

Assuranceforeningen SKULD (Gjensidig)

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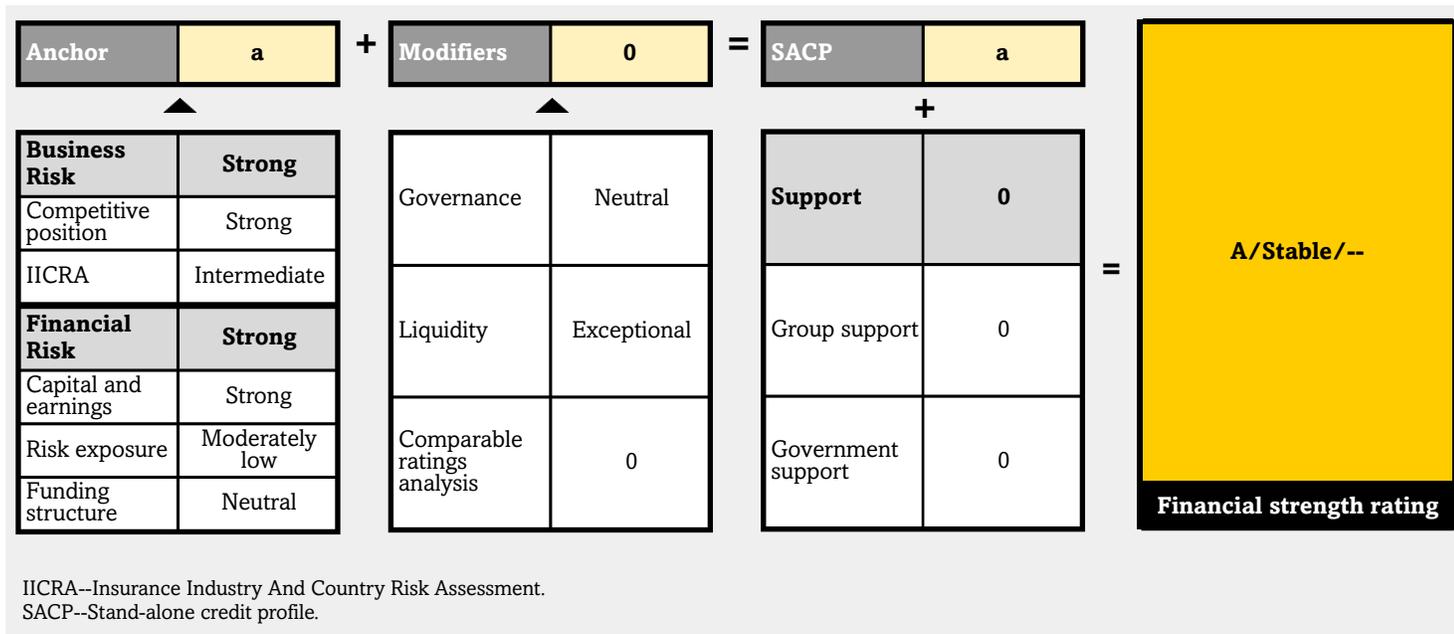
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Assuranceforeningen SKULD (Gjensidig)



Credit Highlights

Overview	
Key strengths	Key risks
Skuld has a strong reputation and a market position in the marine and protection and indemnity insurance (P&I) market.	As with its peers, Skuld is largely undiversified outside of its marine specialism.
The club is well capitalized and likely to remain so across the next two years.	The P&I market will remain challenging over the next two years.
The club has historically recorded less volatility in 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 (Gjensidig) has maintained a strong competitive position in the P&I and marine markets. In our opinion, Skuld maintains a strong relationship with both its members and brokers due to its strong service fundamentals and recognized brand.

Although Skuld is one of the more diversified P&I clubs, it remains largely undiversified outside of its marine specialism. Skuld writes hull and energy covers alongside its P&I mutual business. Despite offering these additional lines of business, the club is more exposed to the fortunes of one sector than other 'A' rated insurers.

