

Research Update:

Standard Club 'A' Ratings Affirmed; Outlook Remains Negative On Continued Underwriting Losses

October 22, 2021

Overview

- After the sale of its underperforming syndicate business, Standard Club's performance has started to show signs of improvement.
- The club's net combined (loss and expense) ratio has improved to less than 110% at August 2021 from 127% at February 2021 due to lower attritional losses and reserve releases from developments in prior years.
- However, higher pool claims continue to weigh on the club's underwriting performance, although exposure to the International Group's (IG) pool has been decreasing.
- The negative outlook reflects the potential for a one-notch downgrade over the next six to 12 months if the club is not able to improve its underwriting and operating performance and perform in line with 'A' rated peers.

Rating Action

On Oct. 22, 2021, S&P Global Ratings affirmed its 'A' ratings on The Standard Club's main operating entities: The Standard Club UK Ltd., The Standard Club Ireland DAC, The Standard Club Asia Ltd. and Standard Reinsurance (Bermuda) Ltd. The outlook is negative.

Rationale

After some challenging years and following the sale of its syndicate business, the club's performance is showing signs of improvement. For the first half (H1) of the financial year ending Feb. 20, 2022, the club reported a net combined ratio of less than 110% supported by lower attritional claims and positive prior-year developments. Lower combined ratios indicate better profitability; a combined ratio of greater than 100% signifies an underwriting loss. The negative outlook reflects the potential for a one-notch downgrade over the next six to 12 months if the club

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cannot maintain its improving operating performance and outperform its peers. We expect net combined ratios of no higher than 106% in the financial year ending Feb. 20, 2022, converging to 100% or lower by Feb. 20, 2023. We also expect the club will return to a net bottom-line surplus and therefore halt further erosion of its capital base by Feb. 20, 2023. We first assigned the negative outlook on May 29, 2020 and will continue to closely monitor the club over the next six months.

During the past year, the club has taken several management actions to reduce losses, including moving its management inhouse, selling the underperforming syndicate, and reducing its share of the IG pool. At the February 2021 renewal, the club achieved a general increase of 6.7%, reflecting the higher level of claims observed across the industry. However, the club still underperforms its 'A' rated peers and may not be able to turn itself around over the next six to 12 months to meet our expectations. We anticipate that the club will continue to maintain surplus above 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 six to 12 months if the club does not significantly improve its underwriting performance, along with its operating performance overall, which may negatively affect our assessment of the club's competitive position.

Downside scenario

We could lower the rating by one notch in the next six to 12 months if the club does not improve its combined ratio to 106% by Feb. 20, 2022 and 100% or below by Feb. 20, 2023. To support our view of a strong competitive position, the club's market position, brand, and reputation should bring about a return to positive operating performance by Feb. 20, 2023.

Upside scenario

We could revise the outlook to stable if the club's operating performance materially exceeds our expectations over the next six to 12 months.

Ratings Score Snapshot

Table 1

Standard Club UK Ltd. -- Ratings Score Snapshot

Business Risk Profile	Strong
Competitive position	Strong
IICRA	Intermediate
Financial Risk Profile	Strong
Capital and earnings	Very strong
Risk exposure	Moderately high
Funding structure	Neutral

Table 1

Standard Club UK Ltd. -- Ratings Score Snapshot (cont.)

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 Global Ratings model.

Key Credit Metrics

Table 2

Standard Club UK Ltd. -- Key Credit Metrics

	--Fiscal year ends Feb. 20--				
	2023f	2022f	2021a	2020a	2019a
Net combined ratio (%)					
Standard Club	100.0	106.0	127.2	142.6	116.2
IG average	107.0	110.0	117.0	115.7	110.3
Return on members' funds (%)					
Standard Club	6.0	(6.0)	(19.5)	(33.1)	(9.0)
IG average	5.0	4.0	1.6	5.6	(3.6)

a--Actual. f--Forecast. IG--International Group.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers 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

Related Research

- Standard Club 'A' Ratings Affirmed; Outlook Revised To Negative On Weak Operating Performance, May 29, 2020

Ratings List

Ratings Affirmed

Standard Club UK Ltd. (The)

Standard Reinsurance (Bermuda) Ltd.

Standard Club Asia Ltd. (The)

Issuer Credit Rating

Local Currency A/Negative/--

Standard Club UK Ltd. (The)

Standard Reinsurance (Bermuda) Ltd.

Standard Club Ireland DAC (The)

Standard Club Asia Ltd. (The)

Financial Strength Rating

Local Currency A/Negative/--

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.

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