

Research Update:

Gard P&I (Bermuda) Ltd. Outlook Revised To Negative On Weakening Operating Performance; 'A+' Ratings Affirmed

October 30, 2020

Overview

- We expect Gard P&I (Bermuda) Ltd. (Gard, the group) will record an underwriting loss in the financial year ending Feb. 20, 2021 (FY2021) following underwriting losses in both the previous two years.
- We are revising our outlook on Gard to negative and affirming our 'A+' issuer credit and financial strength ratings on Gard's operating subsidiaries.
- The negative outlook reflects that we could lower our ratings on Gard over the next two years if we did not see the group return to at least breakeven underwriting levels.

Rating Action

On Oct. 30, 2020, S&P Global Ratings revised its outlook on Gard and its operating subsidiaries to negative from stable (see Ratings List below).

At the same time, we affirmed our 'A+' issuer credit and financial strength ratings on the group's core subsidiaries.

Rationale

Our revised outlook on Gard reflects the group's recent weaker underwriting performance that, without corrective action, could lead us to lower the rating to 'A'. In the past two years, Gard has recorded underwriting losses, largely due to significant losses from the International Group's (IG) pooling system, whereby claims above \$10 million are pooled between the 13 members of the IG. We expect the current year will also produce an underwriting loss due to record levels of pool claims at half year. These results have been below our expectations and have also shown a level of volatility that Gard does not usually exhibit. If the trend were to continue, we could lower our assessment of the group's risk exposure to volatile operating results and lower the ratings to 'A'.

PRIMARY CREDIT ANALYST

Robert J Greensted
London
+ 44 20 7176 7095
robert.greensted
@spglobal.com

SECONDARY CONTACT

Mark D Nicholson
London
(44) 20-7176-7991
mark.nicholson
@spglobal.com

Gard recorded a combined (loss and expense) ratio of 102% in FY2020 and 110% in FY2019 on an estimated total call (ETC) basis, or 114% in FY2020 and 117% in FY2019 on an accounting basis. The ETC basis excludes the impact of a reduction in the ETC premium to members in the final installment. We expect the group will record a combined ratio of 105%-110% in FY2021 on an ETC basis. Although Gard is, and will likely remain, a top quartile performer in the protection and indemnity (P&I) sector, it is also the highest rated at 'A+'. When compared to peers at the 'A+' rating level--such as Mapfre SA, Vienna Insurance Group, and If P&C--Gard is currently performing at a materially lower level. Although we recognize the club is a mutual and as such is less profit motivated than many other 'A+' rated peers, we would expect an organization at the 'A+' rating level to operate to at least a breakeven level on an ETC basis.

We have affirmed the ratings on the group's operating subsidiaries because we still recognize Gard as having the strongest position in the P&I market in terms of market share and brand and product diversification. We also continue to view the club as having robust capital levels with an excess of capital above our 'AAA' benchmark. However, we note that with low and negative interest rates likely over the next two years, underwriting performance will become increasingly important for earnings and an improvement in the group's current underwriting performance will be necessary in order to retain Gard's current robust capital position.

Outlook

The negative outlook reflects the potential for a one-notch downgrade over the next two years if the group does not return to at least breakeven levels of underwriting performance on an ETC basis. We expect the club to maintain its current pre-eminent position in the P&I and wider marine market and an excess of capital above our 'AAA' benchmark.

Downside scenario

We could lower the ratings if the group did not return to at least breakeven levels of underwriting performance on an ETC basis in FY2023.

Upside scenario

We could revise the outlook to stable if Gard were to return to underwriting profitability and maintain a top quartile level of performance in the sector over FY2022-FY2023.

Ratings Score Snapshot

Table 1

Gard P&I (Bermuda) Ltd. -- Ratings Score Snapshot

	To	From
Financial strength rating	A+ (Negative)	A+ (Stable)
Anchor	a+	a+
Business risk	Strong	Strong
IICRA	Intermediate	Intermediate
Competitive position	Strong	Strong

Table 1

Gard P&I (Bermuda) Ltd. -- Ratings Score Snapshot (cont.)

	To	From
Financial risk	Very Strong	Very Strong
Capital and earnings	Very Strong	Very Strong
Risk exposure	Moderately Low	Moderately Low
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Adequate	Adequate
Comparable ratings analysis	0	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Difficult Decisions Lie Ahead For Protection And Indemnity Mutuals At The 2021 Renewal, Oct 21, 2020

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Gard P&I (Bermuda) Ltd.		
Gard Marine & Energy Ltd.		
Gard Marine & Energy Insurance (Europe) AS		
Assuranceforeningen Gard - gjensidig -		
Issuer Credit Rating		
Local Currency	A+/Negative/--	A+/Stable/--
Financial Strength Rating		

Ratings Affirmed; Outlook Action

	To	From
Local Currency	A+/Negative/--	A+/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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