

Shipowners' Mutual Protection & Indemnity Association (Luxembourg)

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Shipowners' Mutual Protection & Indemnity Association (Luxembourg)

Anchor	a	+	Modifiers	0	=	SACP	a	
▲			▲			+		
Business Risk	Strong					Support	0	=
Competitive position	Strong		Governance	Neutral				
IICRA	Intermediate							
Financial Risk	Strong		Liquidity	Exceptional		Group support	0	
Capital and earnings	Very strong							
Risk exposure	Moderately high		Comparable ratings analysis	0		Government support	0	
Funding structure	Neutral							
								A/Stable/--
								Financial strength rating

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

Credit Highlights

Overview

Key strengths	Key risks
Membership of the International Group (IG) of protection and indemnity (P&I) clubs provides market access.	Largely undiversified product range and exposure to equity markets--especially in light of the current turbulent financial backdrop--can cause capital and earnings volatility.
Capitalized at the 'AAA' level, according to S&P Global Ratings' risk-based capital model, with relatively stable underwriting records that compare well with those of IG peers.	Weaker macroeconomic conditions, geopolitical tensions, and competition from fixed-premium players and within the IG, could temper growth and underwriting results.
Leading and resilient position in the P&I insurance market for small and specialist ships, underpinned by sector expertise and sound intermediary relationships.	Compared with IG peers, the unusually large number of members increases diversification but also implies more reliance on broker relationships to retain business.

We believe Shipowners' Mutual Protection & Indemnity Association (Luxembourg) (SMP) will maintain a leading position in its niche market of P&I insurance for small and specialist vessels. Although we note that macroeconomic and geopolitical headwinds could temper growth, S&P Global Ratings expects that SMP will defend its market share and continue to benefit from the competitive advantage that its unique position within the IG provides. We anticipate the Club will continue to demonstrate sound underwriting discipline with combined ratios at about breakeven level and retention rates in high 90%s.

We expect that SMP will maintain excess capital at our 'AAA' benchmark. That said, we remain aware of potential volatility (deriving from investment exposure) in the Club's capital surplus, the risk of which is currently elevated due to ongoing market turmoil, and pool claims. We expect that the management will take action if needed to maintain capital adequacy at the 'AAA' level.

Given its focus on its core P&I business, SMP remains largely undiversified. SMP's business composition is consistent with that of its P&I peers. However, in comparison to the peers, including non-P&I clubs that we rate more highly, SMP's lack of diversity makes its business less diversified and less resilient to stress.

Outlook: Stable

The stable outlook reflects our view that SMP's capital adequacy, as measured by our risk-based model, will remain above our requirements for the 'AAA' level for the next two years. We also expect that the club will maintain its competitive position and sustain high member retention and underwriting results, at least in line with the averages for its P&I peers during this period. That said, in line with its peers, we anticipate that economic conditions and competitive pressures may continue to slow SMP's growth rate and hinder its underwriting performance.

Downside scenario

We could lower the rating on SMP if we see a deterioration in its competitive position, evident from a period of poor underwriting results or a sizable reduction in its market share. We could also lower the rating if the club's prospective capital adequacy weakened below our 'AAA' level.

Upside scenario

We consider a positive rating action unlikely. Like most of its peers, the relative lack of diversity in SMP's earnings constrains our view of its competitive position.

Assumptions

- The Russia-Ukraine conflict's global macroeconomic effects for now seem moderate after a healthy start to 2022, including strong household balance sheets in the advanced economies.
- But risks are clearly on the downside: The conflict will influence direct trade effects, energy and commodity prices, confidence, and policy responses, particularly in China.
- We have lowered our GDP growth forecast by 0.6 percentage point (ppt) to 3.6% globally, by 0.7ppt to 3.2% in the U.S., and by 1.1ppt to 3.3% in the eurozone. We think China's policy response will keep growth stable at around 5%.
- Inflation has moved front and center as a policy challenge: higher U.S. dollar rates will tighten financial conditions, moderate growth, and spill over to other economies, while the European Central Bank tightening will be much more gradual. Refer to "Global Economic Outlook Q2 2022: No Cause For Complacency As The Russia-Ukraine Conflict Modestly Dents Growth," March 31, 2022

Shipowners' Mutual Protection & Indemnity Association (Luxembourg)--Key Metrics

	--Year ended Dec. 31--						
	2017a	2018a	2019a	2020a	2021a	2022f	2023f
Gross premiums written (Mil. \$)	217.8	228.4	230.5	234.1	257.5	265.2	278.5

Shipowners' Mutual Protection & Indemnity Association (Luxembourg)--Key Metrics (cont.)

