

RatingsDirect®

Norwegian Hull Club

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Credit Highlights

Overview

Key strengths	Key risks
Extremely strong capital adequacy.	Small capital base in absolute terms.
Established position in marine hull and loss of hire.	Niche focus on marine sector.

Expectations

- Norwegian Hull Club (NHC) will continue to grow its business consistently but prudently within the marine sector.
- COVID-19 could reduce demand for shipping and hence premiums.
- Capitalisation will remain extremely strong.
- While loss patterns will vary, the club will remain technically profitable.

Outlook

The stable outlook signifies that NHC has differentiated its operating performance from that of its peers through the strength of its brand and its business mix. We anticipate that the club will maintain its capital adequacy above the confidence level we expect of a 'AAA' rated entity, according to our risk-based model. We also expect the club to maintain its premium reputation in the market and to expand its premium base conservatively over the next three years.

Downside scenario

We could lower the ratings on the club if its results became more volatile than we currently expect, or if its risk-based capital adequacy fell significantly and persistently below our 'AAA' level in our model. We could also lower the ratings if we considered NHC unlikely to sustain its peer-leading profitability, with a long-term average combined ratio below 95%. A combined ratio below 100% signifies an underwriting profit.

Upside scenario

A positive rating action is unlikely over the next two years. It would depend on the club substantially increasing its scale and diversity while not diluting its operating outperformance.

Key Assumptions

- Global GDP will decline by 2.4% in 2020, before recovering slowly.
- Marine insurance rates will continue to improve slowly.

- Cautious central bank monetary policy will limit investment yields.

Key Metrics Table

Norwegian Hull Club--Key Metrics							
--Fiscal year ended December 31--							
(Mil. US\$)	2021f	2020f	2019	2018	2017	2016	2015
S&P Global Ratings capital adequacy	Extremely strong						
Gross premium written	206.3	219.5	203.2	135.5	137.0	137.0	161.8
Net income	16.0	15.0	(2.4)	9.3	20.2	12.5	10.7
Return on members' funds (%)	4.9	4.8	(0.8)	3.1	7.2	8.0	5.4
P/C: net combined ratio (%)	95.0	90.0	126.2	98.2	104.4	100.4	90.0
Net investment yield (%)	2.0	0.0	7.1	0.4	7.8	4.0	(3.8)

f--Forecast.

Business Risk Profile

NHC holds a specialist position in the marine market, where it offers high-end loss-prevention solutions, and has the capacity to lead claims. These strengths have enabled the club to price at the top end of the market and have contributed to its traditionally strong combined ratio. NHC's member retention rate has remained above 90% despite unfavorable market conditions in the shipping industry. The company also has a very geographically diverse client base, which we view as a positive, although its product and risk diversity are limited. That said, the club is well-diversified within marine and marine-related lines compared with its peers, and has ventured into new product areas such as cyber risk, special risk, kidnap and ransom, and wind- and fish-farms. While premiums and risk patterns in the marine sector can be volatile, this is offset by a lack of geographic concentration.

The club's premiums grew strongly in late 2019 and early 2020, largely as a result of charterers taking out short-term war risk covers for their ships traversing the Persian Gulf at a time of political instability. We do not expect this rate of growth to be maintained. Should the COVID-19-downturn in the global economy be sustained into 2021, it is possible that there will be lower demand for goods and passenger shipping. Ship-owners could then place their vessels into lay-up, which would reduce the club's premiums. Such a scenario would however be against our expectations. Moreover, we have seen historically that lower shipping use leads to falling claims ratios.

Financial Risk Profile

We forecast that NHC will maintain capital adequacy significantly in excess of our 'AAA' level of confidence over the next two-to-three years. In 2019 the club's combined ratio was an unusually high 126%, following some major claims and a poor year for the marine insurance sector all round. Claims experience in Q1 2020 was much improved however

and we anticipate a combined ratio of 90% or better for 2020, reverting to a more normal 95% in 2021 and 2022.

The underwriting loss in 2019 was offset by an investment return of 7%. The falls in global investment markets resulted in a -3.8% return on investments in Q1. However, markets have recovered and we anticipate a break-even investment result for the year, increasing only modestly into 2021. Overall, we expect the club to produce surplus in the region of \$15 million-\$16 million annually.

We believe NHC's capital position could fluctuate because of its narrower product portfolio, relatively small size of capital in absolute terms, and relatively high proportion of high-risk assets, even though a major proportion of its investments is in bonds and cash. Conversely, NHC enjoys a high-quality capital base and is debt-free.

Other Assessments

We view NHC's risk management capabilities as appropriate given the club's size, relatively simple structure, and marine focus. NHC has developed pricing tools that are consistently used during quoting procedures, as well as market-leading loss management systems. NHC's management team is stable and experienced and has a track record of successfully achieving its financial and operational goals.

We do not consider the club to be an outlier among its peers with regard to economic, social, and governance factors. NHC functions as a genuine mutual with the aim of enabling members to trade globally with confidence and protecting seafarers against accident or injury. It is in the club's interest to minimise environmental damage, and its loss prevention programme aims to reduce accidents and associated pollution.

Our rating includes an assessment of NHC's December 2019 results.

Accounting Considerations

Our assessment of NHC's capital is after the deduction of 25% of its accrued funds (\$84 million) to form a tax reserve, pending reform of the way in which Norwegian mutuals are taxed. We regard this as a prudent accounting treatment.

Ratings Score Snapshot

Ratings Score Snapshot	
SACP	A
Anchor	a
Business risk profile	Strong
IICRA	Intermediate
Competitive position	Strong
Financial risk profile	Very strong
Capital and earnings	Very strong
Risk position	Intermediate risk

Ratings Score Snapshot (cont.)

Financial flexibility	Adequate
Modifiers	0
ERM and management	0
Enterprise risk management	Adequate
Management and governance	Satisfactory
Holistic analysis	0
Liquidity	Strong
Support	0
Group support	0
Government support	0

FSR--Financial strength rating. IICRA--Insurance Industry And Country Risk Assessment. SACP--Stand-alone credit profile. ERM--Enterprise risk management.

Related Criteria

Insurers Rating Methodology, July 1, 2019

Appendix:**Norwegian Hull Club--Credit Metrics History**

(US\$ '000')	--Fiscal year ended December 31--		
	2019	2018	2017
Ratio/Metric			
S&P Global Ratings capital adequacy*	Extremely strong	Extremely strong	Extremely strong
Total invested assets	488,854.0	456,426.0	448,303.0
Total members' funds	301,263.0	303,691.0	295,671.0
Gross premiums earned	203,153.0	166,630.0	167,687.0
Net premiums earned	156,192.0	135,474.0	136,964.0
Reinsurance utilization (%)	0.2	0.2	0.2
EBIT	(7,449.0)	4,128.0	29,832.0
Net income	(2,378.0)	9,332.0	20,248.0
Return on revenue (%)	(18.0)	3.5	1.2
Return on assets (excluding investment gains/losses) (%)	(1.1)	0.7	4.9
Return on members' funds (%)	(0.8)	3.1	7.2
Net combined ratio (%)	126.2	98.2	104.4
Net expense ratio (%)	14.7	17.8	18.3
Net investment yield (%)	2.3	0.5	1.7
Net investment yield including investment gains/(losses) (%)	7.1	0.4	7.8

Ratings Detail (As Of July 20, 2020)***Operating Company Covered By This Report**

Ratings Detail (As Of July 20, 2020)*(cont.)**Norwegian Hull Club**

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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