

### Research Update:

# Assuranceforeningen SKULD (Gjensidig) Outlook To Positive On Strong Underwriting Performance; 'A-' Rating Affirmed

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### Table Of Contents

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- Overview
- Rating Action
- Rationale
- Outlook
- Related Criteria And Research
- Ratings List

## Research Update:

# Assuranceforeningen SKULD (Gjensidig) Outlook To Positive On Strong Underwriting Performance; 'A-' Rating Affirmed

## Overview

- Assuranceforeningen SKULD (Gjensidig) continues to outperform its peers in terms of underwriting performance.
- We are therefore revising the outlook to positive from stable.
- We are affirming our 'A-' long-term counterparty credit and financial strength ratings on the company.

## Rating Action

On July 27, 2011, Standard & Poor's Ratings Services revised its outlook to positive from stable on Oslo-based marine insurer Assuranceforeningen SKULD (Gjensidig) (Skuld or the club). At the same time, we affirmed our 'A-' long-term counterparty credit and financial strength ratings on the company.

## Rationale

The ratings reflect the club's strong competitive position, strong technical operating performance, and strong capitalization supported by strong financial flexibility. These positive factors are offset by the lower level of reserving relative to its peers.

We consider Skuld's competitive position to be strong. It is supported by Skuld's membership of the International Group of Protection & Indemnity Clubs (IG; a group of mutual organizations that insures approximately 90% of the world's shipping for third-party liability); compared with peers, Skuld is a midsize, albeit increasingly prominent and diversified, protection and indemnity (P&I) club. We believe that Skuld's recent setting up of its own syndicate within Lloyd's of London has the potential to constitute a strong differentiating factor relative to the club's peers.

We consider Skuld's operating performance to be strong. In the year to Feb. 20, 2011, it recorded a combined ratio of 87% and a record pretax surplus of \$68 million, based on positive contributions from underwriting and investments. Skuld has achieved eight consecutive years of underwriting profitability, which remains the strongest underwriting track record in the IG.

Capitalization is strong and supports the rating. Free reserves increased by 32% to \$266 million at the February 2011 year-end, although this has been

offset by the club's investment in its new Lloyd's syndicate and by capital charges derived from an increase in higher risk investments. Consequently, Skuld's capital adequacy, as measured by Standard & Poor's risk-adjusted model, is in the lower end of the 'AA' range. Capitalization is supported by Skuld's strong financial flexibility (defined as the balance between capital requirements and sources), due to its ability to impose premium increases at renewal and to make unbudgeted supplementary calls on its members on open policy years.

However, our overall view of capitalization is constrained by Skuld's lower level of reserving relative to its peers. In 2010/2011, the ratio of outstanding claims reserves to net premiums written (153%) increased slightly. Although Skuld has generally recorded a positive run-off of reserves relating to claims from previous policy years, this ratio still appears low by comparison with the IG average, which is around 200%. We largely attribute this to Skuld's policy of settling claims with the minimum of delay. Despite operating in P&I, a long-tail class of business, Skuld's average duration is 2.5 years, which is lower than the IG average.

## Outlook

The positive outlook reflects Skuld's strong underwriting track record and our ensuing expectation that Skuld will maintain capital adequacy at least at a strong level. We therefore expect the combined ratio to remain at the lower end of the IG average over the medium term. Although the club's level of investment risk has fallen below its target range, we would not expect to see any significant shift into higher-risk investments above the current target allocation of around 15% of invested assets.

The ratings could be upgraded should Skuld meet the expectations outlined above and also demonstrate a satisfactory outcome from the new Lloyd's syndicate's first year of operation (currently budgeted to break even) which would not impair Skuld's operating performance and capital. We expect growth in this area to be carefully managed to ensure that financial strength and member service are not weakened. In our view, Skuld's gross premium volumes are likely to increase by around 14% to \$310 million in the next policy year. We foresee that approximately \$20 million of this increase will come from the new vehicle. If Skuld does not meet our expectations, the outlook would likely revert to stable.

## Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Principles Of Credit Ratings, Feb. 16, 2011
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Interactive Ratings Methodology, April 22, 2009
- Counterparty Credit Ratings And The Credit Framework, April 14, 2004

## Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Assuranceforeningen SKULD (Gjensidig)		
Counterparty Credit Rating	A-/Positive/--	A-/Stable/--
Financial Strength Rating	A-/Positive/--	A-/Stable/--

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