

## Assuranceforeningen SKULD (Gjensidig)

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<b>Anchor</b>	<b>a</b>	+	<b>Modifiers</b>	<b>0</b>	=	<b>SACP</b>	<b>a</b>	<b>A/Stable/--</b>  <b>Financial strength rating</b>
<b>Business Risk</b>	<b>Strong</b>		Governance	Neutral		<b>Support</b>	<b>0</b>	
Competitive position	Strong		Liquidity	Exceptional		Group support	0	
IICRA	Intermediate		Comparable ratings analysis	0		Government support	0	
<b>Financial Risk</b>	<b>Strong</b>							
Capital and earnings	Very strong							
Risk exposure	Moderately high							
Funding structure	Neutral							

IICRA--Insurance Industry And Country Risk Assessment.  
SACP--Stand-alone credit profile.

## Credit Highlights

Overview	
Key strengths	Key risks
Strong reputation and position in the marine protection and indemnity (P&I) insurance market.	Largely undiversified outside its marine specialism, similar to peers.
Capitalized at the 99.99% confidence level, according to S&P Global Ratings' risk-based capital model.	The P&I market is likely to remain a highly competitive marketplace, despite some recent consolidation.
	Exposed to the volatility of other International Group (IG) clubs' claims through the IG's pooling system.

**Assuranceforeningen SKULD (Skuld or the club) has maintained a strong competitive position in the P&I and marine markets.** In our opinion, Skuld maintains a strong relationship with its members and brokers due to its strong service fundamentals and recognized brand.

**The club is likely to record a breakeven or better underwriting performance over the next two financial years.** Skuld delivered strong underwriting results in financial year 2024 (ended Feb. 20, 2024) and financial year 2023, with combined ratios of 86% and 96%, respectively. We anticipate that Skuld will continue to raise rates in future renewals to maintain underwriting profitability and achieve above-average performance, compared with peers.

**The club has a marked excess of capital at our 99.99% benchmark, and we expect it will maintain this over the next two years.** Skuld maintains a reasonable excess of capital at our 99.99% confidence level, alongside a regulatory capital position of 207% in financial year 2024, up from 177% in financial year 2023. That said, we recognize the potential for volatility in the capital surplus due to investment exposure and pool claims, similar to IG peers. We expect management to take the necessary steps to maintain capital at the 99.99% confidence level and to return

premiums to members only when the capital surplus exceeds this threshold significantly.

*Similar to other P&I clubs, Skuld has the option to make unbudgeted calls on members.* Our decision to select the 'a' anchor factors in Skuld's ability to make unbudgeted calls on members.

### Outlook: Stable

The stable outlook indicates that we expect Skuld to record combined ratios close to breakeven (100%) over the next two years, while maintaining excellent capital adequacy. We also expect the club to record underwriting results in the top half of its peer group.

#### Downside scenario

We could lower the rating if the club's operating performance deteriorates, causing capital adequacy to fall below the 99.99% level over a sustained period. We could also downgrade Skuld over the next two years if it consistently records combined ratios above 100%, signifying underwriting losses, and if this impairs its ability to rebuild capital to the excellent level.

#### Upside scenario

In our view, an upgrade is very unlikely over the next two years. Raising the rating would require Skuld to gain a leading market share in the P&I market, while at the same time diversifying its book away from P&I.

## Key Assumptions

- Geopolitical risk to remain high as two regional wars drag on, with no end in sight. These geopolitical confrontations represent a significant source of event risk that could disrupt supply chains, trigger risk aversion and a flight to quality, and shift governments' spending priorities.
- Policy rates to ease in some advanced economies as inflation continues to decline toward the target. We expect the rate on the U.S. 10-year treasury bond to fall to 3.62% in 2025.
- Freight rates to increase due to tensions in the Red Sea reaching levels close to those seen after the removal of COVID-19 restrictions.
- Conditions in the marine hull market to continue to soften in 2024.