We believe Skuld is likely to maintain capital at levels above our 'AA' benchmark per our risk-based model over the next two years. The club is likely to continue to report positive bottom-line results over the next two years. For the financial year (FY) 2021-2022, we expect the club will report an underwriting result close to breakeven, with an expectation that pool claims (claims over \$10 million that are shared among the IG's 13 clubs) will remain at a heightened level. In FY2022-FY2023, the club is likely to return to underwriting profitability.

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 Skuld's capital adequacy will remain well above our 'AA' benchmark over the next 12-24 months. We also anticipate that the club will improve its underlying operating performance in FY2022, with a combined ratio of close to 101%. The club is likely to remain one of the leading insurers 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 our 'AA' benchmark and we do not expect the club to return to the 'AA' level within two years. This could occur if premium growth outstrips capital accumulation; or
- If we do not see underlying earnings improve from current levels, and therefore the club is unlikely to record a combined ratio close to 101% by February 2022.

Upside scenario

We do not expect to raise the rating over the next two years.

Key Assumptions

- The global economy will recover from the COVID-19 pandemic in 2021, as vaccination roll-out progresses across the globe. We expect G20 economies to bounce back, with growth of 6.4%.
- Investment returns will remain muted due to continued low interest rates. We expect 10-year U.S. government bond yields to improve somewhat to 1.7% in 2021.
- Claims from the IG reinsurance pooling system will remain at the heightened level seen in the past three years.

Assuranceforeningen SKULD (Gjensidig)--Key Metrics

	2023f	2022f	2021	2020	2019	2018
S&P Global Ratings capital adequacy	Very strong	Very strong	Excellent	Excellent	Excellent	Very strong
Gross premium written (Mil. \$)	~415	~405	390.8	390.8	401.6	412.7
Net income (Mil. \$)	~15	~10	24.6	25.5	10.7	57.5
Return on shareholders' equity (%)	~3	~2	5.3	5.6	2.4	13.9
P/C: net combined ratio (%)	99.0	101.0	108.7	110.3	97.7	98.4

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

Business Risk Profile: Strong

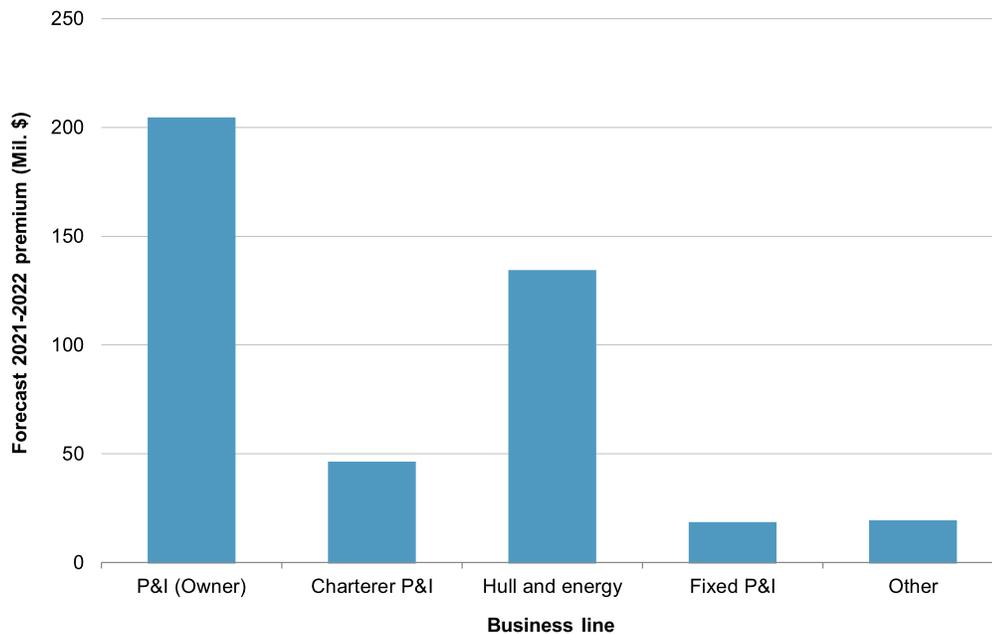
Skuld is a mutual marine insurer and one of the largest members of the IG--a group of 13 clubs that provide protection

and indemnity cover for about 90% of the world's oceangoing tonnage. It ranks third by overall premium 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.

