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Ratings

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Everen Ltd.

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Anchor	a
Business Risk	**Satisfactory**
Competitive position	Satisfactory
IICRA	Intermediate
Financial Risk	**Excellent**
Capital and earnings	Excellent
Risk exposure	Moderately low
Funding structure	Neutral

\+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a

\+

Support	0
Group support	0
Government support	0

=

Financial strength rating
A/Stable/--

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

Credit Highlights

Overview

Key strengths	Key risks
Long-standing reputation in the energy industry as a large, stable insurance capacity provider	Larger appetite for risky investments leading to earnings and capital volatility
Strong balance sheet with capitalization well redundant at the 'AAA' confidence level through 2024	Secular trends and structural shifts in the global energy markets bringing challenges as well as opportunities
Unique retrospective premium plan, which mitigates potential underwriting risks	Limited diversity in its product offerings with a sole focus on energy

The global energy transition could pose obstacles and opportunities for Everen. The global energy industry is facing a transition toward decarbonization and away from fossil fuels. The Russia-Ukraine conflict has further added urgency to many nations' energy transition plans. While this could weigh on Everen's business operations, we believe the transition offers opportunities for Everen in the energy industry. The company has already added eight new sectors encompassing renewable energy operations such as solar and wind, helping solidify its proposition in the energy market.

Everen's excellent capitalization remains resilient to investment losses. Everen has significant capital redundancy at the 'AAA' confidence level, which supports its relatively aggressive investment philosophy. As of year-end 2021, approximately 47% of its total invested assets were allocated to public equities and alternative investments like hedge funds. As of June 30, 2022, the company incurred investment losses owing to financial market volatility and mark-to-market losses of $613 million. Shareholders' equity dropped to $3.6 billion from $4.2 billion given the investment losses but the significant capital buffers remain enough to absorb the impact.

Everen offers stable, large, and cornerstone capacity to its member firms, but its product offerings are limited, and all of the company's exposure is to the energy sector. Over the past few years, the company has enhanced its product offerings by increasing its coverage limit, and it has added sectors focused on alternative/renewable energy. We expect the company's products, with the structural shifts in the energy industry, to further evolve as its members' needs change.

Outlook: Stable

The stable outlook reflects S&P Global Ratings' view that Everen will sustain its competitive position in the energy industry with a relatively stable membership base while it enhances its value to its members and maintains substantial capital redundancy at the 'AAA' confidence, supported by stable operating earnings.

Downside scenario

We could lower the ratings in the next 24 months if, contrary to our expectations:

- Capital adequacy deteriorates on a sustained basis such that the company is unable to maintain sufficient redundancy at the 'AAA' confidence level to absorb stressed underwriting and investment-related losses; or
- There are significant departures from Everen's membership base, which could undermine its long-standing reputation in the energy industry as a provider of stable insurance capacity with an attractive value proposition.

Upside scenario

We are unlikely to raise the ratings in the next 24 months. While Everen has an excellent financial risk profile supported by robust capitalization, its competitive position is somewhat limited and mostly focused on the energy sector.

Assumptions

- Real U.S. GDP growth of 1.6% in 2022, 0.2% in 2023, and 1.6% in 2024
- 10-year U.S. Treasury note yield of 2.8% in 2022, 3.3% in 2023, and 3.2% in 2024
- U.S. core Consumer Price Index of 6.2% in 2022, 3.8% in 2023, and 2.0% in 2024

Everen Ltd.--Key Metrics

(Mil. $)	2024f	2023f	2022f	2021	2020	2019
Gross premiums written	400-500	450-550	450-550	600.0	517.2	477.5
Change in gross premiums written (%)	*	*	*	16.0	8.3	26.1
Combined ratio including corporate expenses (%)	100	100	100	59.0	91.2	28.3
Net income attributable to all shareholders§	50-100	50-100	(500)-(550)	667.5	466.5	1,033.7
Return on average shareholders' equity (%)	Low single digits	Low single digits	(13)-(16)	16.3	12.2	30.0
Return on revenue	Mid teens	Low teens	Low teens	46.5	20.8	76.8
S&P Global Ratings' capital adequacy (confidence level)	AAA	AAA	AAA	AAA	AAA	AAA

*Not disclosed. §2022f includes un/realized losses reported in first-half 2022, 2023-2024f exclude unrealized/realized gains and losses. f--Forecast.

Business Risk Profile: Satisfactory

Everen is a mutual insurance company, and its competitive position is anchored by its reputation in the energy industry as a stable provider of large insurance capacity. The company's competitive advantage lies in its comprehensive product offering, including assets covered, and large line sizes. The company writes business on a direct basis (with minimal underwriting costs) and, therefore, has a very low expense ratio, which bolsters its competitive advantage against commercial insurance companies. Our view on Everen's competitive position is moderated by its limited product offering and sole exposure to the energy industry.

