S&P Global
Ratings

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Gard P&I (Bermuda) Ltd.

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Gard P&I (Bermuda) Ltd.

Anchor	a+	+	Modifiers	0	=	SACP	a+

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

Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0

\+

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

Strengths	Risks
Dominant market share in the protection and indemnity (P&I) sector with strong brand recognition.	More diverse than peers within its marine specialism but lacks product diversification outside marine-related risks.
Extremely well capitalized based on results of our risk-based model.	Exposed to the volatility of other International Group (IG) clubs' claims through the IG's pooling system.
Strong risk management capabilities have reduced underwriting result volatility.	Has a higher risk appetite in its investment portfolio than peers.

Gard P&I (Bermuda) Ltd. (Gard) will remain the dominant player in the P&I market and a significant participant in the marine market more generally. S&P Global Ratings expects that Gard will remain the largest player in the P&I sector with a market share of close to 18%. This strength, combined with the club's ability to make unbudgeted calls on members, influences our selection of the 'a+' anchor.

Gard holds a significant excess of capital over our 'AAA' benchmark along with a regulatory solvency level of 263%. We expect that, despite investment losses and future returns of premium to members reducing the level of capital surplus over the next two years, management will maintain a comfortable excess at the 'AAA' benchmark.

Like the majority of its peers, Gard remains largely undiversified outside of its marine specialism. Although Gard is more diversified than any of its P&I peers, writing both hull and energy covers alongside its core P&I offering, it remains largely undiversified outside of its marine specialism. The majority of its peers at the 'A+' level will have more product diversification with many writing both life and non-life products or having a significant nonrisk-bearing income stream. Gard is therefore more exposed to the fortunes of one sector than many of its 'A+' peers.

Outlook: Stable

The stable outlook reflects our view that the club will retain its pre-eminent position in the P&I and marine sectors and maintain capital above our 'AAA' category over the next two years.

Downside scenario

We do not expect to lower the ratings in the next two years. However, we could do so if the group's risk-based capital adequacy falls consistently below our 'AAA' level, or if operating performance materially deteriorates below our expectations during the next two years. This could result from Gard suffering substantial investment losses outside its risk tolerance.

Upside scenario

We do not anticipate raising the ratings during the next two years. Any positive rating action would require considerable diversification away from the marine sector.

Key Assumptions

- COVID-19 will lead to a global recession in 2020. We forecast GDP will fall 5.2% in the U.S., 7.3% in the eurozone, and 6.2% in Norway.
- Central bank monetary policy responses will cement interest rates at lower levels for a longer period, pressuring insurers' investment yields. We expect U.S. 10-year yields will fall to 1.3% in 2019 before slightly increasing to 1.8% in 2022.
- Despite some recent rate improvements in 2020 P&I renewal, we still believe business conditions in the sector remain weak following years of falling rates.
- Conditions in the hull market will improve throughout 2020 with some significant rate increases. However, we believe the increases are coming from a low starting point and many insurers will still fail to breakeven in this line in 2020.
- COVID-19 and the oil price shock will test marine insurers, both through investment losses and their underwriting portfolios. Investment losses will be generated through equity market falls and credit spreads widening, whereas underwriting losses will flow from COVID-19-related claims and premium returns due to lower trading activity, with those writing cruise and passenger vessels most affected.

Key Metrics

	2022f	2021f	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
Gross premium written (mil. $)	850	825	874	798	775	824
Net income (mil. $)	75	(100)	20	(90.2)	114	125
Return on shareholders' equity (%)	6	(8)	2	(7.5)	10	12

Key Metrics (cont.)	2022f	2021f	2020	2019	2018	2017
P/C: net combined ratio (%)*	98	100	102	110	91	83

*On an estimated total call basis. f--S&P Global Ratings' forecast. P/C--Property/casualty.