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

	2026f	2025f	2024a	2023a	2022a	2021a
S&P Global Ratings' capital adequacy*	99.99%	99.99%	99.99%	99.99%	Very Strong	Excellent
Gross premium written (mil. \$)	~580.0	~545.0	527.0	473.3	419.5	390.8
Net income (mil. \$)	~50	~45	126.3	31.8	-14.7	24.6

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

	2026f	2025f	2024a	2023a	2022a	2021a
P/C: net combined ratio (%)	<100	<100	86.1	96.2	108.3	108.7

\*Capital adequacy for 2023a, 2024a, 2025f, and 2026f is as per the new capital model. Forecast data represent S&P Global Ratings' base-case assumptions. a--Actual. f--Forecast. P/C--Property/casualty.

## Business Risk Profile: Strong

Skuld is a mutual marine insurer and among the largest members of the IG--a group of 12 clubs that provides P&I cover for about 90% of the world's oceangoing tonnage. It ranks fourth by overall premium written. Among the club's key strengths is its membership in the IG, which includes a comprehensive excess-of-loss reinsurance program and regulations that limit competition among clubs on existing business. These factors enable IG clubs to offer extensive coverage levels, create high barriers to entry, enhance customer loyalty, and maintain a strong competitive position.

We believe Skuld's management will continue to focus on its strategy to diversify its business. Alongside its peers--Gard P&I (Bermuda) Ltd. (Gard) and Sveriges Angfartygs Assurans Forening (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 could add further marine-based insurance products to this mix over the next two years. We do not expect the club to move into non-marine-related insurance. We expect the club's premium base will increase to close to \$545 million by the end of financial year 2025, following further rate increases and new business additions at the time of the P&I 2024 renewals. We expect the club will remain roughly split 50:50 between mutual P&I business and other lines.

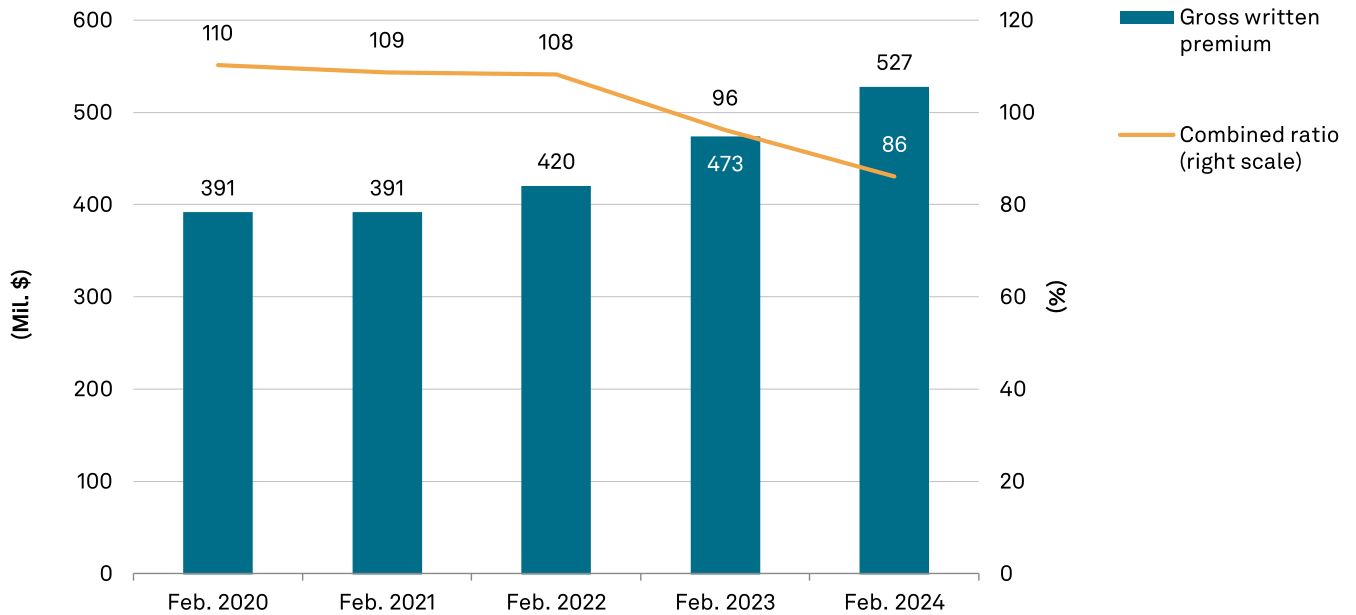
Skuld's members are geographically diverse, with premiums sourced from Asia, the U.S., and Europe. Members in these regions are supported by offices in Norway, Bermuda, Denmark, Germany, Hong Kong, Japan, the U.K., the U.S., Greece, and Singapore. Although these offices add to the club's expense burden, similar to 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 Skuld's lines of business will remain more diversified than those of most IG peers. Currently, only Gard and The Swedish Club have comparable levels of diversification outside P&I. However, when we compare Skuld with 'A' rated peers outside the P&I sector--such as Gjensidige, Hiscox Ltd., and Länsförsäkringar AB--the club is substantially less diversified. Virtually all the club's income comes from the marine sector, meaning it is exposed to vulnerabilities in this sector. We do not expect the club to start writing any non-marine-related business.

