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## Norwegian Hull Club

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# Norwegian Hull Club

## Credit Highlights

Operating Company Covered  
By This Report

Financial Strength Rating

Local Currency

A/Stable/--

### Overview

Key strengths	Key risks
Recent exceptional underwriting performance with improved conditions in the marine market.	Niche focus on marine sector.
Extremely strong capital adequacy.	Small capital base in absolute terms.
Strong reputation in the hull and loss-of-hire markets.	Potential significant volatility in marine sector underwriting results.

***Norwegian Hull Club (NHC or the club) will continue to record exceptionally strong underwriting results with combined ratios below 90% over 2023-2025.*** NHC recorded exceptionally strong underwriting results in the last two financial years, with combined ratios of 84% in 2022 and 85.5% in 2021.

We expect the club will continue to record combined ratios below 90% over the next two financial years, as conditions in NHC's marine markets remain supportive. At the end of first-quarter 2023, NHC recorded a combined ratio of 77%.

***We expect NHC will retain its reputation as a premium marine insurer that enjoys a high level of loyalty from its members.*** The group's expertise in hull and loss-of-hire marine insurance enables it to price services at the top end of the market. This means that, while it functions as a mutual in the interests of its members, it should continue to make technical profits in most years, and very strong profits in other years.

***The club has a significant excess of capital at our 'AAA' benchmark, and we expect it will maintain this over the next two years.*** We expect that while NHC will continue to grow and return premium to members, its strong underwriting results and improved investment returns will allow it to maintain a significant excess of capital above the 'AAA' level. We expect the club will maintain regulatory solvency cover above 250%.

## Outlook

The stable outlook on NHC reflects the strength of the company's brand and its business mix, which differentiates its operating performance from that of peers.

We anticipate the club will maintain its capital-adequacy ratio above the 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 client base conservatively over the next three years.

### Downside scenario

We could lower the ratings on the club if its results proved more volatile than we currently expect, or if its risk-based capital adequacy falls significantly and stays below the 'AAA' level in our model.

We could also lower the ratings if we consider NHC unlikely to sustain its peer-leading profitability and a long-term average combined (loss and expense) 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 NHC substantially increasing its scale and diversity, while not diluting its operating outperformance relative to its peers.

## Key Assumptions

- We expect limited growth of less than 1% in GDP in both the U.S. and the eurozone in 2023 (0.7% and 0.3%, respectively). Growth in 2024 will be constrained, but slightly higher (1.2% in the U.S. and 1.0% in the eurozone).
- Monetary policy should remain tight. Central banks will tend to be cautious and lean toward higher rates and tighter conditions to bring inflation back to target rates.
- Container liners' significant capacity withdrawals should help stop freight rates falling over 2023-2024, allowing shipping companies to compensate for recent operating cost inflation.
- Oil shipping has entered a bullish cycle due to a surge in ton-mile demand and the lowest new tanker orderbook in more than 20 years. Meanwhile, dry-bulk shipping's charter rates are unlikely to improve before late 2023.
- NHC will continue to return premium to members at levels allowing it to maintain excess capital at our 'AAA' benchmark.

### Norwegian Hull Club--Key metrics

	2024f	2023f	2022	2021	2020	2019
S&P Global Ratings capital adequacy	AAA	AAA	AAA	AAA	AAA	AAA
Gross premium written (mil. \$)	~360	~340	324.9	289.2	247.6	240.8
Net income (mil. \$)	~50	~50	9.2	37.8	34.8	(2.4)
Return on members' funds (%)	~12	~12	2.4	10.6	10.9	(0.8)
P/C net combined ratio (%)	~85	~85	84.0	85.5	96.3	130.5

f--Forecast. P/C--Property/casualty.

## Business Risk Profile

We expect NHC to maintain its position as a premium provider of marine insurance where it offers high-end loss-prevention, emergency response and claims handling process. The club's premium position has enabled it to price insurance services at the top end of the market and has contributed to its traditionally strong combined ratio.

We expect NHC to maintain its position as market leader in loss-of-hire insurance, and to remain a significant provider of marine energy sector insurance and of hull and machinery insurance. NHC will continue to have an about 25% share of the Nordic market, which accounts for roughly 10% of global hull premiums.

The club also has a geographically diverse client base, which we view as a strength, although its product and risk diversity are limited.