The energy industry is undergoing a structural shift as global economies are aiming to reduce their carbon footprint (carbon neutrality) by 2050. The Russia-Ukraine crisis has further emphasized the need for countries to accelerate their energy transition plans. Everen's member firms may be affected by increasing regulations, reduced tax subsidies, and growing adoption of renewable energy as a substitute to fossil fuel.

Even with the increased focus on energy transition, oil demand will continue to rise, especially in developing markets, making the energy transition a medium- to long-term reality. Nevertheless, we expect energy transition to continue to influence the company's strategy, especially given some of Everen's members have already made substantial investments in renewable energy like solar and wind farms. As a result, Everen added eight new sectors, including biofuels and biochemicals, electrical storage, hydrogen, offshore and onshore wind, offshore and onshore carbon capture and storage, and solar.

Pricing in the commercial insurance market (in energy lines of business) continues to harden as insurers restrain their capacity. In particular, property and property catastrophe lines have experienced material dislocation, resulting in meaningful rate increases. In our view, this further solidifies Everen's competitive advantage in the energy insurance market.

Everen is known for offering large line sizes, which the company increased to $450 million on a per-occurrence basis and $1.35 billion aggregation limit at the beginning of 2022. To cover losses related to designated named windstorms (DNWS), Everen also offers two separate pools, which cover up to $150 million, part of $250 million in claims with an event aggregation limit of $750 million for windstorms in the DNWS zone. Typically, members use Everen's large limits as a cornerstone coverage and depending on the need, they purchase additional cover from commercial insurance providers.

In our view, the stability of Everen's member base is crucial to its competitive position. Although the number of members does not indicate the total amount of assets the company insures, which has gradually grown over the years, we believe the relative stability of Everen's membership base is important to the viability of its competitive profile. Everen's membership base expanded to 64 members in 2022, from 61 members in 2020. Since the beginning of 2022, the company added two new members and lost two to consolidation. Everen has excellent member longevity--70% of its members have been with the company for 10 or more years and 30% for more than 32 years.

Everen's premiums written are a direct function of underwriting losses in the preceding five years. Therefore, the premiums written of $600 million in full-year 2021 will represent a proportion of underwriting losses for 2016-2020. In the six months ended June 30, 2022, the company had premiums written and earned of $485 million and $224 million, respectively. The decrease in premiums written compared with 2021 is due to a reduction in retrospective premium associated with favorable prior-year loss developments. We expect premiums written through 2024 to total $400 million to $550 million annually.

Financial Risk Profile: Excellent

Everen has excellent capitalization, which, in our view, will be resilient to any material earnings volatility caused by outsize investment losses. Everen's unique retrospective premium plan enables the company to recoup its underwriting losses, thereby mitigating its underwriting risk. However, in our view, it's still important for the company to maintain a capital base that is not too different from those of traditional insurers.

Everen's capital adequacy as of year-end 2021 was well redundant at the 'AAA' confidence level, which we expect to remain throughout 2024. We consider Everen's theoretical withdrawal premiums (TWP; the net present value of its future premium collection) as part of our capital adequacy assessment. However, we consider only the TWP due from members with investment-grade issuer credit ratings, to ensure our view is conservative. Also, we apply capital charges for counterparty credit risk to the TWP consistent with our charges for reinsurance recoverable. In Everen's 50-year history, it has never had a member default on its premiums. Also, the company has additional financial requirements for members rated below investment grade, such as upfront premium payments and posting additional collateral.

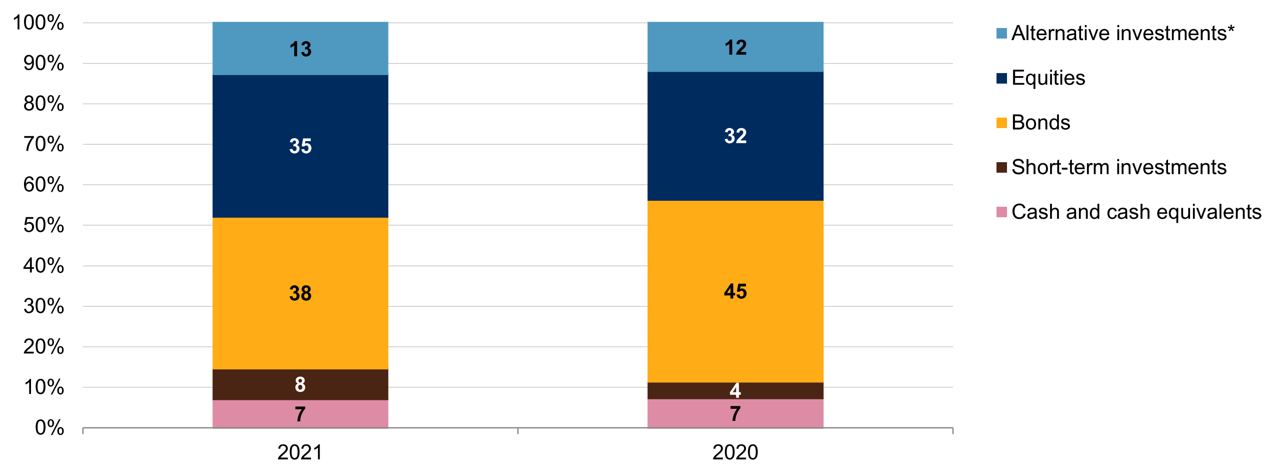
In addition, Everen can make special premium assessments, as it did in the aftermath of Hurricanes Katrina and Rita in 2005. Nevertheless, Everen recognizes that frequent requests for additional funds from members would undermine its mission of providing a stable source of insurance capacity.