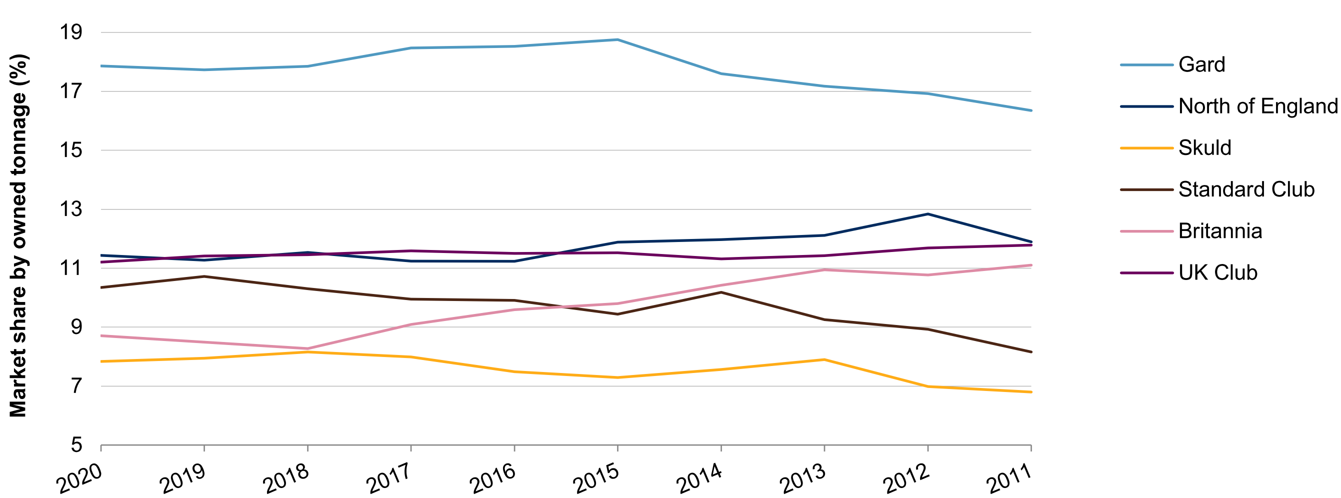
Business Risk Profile: Strong

Gard has a strong competitive advantage, in our view, mainly stemming from its leading position within the IG, which provides P&I cover to more than 90% of the world's shipping. Gard enjoys the highest market share, at close to 18%, in terms of poolable tonnage within the IG. Its nearest competitors, North and the UK Club, have market shares of just over 11%. Gard benefits from strong relationships with both members and brokers in the marine market and has a reputation for its quality service to customers.

Gard has also returned over $400 million of premiums (more than any other club) through final instalment reductions to mutual P&I members since 2011. For example, for fiscal 2019 (ended Feb. 20, 2019) the club only called 50% of the last instalment of premium due from members. This meant the club recorded gross written premiums of $760 million whereas the estimated total call (ETC) was $798 million, representing a $38 million discount for members. In our opinion, this further enhances member loyalty and the club's reputation in the market.

Chart 1

Gard Continues To Dominate The P&I Market



Source: S&P Global Ratings. Data from Arthur J. Gallagher (UK) Ltd.

Gard is one of the most diversified members of the IG, writing both hull and marine covers alongside its core P&I offering. By offering these products, Gard has become somewhat of a one-stop-shop for marine risks and the club is able to cross sell. Gard has been more successful in its diversification than any other club, with both hull and energy lines having boosted the bottom line in recent years. We note, however, that the club still remains significantly undiversified outside of its marine specialism compared with other 'A+' peers such as Lloyd's and If.

As a mutual, Gard balances many factors when deciding its strategy. Unlike nonmutual players, Gard looks beyond risk versus reward optimization measures when thinking about strategic risk. For example, the club's fixed premium business is undertaken to subsidize the mutual P&I business, with the aim of reducing premium for mutual members. Nevertheless, we believe that Gard still remains disciplined in pricing its business, responding to trends in the market with changes in underwriting decisions. This is demonstrated by the continuing profitability of its core P&I line.

Gard's premium volumes have recovered somewhat in recent years having fallen from $991 million (on an ETC basis) in 2015 to $775 million in 2018. For fiscal 2020, premiums written on an ETC basis were $874 million, which was higher than our expectations, largely spurred by increased volume in hull lines. In fiscal 2021, however, we expect Gard's premium to shrink by about 5% before returning to growth in fiscal 2022. Our expectation is based on the effects of the COVID 19 pandemic and lockdown along with the reduction in oil prices. We believe these events have shrunk global trade and travel, meaning many ships (particularly in the passenger and cruise sector) going into lay-up (lying unused). As marine premium levels are based on shipping activity, this will result in many ship owners receiving premium rebates.

