

## Norwegian Hull Club

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<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		Liquidity	Adequate		Group support	0	
IICRA	Intermediate		Comparable ratings analysis	0		Government support	0	
<b>Financial Risk</b>	<b>Strong</b>				=			
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
Recent exceptional underwriting performance with improved conditions in the marine market.	Niche focus on the marine sector.
Extremely strong capital adequacy.	Small capital base in absolute terms.
Strong underwriting controls help the club manage the underwriting cycle.	Potential volatility in marine sector underwriting results.

**Norwegian Hull Club (NHC) will continue to record strong underwriting results with adjusted combined ratios below 95% over 2024-2025.** NHC recorded strong underwriting results in 2023 and 2022, with combined ratios of 98% and 84%, respectively (94% and 81% when adjusted for premium returns). While conditions in some of NHC's key markets have become less favorable since then, we expect the club's disciplined approach to underwriting risk will ensure technical profitability will remain strong. The club recorded an extremely strong combined ratio of 55% at first-quarter 2024.

**We expect NHC will retain its reputation as a premium marine insurer with very loyal members.** The club'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 NHC functions as a mutual in the interests of its members, it should continue to make technical profits over most of our forecast horizon.

**The club has a marked excess of capital at our 99.99% benchmark, and we expect it will maintain this over the next two years.** We expect that while NHC will continue to expand and return premium to members, its strong underwriting results and improved investment returns will allow it to maintain a substantial excess of capital above the

99.99% level. Furthermore, we expect the club will maintain regulatory solvency cover above 250%.

### Outlook: Stable

The stable outlook reflects NHC's strong operating performance. We expect the club will record combined (loss and expense) ratios below 95% over the next two years and remain in the top quartile of its peer group. We anticipate that the club will maintain capital levels above our 99.99% confidence level over 2024-2025.

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 if NHC's results proved more volatile than we currently expect, or if its risk-based capital adequacy falls materially and stays below the 99.99% confidence level, as per our model.

We could also lower the ratings if we consider NHC unlikely to sustain its top quartile peer performance and a long-term average combined ratio below 95%.

### Upside scenario

A positive rating action is unlikely over 2024-2026. This would depend on NHC substantially increasing its scale and diversity, without diluting its operating outperformance relative to its peers.

## Key Assumptions

- Geopolitical risk remaining high as two regional wars drag on, with no end in sight. These geopolitical confrontations represent a significant source of event risk that could disrupt supply chains, trigger risk aversion and a flight to quality, and shift governments' spending priorities.
- The long-awaited policy rate easing cycle starting in some advanced economies as inflation continues to decline toward target. We expect the rate on the U.S. 10-year treasury to fall to 3.62% in 2025.
- Rising freight rates due to tensions in the Red Sea reaching levels close to those seen following the removal of COVID-19 restrictions.
- Conditions in the marine hull market continuing to soften in 2024.

### Norwegian Hull Club--Key metrics

	2025f	2024f	2023	2022	2021
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent
Gross premium written (m)	~340	~335	330.3	324.9	289.2
Net income (m)	~55	~65	33.4	9.2	37.8
Return on members' funds (%)	~13	~15	8.4	2.4	10.6

### Norwegian Hull Club--Key metrics (cont.)

	2025f	2024f	2023	2022	2021
P/C: net combined ratio adjusted (%)*	~86	~81	93.9	80.6	80.2
P/C: net combined ratio (%)	~90	~85	98.3	84.0	85.5

f--S&P Global Ratings forecast \*The adjusted ratio removes the impact of the premium return to members

## Business Risk Profile: Strong

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 a roughly 25% share of the Nordic market, which accounts for around 10% of global hull premiums.