We expect Skuld to achieve underwriting results close to or better than breakeven and above the sector average over the next two years. In financial year 2024, the club posted robust underwriting profitability, with a net combined ratio of 86.1%, a significant improvement from 96.2% in financial year 2023 and 108.3% in financial year 2022. This improvement resulted from a lack of pool claims and consecutive years of rate increases during this period. We anticipate that Skuld will continue to benefit from improving rates in its mutual P&I book and its commercial book, enabling it to maintain underwriting profits.

**Chart 1**

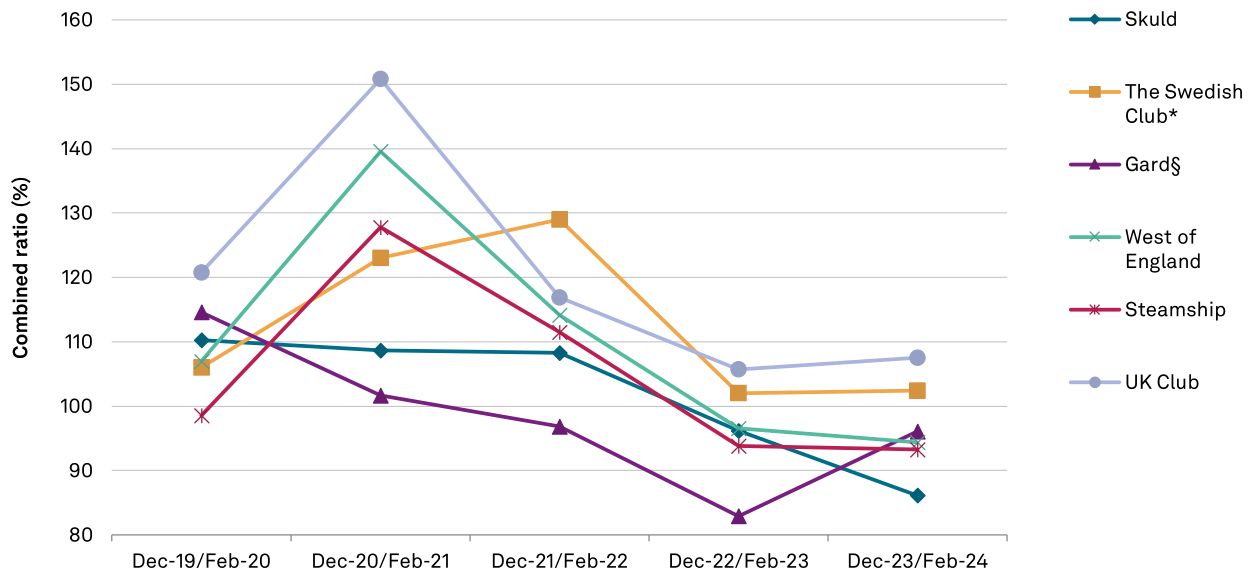
**Skuld's technical performance has improved in recent years**



Source: S&P Global Ratings.

