S&P Global Ratings

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Gard P&I (Bermuda) Ltd.

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Gard P&I (Bermuda) Ltd.

Anchor	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

+

Modifiers	0
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0

=

SACP	a+

+

Support	0
Group support	0
Government support	0

=

A+/Negative/--

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 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 compared to P&I peers.	Recent operating performance has lagged other insurers rated 'A+'.

Gard P&I (Bermuda) Ltd. (Gard) will remain the dominant player in the P&I segment 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's recent operating performance has been worse than historical norms but we expect its underwriting result to improve over the next two years. Like many other clubs in the IG, Gard has reported underwriting losses in the past three years. This has largely been driven by its exposure to heightened levels of other clubs' pool claims through the IG's reinsurance pooling arrangement. Despite further significant pool claims in financial year (FY) 2022 (ended Feb. 20, 2022) and future returns of premium to members management, we expect Gard will maintain a comfortable excess at the 'AAA' benchmark.

Like most 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 the core P&I offering, it remains largely undiversified outside of its marine specialism. Most peers at the 'A+' level 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: Negative

The negative outlook reflects the potential for a one-notch downgrade over the next 12-18 months if the group does not return to at least breakeven levels of underwriting performance on an estimated-total-call (ETC) basis. We expect the club to maintain its current preeminent 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 does 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 returns to underwriting profitability and maintains a top-quartile level of performance in the sector over FY2022-FY2023.

Key Assumptions

- The global economy will recover from the COVID-19 pandemic in 2021, as vaccination rollouts progress across the globe. We expect G20 economies to bounce back, with growth of 6.4% driving increased levels of demand for shipping. This will likely increase the amount of business available for P&I insurers.
- Investment returns will remain muted due to continued low interest rates. We expect 10-year U.S. government bond yields to improve somewhat to 1.7% in 2021.
- Rates in the P&I sector will stiffen significantly at the 2022-2023 renewal season, driving top-line growth.
- Hull rates will stabilize somewhat following recent improvements.

Key Metrics

	2023f	2022f	2021	2020	2019	2018
S&P Global Ratings capital adequacy	AAA	AAA	AAA	AAA	AAA	AAA
Gross premium written (mil. $)*	>1000	~1000	922	874	798	775
Net income (mil. $)	50	(20)	85.9	22.1	(89)	114.8
Return on shareholders' equity (%)	4	(2)	7	1.9	-7.4	9.6
P/C: net combined ratio (%)*	100	108	104	102	110	91

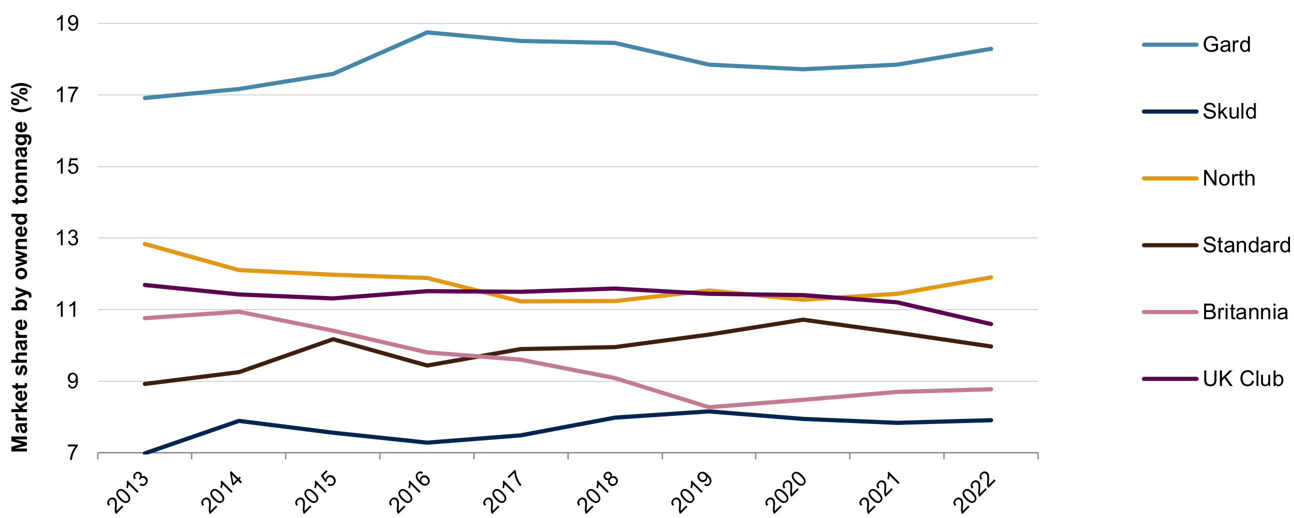
*On an estimated total call basis. f--S&P Global Ratings' forecast. P/C--Property/casualty.

