

RatingsDirect®

Assuranceforeningen SKULD (Gjensidig)

Primary Credit Analyst:

Robert J Greensted, London + 44 20 7176 7095; robert.greensted@spglobal.com

Secondary Contact:

Mark D Nicholson, London (44) 20-7176-7991; mark.nicholson@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Key Assumptions

Business Risk Profile

Financial Risk Profile

Other Key Credit Considerations

Ratings Score Snapshot

Related Criteria

Assuranceforeningen SKULD (Gjensidig)

Credit Highlights

Operating Companies Covered
By This Report

Financial Strength Rating

Local Currency

A/Stable/--

Overview

Strengths	Risks
Skuld is one of the consistently strongest performers in its sector.	As with its peers, Skuld is largely undiversified outside of its marine specialism.
The club has very strong levels of capital adequacy, as per our risk-based model.	The club is exposed to the volatility of other International Group (IG) clubs claims through the IG's pooling system.
The club has historically recorded less volatility in results compared with peers.	Skuld's Lloyd's syndicate has historically been a drag on performance but is now in run-off.

Norway domiciled Skuld will continue to be one of the stronger performers in its sector. We expect Skuld will continue to record results that are in the top quartile of its protection and indemnity (P&I) peers. Skuld has recorded combined ratios (profit and loss) below 100% for 15 years, showing considerably less volatility in its results than other clubs.

Skuld's capital position is likely to remain very strong. Skuld holds capital levels well above the 'AA' benchmark, under our risk-based capital model. We believe the club will maintain at least this level over the next two years.

Like the majority of its peers, Skuld remains largely undiversified outside of its marine specialism. Although Skuld has moved outside of its core P&I line in recent years by offering hull and energy covers, the club remains (like its peers) undiversified outside of the marine sector. It is therefore somewhat exposed to the fortunes of companies operating within the marine sector.

Outlook

The stable outlook reflects our expectation that Skuld's capital adequacy will remain well in excess of our 'AA' benchmark over the next two years. We also anticipate the club will maintain its operating performance at a level consistent with our base case, and maintain its strong position in the P&I market.

Downside scenario

We might lower the rating if, contrary to our expectations over the next two years:

- Capital adequacy deteriorates significantly below the 'AA' category for a prolonged period, which could result from premium growth outstripping capital accumulation; or
- Earnings weaken to substantially less than our base-case assumptions.

Upside scenario

We do not anticipate raising the rating over the next two years.

Key Assumptions

- Global GDP growth to slow.
- Cautious central bank monetary policy will lead to largely flat net investment returns on the club's fixed-income portfolio.
- P&I rates to improve but at a measured rate.

Key Metrics

	--Year ending Feb. 20--						
	2015	2016	2017	2018	2019	2020F	2021F
Net premiums earned (mil. \$)	347	353	327	351	346	~360	~370
Net income (mil. \$)	12	10	40	33	5	~10	~20
Combined ratio (%)	99.8	94.3	97.7	99.8	97.6	>100	98
Members' funds (mil. \$)	334	347	391	442	454	464	484
Return on members' funds (%)	3.6	2.9	10.8	7.9	1.1	~2	~4
Return on revenues (%)	-0.3	8.7	5.5	3.5	4.2	~3	~5

F--Forecast

Business Risk Profile

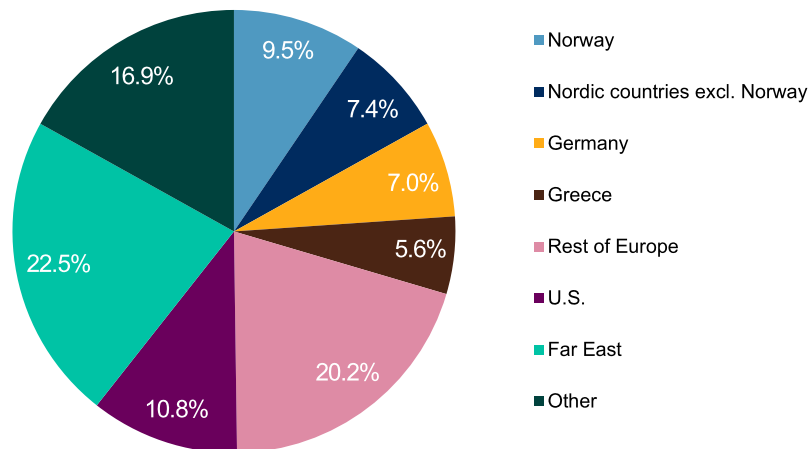
Skuld is a mutual marine insurer and one of the largest members of the IG--a group of 13 clubs that provide protection and indemnity cover for about 90% of the world's ocean going tonnage. It ranks second by overall premiums written.

