

Research Update:

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

March 24, 2022

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

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

ADDITIONAL CONTACT

Ruchika Agrawal
Mumbai
ruchika.agrawal
@spglobal.com

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/--

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/sourceId/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; or Stockholm (46) 8-440-5914

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.