

## Assuranceforeningen SKULD (Gjensidig)

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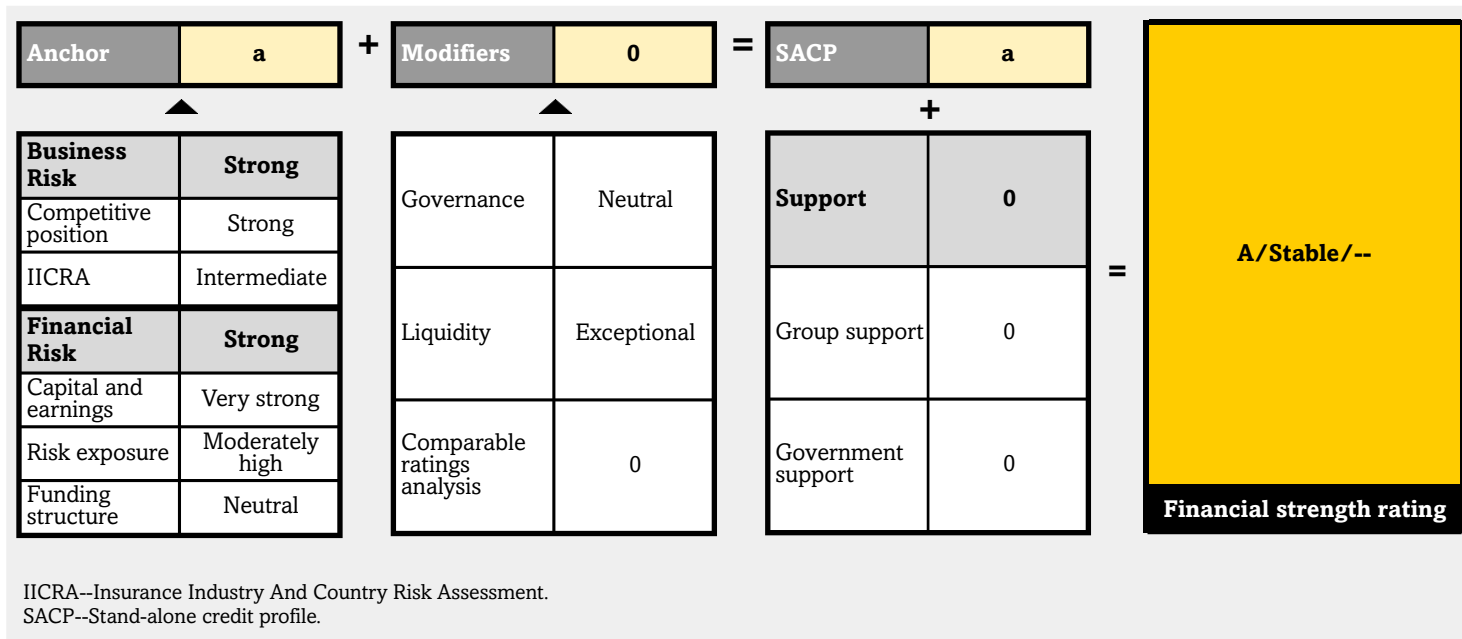
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# Assuranceforeningen SKULD (Gjensidig)



## Credit Highlights

Overview	
Key strengths	Key risks
Skuld has a strong reputation and position in the marine protection and indemnity (P&I) insurance market.	Like its peers, Skuld is largely undiversified outside its marine specialism.
The club is very well capitalized, with excess capital above our 'AAA' benchmark.	The P&I market is likely to remain a highly competitive marketplace despite some recent consolidation.
The club has historically recorded less volatility in its results than its P&I club peers.	The club is exposed to the volatility of other International Group (IG) clubs' claims through the IG's pooling system.

**Assuranceforeningen SKULD (Skuld or the club) is likely to record a breakeven or better underwriting performance over the next three financial years.** The club returned to an underwriting profit in the financial year ending Feb. 20, 2023 (FY2023), with a net combined ratio of 96%. This was the first underwriting profit the club had recorded in three years. Like its IG peers, the club benefitted from a low level of pooled claims, but also from the higher rates it had secured from its members. We expect that Skuld will continue to increase rates at future renewals to ensure underwriting profitability and an above-average performance compared to peers.

**The club will maintain capital above our 'AAA' benchmark over the next three financial years.** Skuld's \$31.8 million in net income in FY2023 meant that the club returned to a 'AAA' level of capital while the majority of its peers saw their capital positions deteriorate. Skuld too suffered mark-to-market losses on its bond and equity portfolios (\$74 million), but the sale of its stake in its Lloyd's of London managing agent Asta Capital Ltd. (Asta) and its underwriting profit meant that it was one of the few clubs to record a positive bottom line. We expect the club to record net income of close to \$40 million in FY2024-FY2025, allowing it to maintain 'AAA' levels of capital. We do not expect the club to return any premium to members until it has a significant level of excess capital at the 'AAA' level.