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. We expect Gard to increase its market share, already the highest in the group at over 18% (in terms of poolable tonnage within the IG), because it continues take tonnage from its IG peers. Nearest competitors, North and the UK Club, have market shares of about 11%-12%. Gard benefits from strong relationships with both members and brokers in the marine market and has a reputation for its quality service to customers.

Chart 1

Gard Continues To Dominate The P&I Market



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

Gard has also returned over $400 million of premiums to mutual members (more than any other club) through final instalment reductions (P&I clubs charge members in instalments rather than in one lump sum) since 2011. In FY2021 the club only called 10% of the last instalment of premium due from members. As this return of premium has been a consistent feature for Gard, we look at its premium and underwriting metrics on what Gard describes as an ETC basis. This means that while in policy year 2020-2021 Gard collected $883 million in premium, in our analysis we use the ETC number of $922 million. In our opinion, the return of premium enhances member loyalty and the club's reputation in the market. We expect that Gard will continue to provide discounts to members but in FY2022 this will take the form of a general discount to each specific member at renewal rather than a reduction in the final instalment of premium.

We expect that Gard will remain the most diversified member 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. It has also sought to produce underwriting profits in its nonmutual lines to subsidize mutual P&I lines for the benefit of members. Over the long term, we believe Gard will maintain a close to 50%/50% split between mutual and commercial business. In recent years the mutual business has made up closer to 45% of top line but, as rate increases in the hull market slow, this will return to close to 50% by 2023. However, we note that the club remains significantly undiversified outside of its marine specialism compared to other 'A+' peers such as Lloyd's and If.

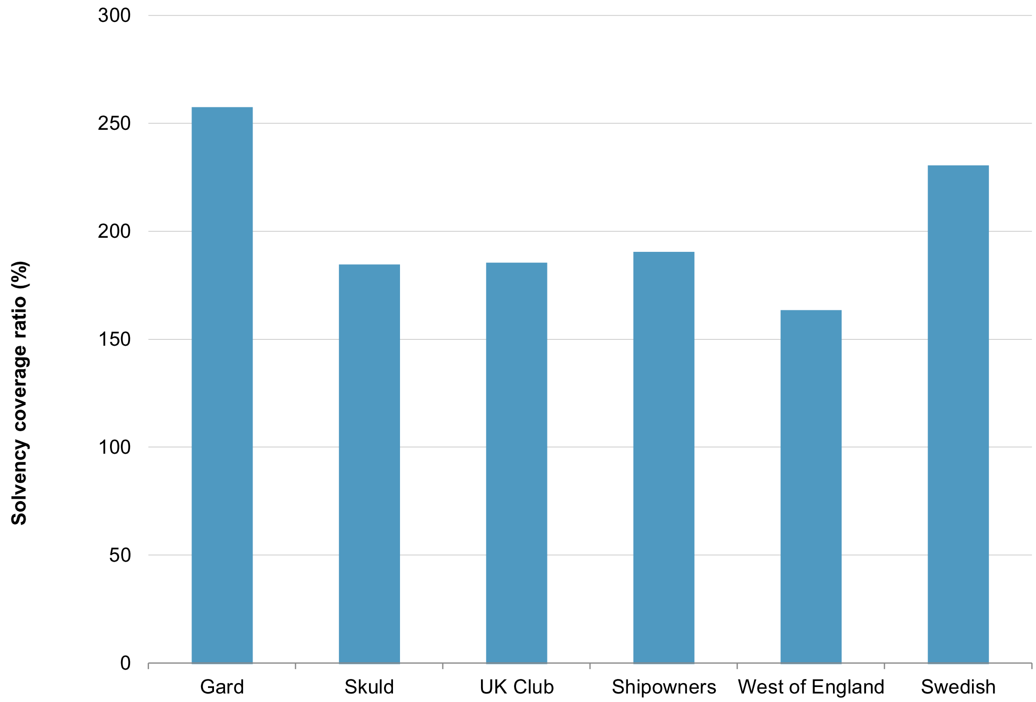
Gard's premium volumes have recovered somewhat in recent years having fallen from $991 million (on an ETC basis) in 2015 to $775 million in 2018. For FY2021, premiums written on an ETC basis were $922 million, which was higher than our expectations, largely spurred by increased rate and volume in hull lines and less of an impact from COVID-19 on its P&I lines than expected. In FY2022, we expect Gard's premium to be close to breaching the $1 billion mark for the first time as rates in the hull market continue to improve and the club benefits from gains it made from competitors at renewal. In the longer term, we expect further increases in premium written, given our forecast that rates in the P&I line will harden significantly across the market in 2022. Unlike many of its peers, Gard no longer announces a general increase in rates for all members. However, our expectation is that members are likely to see increases in premium for both 2022 and 2023.