At this stage, we expect that Gard's premium base will return to growth in fiscal 2021 and then increase by about 5% a year. In particular, we expect that Gard's hull book of business will experience rates growth in 2020-2022, sine many competitors have left or significantly reduced their exposure to this sector. We expect more moderate rates growth in the club's P&I line. Gard is one of the few clubs not to have announced a general increase for its mutual P&I members for the policy year 2020-2021, meaning it has now not applied a general increase for four years. We think that Gard's below-average increases and return of premium may drive volume growth in its P&I book over the next couple of years.

Financial Risk Profile: Very Strong

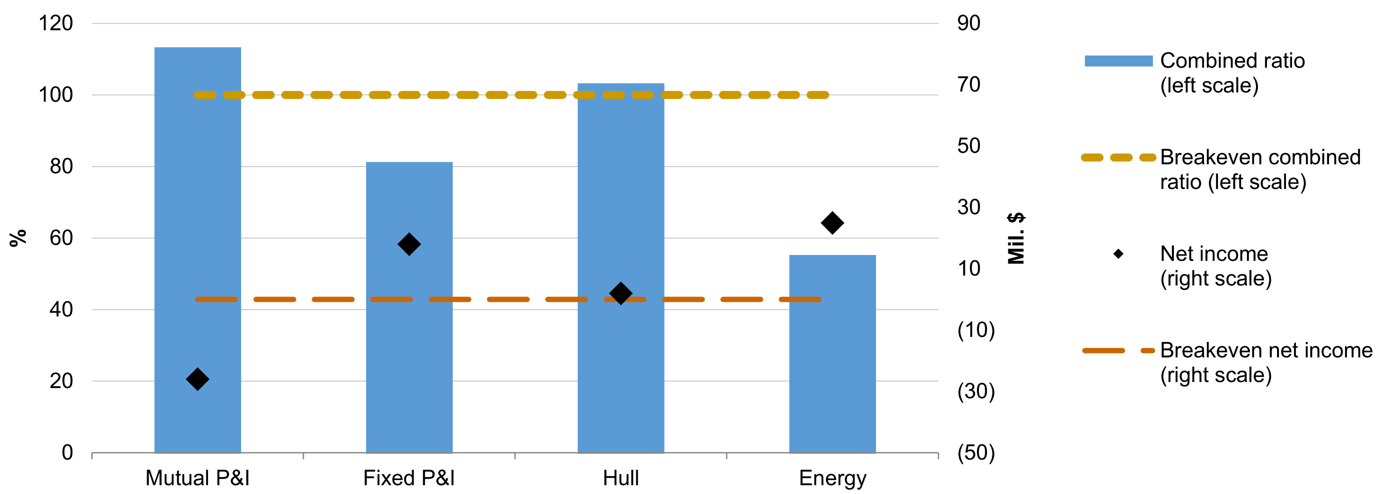
Gard has maintained an excess of capital above our 'AAA' benchmark for some time and we believe that, despite the impact of the COVID-19 pandemic, the club will continue to sustain a reasonable surplus over the next two years. The club also has an ample excess of capital on a regulatory basis with a solvency ratio of 263% at year-end 2020. We expect that mark to market investment losses on the club's equity and bond portfolios will reduce the amount of surplus it holds under both of our capital model and regulatory solvency ratios in fiscal 2021. However, we expect Gard will still be among the top quartile of P&I clubs in terms of capitalization over the next two years.

Gard has deferred its decision on whether to call the last instalment due from the 2019 renewal until its November board meeting. This means the club has the ability to call an additional $72 million should it be required. None of this final instalment premium is recorded in the group's financial statements for fiscal 2020. We believe the deferral of the decision is a prudent measure that allows the club access to more capital if its position deteriorates significantly, as well as allowing members a respite from cash outflows in tough market conditions.

In fiscal 2020, Gard returned to profit, spurred largely by investment gains. The club recorded a combined ratio (loss and expense) of 102% on an estimated total call basis, a significant improvement on the prior year's ratio of 110% but lower than our expectations. The underwriting loss was driven primarily by the large amount of losses in the IG pool, which meant that virtually all of the clubs recorded combined ratios above 100%. Gard's diversifying lines, hull and energy, both contributed positively to the bottom line--helping it to achieve its aim of these lines subsidising mutual P&I. Although Gard has recorded underwriting losses in the past two years, its recent performance still compares favorably with IG peers, with a five-year average of 94%.

