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Research Update:

Marine Insurer The U.K. P&I Club 'A' Ratings Affirmed After Risk Management Review; Outlook Stable

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The United Kingdom Mutual Steam Ship Association (Bermuda) Ltd. and the U.K.-based The United Kingdom Mutual Steam Ship Association (Europe) Ltd. comprise the U.K. Club, which has licensed branches in Japan, Singapore, and Hong Kong. We assess the club on a consolidated basis. The two underwriting entities are core to the group and have the same rating.

Overview

- Since 2010, The U.K. Club. (the club) has shifted its focus to improve its risk controls. It has improved the quality of its book owing to its stricter underwriting criteria while maintaining a conservative, selective approach to growth. It has also improved its risk culture, in our view.
- This has led us to revise our assessment of the club's enterprise risk management to adequate with strong risk controls, from adequate.
- We are affirming our 'A' ratings on The U.K. Club and its core entities.
- The stable outlook reflects our expectation that the club's capital adequacy will remain at the current 'AAA' confidence level in our risk-based model, over the two-year rating horizon.

Rating Action

On May 25, 2017, S&P Global Ratings affirmed its 'A' counterparty credit and insurer financial strength ratings on U.K.-based marine insurer The U.K. P&I Club (the club) and its core group entities The United Kingdom Mutual Steam Ship Association (Bermuda) Ltd. and The United Kingdom Mutual Steam Ship Association (Europe) Ltd.

Rationale

The affirmation reflects our view that the club has improved management of the volatility inherent in the marine P&I sector while maintaining its market share. The club's membership has been refined, reinsurance protection further strengthened, and the expense base controlled.

We believe that underlying profitability has improved due to the loss of members with poor claims records. The club has refused to quote on a significant proportion of business (20%-25% of quotes by gross tonnage over

the past seven years, owing to its stricter underwriting criteria. Hence, the club's average combined ratio for the previous seven years was around 100% (excluding premium discount effect), and no individual year exceeded 105%. We consider this to be strong evidence that future returns will move within a narrower band than they have in the past. Increasing capital efficiency and disciplined underwriting has allowed the club to grow capital as well as return some \$25 million to mutual members through premium discounts in three of the last five years.

We view the club's enterprise risk management (ERM) as adequate with strong risk controls. This is supported by our improved view on risk controls around underwriting, reserving, and market risks. The club has developed a risk appetite framework along with implementation of a partial internal capital model that has been approved by the PRA for The United Kingdom Mutual Steam Ship Association (Europe). In our view, this enables a robust and transparent relationship between the club's capital needs and strategic decisions like reinsurance purchase, asset allocation, or business planning.

Our opinion of the club's strong business risk profile reflects the significant barriers to entry within the international group clubs and the U.K. club's high customer retention rates. Underwriting performance sustainability has helped the club to maintain extremely strong risk-based capital adequacy (measured using our model), which supports our view of a strong financial risk profile. These factors lead to an anchor of either 'a' or 'a-'. We select the higher of the two anchors to reflect the club's underlying financial flexibility. We view the underlying financial flexibility of the club to be at least as strong as other clubs within the International Group (IG). The ratings are the same as the anchor because we view ERM and management and governance practices as neutral.

Outlook

The stable outlook on the U.K. Club and its core entities reflects our view that the club's capital adequacy will remain in the 'AAA' range. In addition, we expect the club's underwriting performance to remain on a par with a recent stabilization through February 2018–February 2020. We anticipate that the club's conservative reserving, reinsurance program, and smaller share of the IG pool will serve to further stabilize the results that enhanced underwriting standards have improved in recent years.

Downside scenario

We could take a negative rating action should the club revert to its former pattern of unstable underlying results more than two years in a row or should capitalization, as measured using our model, fall below the 'AAA' range.

Upside scenario

We do not consider an upgrade to be likely over the two-year rating horizon. The competitive dynamics of the protection and indemnity (P&I) sector, and the fact that the club already enjoys the highest assessment for capital and earnings under our criteria, serves to limit rating upside.

Ratings Score Snapshot

Financial Strength Rating	A/Stable
Anchor	a
Business Risk Profile	Strong
IICRA	Intermediate risk
Competitive Position	Strong
Financial Risk Profile	Strong
Capital and Earnings	Very strong
Risk Position	Intermediate risk
Financial Flexibility	Less Than Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate with strong risk controls
Management and Governance	Satisfactory
Holistic Analysis	0
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria - Insurance - Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008

Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed

United Kingdom Mutual Steamship Assurance Association (Europe) Ltd. (The)
The United Kingdom Mutual Steamship Assurance Association (Bermuda) Ltd.

Counterparty Credit Rating

Local Currency A/Stable/--

Financial Strength Rating

Local Currency A/Stable/--

The United Kingdom Mutual Steamship Assurance Association (Bermuda) Ltd.

Junior Subordinated BBB+

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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. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the 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; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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