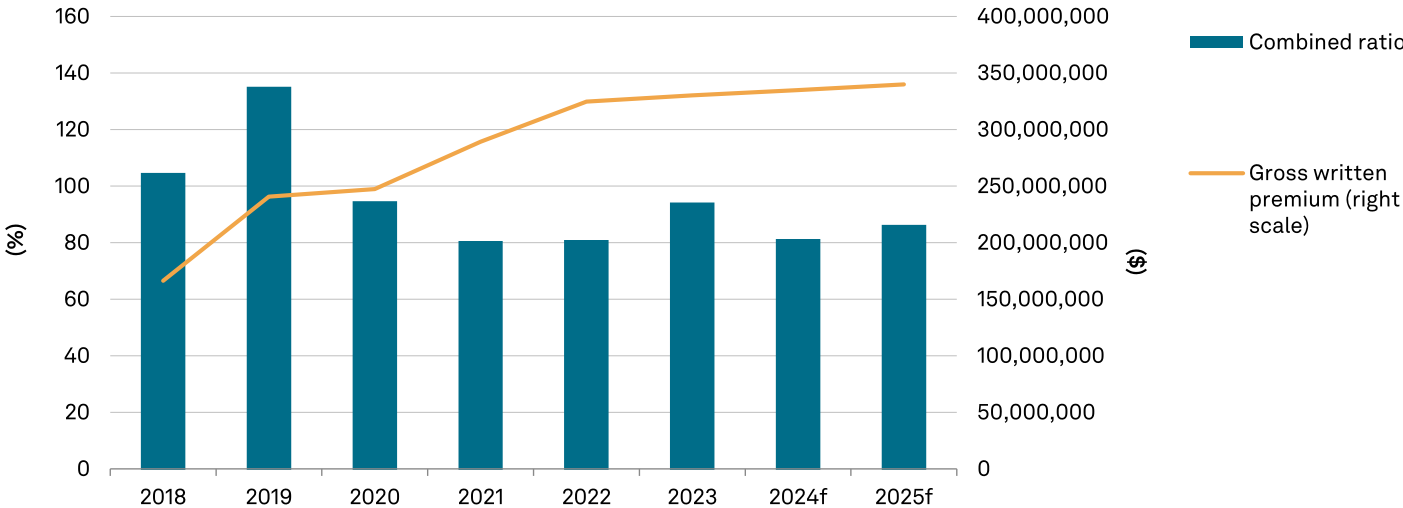
The club also has a geographically diverse client base, which we view as a strength, although its product and risk diversity are limited compared to other 'A' rated peers such as Hiscox and Gjensidige. The club has recently expanded its product range through the launch of NIORD, a managing general agent offering offshore renewable energy covers. The cover will be underwritten both by NHC and third-party carriers. We expect the new subsidiary will generate at least \$30 million of premium a year over 2024-2026 with NHC underwriting most of it.

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 the club's top line to continue to grow over 2024-2026, albeit at a slower pace than in recent years. This reflects the club's close management of the underwriting cycle. NHC has traditionally grown in good rate environments (for example over the 2018-2022 period) and maintained or reduced its exposure in softer rate environments. The club expects conditions to become less favorable over the next 24 months, particularly in the hull and machinery line, so will accordingly limit its exposure. We therefore expect premiums will grow by just 1% to \$335 million in 2024.

