

## Norwegian Hull Club

**Primary Credit Analyst:**

Mark D Nicholson, London + 44 20 7176 7991; mark.nicholson@spglobal.com

**Secondary Contact:**

Andreas Lundgren Harell, Stockholm + 46 8 440 5921; andreas.lundgren.harell@spglobal.com

**Table Of Contents**

---

Credit Highlights

Outlook

Assumptions

Business Risk Profile

Financial Risk Profile

Other Credit Considerations

Related Criteria

Related Research

Appendix

# Norwegian Hull Club

<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					Group support	0	
IICRA	Intermediate		Liquidity	Exceptional		Government support	0	
<b>Financial Risk</b>	<b>Strong</b>		Comparable ratings analysis	0				
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
Extremely strong capital adequacy.	Small capital base in absolute terms.
Established position in marine hull and loss of hire.	Niche focus on marine sector.

**Norwegian Hull Club's (NHC) niche operations should continue to support premium pricing, profitability, and growth.** The group's expertise in hull and loss-of-hire marine insurance enables it to price its 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 some years.

**NHC's conservative and liquid investment portfolio should continue to buttress its strong capitalization.** The marine insurance business is, however, notoriously volatile and NHC has a relatively small capital base in absolute terms that creates a vulnerability to major unforeseen events.

**Total premiums are forecast to increase by 10%-15% in 2022.** The increase is expected to come from higher rates, new business, and higher insured values, all driven by increased demand for global shipping. These rate increases should offset expected increases in the cost of claims caused by rising inflation.

**Outlook : Stable**

S&P Global Ratings' stable outlook on NHC reflects the strength of the company's brand and its business mix, which differentiates its operating performance from its peers. We anticipate that the club will maintain its capital-adequacy ratio 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 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 is 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.

**Assumptions**

- NHC will continue to expand consistently but prudently within the marine sector.
- Capitalization will remain extremely strong.
- While loss patterns will vary, the club will remain technically profitable.
- Economic recovery from the COVID-19 pandemic has slowed and will remain under pressure due to rising commodity prices and inflation stemming from the Russia-Ukraine conflict.
- Inflation in Europe is forecast at 5% for 2022.
- Demand for shipping will remain high as supply bottlenecks around the world persist.

**Business Risk Profile : Strong**

NHC holds a specialist position in the marine insurance market, where it offers loss-prevention solutions, and has the capacity to lead claims. This combination has enabled the club to price its insurance services at the top end of the market and has contributed to its traditionally strong combined ratio. NHC is the global market leader in loss-of-hire insurance, and is a significant provider in the Nordic region of hull insurance, machinery insurance, and insurance to the marine energy sector. NHC has about 27% of the Nordic market, which accounts for about 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 is limited. NHC's member retention rate has remained above 90% since 2015, despite sometimes unfavorable market conditions in the shipping industry.

Gross premiums rose to \$268 million in 2021, from \$230 million in 2020. We expect total premiums to increase by 10%-15% in 2022, due to a mixture of rate increases, new business, and higher insured values, all of which will be driven by increased demand for global shipping. These rate increases should offset expected increases in the cost of claims caused by rising inflation. We expect that the growth in premiums will moderate in 2023-2024.

## **Financial Risk Profile : Strong**

The club enjoys strong capitalization, with a buffer of around 50% above S&P Global Ratings' threshold for a 'AAA' rating, and solvency capital requirement coverage of about 250%. We expect NHC's capitalization to remain at this level through 2022-2024. Its recent underwriting performance has been very strong. The combined ratio in 2021 was 85%, contributing to net income of \$33 million. We expect NHC will continue to generate strong underwriting performance in 2022-2024, with combined ratios of 80%-90%. The 61% combined ratio in the first quarter of 2022 was a strong start toward achieving this forecast.

NHC's capital position could fluctuate because of its narrow product portfolio, relatively small size in absolute capital terms, and relatively high proportion of high-risk assets, even though 74% its investments were in bonds and cash as of December 2021. Conversely, NHC's financial stability benefits from a high-quality capital base and it is debt-free.

Our rating includes an assessment of NHC's December 2021 results.

## **Other Credit Considerations**

### **Governance**

We view NHC's risk management capabilities as appropriate given the club's size, relatively simple structure, and focus on the marine market. NHC has developed pricing tools that are 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 the group's financial and operational goals.

Our rating includes an assessment of NHC's December 2021 results.

### **Liquidity**

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

### **Environmental, social, and governance**

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 with regards to 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

- 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
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

## Related Research

- Norwegian Hull Club, July 09, 2021

## Appendix

Norwegian Hull Club--Credit Metrics History					
Ratio/Metric (\$ '000)	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong
Total invested assets	570,168.0	583,164.0	488,854.0	456,426.0	448,303.0
Total members' funds	372,395.0	336,334.0	301,263.0	303,691.0	295,671.0
Gross premiums earned	267,642.0	229,959.0	203,153.0	166,630.0	167,687.0
Net premiums earned	222,067.0	181,340.0	156,192.0	135,474.0	136,964.0
Reinsurance utilization (%)	0.2	0.2	0.2	0.2	0.2
EBIT	46,995.0	43,300.0	(7,449.0)	4,128.0	29,832.0
Net income	38,060.0	34,821.0	(2,378.0)	9,332.0	20,248.0
Return on revenue (%)	19.5	11.9	(18.0)	3.5	1.2
Return on assets (excluding investment gains/losses) (%)	5.7	3.2	(1.1)	0.7	4.9
Return on members' funds (%)	10.6	10.9	(0.8)	3.1	7.2
Net combined ratio (%)	85.5	94.3	126.2	98.2	104.4
Net expense ratio (%)	13.9	15.8	14.7	17.8	18.3
Net investment yield (%)	1.1	1.6	2.3	0.5	1.7
Net investment yield including investment gains/(losses) (%)	1.3	5.3	7.1	0.4	7.8

## 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 4, 2022)\*

### 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.

### Additional Contact:

Insurance Ratings EMEA; Insurance\_Mailbox\_EMEA@spglobal.com

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.