S&P Global
Ratings

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Norwegian Hull Club

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Norwegian Hull Club

Anchor	a
Business Risk	**Strong**
Competitive position	Strong
IICRA	Intermediate
Financial Risk	**Strong**
Capital and earnings	Very strong
Risk exposure	Moderately high
Funding structure	Neutral

\+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a

\+

Support	0
Group support	0
Government support	0

=

A/Stable/--
Financial strength rating

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.

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