	--Year ended Dec. 31--						
	2017a	2018a	2019a	2020a	2021a	2022f	2023f
Net income (Mil. \$)	47.7	(37.9)	36.1	39.1	17.4	~0	~10
S&P Global Ratings' Net combined ratio (%)	99.1	104.2	105.1	101.0	98.7	~99	~99
S&P Global Ratings' capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent

a--Actual. f--Forecast. Forecast data represent S&P Global Ratings' base-case assumptions. Return on revenue and net investment yield excludes net realised and unrealised gains.

Business Risk Profile: Strong

Within the IG--a group of 13 clubs providing P&I cover to more than 90% of the world's ships--SMP occupies a unique position with its focus on the market of smaller and specialist vessels, where it has built a defensible and successful position over time. In addition to the traditional P&I market covered by the IG, SMP has a sizable fixed-premium offering (about 30% of gross premiums written) that provides an alternative solution for its members. We view positively the diversification benefits for SMP, but also recognize the ebbs and flows in the competitive nature of the fixed-premium market, which has tended to add some pressure to the club's underwriting margins. The P&I industry has also faced a high level of claims in recent years, and although SMP's low share of the pool helps somewhat mitigate the negative impact, it does drag on the loss ratio. We anticipate that SMP's underwriting performance will hover around breakeven for the next two years as the club has redressed underperforming business with general increases and remains disciplined on underwriting.

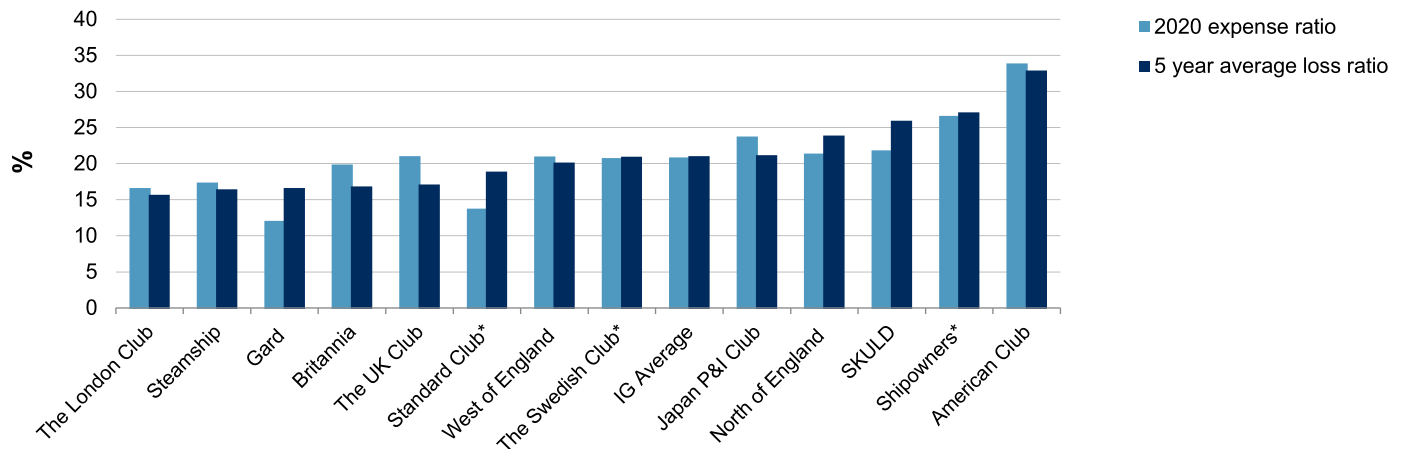
The Club's combined ratio of 98.7% in 2021 was in line with our expectations and one of the best among the P&I peer group, thanks to limited own claims and lower exposure to pool claims. The improvement in operating performance has alleviated some of the pressures seen in SMP's combined ratio in 2018 and 2019. Due to the strong underwriting performance in the last two years, five-year combined ratio average at about 102% is better than the average for its P&I club peers over the same period.