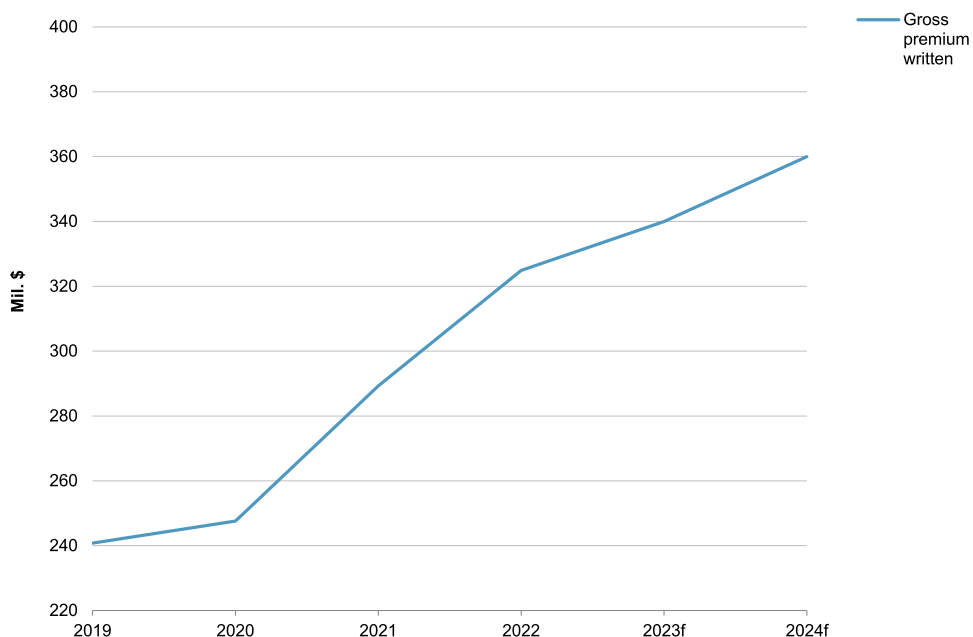
NHC's member retention rate remained above 90% despite unfavorable market conditions in the shipping industry. We expect the club's membership to remain loyal due to its strong service proposition.

We expect gross premiums to continue to grow over 2023-2025. This is despite a likely tempering of the favorable rating conditions that we observed in the marine market in the last few years. We expect premiums will reach close to \$360 million in 2024.

In the last two years, NHC grew premiums by over 10% as rates in the marine markets improved. Slower growth in the next two years reflects the club's decision to leave the protection and indemnity market and the war market returning to more usual conditions.

**Chart 1**

Norwegian Hull Club will continue to grow its top line but at a slower pace



Source: S&P Global Ratings.

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## Financial Risk Profile

The club enjoys a robust capital position, with a significant excess of capital above our 'AAA' benchmark and a solvency capital requirement coverage of 255% (2021: 256%). We expect NHC's capitalization will remain at this level through 2023-2025 aided by continuing its strong underwriting performance and improved investment yields.

The club's recent underwriting performance has been very strong. The combined ratio in 2022 was 84%, contributing to net income of \$9.2 million.

We expect NHC will continue to generate a strong underwriting performance in 2023-2025, with combined ratios of about 85%. The 77% combined ratio in the first quarter of 2023 was a solid start toward achieving our forecast.

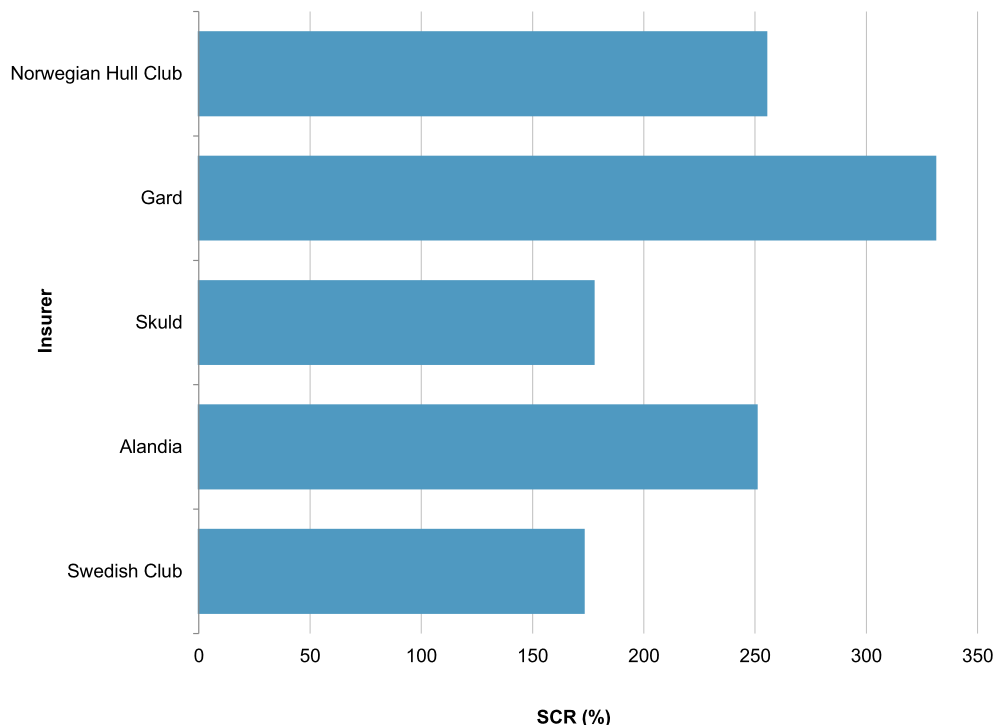
NHC's capital and earnings could fluctuate materially due to the volatile nature of the business lines it writes. We expect the current robust conditions in the hull and loss-of-hire markets should limit downside volatility for the club over the next two to three years.