We believe that Skuld's management will continue to focus on its strategy to diversify its business offering. Alongside peers Gard and Swedish Club, Skuld is one of the few IG clubs to write a significant amount of business outside of its core mutual P&I offering. Although the club has ceased hull and energy underwriting at Lloyd's, we expect it will expand this business through its main operating company Assuranceforeningen Skuld (Gjensidig) and its nonmutual (fixed premium) P&I business over 2021-2023. Our expectation is that with pricing conditions in both hull and P&I lines improving, the club will write over \$400 million in FY2021-FY2022, split roughly 50:50 between mutual and nonmutual business (see chart 1).

Chart 1

Skuld Business Lines To Remain Split 50:50 Between Mutual P&I And Other Lines



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

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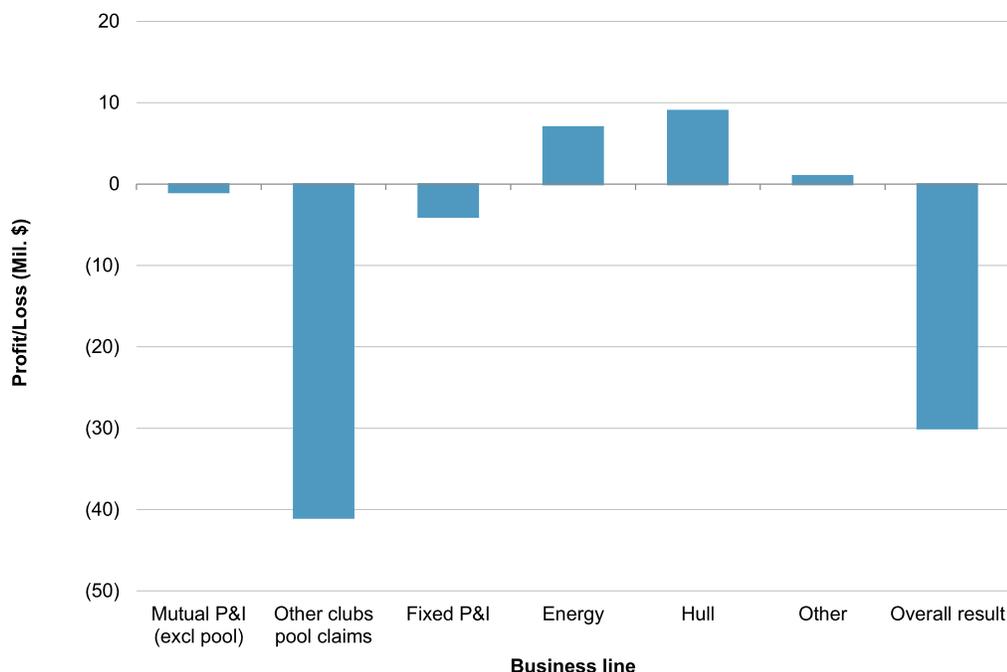
Skuld has a diverse geographic membership, with premium sourced from Asia, the U.S., and Europe. Members in these regions are supported by offices in Norway, Bermuda, Denmark, Germany, Hong Kong, the U.K., the U.S., Greece, and Singapore. Although these offices do add to the club's expense burden, like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

Although Skuld is more diversified than most of its IG peers in terms of lines of business--only Gard and the Swedish Club have comparable levels of diversification--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 sector's fortunes. The performance of Skuld's hull and energy lines has improved over time so that in the last three financial years its commercial business has outperformed its mutual business. In particular, the club's "Skuld Hull" product line was a significant contributor to the overall bottom line in 2019-2021.