*Like other P&I clubs, Skuld has the option to make unbudgeted calls on members.* We factor in Skuld's ability to make unbudgeted calls on members when selecting the 'a' anchor.

### Outlook: Stable

The stable outlook reflects our expectation that over the next two years, Skuld will record combined ratios close to or below 100% and maintain excess capital above our 'AAA' benchmark. We also expect Skuld to produce underwriting results that are in the top half of the range for its peer group.

#### Downside scenario

We could take a negative rating action over the next two years if Skuld recorded combined ratios that were materially in excess of 103% or in the lower half of the range for its peer group. We could also take a negative rating action if we did not expect Skuld to maintain excess capital above our 'AAA' benchmark.

#### Upside scenario

We consider it very unlikely that we would take a positive rating action on Skuld over the next two years. Such an action would require Skuld to gain a leading share of the P&I market while diversifying away from P&I.

## Key Assumptions

- We expect limited growth of less than 1% in GDP in both the U.S. and the eurozone in 2023 (0.7% and 0.3%, respectively). Growth in 2024 will still be constrained, but slightly higher (1.2% in the U.S. and 1.0% in the eurozone).
- Monetary policy should remain tight. Central banks will tend to err on the side of caution and lean toward higher rates and tighter conditions to bring inflation back to target rates.
- Container liners' significant capacity withdrawals should help freight rates stop falling over 2023-2024, allowing shipping companies to compensate for recent operating cost inflation.
- Oil shipping has entered a bullish cycle due to a surge in ton-mile demand and the lowest new tanker orderbook in more than 20 years. Meanwhile, dry-bulk shipping's charter rates are unlikely to improve before late 2023.
- Skuld will only return premium to members once it has significant excess capital at the 'AAA' level.

### Assuranceforeningen SKULD (Gjensidig)--Key metrics

	2025f	2024f	2023	2022	2021
S&P Global Ratings' capital adequacy	AAA	AAA	AAA	AA	AAA
Gross premium written (mil. \$)	550	525	473.3	419.5	390.8
Net income (mil. \$)	~40	~40	31.8	-14.7	24.6
Return on shareholders' equity (%)	>7	>7	7.3	-3.3	5.3

## Assuranceforeningen SKULD (Gjensidig)--Key metrics (cont.)

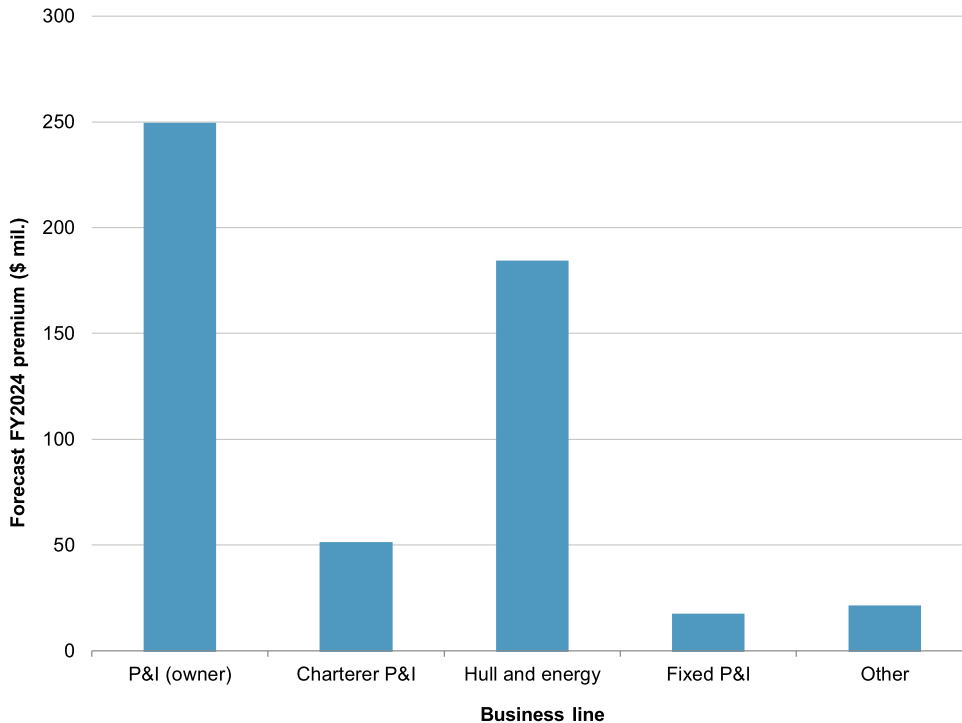
	2025f	2024f	2023	2022	2021
P/C: net combined ratio (%)	<100	<100	96	108.3	108.7

P/C--Property/casualty. f--S&P Global Ratings' forecast.

