

Research

Research Update:

Marine Insurer West of England Club Upgraded To 'A-'; Outlook Stable

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Overview

- Marine insurer West of England Mutual Insurance Association (Luxembourg) has developed a strong capability to generate and retain earnings, which has boosted its risk-based capital to comfortably above the 'AAA', extremely strong confidence level in our model.
- West of England's capital base has also reached a critical size that makes it less vulnerable to a one-off event.
- These positive factors are supported by management's willingness and ability to maintain extremely strong capitalization, that is, above 'AAA' based on our capital model.
- We are therefore raising our ratings on the club to 'A-' from 'BBB+'.
- The stable outlook reflects our view that West of England will continue generating strong operating income and maintain its current level of capitalization.

Rating Action

On Nov. 18, 2016, S&P Global Ratings raised its long-term counterparty credit and insurer financial strength ratings on Luxembourg-based insurer West of England Mutual Insurance Association (Luxembourg) (West of England or the club) to 'A-' from 'BBB+'. The outlook is stable.

Rationale

The upgrade reflects West of England's track record of consistently improved earnings generation and retention, which has boosted its risk-based capital (RBC) to comfortably above the 'AAA', extremely strong confidence level in our model over the last two years. We believe that West of England has attained a capitalization in line with its peers rated 'A-'. We now assess the club's capital and earnings as very strong.

We have also revised our liquidity assessment on West of England to exceptional from strong reflecting the strength of available liquidity sources--mainly premium income and a relatively liquid asset portfolio. We consider the company to be capable of managing unexpectedly large claims.

Since 2011, management's actions, such as de-risking its books by terminating the club's loss-generating memberships, have allowed the club to significantly strengthen its capital position through a progressively improving underwriting performance. The combined ratio has fallen from as high as 140% in 2008 to nearly 100% in 2014, passing into underwriting profitability in the year to

February 2015, at 96.5%, with the improvement continuing to February 2016 at 81.4%. Meanwhile, the free reserve has risen by almost \$100 million to \$276.7 million until February 2016. (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.) Following a series of disappointing results in 2011, West of England's management has re-positioned the club away from the unprofitable business, resulting in portfolio pruning. The change in strategy has allowed the club to focus on areas where underwriting results are stronger and able to attract profitable new business.

We anticipate that West of England will maintain disciplined underwriting that will allow it to preserve underwriting profitability in 2017-2019. We expect the club will use these earnings to sustain the current levels of capital and its extremely strong capital adequacy position as measured by our risk based model.

Outlook

The stable outlook reflects our view that the club will sustain its improved operating performance over the next three years.

Upside scenario

A positive rating action is improbable over the next two years as it would likely depend on the club substantially increasing its scale without diluting operating performance.

Downside scenario

We could lower the ratings on the club if its results were more volatile than we currently expect, or if its RBC adequacy falls significantly and persistently below the level we define as extremely strong in our model.

Ratings Score Snapshot

	To	From
Financial Strength Rating	A-/Stable	BBB+/Stable
Anchor	a-	bbb-
Business Risk Profile	Satisfactory	Satisfactory
IICRA*	Intermediate Risk	Intermediate Risk
Competitive Position	Adequate	Adequate
Financial Risk Profile	Strong	Upper Adequate
Capital & Earnings	Very Strong	Moderately Strong
Risk Position	Moderate Risk	Moderate Risk
Financial Flexibility	Adequate	Adequate

Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management & Governance	Fair	Fair
Holistic Analysis	0	0
Liquidity	Exceptional	Strong
Support	0	0
Group Support	0	0
Government Support	0	0

*Insurance Industry And Country Risk Assessment.

Related Criteria And Research

- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- Criteria - Insurance - General: Enterprise Risk Management - May 07, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology - May 07, 2013
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Ratings List

Upgraded

	To	From
West of England Mutual Insurance Association (Luxembourg) Counterparty Credit Rating		
Local Currency	A-/Stable/--	BBB+/Stable/--
Financial Strength Rating		
Local Currency	A-/Stable/--	BBB+/Stable/--

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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. Complete ratings information is available to subscribers of

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RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the 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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