Chart 2

Gard's Diversifying Lines Subsidized Mutual P&I In 2019-2020



Source: S&P Global Ratings.

We expect that Gard will record a net loss in fiscal 2021, driven largely by investment losses from the COVID-19 pandemic. Gard has a higher risk appetite in its investments than peers, with equities, noninvestment-grade bonds, and property making up over 70% of total adjusted capital (TAC). We expect that the club should break even on its underwriting. Although COVID 19 claims may bring some pool claims and returns of premium, we expect these negatives will be partially offset by a reduced frequency of claims (due to reduced world trade) and improved rates in Gard's hull line. Assuming that economic conditions return to more normal levels in fiscal 2022, we expect Gard to report a combined ratio in the high 90s.

We view P&I as a volatile business line, with the large amount of pool claims producing significant volatility in capital and earnings. However, we view Gard as less exposed than peers due to its strong track record of producing stable and profitable technical returns, its flexibility in its policy of returning premium to members, and the strong risk controls it maintains, especially in its underwriting portfolio.

Gard has traditionally had a higher risk appetite than many of its P&I peers in relation to investment risk. About 30% of its portfolio is allocated to higher-risk assets such as equity, noninvestment-grade bonds, and property. That said, Gard's portfolio is well spread by sector and obligor and its large surplus of capital above our 'AAA' benchmark means the club is better positioned to withstand volatility in the capital markets than peers.

Other Key Credit Considerations

Governance

We consider Gard's governance to be in line with that of the majority of the P&I clubs. The majority of Gard's board are ship-owner members.

Gard's executive team has been led by Rolf Thore Roppestad since 2014 and has been relatively stable in recent years. In 2019, Gard appointed Christian Pritchard–Davies as CFO.

Gard has a strong risk management culture, with a chief risk officer in place and a group risk committee made up of nonexecutive directors.

Liquidity

The club's liquidity is strong and well positioned to absorb larger claims in size or frequency, largely due to the very strong credit quality of its bond portfolio.

Government/Other support/Group support

We assess Gard P&I (Bermuda) Ltd., Assuranceforeningen Gard - gjensidig -, Gard Marine & Energy Ltd., and Gard Marine & Energy Insurance (Europe) AS, as core to the Gard group. These entities therefore share the rating of the overall group (A+/Stable/--).

Accounting considerations

The group prepares its consolidated financial statements under local generally accepted accounting principles. We view the group's financial communication and disclosure as sound and transparent.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: A New Level Of Enterprise Risk Management Analysis: Methodology For Assessing Insurers' Economic Capital Models, Jan. 24, 2011
- 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

Related Research

- P&I Clubs Likely To Take Their Cue From The First Renewal Announcements, Oct. 15, 2019

Appendix

Credit Metrics History

(Mil. $)	2020	2019
S&P Global Ratings capital adequacy	Excellent	Excellent
Total invested assets	2,306	2,260
Total shareholder equity	1,179	1,159
Gross premium written	800	760
Net premium written	627	606
Net premium earned	583	581
Reinsurance utilization (%)	21.6	20.2
EBIT	33	(109)
Net income (attributable to all shareholders)	20	(90)
Return on revenue (%)	(12.7)	(16.6)
Return on assets (excluding investment gains/losses) (%)	(2.9)	(3.7)
Return on shareholders' equity (%)	1.7	(7.5)
Property/casualty: Net combined ratio (%)	114.6	117.3
Property/casualty: Net expense ratio (%)	14.0	24.9
Property/casualty: Return on revenue (%)	(12.4)	(16.4)
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)	(0.3)	(0.5)
Financial leverage including pension deficit as debt (%)	1.8	2.4
Net investment yield (%)	0.4	0.1
Net investment yield including investment gains/(losses) (%)	5.2	(0.4)

N.M.--Not meaningful.

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 June 15, 2020)*	
Operating Companies Covered By This Report	
Gard P&I (Bermuda) Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Assuranceforeningen Gard - gjensidig -	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Gard Marine & Energy Insurance (Europe) AS	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Gard Marine & Energy Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Domicile	Bermuda

*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.