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For the first time since financial year 2018, Skuld has announced a capital distribution to members equivalent to 5% of the financial year 2024 mutual P&I premium for renewing vessels. We expect this, combined with Skuld's high-quality service, to translate into superior membership retention levels and a strong relationship between the group and its members.

**Chart 2****Underwriting performance versus peers**

\*Year ends on Dec. 31. §Year ends on Dec. 31. §Gard's year-end was historically on Feb. 20. In 2022, Gard changed its year-end to Dec. 31 and reported for the shortened reporting period running from Feb. 21 to Dec. 31. Source: S&P Global Ratings. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

**Financial Risk Profile: Strong**

In recent years, the club has increased its capital buffers, primarily through underwriting surpluses and positive investment returns. This resulted in a reasonable excess above our 99.99% benchmark--a position we expect the club to maintain for at least the next two years.

In financial year 2024, the club reported a net income of \$126.3 million before capital distribution--compared with \$31.8 million in financial year 2023--with a combined ratio of 86%. This strong performance resulted from a benign pool year and robust investment returns, as well as fewer and lower own claims. Consequently, the club announced a capital distribution to its members, which, in our view, does not compromise its ability to retain strong surpluses over the next two years. We expect the club to maintain a high-quality capital base and a debt-free balance sheet during this period, with premium returns to members only occurring when capital significantly exceeds our 99.99% benchmark.

Skuld's regulatory capital position was at a healthy 207% for the overall group at year-end 2024. The club benefits from close to \$170 million of so-called ancillary own funds, reflecting its ability to make unbudgeted calls on its mutual members. While we do not consider this in our capital model, it influences our choice of the higher 'a' anchor.

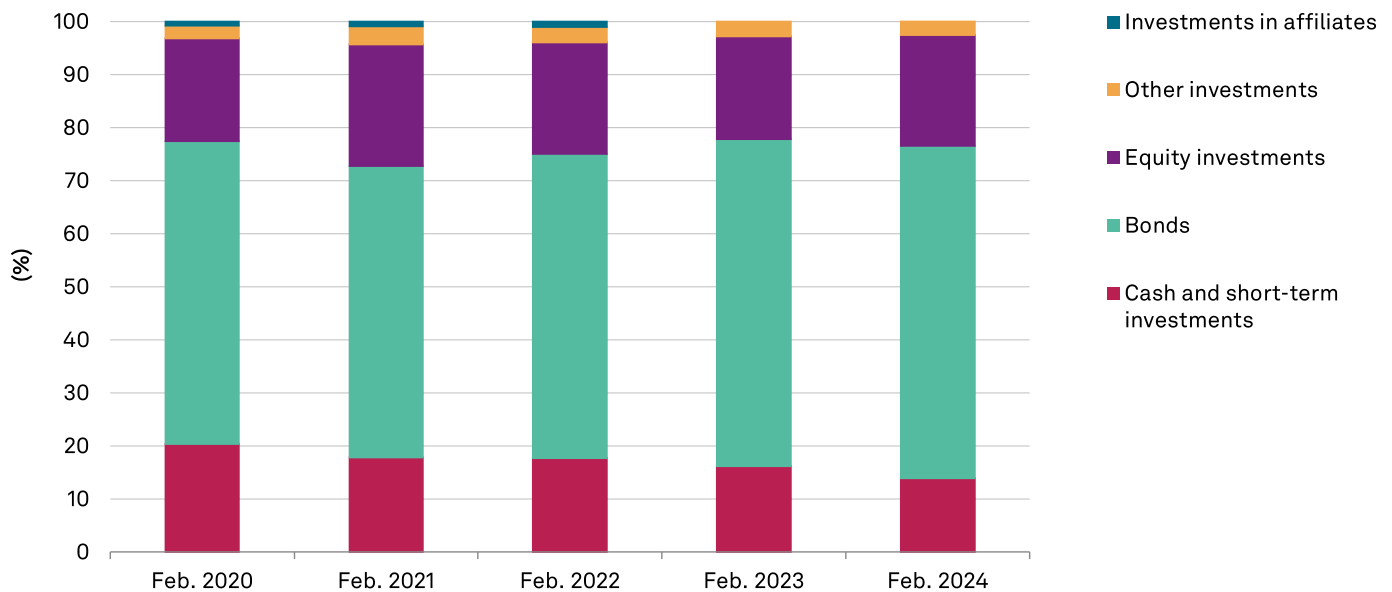
However, we believe the club's use of such a call would likely deteriorate its competitive position.