## Business Risk Profile: Strong

Skuld is a mutual marine insurer and one of the largest members of the IG--a group of 12 clubs that provides protection and indemnity cover for about 90% of the world's oceangoing tonnage. It ranks fourth by overall premium written. One of the club's key strengths is its membership of the IG, which provides the P&I sector with a high barrier to entry and efficiencies in purchasing reinsurance.

We believe that Skuld's management will continue to focus on its strategy to diversify its business. Alongside its peers, Gard P&I (Bermuda) Ltd. (Gard) and The Swedish Club, Skuld is one of the few IG clubs to write a significant amount of business outside its core mutual P&I offering. The club offers hull, energy, and fixed-premium P&I products, and we believe that it may seek to add further marine-based insurance products to this mix over 2023-2025. We do not expect the club to move into nonmarine insurance. We expect that the club's premium base will grow to close to \$525 million by the end of FY2024, following further rate increases and new business additions at the time of the P&I 2023 renewals. We expect that the club will remain roughly split 50:50 between mutual P&I business and other lines (see chart 1).

**Chart 1****Skuld's business lines are roughly split 50:50 between mutual P&I and other lines**

P&I--Property and indemnity. Source: S&P Global Ratings.

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Skuld's members are geographically diverse, with premium sourced from Asia, the U.S., and Europe. Members in these regions are supported by offices in Norway, Bermuda, Denmark, Germany, Hong Kong, Japan, the U.K., the U.S., Greece, and Singapore. Although these offices add to the club's expense burden, like other P&I mutuals, Skuld sees them as key to ensuring the high-quality service that clients require. Over the next two years, we believe that the club will continue to diversify geographically, particularly in Asia.

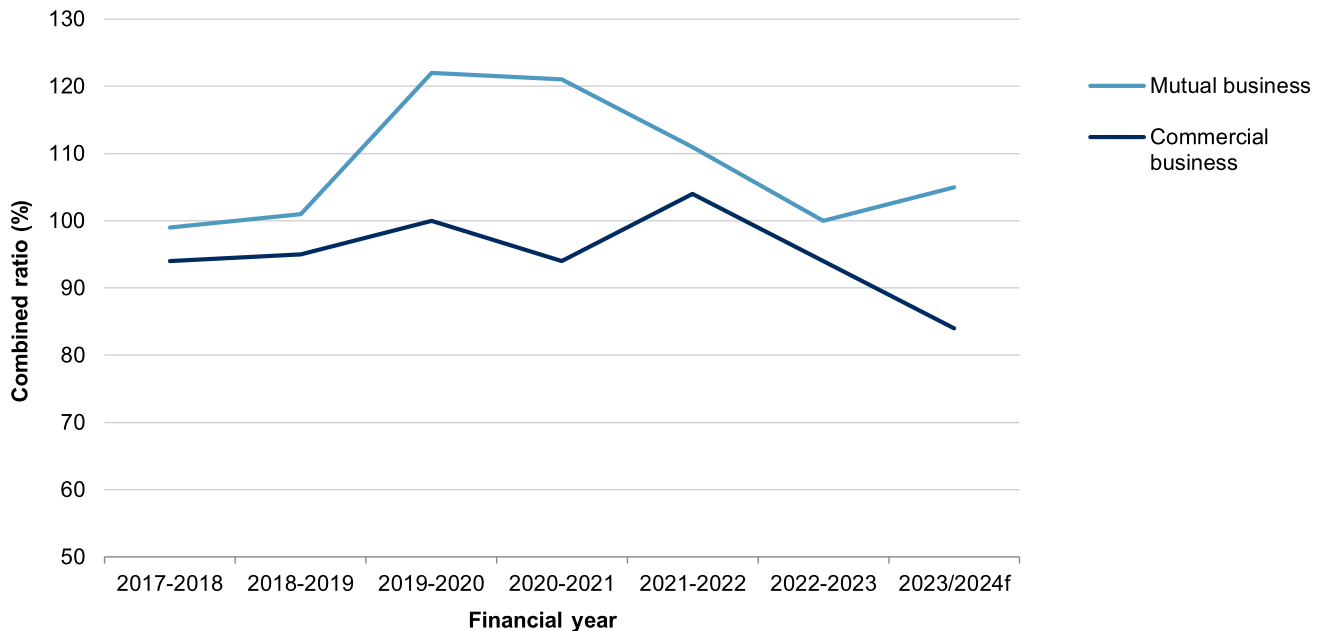
We expect that Skuld will remain more diversified than most of its IG peers in terms of lines of business. Currently, only Gard and The Swedish Club have comparable levels of diversification outside P&I. However, when we compare Skuld to 'A' rated peers outside its sector, like Gjensidige, Hiscox Ltd., and Länsförsäkringar AB, the club is substantially less diversified. Virtually all the club's income comes from the marine sector, and it is therefore exposed to the fortunes of that sector. We do not expect the club to start writing any nonmarine business.

