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+/Stable/--

Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview	
Key strengths	**Key risks**
Dominant market share in the protection and indemnity (P&I) sector, with strong brand recognition.	More diverse than peers within its marine specialism, although lacking 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, reducing underwriting result volatility compared with that of P&I peers.	Continuing tough conditions in the P&I sector, although rates improved at renewal.

Gard P&I (Bermuda) Ltd. (Gard or the club) 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 operating performance improved significantly in the second half of fiscal year 2021-2022 allowing the club to record its first underwriting profit since fiscal year 2017-2018. We expect the club to continue to record underwriting profits over 2022-2024 assuming more normalized pool claims from other clubs over the same period. Despite mark-to-market losses on its bond portfolio in 2022, we expect that Gard will continue to return premiums to its members at the same rate while maintaining a comfortable excess over our 'AAA' benchmark in our risk-based model.

Like most peers, Gard remains largely undiversified outside of its marine specialism. Although the club 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 nonlife 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: Stable

The stable outlook indicates that we expect the club to 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 to maintain its robust capital levels, comfortably exceeding our 'AAA' category levels 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 the club'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.

Key Assumptions

- Higher energy and commodity prices will destroy purchasing power for both firms and households. We expect GDP to increase in the U.S. and eurozone by 2.4% and 2.7%, respectively.
- Inflationary pressures will continue. We expect consumer price inflation to increase in 2022 in the U.S. by 6.7% and the eurozone by 6.4%.
- We expect that the shipping sector will continue to benefit from elevated rates that should aid the P&I sector to improve its technical performance over 2022-2024.
- Tough conditions in the bond and equity markets will lead to significantly reduced investment returns for P&I insurers in 2022-2023.

Gard P&I (Bermuda) Ltd.--Key Metrics

	2024f	2023f	2022	2021	2020	2019
S&P Global Ratings' capital adequacy	AAA	AAA	AAA	AAA	AAA	AAA
Gross premium written (mil. $)*	~1100	~1075	1036	922	874	798
Net income (mil. $)	~50	0.0	19.5	85.9	22.1	(89.0)
Return on shareholders' equity (%)	~4	0.0	1.5	7.0	1.9	(7.4)

Gard P&I (Bermuda) Ltd.--Key Metrics (cont.)

	2024f	2023f	2022	2021	2020	2019
P/C: net combined ratio (%)*	98	95	94	104	102	110

