

Research Update:

Gard P.&I. (Bermuda) Ltd. 'A+' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Stable

March 4, 2024

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- The revised criteria have not changed our assessment of Gard P.&I. (Bermuda) Ltd.'s (Gard's) capital position.
- We therefore affirmed our 'A+' long-term financial strength and issuer credit ratings on Gard and its core subsidiaries.
- The stable outlook indicates that we expect Gard will retain its preeminent position in the protection and indemnity (P&I) and marine sectors over the next two years.

PRIMARY CREDIT ANALYST

Mark D Nicholson
London
+ 44 20 7176 7991
mark.nicholson@spglobal.com

SECONDARY CONTACT

Alexandra Filatova
Frankfurt
+49 1735633709
alexandra.filatova@spglobal.com

Rating Action

On March. 4, 2024, S&P Global Ratings affirmed its 'A+' long-term financial strength and issuer credit ratings on Gard and its core subsidiaries. The outlook remains stable.

Impact Of Revised Capital Model Criteria

- The application of our revised capital adequacy framework has no material effect on Gard's capital adequacy. We expect capital adequacy will remain redundant at the 99.99% confidence level over the forecast period.
- Under the new criteria, we have captured the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.
- The recalibration of our capital charges to higher confidence levels somewhat offsets these improvements. Capital charges include marine protection and indemnity premium and reserve risk charges.

Credit Highlights

Overview

Key strengths	Key risks
Dominant market share in the P&I sector, with strong brand recognition.	More diverse than peers in the marine sector, although lacking product diversification outside marine-related risks.
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.

Outlook

The stable outlook indicates that we expect Gard will retain its preeminent 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's capital adequacy will comfortably exceed our 99.99% threshold over the next two years.

Downside scenario

We could lower the ratings if Gard's combined ratios on an estimated total call basis consistently exceeded 100% over a prolonged period, or if its underwriting performance lagged the P&I sector's average performance. We could also lower the ratings if the group's risk-based capital adequacy fell consistently below 99.99%, which could occur if Gard experienced high investment losses or rapid growth in its underwriting book.

Upside scenario

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

Rationale

In our opinion, Gard has the strongest competitive position among its peers in the marine insurance market. This stems from its preeminent position within the IG--which provides P&I cover to most of the world's shipping companies--its history of delivering sound capital and earnings, and its diversified marine offering.

Gard has a strong position in the P&I sector, with about one-fifth of the market share in terms of poolable tonnage within the IG. We believe Gard's strong service reputation, close relationship with members, below-average general increases, and track record of sound capital and earnings generation--which enables it to return premiums to members--all play a role in this. Gard's nearest IG peer in terms of scale is newly formed NorthStandard Ltd., which has a comparable market share in the P&I book. We could see further consolidation in the IG, which might challenge Gard's dominance. Gard's non-P&I premium base, which is larger than peers', also stands out.

We expect Gard will remain the most diversified member of the IG, writing both hull and marine

covers alongside its core P&I offering. Gard has been more successful in its diversification than any other club, with both hull and energy lines having boosted results in recent years. However, the group remains significantly undiversified outside of its marine specialism, compared with other 'A+' rated peers, such as Aegon Ltd. and If P&C Insurance Ltd.

The implementation of our revised criteria has not led to any change in our assessment of Gard's capital and earnings. Gard's capital adequacy sustainably exceeded our 99.99% benchmark over the past few years and we believe that, despite the challenging conditions in the P&I market, the group will sustain a reasonable surplus over the next two years. Gard also has an excess of capital on a regulatory basis. We expect Gard will remain among the top quartile of P&I clubs in terms of capitalization over the next two years.

With an expected normalized pool experience over the next two years, Gard should record a break-even or better combined ratio. We view P&I as a volatile business line, with the large number of pool claims producing significant volatility in capital and earnings. However, we consider Gard is less exposed to volatility than peers due to its strong track record of stable and profitable technical returns, flexibility in returning premiums to members, and strong risk controls, especially in the underwriting portfolio.

Environmental, social, and governance factors have no material influence on our credit rating analysis of Gard.

Ratings Score Snapshot

Financial strength rating	A+/Stable/--
Anchor*	a+
Business risk	Strong
IICRA	Intermediate
Competitive position	Strong
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
Support	0
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment. *Anchor choice is influenced by Gard's dominant position in the P&I sector and its ability to make unbudgeted calls to its members.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Gard P&I (Bermuda) Ltd., April 14, 2023

Ratings List

Ratings Affirmed

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/--
----------------	--------------

Financial Strength Rating

Local Currency	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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

Copyright © 2024 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.spglobal.com/ratings (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.spglobal.com/usratingsfees.

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