Chart 1

NHC will continue to record strong underwriting performance but growth will slow



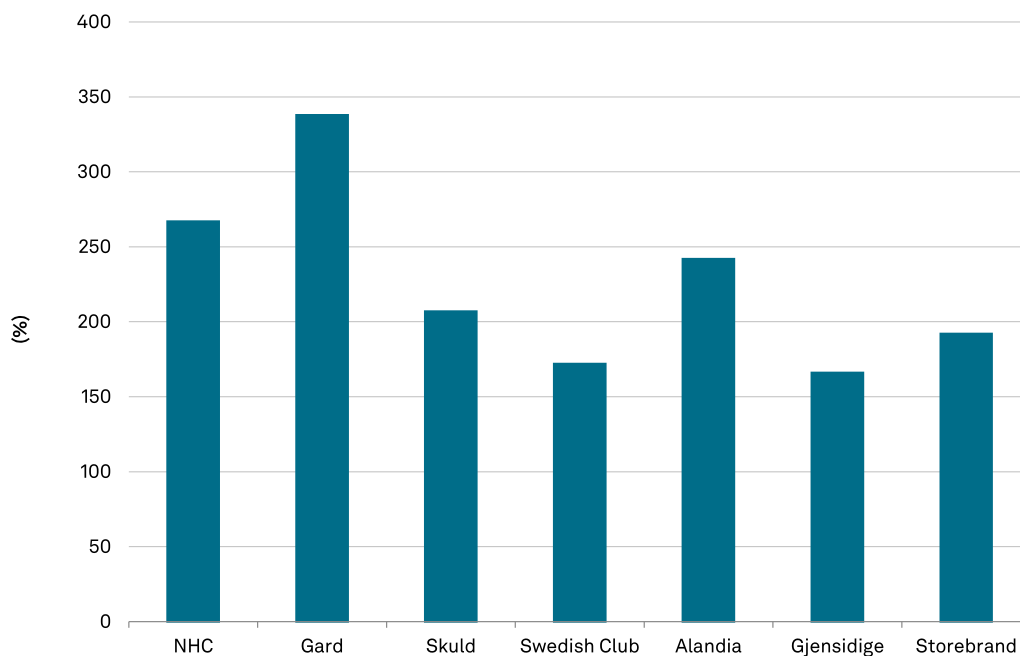
f--S&P Forecast. Source: S&P Global Ratings.  
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**Financial Risk Profile: Strong**

The club enjoys a robust capital position, with a significant excess of capital above our 99.99 benchmark and regulatory solvency capital requirement coverage of 267% (2022: 255%). We expect NHC's capitalization will remain at this level through 2024-2025 aided by its strong underwriting performance and improved investment yields.

**Chart 2**

**NHC has one of the highest regulatory solvency ratios of its peers**



Source: Annual Reports at latest year-ends.

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The club's recent underwriting performance has been very strong. The adjusted combined ratio in 2023 was 93.9%, contributing to net income of \$33.4 million.

We expect NHC will continue to generate strong underwriting earnings in 2024-2025, with adjusted combined ratios under 90%. We expect that this will keep NHC in the top quartile of its marine peers in terms of underwriting performance. The 55% combined ratio in the first quarter of 2024 was a strong start toward our forecast.

NHC's capital and earnings could fluctuate materially due to the volatile nature of the business lines it writes. We expect the club will manage this potential volatility through strong underwriting risk controls and careful cycle management (reducing exposure during less favorable pricing conditions).

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 over our 99.99% confidence level.

## 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 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

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Appendix

### Norwegian Hull Club--Credit metrics history

	--Fiscal year end Dec. 31--	
	2023	2022
S&P Global Ratings capital adequacy	Excellent	Excellent
Total invested assets	736,525,759	668,858,735
Total shareholder equity	415,832,893	383,143,503
Gross premium written	330,318,433	324,865,404

Net premium earned	253,960,458	265,042,963
EBIT	46,634,736	21,001,956
Net income (attributable to all shareholders)	33,415,110	9,223,019
Return on revenue (%)	9.48	19.95
Return on assets (excluding investment gains/losses) (%)	2.78	6.34
Return on shareholders' equity (%)	8.36	2.43
Property/casualty: Net combined ratio (%)*	98.28	84.03
Property/casualty: Net expense ratio (%)	13.82	12.11
Property/casualty: Return on revenue (%)	9.48	19.95
Net investment yield (%)	1.88	0.99
Net investment yield including investment gains/(losses) (%)	4.80	-4.41

\*This is the unadjusted combined ratio.

### 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+
<b>Strong</b>	aa-/a+	a+/a	<b>a/a-</b>	a-/bbb+	bbb+/bbb	bbb-/bbb-	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 17, 2024)\*

#### 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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