

Assuranceforeningen SKULD (Gjensidig)

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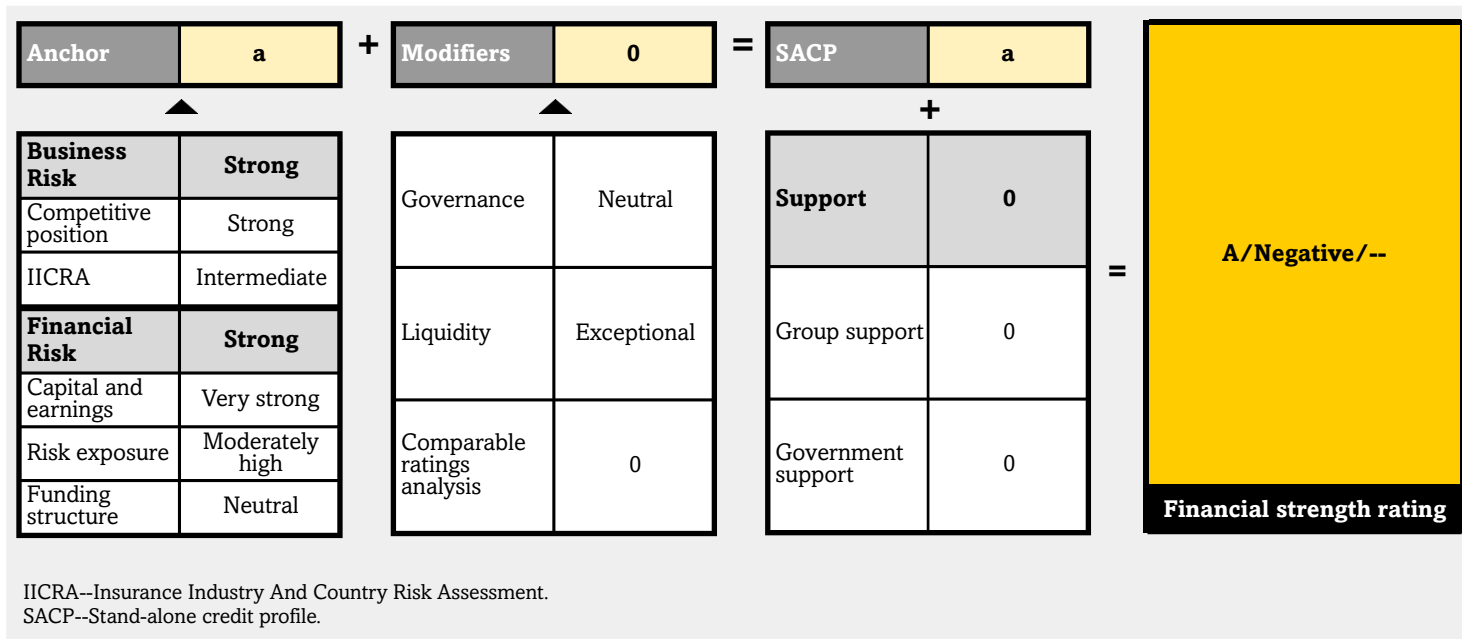
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Assuranceforeningen SKULD (Gjensidig)



Credit Highlights

Overview	
Key strengths	Key risks
Skuld has a strong reputation and 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 likely to return to capital levels above our 'AAA' benchmark in 2022.	The P&I market will likely 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 outside the P&I sector.

While a loss in fyr 2021-22 saw Skuld's capital levels fall below our 'AAA' benchmark at year-end, we expect that the club will rebuild its capital levels in 2022. We expect that the improved rates seen at the 2022 renewal should allow Skuld to record a close to breakeven underwriting result in financial year (FY) 2022-2023. However, subdued investment income due to macroeconomic conditions will make recording a positive bottom line result more difficult. The club should still return to levels above the 'AAA' benchmark over 2022 with the completion of the sale of Asta (Skuld's Lloyd's syndicate business).

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: Negative

The negative outlook reflects the potential for a one-notch downgrade over the next two years if Skuld is unable to bring its underwriting performance back to breakeven levels or if its capital were to fall prospectively below our 'AAA' level.

Downside scenario

We could lower the rating by one notch if Skuld were not able to record combined ratios of 100% or lower by the end of FY2023-2024 or if we believed that prospectively the Club's capital adequacy was likely to fall below the 'AAA' benchmark in our capital model.

Upside scenario

We could revert the outlook to stable if we were to see the Club returning to at least breakeven levels of underwriting performance over the next 12-24 months while retaining at least 'AAA' levels of capital.

Key Assumptions

- Higher energy and commodity prices will destroy purchasing power for both firms and households. We expect GDP to increase in the U.S. and eurozone by 2.4% and 2.7%, respectively.
- Inflationary pressures to continue. We expect consumer price inflation to increase in 2022 by 6.7% in the U.S. and 6.4% in the eurozone.
- We expect that the shipping sector will continue to benefit from elevated rates that should aid the P&I sector to improve its technical performance over 2022-2024.
- Tough conditions in the bond and equity markets to lead to significantly reduced investment returns for P&I insurers in 2022-2023.