SMP has demonstrated high member retention levels (98.8% in 2021) and we expect retention to remain in the high-90s over the next two years. We are cautious regarding prospective growth due to ongoing pressures on the global economy and geopolitical tensions, which could temper demand, and cancelled business as a result of sanctions due to the Russia-Ukraine conflict. Also, even though SMP has historically imposed much lower increases in premium rates than the majority of IG clubs, recent years have benefitted from general rate increases along with new business wins. We anticipate limited premium growth from general rate increases over the next two years compared with last year.

We note that SMP's expense ratio is somewhat higher than peers because of the business model and have factored inflationary pressures in the forecasts. That said, development and experience of claims inflation remains an uncertainty.

Chart 1

Expense Ratio For The P&I Clubs

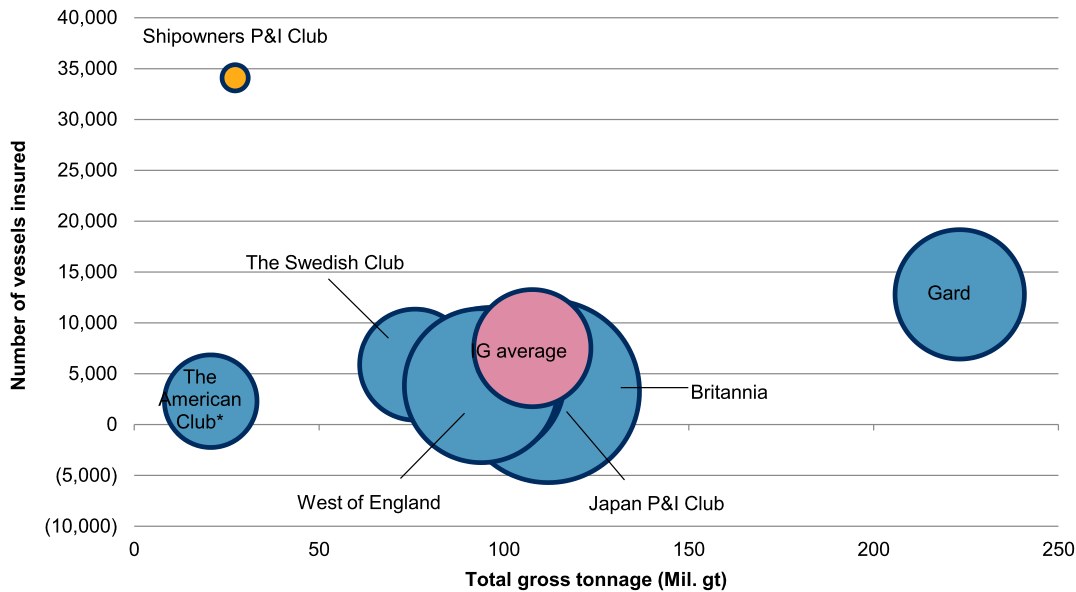


*2021 figures; and corresponding 5 year average. P&I--Property and indemnity. Source: S&P Global Ratings. Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

SMP has a global presence, over 8,200 members, and over 34,000 insured vessels, insuring approximately 845 Gross tonnage per vessel on an average. We note that the large number of members increases diversity and reduces concentration risk. On the other hand, we also consider that the largely broker-based distribution model increases reliance on intermediaries and contributes to the relatively higher expense ratio as shown in Chart 1. With no other significant lines of business outside its core P&I offering, SMP's earnings are exposed to the fortunes of one market, which we view as a competitive constraint compared with larger and higher rated insurers.

Chart 2

Shipowners' Unique Profile--Larger Insured Portfolio Than P&I Peers With A Focus On Small And Specialist Ships



*Bubble size represents the average size per vessel. Note: Figures are based on company disclosures in the period Dec. 31, 2018 - March 31, 2019. IG Average is based on IG P&I annual review 2018/19. *Number of vessels of American club is based on its subsidiary--American Hellenic Insurance Co. Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

Financial Risk Profile: Strong

We expect that SMP's total adjusted capital will remain above our requirements at the 'AAA' level over 2022-2024. This reflects our expectation that SMP will continue to build the capital surplus on the back of modest annual profits of about \$10 million over 2022-2023, although we note that the results are exposed to financial market volatility which is currently particularly elevated.