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

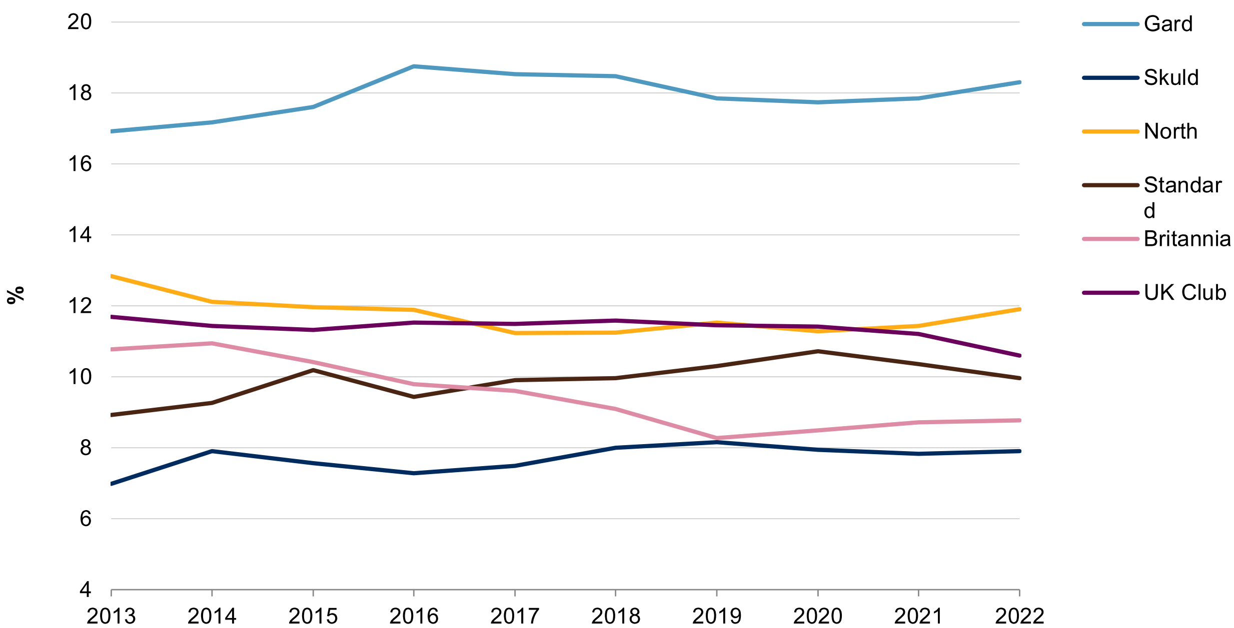
Business Risk Profile: Strong

In our opinion, Gard has the strongest competitive position amongst its peers in the marine insurance market. This stems from its preeminent position within the IG (which provides P&I cover to more than 90% of the world's shipping), its reputation for quality service, its diversified marine offering (that makes the club a one stop shop for marine insurance) and history of returning premium to members.

We expect Gard to further increase its market share in its P&I book, which is already the highest in the group at over 18% (in terms of poolable tonnage within the IG), as it continues to take tonnage from its IG peers. We believe the club's strong service reputation, close relationship with members, below-average general increases, and policy of returning premium to members all play a role in this. Gard's nearest peers in the IG are North and the UK Club, but both have much smaller shares of 11%-12%. A proposed merger between North and Standard clubs could create a competitor with a similar large market share but without the same level of non-P&I premium base. We do not expect this to significantly affect Gard's position in the next couple of years due to both clubs' issues around underwriting performance. Beyond then, we could see further consolidation in the IG, which might present a stronger challenge to Gard's dominance.

Chart 1

Gard Continues To Dominate The P&I Market



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

Gard has returned over $420 million of premiums to mutual members (more than any other club) through final installment reductions (P&I clubs charge members in installments rather than one lump sum) over the past 10 years. In fiscal 2022, the club gave its members a 5% owners' general discount, with another 5% discount expected in the next financial year for 2021 mutual policyholders. This return of premium has been a consistent feature for Gard, so we look at its premium and underwriting metrics on what Gard describes as an estimated total call (ETC) basis. This means that while in policy year 2021-2022, Gard collected $1.016 billion in premiums, in our analysis we use the ETC number of $1.036 billion. In our opinion, the return of premiums enhances member loyalty and the club's reputation in the market. We expect that Gard will continue to provide discounts to members as a way of both managing capital levels and building loyalty. We expect the owner's discount to remain at around 5% over the next couple of years.

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 can cross-sell. Gard has been more successful in its diversification than any other club, with both hull and energy lines having boosted results 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. 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 revenue but, as rate increases in the hull market slow, this will return to close to 50% by 2023. However, the club remains significantly undiversified outside of its marine specialism compared to other 'A+' peers such as Lloyd's and If.

