivalent to a sustained increase in net underwriting leverage (net written premiums/equity) to 1.5x

--Loss of its co-insurance contract, resulting in an immediate and significant increase in capital requirements or significant falls in business volumes

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit

<https://www.fitchratings.com/site/re/10111579>

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Admiral Insurance (Gibraltar) Limited	Ins Fin Str A+ Rating Outlook Stable Affirmed	A+ Rating Outlook Stable
Admiral Group plc	LT IDR A Rating Outlook Stable Affirmed	A Rating Outlook Stable
subordinated	LT BBB Affirmed	BBB
Admiral Insurance Company Limited	Ins Fin Str A+ Rating Outlook Stable Affirmed	A+ Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 15 Jul 2022\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Prism Factor-Based Capital Model, v1.8.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Admiral Group plc	UK Issued, EU Endorsed
Admiral Insurance (Gibraltar) Limited	UK Issued, EU Endorsed
Admiral Insurance Company Limited	UK Issued, EU Endorsed

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