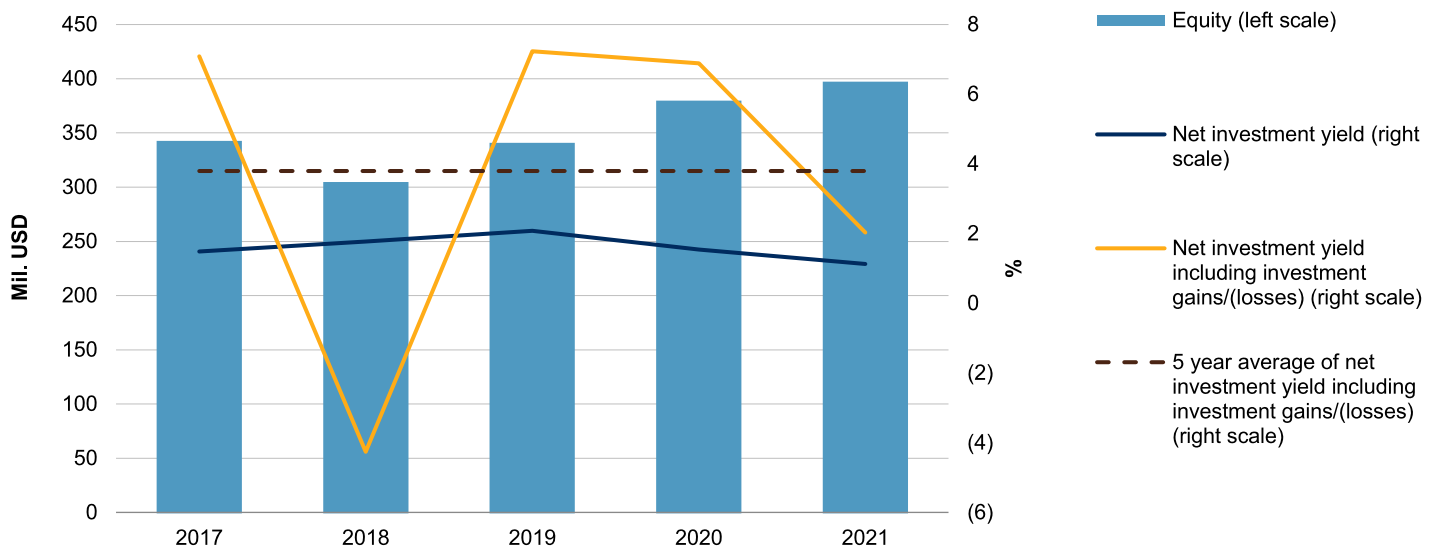
Our forecast reflects continued breakeven underwriting income and lower but positive investment returns. Considering the club's mutual status and financial position, we do not view medium-term decisions to underwrite at a loss too negatively. We believe that SMP will preserve its long-term objective to provide its members with cover at cost. That said, reliance on investment results to support capital adequacy exposes the club to risks from financial market volatility.

We assume annual investment returns, excluding capital gains, will be about 1% over the next two years, despite the investment portfolio's tilt towards active management and relatively higher weighting toward equities than some peers. The 2021 investment yield and the ongoing financial market rout factor into our expectations. The Club has a relatively high-risk investment allocation (a 25% equity target) compared with Western European nonlife insurers. This

contributed to capital volatility during stock market turmoil in 2020 and in 2018. We recognize that SMP's investment strategy has shown long-term benefits, and capital position recovered with returns (including by capital gains) of about 7% in 2019 and 2020 but we also note the drop to 2% in 2021 and -4% in 2018. We believe that the current capital surplus at the 'AAA'-level can withstand short-term bouts of market turbulence. However, we remain cognizant that SMP's ability to absorb market shocks and sustain 'AAA'-level capital adequacy may reduce if the surplus declines.