One of the key strengths of the club is its membership of the IG, which provides the P&I sector with a high barrier to entry and efficiencies in reinsurance purchase. The club wants to diversify its business offering and has expanded its product lines in recent years to include the writing of hull and energy lines of business through its Lloyd's of London syndicate 1897 and Skuld Marine Agency. Although the club has now ceased underwriting at Lloyd's, it will continue to write these covers through its main operating company Assuranceforeningen Skuld (Gjensidig) and its U.K. branch. In 2018-2019, the club wrote just over \$400 million of premiums, with the majority (about two-thirds) still coming from its P&I business.

Skuld has been consistently one of the better performers in the P&I sector. Over the past five years it has recorded a rolling average combined ratio of 98%. The club is proud of its record of 16 years recording an underwriting profit and is one of the least volatile that we see in the sector in terms of reported results. Although we still expect to see Skuld record a rolling average combined ratio of close to 100% in the next two years, we expect the club to struggle to maintain its 16-year record. Conditions in the P&I market have been tough in recent years, with few clubs able to push through significant rates, which we believe will result in narrowing margins. In first-half 2019, Skuld recorded an underwriting loss of \$23.2 million (a combined ratio of 112%) due to a higher-than-average reported claims. Although we note investment gains of \$26.6 million offset this loss to leave the club with an overall profit of \$2 million.

Skuld has a diverse geographic membership with premiums sourced from Asia, the U.S., and Europe. Members in these regions are supported by offices in Norway, Bermuda, Denmark, Germany, Hong Kong, the U.K., the U.S., Greece, and Singapore. Although these offices do add to the expense burden of the club, like other P&I mutuals, Skuld sees them as key to ensuring the high quality service that clients require.

Although Skuld is more diversified than the majority of its peers in terms of lines of business--only Gard and the Swedish Club have significant levels of diversification and most P&I clubs do not offer hull and energy covers--we view it as less diversified than many other 'A' rated peers. Virtually all of the club's income derives from the marine sector and it is therefore exposed to the fortunes of this sector. The performance of Skuld's hull and energy lines has improved over time but they have dragged on the club's performance in previous years with the Lloyd's syndicate 1897 recording losses in each financial year of its operation (loss of £21.5 million in 2018 and £9.3 million in 2017). The year ended Feb. 20, 2019, was the first that commercial operations outperformed the mutual business. Despite this, we expect Skuld to remain committed to its diversification strategy over the next two years.

Chart 1**Skuld Is Well Diversified By Premium Base With A Bias Toward Europe**

Source: S&P Global Ratings.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

Financial Risk Profile

Skuld maintains very strong levels of capital adequacy with capital levels significantly above our 'AA' benchmark. We expect that the club will maintain this level of capital and perhaps hold an excess of capital at the 'AAA' level at the end of our two-year horizon. Although the club's net earnings will be limited by tough operating conditions over the next two years (due to the currently poor rating environment in the P&I sector) we do not expect significant premium growth at Skuld or a significant increase in its risk appetite. In the past, Skuld has made distributions to its members following profitable years. We expect the club will not make such a return in 2020 due to the poor current market conditions.

Skuld's regulatory capital position was a healthy 178% for the overall group at year-end 2019, based on the standard formula. The club benefits from about \$128 million of so-called "ancillary own funds" reflecting its ability to make unbudgeted calls on its mutual members, but this is not reflected in our model. We believe that the club's use of such a call would mean a deterioration in its competitive position.