We expect Skuld to record underwriting results above the sector average over the next two years. Although the club recorded underwriting losses (2020-2021: \$30 million, 2019-2020: \$35 million) in the past two years, its combined ratios (2020-2021: 108.7%, 2019-2020: 110.3%) have remained in the best performing third of the P&I sector, with the majority of other clubs recording ratios of over 110%. A key driver of the worsening performance across the sector has been the cost of pooled claims (claims above \$10 million), which have been elevated for the past three years. Skuld has partially offset some of the volatility from the pool through its non P&I offering, which has remained profitable (see chart 2). We anticipate Skuld's diversifying lines will continue to record combined ratios below 100% over the next two years as business conditions remain favorable. Pool costs could remain elevated in the current financial year, but improvements in Skuld's mutual business should enable the club to record a combined ratio of 101%.

Chart 2

Other Clubs' Pool Claims Drive Skuld To Underwriting Loss
 Analysis of Skuld's 2020-21 underwriting result



P&I--Protection and indemnity insurance. Source: S&P Global Ratings.
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Although Skuld recorded a loss on its underwriting, it still reported an overall profit for FY2020-FY2021 due to a strong investment result of \$61 million. Going forward, we forecast that Skuld's investment return will be more subdued, due to the extended low interest rate environment. Net income is therefore likely to be subdued over the next two years at around \$2 million-\$3 million.

Financial Risk Profile: Strong

Skuld is very well capitalized and currently has an excess of capital above our 'AAA' benchmark. We expect that the club will retain an excess of capital above at least the 'AA' level to 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--we assume heightened pool claims and a weak 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 2021-2023, due to the tough current market conditions.

Skuld's regulatory capital position was a healthy 184% for the overall group at year-end 2021, based on the standard formula. The club benefits from about \$130 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. 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 2020-2021, Skuld had pool costs of over \$41 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. Before 2019-2020, the club had recorded a positive underwriting result in each of the last 16 years, the longest such run in the IG, which reflects the strength of its 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 75% of the club's investments are in bonds or cash, with only about 2% of the bond portfolio in 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 with clear tolerances for underwriting and investment risk, in our opinion.

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 are therefore rated at the same level as the overall group (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.

Appendix

Assuranceforeningen SKULD (Gjensidig)--Credit Metric History		
Ratio/Metric	2021	2020
S&P Global Ratings capital adequacy	Excellent	Excellent
Total invested assets	1,045,721.0	1,027,179.0
Total shareholder equity	459,079.0	462,449.0
Gross premium written	390,839.0	390,760.0
Net premium written	346,103.0	343,399.0
Net premium earned	346,103.0	343,399.0
Reinsurance utilization (%)	11.4	12.1
EBIT	30,833.0	20,447.0
Net income (attributable to all shareholders)	24,567.0	25,492.0
Return on revenue (%)	(4.5)	(5.8)
Return on assets (excluding investment gains/losses) (%)	(1.5)	(1.9)
Return on shareholders' equity (%)	5.3	5.6
Property/casualty: Net combined ratio (%)	108.7	110.3
Property/casualty: Net expense ratio (%)	21.7	26.1
Property/casualty: Return on revenue (%)	(6.0)	(7.7)
Financial obligations/adjusted EBITDA (x)	(0.4)	(0.3)
Financial leverage including pension deficit as debt (%)	1.5	1.3
Net investment yield (%)	0.9	0.8
Net investment yield including investment gains/(losses) (%)	5.4	4.8

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: Principles Of Credit Ratings, Feb. 16, 2011

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+
Strong	aa-/a+	a+/a	a/a-	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 July 28, 2021)*

Operating Companies Covered By This Report

Assuranceforeningen SKULD (Gjensidig)

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

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.

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