Chart 3

Market Movement Can Potentially Lead To Short-Term Volatility For The Club



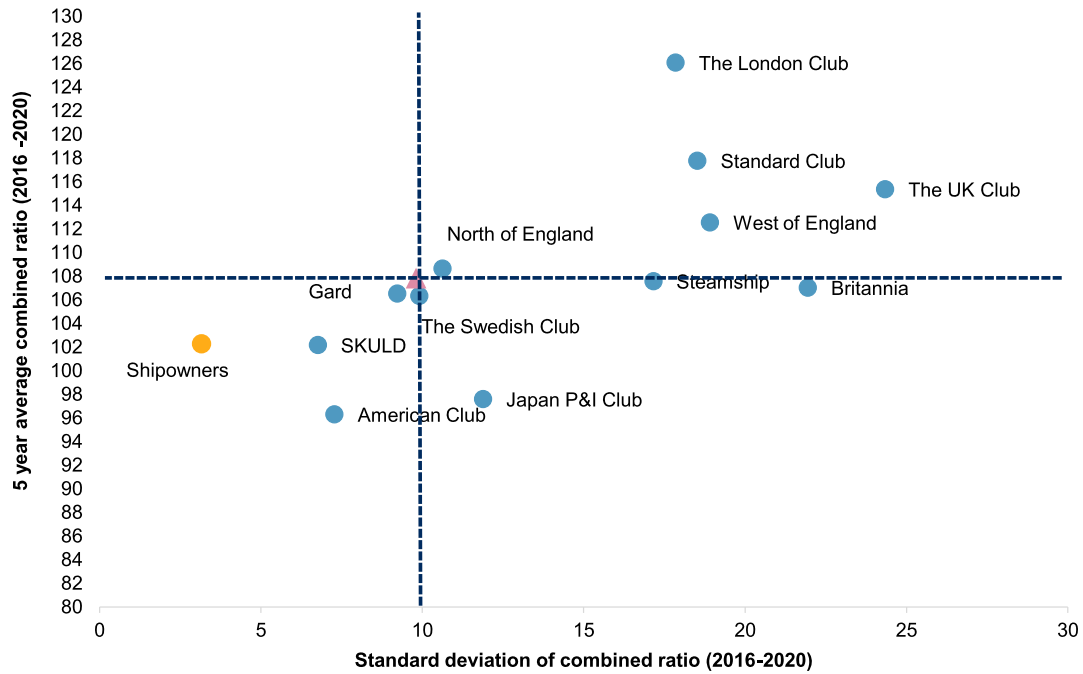
Source: S&P Global Ratings.

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As noted above, we view positively that SMP's underwriting volatility has historically been lower than that of its P&I peers. We believe that the reinsurance program allows for relatively low levels of risk retention, while the diversity of SMP's portfolio also provides earnings stability. This has been evidenced with SMP's relatively sound performance in 2021 when we observed heightened volatility for many P&I peers.

Chart 4

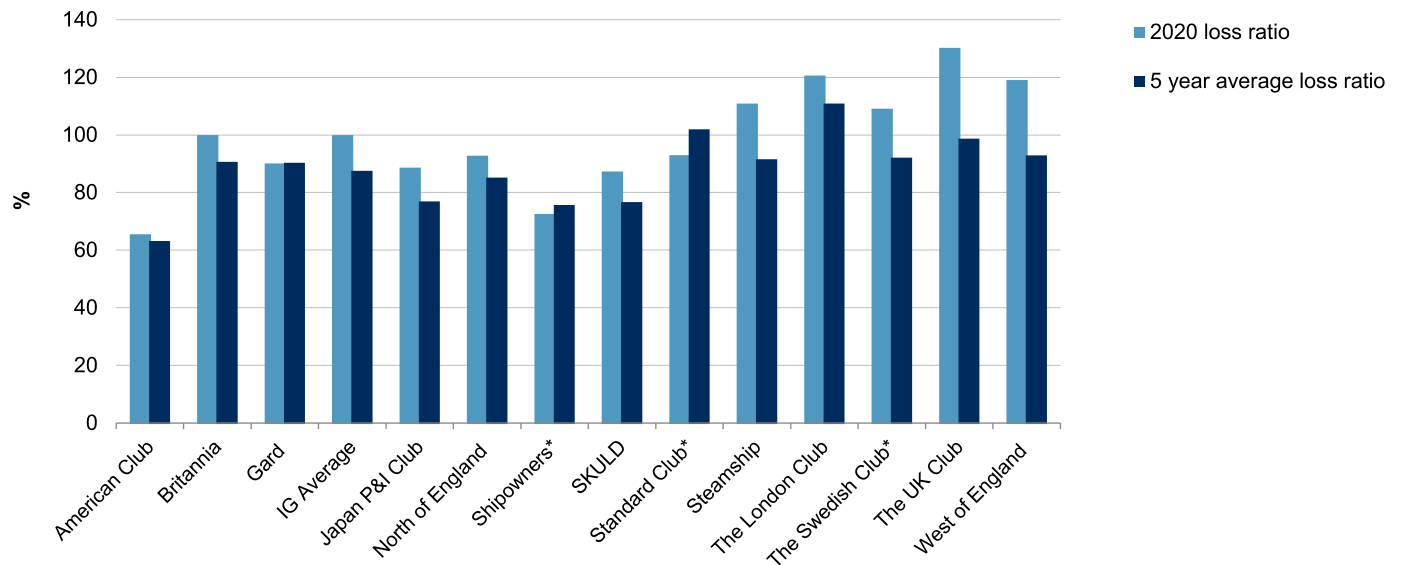
Shipowners' Underwriting Performance Historically Less Volatile Than P&I Peers (2015-2019)