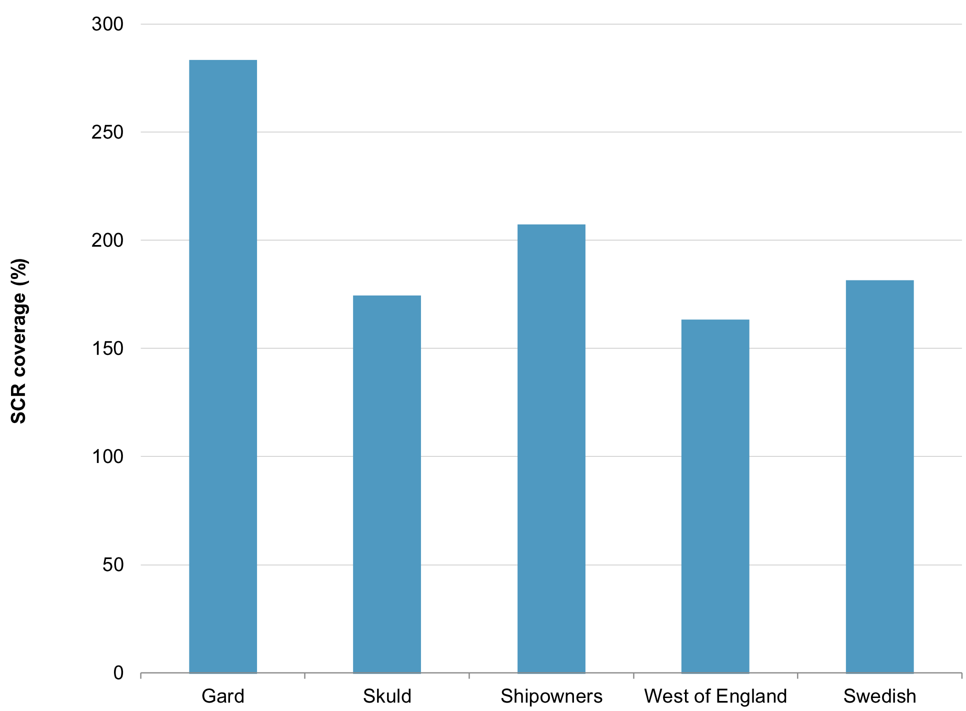
In fiscal 2022, Gard's premium broke the $1 billion mark for the first time as rates in the hull market continued to improve and the club benefited from gains it made from competitors at renewal. We expect further increases in premiums written, given our forecast that rates in the P&I line will harden significantly across the market in 2022. Unlike many of its peers, Gard no longer announces a general increase in rates for all members. However, we expect that members will see increases in premiums for both 2023 and 2024.

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 challenging conditions in the P&I market, the club will sustain a reasonable surplus over the next two years. Gard also has an ample excess of capital on a regulatory basis with a solvency ratio of 283% at year-end 2022. We expect that despite tough bond and equity markets in 2022, the club's underwriting result should allow it to continue to hold regulatory capital at around the same level. We expect Gard will remain among the top quartile of P&I clubs in terms of capitalization over the next two years.

Chart 2

Gard's SCR Cover Is The Highest In The IG



Source: S&P Global Ratings. SCR--Solvency capital requirement.

With an expected normalized pool experience for the rest of fiscal 2022, Gard should record a combined ratio (loss and expense) of around 95% (on an ETC basis). We also expect a profit of around $50 million (before taking into account discounts to members) due to a constrained investment return because of mark-to-market losses.

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 less exposed 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.

Gard has traditionally had a higher investment risk appetite than many of its P&I peers. Over 30% of its portfolio is allocated to higher-risk assets such as equity, speculative-grade bonds, and property. Still, 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 in line with that of most P&I clubs. The majority of Gard's board are shipowner members.

The club'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.

The club 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 on the overall group (A+/Stable/--).

Environmental, social, and governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence of our credit rating analysis of Gard.

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

Gard P&I (Bermuda) Ltd.--Credit Metric History

	--Fiscal year end Feb. 20--	
(£000s)	**2021**	**2020**
S&P Global Ratings capital adequacy	Excellent	Excellent
Total invested assets	2,555,326	2,509,462
Total shareholder equity	1,278,281	1,262,920
Gross premium written	1,016,888	937,736
Net premium written	815,029	754,298
Net premium earned	762,702	704,213
Reinsurance utilization (%)	19.9	19.6
EBIT	20,314	101,928
Net income (attributable to all shareholders)	19,546	85,920
Return on revenue (%)	3.8	(1.4)
Return on assets (excluding investment gains/losses) (%)	1.0	(0.3)
Return on shareholders' equity (%)	1.5	7.0
Property/casualty: Net combined ratio (%)	96.8	101.6
Property/casualty: Net expense ratio (%)	14.3	11.9
Property/casualty: Return on revenue (%)	3.8	(1.4)
Financial obligations/adjusted EBITDA (x)	1.3	(5.6)
Financial leverage including pension deficit as debt (%)	3.3	3.0
Net investment yield (%)	0.2	0.0
Net investment yield including investment gains/(losses) (%)	(0.2)	4.7

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 August 3, 2022)*

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