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 continuing difficult conditions in the P&I market, the club will 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 257% at year-end 2021. With depressed underwriting returns likely in FY2022, limited investment returns, and increased premium levels, capital adequacy is likely to come under pressure. However, we expect Gard will still be among the top quartile of P&I clubs in terms of capitalization over the next two years.

Chart 2

Gard's Solvency Coverage Ratio Is The Highest In The IG



Source: S&P Global Ratings.

With an expected normalized pool experience for the rest of FY2022, Gard should record a combined ratio (loss and expense) of about 108% (on an ETC basis). We also expect a small bottom-line profit (before taking into account discounts to members) due to a reasonable investment return.

Following this, we believe (on the basis of a normalized pool experience) the club will bring its underwriting back into balance with a combined ratio of 100% in FY2023, assuming it raises rates on its mutual P&I lines as we expect at 2022 renewal. Investment returns in excess of 2% would then allow the club to record net income of about $50 million.

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 consider Gard less exposed than peers due to its strong track record of producing stable and profitable technical returns, its flexibility in returning premium to members, and its strong risk controls, especially in the underwriting portfolio.

Gard has traditionally had a higher investment risk appetite than many of its P&I peers. 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 most P&I clubs. The majority of Gard's board are ship-owner members.

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

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

Liquidity

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

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 our rating for the overall group (A+/Negative/--).

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

Appendix

Credit Metric History

(Mil. $)	2021	2020
S&P Global Ratings capital adequacy	Excellent	Excellent
Total invested assets	2,509,462	2,306,378
Total shareholder equity	1,262,920	1,179,201
Gross premium written	937,736	799,831
Net premium written	754,298	627,163
Net premium earned	704,213	582,615
Reinsurance utilization (%)	19.56	21.59
EBIT	101,928	34,931

Credit Metric History (cont.)

(Mil. $)	2021	2020
Net income (attributable to all shareholders)	85,920	22,124
Return on revenue (%)	(1.37)	(12.37)
Return on assets (excluding investment gains/losses) (%)	(0.35)	(2.82)
Return on shareholders' equity (%)	7.04	1.89
Property/casualty: Net combined ratio (%)	101.65	114.58
Property/casualty: Net expense ratio (%)	11.93	14.04
Property/casualty: Return on revenue (%)	(1.37)	(12.37)
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)	(5.60)	(0.31)
Financial leverage including pension deficit as debt (%)	2.99	1.83
Net investment yield (%)	0.04	0.41
Net investment yield including investment gains/(losses) (%)	4.68	5.16

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 October 21, 2021)*

Operating Company Covered By This Report	
Gard P&I (Bermuda) Ltd.	
Financial Strength Rating	
Local Currency	A+/Negative/--
Issuer Credit Rating	
Local Currency	A+/Negative/--
Related Entities	

Ratings Detail (As Of October 21, 2021)*(cont.)	
Assuranceforeningen Gard - gjensidig -	
Financial Strength Rating	
Local Currency	A+/Negative/--
Issuer Credit Rating	
Local Currency	A+/Negative/--
Gard Marine & Energy Insurance (Europe) AS	
Financial Strength Rating	
Local Currency	A+/Negative/--
Issuer Credit Rating	
Local Currency	A+/Negative/--
Gard Marine & Energy Ltd.	
Financial Strength Rating	
Local Currency	A+/Negative/--
Issuer Credit Rating	
Local Currency	A+/Negative/--
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.