Dotted lines represent the P&I peer group average. P&I--Property and indemnity Source: S&P Global Ratings.
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Chart 5

Loss Ratio For The P&I Clubs



*2021 figures; and corresponding 5 year average. P&I Property and indemnity. Source: S&P Global Ratings. Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

Like its IG marine mutual peers, SMP has a legally enforceable right to collect unlimited additional premiums. We nevertheless think it is unlikely that the club will exercise this option and as such, we do not explicitly factor it into our capital analysis.

Other Key Credit Considerations

Governance [Mandatory]

We consider SMP's governance to be in line with that of the majority of other P&I clubs. Over time, we have observed clarity and consistency in the club's strategy, as well as market-leading expertise in its chosen segment. We view SMP's risk-management capabilities as appropriate for its monoline profile. SMP has developed pricing tools that it can use in its quoting procedures, and benefits from its large database and knowledge of the small ships sector.

Liquidity [Mandatory]

We believe that SMP is capable of managing unexpectedly large claims. We assess that about \$600 million of liquid assets would be available in a stressed situation; this represents more than 2.2x the club's liquidity needs.

Anchor selection

Selection of the 'a' anchor is influenced by the club's resilience to increased competition in the small ship P&I market and our expectation that SMP will continue to exhibit lower underwriting volatility than its peers. We also note our

expectations of sound capital adequacy over the next two years.

Environmental, social, and governance

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

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
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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 alphanumeric 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.

Glossary

P&I Insurance

A form of mutual maritime insurance that provides third-party legal liability insurance for ship owners, operators, and charterers.

Fixed premium

A form of non-mutual P&I insurance offered at a fixed price. Fixed-premium policyholders are not mutual members of a P&I club.

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

Appendix

Shipowners' Mutual Protection & Indemnity Association (Luxembourg)--Credit Metrics History		
	2021	2020
S&P Global Ratings capital adequacy	Excellent	Excellent
Total invested assets	782.6	752.7
Total shareholder equity	396.4	379.1
Gross premium written	257.5	234.1

Shipowners' Mutual Protection & Indemnity Association (Luxembourg)--Credit Metrics History (cont.)

	2021	2020
Net premium written	231.5	209.7
Net premium earned	223.2	207.2
Reinsurance utilization (%)	10.1	10.4
EBIT	17.7	40.4
Net income (attributable to all shareholders)	17.4	39.1
Return on revenue (%)	4.6	0.8
Return on assets (excluding investment gains/losses) (%)	1.2	0.2
Return on shareholders' equity (%)	4.5	10.9
Property/casualty: Net combined ratio (%)*	98.7	101.0
Property/casualty: Net expense ratio (%)	26.5	28.5
Property/casualty: Return on revenue (%)	4.6	0.8
Net investment yield (%)	1.1	1.5
Net investment yield including investment gains/(losses) (%)	2.0	6.9

* Net combined ratio of 2020 excludes one-off pension charge. The combined ratio would be 104.4% if we include the pension charges.

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 May 24, 2022)*

Operating Company Covered By This Report

Shipowners' Mutual Protection & Indemnity Association (Luxembourg)

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

Domicile

Luxembourg

*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.

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