We expect the club will maintain a high-quality capital base and a debt-free balance sheet over the next two years,

returning premium to members only when it has sufficient capital for our 'AAA' benchmark.

**Chart 2**

**Norwegian Hull Club remains one of the best capitalized marine insurers**



SCR--Solvency capital requirements. Source: S&P Global Ratings.

## Other Key Credit Considerations

### Governance

We view NHC's risk management capabilities as appropriate given its size, relatively simple structure, and focus on the marine market. NHC developed pricing tools used during quoting procedures, as well as market-leading loss management systems.

Its management team is stable and experienced and has a track record of successfully achieving the group's financial and operational goals.

### Liquidity

The club's balance sheet strength is complemented by a highly liquid investment portfolio. We consider NHC's liquidity as sufficient to meet any likely demands.

## Environmental, social, and governance

### ESG credit indicators

E-1	<b>E-2</b>	E-3	E-4	E-5	S-1	<b>S-2</b>	S-3	S-4	S-5	G-1	<b>G-2</b>	G-3	G-4	G-5
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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 an overall neutral influence on our credit rating analysis of NHC. We do not consider NHC to be an outlier among its peers regarding economic, social, and governance factors.

NHC functions as a genuine mutual organization, meaning it is owned by its members and operates on a not-for-profit basis on their behalf, with the aim of enabling members to trade globally with confidence and protecting seafarers against accident or injury.

It is in NHC's interest to minimize environmental damage, and its loss prevention program aims to reduce accidents and associated pollution.

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Guidance | Criteria | Insurance | General: Insurers 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

## Appendix

Norwegian Hull Club--Credit metric history		
Ratio/Metric	2022	2021
S&P Global Ratings capital adequacy	AAA	AAA
Total invested assets	668,858,735	609,049,226
Total shareholder equity	383,143,503	374,395,635
Gross premium written	324,865,404	289,243,823
Net premium written	266,249,656	243,668,982
Net premium earned	265,042,963	222,067,542
Reinsurance utilization (%)	18.04	15.76
EBIT	21,001,956	46,995,877
Net income (attributable to all shareholders)	9,223,019	37,802,703

## Norwegian Hull Club--Credit metric history (cont.)

Ratio/Metric	2022	2021
Return on revenue (%)	19.95	19.45
Return on assets (excluding investment gains/losses) (%)	6.34	5.71
Return on shareholders' equity (%)	2.43	10.64
Property/casualty: Net combined ratio (%)	84.03	85.49
Property/casualty: Net expense ratio (%)	12.11	13.86
Property/casualty: Return on revenue (%)	19.95	19.45
EBITDA fixed-charge coverage (x)	N.M.	N.M.
EBIT fixed-charge coverage (x)	N.M.	N.M.
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	N.M.	N.M.
Financial obligations/adjusted EBITDA (x)	N.M.	N.M.
Financial leverage including pension deficit as debt (%)	N.M.	N.M.
Net investment yield (%)	0.99	1.06
Net investment yield including investment gains/(losses) (%)	(4.41)	1.26

N.M.--Not meaningful.

## Ratings Detail (As Of June 29, 2023)\*

## Operating Company Covered By This Report

## Norwegian Hull Club

Financial Strength Rating

*Local Currency*

A/Stable/--

Issuer Credit Rating

*Local Currency*

A/Stable/--

**Domicile**

Norway

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