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Ratings

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Research Update:

Gard P&I (Bermuda) Ltd. Outlook To Stable From Negative As Underwriting Results Exceed Expectations; Ratings Affirmed

March 24, 2022

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Overview

- We expect Gard P&I (Bermuda)Ltd. (Gard, the club or the mutual) to substantially outperform our underwriting expectations for the financial year ending Feb. 20, 2022 (FY2022).
- We are therefore revising the outlook to stable from negative.
- The stable outlook indicates that we expect marine insurer Gard to record at least break-even underwriting results over the next two years and generate earnings of over $50 million.

Rating Action

On March 24, 2022, S&P Global Ratings revised its outlook on marine insurer Gard P&I (Bermuda) Ltd. to stable from negative. At the same time, we affirmed our 'A+' insurer financial strength and issuer credit ratings on Gard P&I (Bermuda) Ltd. and its core subsidiaries.

Rationale

The outlook revision indicates that we consider Gard's underwriting performance has returned to a level commensurate with an 'A+' rated mutual insurer. We expect Gard to substantially exceed our expectations in underwriting performance and profit before tax for FY2022. A much-improved underwriting result in the second half of the year has allowed the club to beat our earnings expectations, even though investment returns have been weaker than average because of market volatility.

We forecast that Gard will outperform all its peers in the International Group (IG) for FY2022. The IG comprises 13 mutual, not-for-profit protection and indemnity (P&I) clubs that together represent more than 90% of global owned tonnage. In our view, Gard's performance demonstrates its dominant market position and its diversification. Strong results in its nonmutual P&I, hull, and energy lines will more than offset the difficulty presented by pooled losses from other IG clubs in its mutual P&I book.

We believe Gard will significantly outperform our expectations in terms of both combined ratio and net income. The combined ratio is a measure of underwriting profitability, with above 100% signifying a technical loss. In October 2021, we forecast a combined ratio of 105%-110% and negative net income of $20 million. Strong results in the second half now suggest that Gard's underwriting will at least break even and that combined ratios on an estimated total call basis will be below 100%. With an improved investment performance, this should allow the club to deliver net income of over $50 million in FY2023 and FY2023. We had revised our outlook on Gard to negative in October 2020, based on its underwriting loss in FY2020 and the expected underwriting loss (which did materialize) in FY2021.

We affirmed our ratings on the club as we recognize Gard has the strongest position in the P&I market in terms of market share, brand, and product diversification. In our view, the club also has robust capital levels and we estimate that its excess of capital above our 'AAA' benchmark had grown by the year end in February 2022.

Outlook

The stable outlook indicates that we expect the club to retain its pre-eminent position in the P&I and marine sectors over the next two years. It will demonstrate this by outperforming its P&I peers in terms of underwriting performance. We also expect Gard to maintain its robust capital levels, with a comfortable excess above our 'AAA' category over the next two years.

Downside scenario

We could lower the rating if Gard were to record combined ratios on an estimated total call basis that were consistently above 100% over a prolonged period, or if Gard's underwriting lagged the P&I average result. We could also lower the rating if the group's risk-based capital adequacy fell consistently below our 'AAA' levels, which could occur if it saw high investment losses or rapid growth in its underwriting book.

Upside scenario

We do not anticipate raising the ratings during the next two years. Before we could consider upgrading Gard, it would need to demonstrate considerable diversification away from the marine sector. We view this as extremely unlikely.

Ratings Score Snapshot

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

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

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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

- Gard P&I (Bermuda) 'A+' Ratings Affirmed; Outlook Still Negative As Operating Performance Remains Below Expectations, Oct. 21, 2021

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+/Stable/--	A+/Negative/--
Financial Strength Rating		
Local Currency	A+/Stable/--	A+/Negative/--