As is the case with all P&I clubs, Skuld's earnings are exposed to volatility due to the IG's pool, which enables IG members to share the cost of individual claims of \$10 million-\$100 million. The random nature of large claims means the number of pooled claims varies significantly from year to year. Skuld had pool costs of over \$24 million in financial year 2024 and \$29 million in financial year 2023, compared with about \$13 million in financial year 2017.

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 IG peers. Just over 75% of the club's investments are in bonds or cash, with only about 4% of the bond portfolio consisting of speculative-grade bonds.

**Chart 3**

**Skuld's investment portfolio allocation**



Source: S&P Global Ratings.  
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**Other Key Credit Considerations**

**Governance**

We consider Skuld's governance is in line with that of most 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 works with an experienced team of executives. 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 factors have no material influence on our credit rating analysis of Skuld.

## Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- 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

## Appendix

Assuranceforeningen SKULD (Gjensidig)--Credit metrics history				
	--Financial year ends Feb. 20--			
(Mil. \$)	2024	2023	2022	2021
S&P Global Ratings' capital adequacy	99.99%	99.99%	Very Strong	Excellent
Total invested assets	1,204.3	1,089.5	1,079.6	1,045.7
Total shareholder equity	551.4	444.6	430.1	459.1
Gross premium written	527.0	473.3	419.5	390.8
Net premium written	435.4	392.0	365.4	346.1
Net premium earned	435.4	392.0	365.4	346.1
Reinsurance utilization (%)	17.4	17.2	12.9	11.5
EBIT	134.3	18.1	(27.9)	30.8
Net income (attributable to all shareholders)	126.3	31.8	(14.7)	24.6
Return on revenue (%)	18.4	6.9	(6.9)	(4.5)
Return on assets (excluding investment gains/losses) (%)	7.0	2.4	(2.3)	(1.5)
Return on shareholders' equity (%)	25.4	7.3	(3.3)	5.3
Property/casualty: Net combined ratio (%)	86.1	96.2	108.3	108.7



## Assuranceforeningen SKULD (Gjensidig)--Credit metrics history (cont.)

	--Financial year ends Feb. 20--			
(Mil. \$)	2024	2023	2022	2021
Property/casualty: Net expense ratio (%)	22.2	22.9	21.4	21.7
Property/casualty: Return on revenue (%)	18.0	5.9	(7.9)	(6.0)
Financial leverage including pension deficit as debt (%)	1.7	1.5	1.6	1.5
Net investment yield (%)	1.9	0.8	0.1	0.9
Net investment yield including investment gains/(losses) (%)	6.3	(0.1)	(0.1)	5.4

Source: Arrow Global.

## 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-/bbb	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-/bbb	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 August 14, 2024)\*

## 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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