

Research Update:

# UK P&I Club 'A' Ratings Affirmed, UK P&I Club N.V. 'A' Ratings Assigned; Outlook Stable

August 21, 2019

## Overview

- The U.K. P&I Club set up Rotterdam-based UK P&I Club N.V. (UKNV) to ensure continuity of cover for its European Union risks after Brexit. Due to its importance, we equalize our rating on UKNV with that of the club.
- The club is one the largest International Group of P&I Club (IG) members by premium and gross tonnage, enjoying risk-based capital adequacy above our 'AAA' benchmark.
- We are affirming our 'A' insurer financial strength and issuer credit ratings on UKE and UKB. At the same time, we are assigning our 'A' financial strength rating on UKNV.
- The stable outlook on the U.K. P&I Club reflects our view that its capital adequacy will remain above the 'AAA' requirements.

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## Rating Action

On Aug. 21, 2019, S&P Global Ratings affirmed its 'A' insurer financial strength and issuer credit ratings on United Kingdom Mutual Steamship Assurance Association (Europe) Ltd. (The) (UKE) and The United Kingdom Mutual Steamship Assurance Association (Bermuda) Ltd. (UKB). At the same time, we assigned our 'A' financial strength rating to UK P&I Club N.V. (UKNV). The outlook is stable. We refer to these entities collectively as The U.K. P&I Club or the club.

## Outlook

The stable outlook on the U.K. P&I Club reflects our view that its capital adequacy will remain above the 'AAA' requirements. In addition, we expect the club's underwriting performance will not materially deteriorate and remain broadly in line with its three-year average. We anticipate that its conservative reserving, reinsurance program, and smaller share of the IG pool will serve to further stabilize the underwriting results that have improved in recent years.

## Downside scenario

We could take a negative rating action if the club exhibited a pattern of unstable results for more than two years in a row or if capitalization, as measured using our model, fell below the 'AAA' range for a prolonged period.

## Upside scenario

We consider an upgrade unlikely over the two-year rating horizon. The competitive dynamics of the protection and indemnity sector, and the fact that the club already enjoys the highest assessment for capital adequacy under our criteria, serve to limit rating upside.

## Rationale

The importance of UKNV in ensuring continuity of cover for the club's European Union risks after Brexit underpins our rating action. UKNV is a Netherlands legal entity that is licensed and regulated by the Dutch Central Bank, with its head office in Rotterdam. Similar to UKE and UKB, UKNV will be managed Thomas Miller.

From financial year 2020, UKNV is expected to contribute about a third of club's gross written premium (GWP), which it will fully cede back to U.K.-based UKE. The materiality of the new subsidiary, as well as the support it will receive from UKE in terms of reinsurance, highlight its importance to the club. We therefore equalize our rating on UKNV with that on its parent.

The U.K. P&I Club is one of the largest IG clubs by premium and tonnage. In 2018, it reported GWP of \$322 million, about 11% lower than in 2017. As the P&I sector experienced a challenging year in 2018, the club reported a net combined ratio of 114% (2017: 83%). As a result, the club reported net losses of \$32 million. Despite this, we expect the club's capital adequacy to remain above the 'AAA' benchmark over the two-year outlook horizon, supporting its current 'A' ratings.

## Ratings Score Snapshot

<b>Business Risk Profile</b>	<b>Strong</b>
Competitive position	Strong
IICRA	Intermediate
<b>Financial Risk Profile</b>	<b>Strong</b>
Capital and earnings	Very Strong
Risk exposure	Moderately High
Funding structure	Neutral
Anchor*	a
<b>Modifiers</b>	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

**Financial Strength Rating**

**A**

\*This is influenced by the U.K. Club's risk-based capital adequacy, its position as one of the largest P&I clubs, and its ability to make unbudgeted supplementary calls.

**Related Criteria**

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

**Ratings List**

**New Rating; Outlook Action**

**UK P&I Club N.V.**

Financial Strength Rating

Local Currency      A/Stable/--

**Ratings Affirmed**

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

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

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.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://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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