Assuranceforeningen Skuld (Gjensidig)--Key Metrics

	2024f	2023f	2022	2021	2020
S&P Global Ratings capital adequacy	Excellent	Excellent	Very Strong	Excellent	Excellent
Gross premium written (mil. \$)	475.0	450.0	419.5	390.8	390.8
Net income (mil. \$)	22.0	10.0	(14.7)	24.6	25.5
Return on shareholders' equity (%)	5.0	3.0	(3.3)	5.3	5.6
P/C: net combined ratio (%)	100.0	103.0	108.3	108.7	110.3

f--S&P Global Ratings forecast.

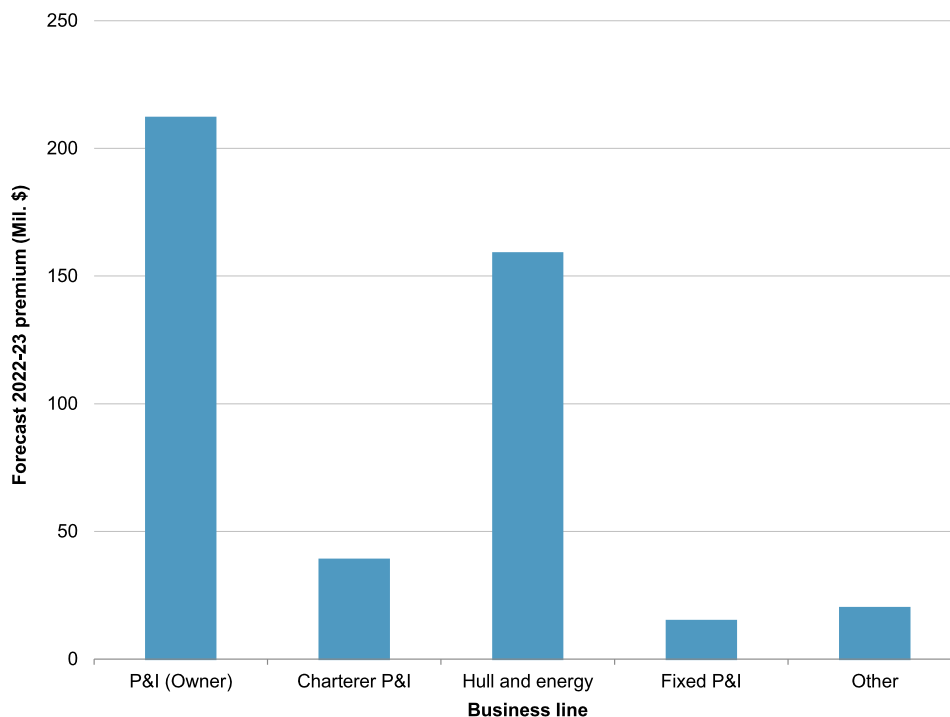
Business Risk Profile: Strong

Skuld is a mutual marine insurer and one of the largest members of the IG—a group of 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. The club's currently offers hull, energy, and fixed premium P&I products and we believe it may seek to add further marine-based insurance products to this mix over 2022-2024. We do not expect the club to move into non-marine-related insurance. We expect the club's premium base will grow close to \$450 million in 2022 following significant rate increases in its 2022 renewals for the mutual P&I business and further hardening in its offshore business. We expect this premium will be split roughly 50:50 between mutual and nonmutual business (see chart 1).