We expect Skuld to record underwriting results close to or better than breakeven and above the sector average over the next two years. The club returned to underwriting profitability last year, with a net combined ratio of 96%, following three years of losses (combined ratios of 108.3%, 108.7%, and 110.3%). We expect that Skuld will continue to benefit from improving rates in both its mutual P&I book and its commercial book over the next two years, allowing it to continue to produce underwriting profits. We expect that Skuld's commercial business will help subsidize the mutual

business in the next two years, with its profits allowing the mutual business to run at a slight underwriting loss (see chart 2).

**Chart 2**

**Skuld's commercial lines should continue to subsidize the mutual business in 2023-2024**



f--S&P Global Ratings' forecast. Source: S&P Global Ratings.

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## Financial Risk Profile: Strong

The club's capital position strengthened during 2022-2023 such that its capital resources are now in excess of our 'AAA' benchmark. We expect that the club will continue to hold this level of capital for at least the next two years. The club generated net income of \$31.8 million in FY2023, despite \$74 million of mark-to-market losses on its investment portfolio as a result of a challenging year in the bond and equity markets. Skuld's strong underwriting result of \$15 million, combined with the sale of Asta, enabled the club to record an overall profit when the majority of its peers recorded losses.

While we expect the club to continue to grow in 2022-2024, we anticipate that management will ensure the club maintains excess capital above our 'AAA' benchmark through its retention of earnings. In the past, Skuld has made distributions to its members following profitable years, but we do not expect the club to make such returns in 2023-2025, unless it builds up significant excess capital over our 'AAA' benchmark.

Skuld's regulatory capital position was a healthy 177% for the overall group at year-end 2023. The club benefits from close to \$180 million of so-called "ancillary own funds," reflecting its ability to make unbudgeted calls on its mutual members. We do not give credit for this in our capital model, but it does influence our choice of the higher 'a' anchor. However, we believe that the club's use of such a call would likely lead to a deterioration in its competitive position.

Like all P&I clubs, Skuld's earnings are exposed to volatility due to the IG's pool. This pool allows IG members to share the cost of individual claims of \$10 million-\$100 million. The random nature of large claims means the amount of pooled claims varies significantly from year to year. Skuld had pool costs of over \$31 million in FY2022 and \$41 million in FY2021, whereas in FY2017, costs were closer to \$13 million.

Although Skuld's exposure to equities and other more volatile investments is relatively high for a typical non-life insurer, the club's portfolio is conservative compared with many of its IG peers. Close to 75% of the club's investments are in bonds or cash, with only about 3% of the bond portfolio being speculative-grade bonds. The club has no debt outstanding.

## Other Key Credit Considerations

### Governance

We consider Skuld's governance to be in line with that of the majority of the P&I clubs. The majority of Skuld's board are shipowner members and employee representatives. Skuld's executive team has been relatively stable in recent years. Stale Hansen has been president and CEO since 2015 and has an experienced team of executives around him. Skuld also has a solid risk management framework in place, in our opinion, with clear tolerances for underwriting and investment risk.

### Liquidity

We have a favorable view of Skuld's liquidity. The club has a large portfolio of liquid assets that comfortably cover our stressed liquidity requirements.

### Group support

We assess both Assuranceforeningen SKULD (Gjensidig) and Skuld Mutual Protection and Indemnity Association (Bermuda) Ltd. as core to the Skuld group. We therefore rate these entities at the same level as the overall group (A/Stable/--).

## Environmental, social, and governance

### ESG Credit Indicators

E-1	<b>E-2</b>	E-3	E-4	E-5	S-1	<b>S-2</b>	S-3	S-4	S-5	G-1	<b>G-2</b>	G-3	G-4	G-5
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ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of Skuld.

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology , July 1, 2019
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model , June 7, 2010

### Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
<b>Strong</b>	aa-/a+	a+/a	<b>a/a-</b>	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

**Note:** Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

### Ratings Detail (As Of June 21, 2023)\*

#### Operating Company Covered By This Report

#### Assuranceforeningen SKULD (Gjensidig)

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

Domicile

Norway

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.



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