

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.

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

PRIMARY CREDIT ANALYST

Simran K Parmar
London
(44) 20-7176-3579
simran.parmar
@spglobal.com

SECONDARY CONTACT

Mark D Nicholson
London
(44) 20-7176-7991
mark.nicholson
@spglobal.com

ADDITIONAL CONTACT

Anisha H Tole
Mumbai
+ (022)40405855
Anisha.Tole
@spglobal.com

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/--

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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on 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.

Copyright © 2020 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.standardandpoors.com (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.standardandpoors.com/usratingsfees.

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