Chart 1

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

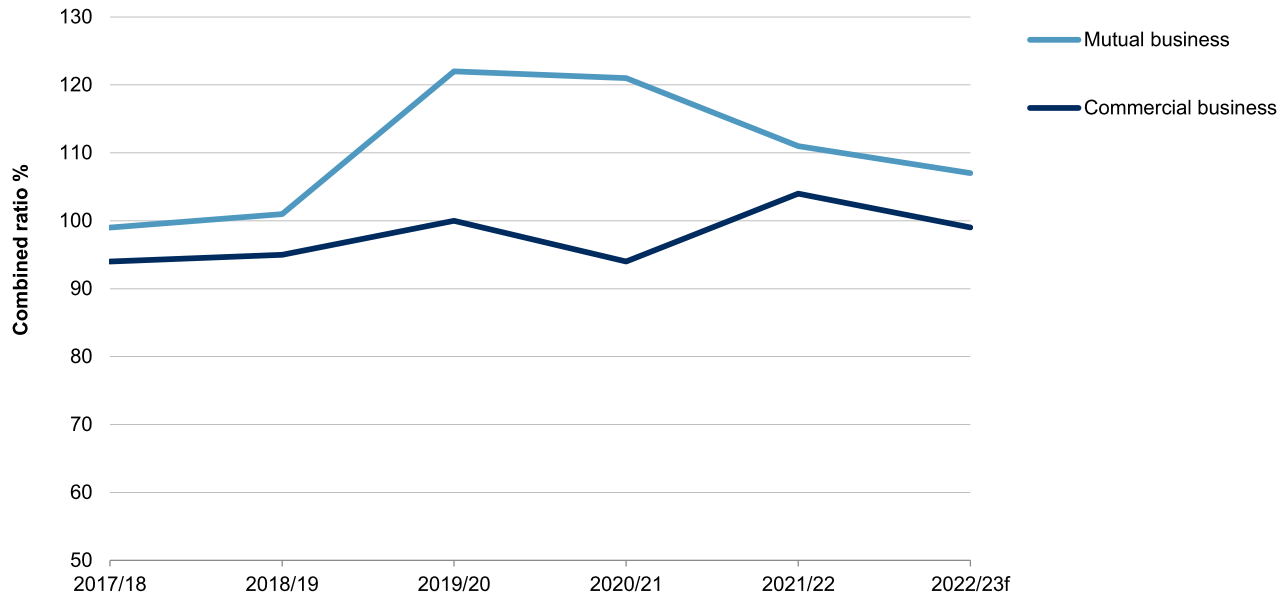


Source: S&P Global Ratings.

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. Over the next two years, we believe that the club will continue to diversify geographically, particularly in Asia.

We expect 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 of P&I. However, when we compare the club to 'A' rated peers outside of its sector like Gjensidige, Hiscox, and Qatar Insurance Company, the club is substantially less diversified. Virtually all of 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 non-marine-related business.

We expect Skuld to record underwriting results above the sector average over the next two years. Although the club recorded underwriting losses in the past two years (2020-2021: \$30 million, 2021-2022: \$30 million,) its combined ratios (2020-2021: 108.7%, 2019-2020: 110.3%) have remained better than the average for 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 in recent years has been the cost of pooled claims (claims above \$10 million). In 2021-2022, the club was also hit by a number of significant claims in its offshore business, which led its non-mutual business to record an overall underwriting loss. However, in the four years prior, the commercial business outperformed the mutual P&I business in underwriting result. We expect that the club will see its commercial business record underwriting profits in 2022-2023 following some significant rate increases in its offshore business that should lead to the commercial lines once again subsidizing the mutual entry.

Chart 2**Skuld's Commercial Lines Were Unprofitable In 2021-22 But Should Bounceback In 2022-23**

f--Forecast. Source: S&P Global Ratings.

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Financial Risk Profile: Strong

The club's capital position weakened slightly during 2021-2022 following a bottom-line loss of close to \$15 million, leading to capital resources no longer sitting above our 'AAA' benchmark. However, we expect that the club will return to levels above the 'AAA' benchmark over 2022 with the completion of the sale of Asta (Skuld's Lloyd's syndicate business) likely to be completed in the second half of 2022. While we expect the club to continue to grow in 2022-2024, we anticipate that management will ensure the club maintains an excess of 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 2022-2024, in order to ensure a stronger capital position.

Skuld's regulatory capital position was a healthy 174% for the overall group at year-end 2022, based on the standard formula. The club benefits from about \$140 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 likely lead to a deterioration in its competitive position, however.

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 2021-2022, Skuld had pool costs of over \$31 million and \$41 million in the previous year; 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/--).

Environmental, social, and governance

ESG Credit Indicators



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 alphanumeric 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

Appendix

Assuranceforeningen SKULD (Gjensidig)--Credit Metric History		
	Feb-2022	Feb-2021
(000s \$)		
S&P Global Ratings capital adequacy	AA	AAA
Total invested assets	1,079,603.0	1,045,721.0
Total shareholder equity	430,063.0	459,079.0
Gross premium written	419,548.0	390,839.0
Net premium written	365,425.0	346,103.0
Net premium earned	365,425.0	346,103.0
Reinsurance utilization (%)	12.9	11.4
EBIT	(27,887.0)	30,833.0
Net income (attributable to all shareholders)	(14,667.0)	24,567.0
Return on revenue (%)	(6.9)	(4.5)
Return on assets (excluding investment gains/losses) (%)	(2.3)	(1.5)
Return on shareholders' equity (%)	(3.3)	5.3
Property/casualty: Net combined ratio (%)	108.3	108.7
Property/casualty: Net expense ratio (%)	21.4	21.7
Property/casualty: Return on revenue (%)	(7.9)	(6.0)
Financial leverage including pension deficit as debt (%)	1.6	1.5
Net investment yield (%)	0.1	0.9
Net investment yield including investment gains/(losses) (%)	(0.1)	5.4

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 14, 2022)***Operating Companies Covered By This Report****Assuranceforeningen SKULD (Gjensidig)**

Financial Strength Rating

Local Currency

A/Negative/--

Issuer Credit Rating

Local Currency

A/Negative/--

SKULD Mutual Protection and Indemnity Association Ltd. (Bermuda)

Financial Strength Rating

Local Currency

A/Negative/--

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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