

Norwegian Hull Club

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Norwegian Hull Club

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 the 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.
- Capitalization 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 strong 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 expect, or if its risk-based capital adequacy fell significantly and persistently below the '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 without diluting its operating outperformance.

Key Assumptions

- Credit conditions will likely remain underpinned by improving economic sentiment, progress in the COVID-19 vaccine rollout, and strongly supportive financing conditions.

- The economic recovery from the COVID-19 pandemic looks set to accelerate in mid-2021, particularly in the U.S., on the back of a massive fiscal stimulus program. We have revised our global GDP growth forecast for 2021 upward by 50 basis points to 5.5%, reflecting brighter prospects for North America, China, and India. We have also revised our global GDP growth forecast for 2022 upward.
- A K-shaped recovery still seems likely. There are wide variations in regional and sectoral recovery prospects, and, if anything, the gaps are growing.

Key Metrics

Norwegian Hull Club--Key Metrics								
(Mil. \$)	2022f	2021f	2020	2019	2018	2017	2016	2015
S&P Global Ratings capital adequacy	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong
Gross premium written	248.7	241.5	230.0	203.2	135.5	137.0	137.0	161.8
Net income	23.0	30.0	34.8	(2.4)	9.3	20.2	12.5	10.7
Return on members' funds (%)	6.1	8.5	10.9	(0.8)	3.1	7.2	8.0	5.4
P/C: net combined ratio (%)	89.0	83.0	94.3	126.2	98.2	104.4	100.4	90.0
Net investment yield (%)	1.5	1.3	5.3	7.1	0.4	7.8	4.0	(3.8)

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

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 premiums at the top end of the market and have contributed to its traditionally strong combined ratio. The club is the world market leader in loss of hire insurance, and is a significant regional provider of marine, energy, and hull and machinery insurance. NHC has an approximately 27% share of the Nordic market, which accounts for about 10% of its global hull premiums. NHC also has a very geographically diverse client base, which we view as a positive, although its product and risk diversity are limited. NHC's member retention rate has remained above 90% despite unfavorable market conditions in the shipping industry.

In the wake of higher losses than usual in 2019, NHC increased rates sharply in 2020, particularly in hull lines, aided by the withdrawal of Lloyd's, and yacht insurance. Gross earned premiums for the club's own account increased to \$230.0 million (2019: \$203.1 million), primarily due to increased rates, but also to volume growth. We expect premium growth to remain moderate, as 2020 premiums were enhanced by elevated geopolitical volatility. We expect this to subside in 2021, and incorporate into our forecast subdued economic activity as a result of the uncertainty around the evolution of the pandemic.

Financial Risk Profile

After higher losses than usual in 2019, NHC recovered better than its protection and indemnity peers in 2020. This is in line with the hull portfolios of other Nordic marine insurance providers that we rate. The \$35 million increase in NHC members' funds in 2020 was a record for the club. Prior to the return of premium to members, the combined ratio was 86% for 2020, down dramatically from 126% in 2019. The strong technical performance has continued into early 2021. The impact of COVID-19-related claims has been modest to date.

Strong top-line growth, supported by declining claims and a positive investment return, translated into record-high net income of \$34.8 million for the club in 2020 (2019: a net loss of \$2.4 million). This enabled NHC to return to members 12% of premiums, which amounted to \$14.2 million. The club reported total investment income of \$28.2 million for 2020, including the impact of realized and unrealized movements (2019: \$33.4 million). NHC was able to recover its initial investment losses of early 2020, benefitting from a financial market recovery as fiscal and monetary stimulus measures were put in place.

NHC's strong performance continued into 2021. On this basis, we expect to see a combined ratio in the low 80s for 2021 as a whole, but claims increasing in 2022-2023, lifting the combined ratio into the high 80s. Coupled with a modest return on investment, we expect to see net income of around \$30 million in 2021 and \$20 million-\$25 million thereafter.

We believe that NHC's capital position could fluctuate because of its narrow product portfolio, small size of capital in absolute terms, and 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. We forecast that NHC will maintain capital adequacy significantly in excess of our 'AAA' level of confidence over the next two-to-three years.

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 it uses consistently 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 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 minimize environmental damage, and its loss-prevention program aims to reduce accidents and associated pollution.

Our ratings include an assessment of NHC's December 2020 results.

Ratings Score Snapshot

Norwegian Hull Club Ratings Score Snapshot	
Business Risk Profile	Strong
Competitive position	Strong
IICRA	Intermediate risk
Financial Risk Profile	Strong
Capital and earnings	Very strong
Risk exposure	Moderately high
Funding structure	Neutral
Anchor*	a
Modifiers	
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
Financial Strength Rating	A

*This is influenced by our view of the club's capital strength, niche specialism, and profit record.

Related Criteria

- 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 Metrics History				
Ratio/Metric (\$ 000s)	2020	2019	2018	2017
S&P Global Ratings capital adequacy*	Extremely strong	Extremely strong	Extremely strong	Extremely strong
Total invested assets	583,164.0	488,854.0	456,426.0	448,303.0
Total members' funds	336,334.0	301,263.0	303,691.0	295,671.0
Gross premiums earned	229,959.0	203,153.0	166,630.0	167,687.0
Net premiums earned	181,340.0	156,192.0	135,474.0	136,964.0
Reinsurance utilization (%)	21.1	23.1	18.7	18.3
EBIT	43,300.0	(7,449.0)	4,128.0	29,832.0
Net income	34,821.0	(2,378.0)	9,332.0	20,248.0
Return on revenue (%)	11.9	(18.0)	3.5	1.2
Return on assets (excluding investment gains/losses) (%)	3.2	(1.1)	0.7	4.9
Return on members' funds (%)	10.9	(0.8)	3.1	7.2
Net combined ratio (%)	94.3	126.2	98.2	104.4

Norwegian Hull Club--Credit Metrics History (cont.)

Ratio/Metric (\$ 000s)	2020	2019	2018	2017
Net expense ratio (%)	15.8	14.7	17.8	18.3
Net investment yield (%)	1.6	2.3	0.5	1.7
Net investment yield including investment gains/(losses) (%)	5.3	7.1	0.4	7.8

Ratings Detail (As Of July 9, 2021)*

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

*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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