Everen's operating performance historically has been volatile owing to its exposure to severity risk. Its combined ratios reported over the past three years were 59.0% in 2021, 91.1% in 2020, and 28% in 2019. Nevertheless, since the company's retrospective premium plan enables it to recoup underwriting losses through premium collections, we expect it to underwrite to a 100% combined ratio in the long run, which we assume as our base case.

The company's underwriting risk is mitigated by its unique premium plan, and its primary capital growth driver is its investment income. As a result, Everen has a larger appetite for investment risk. We believe Everen's investment strategy aims to provide adequate liquidity and investment income, though we view the investment mix as relatively aggressive. As of year-end 2021, approximately 47% of Everen's invested assets were public equities and alternative investments, which includes hedge funds and fund of hedge funds, and the rest is relatively high-quality fixed-income securities and cash.

Everen pursues a total-return strategy, with a lower allocation to fixed-income securities than most Bermuda (re)insurers. As a result, its investment returns are highly volatile. In the first six months of 2022, Everen incurred $613 million in investment losses owing to equity market volatility and rising interest rates, which led to a drop in shareholders' equity to $3.6 billion as of June 30, 2022, from $4.2 billion at year-end 2021. Nonetheless, the company's significant capital buffers have offset the investment volatility.

Everen Ltd.--Investment Portfolio Composition



*Alternative investments include hedge funds and fund of funds.

Everen has no debt on its balance sheet. We think the company has sufficient financial flexibility owing to its mutual ownership structure and proven ability to raise capital through the issuance of preferred shares in the past. Although, the increasing importance and adoption of environmental, social, and global (ESG) practices by global investors could impede the company's access to the public capital markets. However, in our view, the company has significant capital buffers, and as a result, we expect no change to the current capital structure.

Other Credit Considerations

Governance

Everen has a sound governance framework anchored by its risk management culture and seasoned management team, with members having an average of 30+ years of experience in the insurance and energy industry. The team has been responsive to members' needs by tailoring its products and demonstrated a good working relationship with its regulator. Everen's board of directors also includes leaders from its member firms, which provides the company with insights into the needs of its members and the market and allows for better understanding and management of key risks.

Liquidity

We view Everen's liquidity as exceptional, supported by substantial holdings of liquid assets, unique claims-payment process, and premium plan. Whereas other insurance companies with short-tail exposure may pay out claims within a year, Everen generally pays its claims over a three-year period while charging these losses back as premiums over five years. This method leads to less severe cash outflows.

Environmental, social, and governance

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

- Climate transition risks	N/A	N/A

N/A--Not applicable. 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 alphanumerical 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 Indicator Definitions And Applications," published Oct. 13, 2021.

Environmental factors are a moderately negative consideration in our credit rating analysis of Everen. We think the structural shifts in the global energy market--resulting from growing adoption of renewable energy as a substitute for fossil fuel, increasing regulations, and reducing tax subsidies--could present challenges to the company's business strategy and, thereby, its competitive position. However, the transition in the energy market, along with the current market conditions in the commercial insurance industry, could also present opportunities for Everen to further solidify its competitive advantage and value proposition to its member firms. Furthermore, its retrospective premium plan mitigates any large underwriting losses from its exposure to severity risks and helps stabilize cash outflows.

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

Related Research

- Global Reinsurers Part Ways On Natural Catastrophe Risk--Even As Prices Rise, Aug. 29, 2022
- Energy Transition: Developing Markets Are Still Fueling Demand For Oil, July 20, 2022
- Industry Top Trends Update: Oil And Gas North America, July 14, 2022

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 October 7, 2022)*

Operating Company Covered By This Report	
Everen Ltd.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/NR
Domicile	Bermuda

*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.