Research Update:

Standard Club 'A' Ratings Affirmed; Outlook Revised To Negative On Weak Operating Performance

May 29, 2020

Rating Action Overview

- Marine Insurer Standard Club Ltd.'s (the club) operating performance is significantly below its break-even target and our expectations. This is primarily due to higher-than-anticipated large claims in 2019, further aggravated by the loss following the disposal of the syndicate business.
- We believe that the deteriorating underwriting performance could pressure the club's competitive position, which we currently view as strong.
- We are therefore revising our outlook to negative from stable and affirming our ratings at 'A'.
- The negative outlook reflects the potential for a one-notch downgrade over the next 12-24 months if the club is not able to sustainably improve its underwriting and operating performance in line with its plan and the industry average.

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Rationale

The outlook revision reflects the potential for a downgrade over the next 12-24 months if the club is unable to demonstrate an improvement in its operating performance. While the club is a mutual, we would expect an organization with its competitive strengths and market position to operate closer to break-even. For 2019/20, the club reported a 126% net combined ratio for the policy year, and a further $20 million loss from the sale of its syndicate, which had a negative impact on its bottom line. The performance of the club's core P&I (protection and indemnity) book, and its total operating results (including the syndicate), are both materially lower than the 105% net combined ratio that we, and the club, expected. Persistent weak operating performance would therefore be detrimental to the club's competitive position. Weaker earnings could also reduce the club's capital surplus, as measured by S&P Global Ratings' capital model, and could therefore weaken its creditworthiness overall.

The affirmation reflects our expectation that the club will take steps over the next two years to sustainably and materially improve its underwriting performance, with net combined ratios of no higher than 109% in 2020/21 and 107% in 2021/22. We expect the club will return to a net bottom-line surplus and therefore halt further erosion of its capital base by 2022, and achieve its target of break-even underwriting results thereafter. The sale of the syndicate, completed in

March 2020, should help to alleviate pressure on future operating results. The club also announced a general increase of 7.5% for the 2020/21 renewal cycle, similar to several P&I clubs, reflecting the higher level of claims observed across the industry. However, we believe that the current volatile economic and market environment and risks to the sector from global trade wars increases uncertainty around the club's ability to achieve its business targets. We anticipate that the club will continue to maintain surplus over the 'AAA' level of capital requirements, according to our risk-based model, and maintain strong liquidity and cash balances over the next two years.

Outlook

The negative outlook reflects the potential for a one-notch downgrade over the next 12-24 months if the club does not significantly improve its underwriting performance, and its operating performance overall, which may adversely affect our assessment of the club's competitive position and capital adequacy.

Downside scenario

We could lower the ratings if the club does not sustainably strengthen its operating performance and meet its business plan over the next 12-24 months, while maintaining a supportive market position, diversification, and brand and reputation. An improvement in its operating performance will entail a return to net bottom-line surplus in 2021/22, supported by break-even underwriting results thereafter, without increasing its financial risk, such as on its underwriting or investment profile. We could also lower the ratings if the club's performance is materially weaker than its peers'.

Upside scenario

We could revise the outlook to stable in the next 12-24 months if the club meets its business plan and its performance is in line with the industry, which will support our view of the club's financial risk profile.

Ratings Score Snapshot

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

Financial Strength Rating	A/Negative

*This is influenced by the club's ability to raise capital through unbudgeted supplementary calls on its members and capital surplus above the AAA-confidence level on the S&P model.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- 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

Ratings Affirmed; Outlook Action

	To	From
Standard Club UK Ltd. (The)		
The Standard Club Asia Ltd.		
Standard Reinsurance (Bermuda) Ltd.		
Issuer Credit Rating		
Local Currency	A/Negative/--	A/Stable/--
Standard Club UK Ltd. (The)		
The Standard Club Ireland DAC		
The Standard Club Asia Ltd.		
Standard Reinsurance (Bermuda) Ltd.		
Financial Strength Rating		
Local Currency	A/Negative/--	A/Stable/--