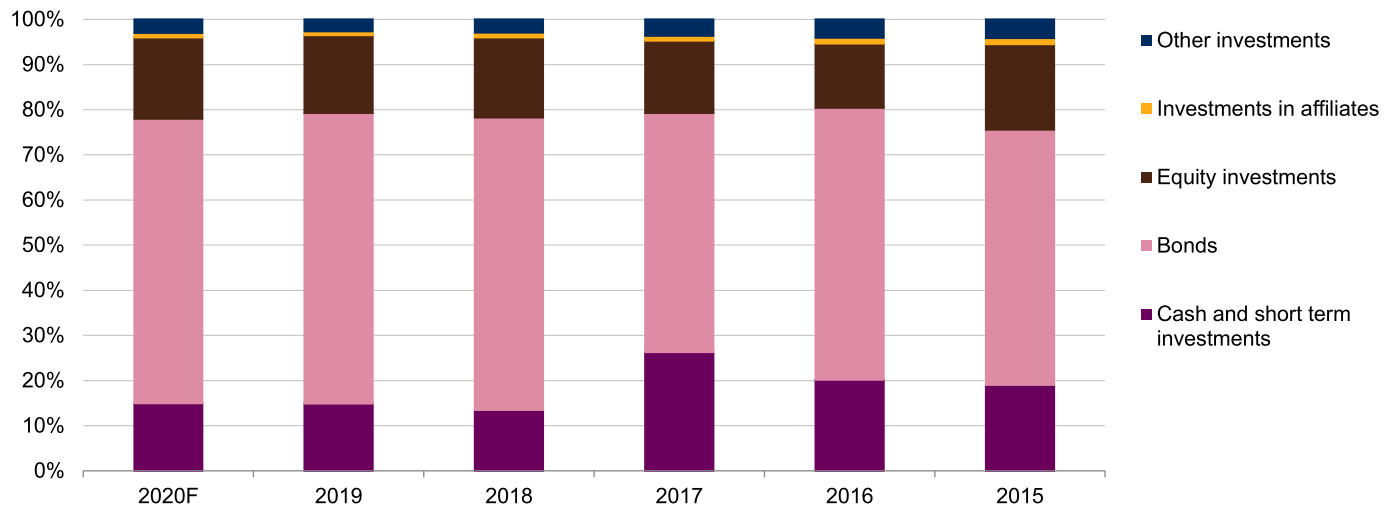
Like all P&I clubs, Skuld's earnings are exposed to volatility from the IG's pool. The IG pool allows IG members to share the cost of individual claims of \$10 million-\$100 million. The random nature of large claims means the pooled claims amount varies significantly year to year. In 2018-2019, Skuld had pool costs of over \$40 million, whereas in 2016-2017 it was closer to \$13 million. Despite this, Skuld has been able to limit the amount of volatility in its result. As stated before, the club has recorded a positive underwriting result in each of the last 16 years, the longest such run in the IG, which reflects the strength of the group's underwriting risk controls.

Although exposure to equities and other more-volatile investments is relatively high for a typical non-life insurer, Skuld's portfolio is conservative compared with many of its IG peers. Close to 80% of the club's investments are in bonds or cash, with only about 2% of the bond portfolio in noninvestment-grade bonds.

The club has no debt outstanding.

Chart 2

Skuld's Portfolio Is Conservative And Is Likely To Remain So



F--Forecast. Source: S&P Global Ratings.
 Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

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 ship-owner 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 with clear tolerances for underwriting and investment risk.

Liquidity

We have a favorable view of Skuld's liquidity. It has a large portfolio of liquid assets, comfortably covering 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. These entities therefore share the rating of the overall group at A/Stable/--.

Accounting considerations

The group prepares its consolidated financial statements under local generally accepted accounting principles. We view the group's financial communication and disclosure as sound and transparent.

Ratings Score Snapshot

Business Risk Profile	Strong
Competitive position	Strong
IICRA	Intermediate
Financial Risk Profile	Strong
Capital and earnings	Strong
Risk exposure	Moderately Low
Funding structure	Neutral
Anchor*	a
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	A

*This is influenced by our view of Skuld's significant excess of capital at the 'AA' level in our model and the club's ability to make unbudgeted calls on its members.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of October 4, 2019)*

Operating Companies Covered By This Report

Assuranceforeningen SKULD (Gjensidig)

Financial Strength Rating

Local Currency A/Stable/--

Issuer Credit Rating

Local Currency A/Stable/--

Ratings Detail (As Of October 4, 2019)*(cont.)**SKULD Mutual Protection and Indemnity Association Ltd. (Bermuda)**

Financial Strength 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.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.