

## CREDIT OPINION

31 October 2023

Update



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### RATINGS

#### Everen Limited

Domicile	Bermuda
Long Term Rating	A2
Type	Insurance Financial Strength - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Everen Limited

Unique structural features mitigate earnings volatility

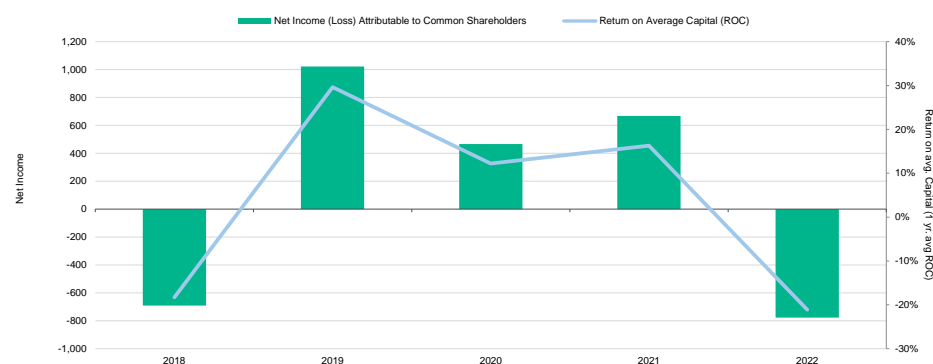
### Summary

Our credit view of Everen Limited (Everen - insurance financial strength (IFS) rating A2 stable), reflects the mutual insurance company's unique structural features which include a retrospective loss recovery funding mechanism and strong membership support from many of the world's leading energy companies, as well as the firm's strong capital base, good geographic diversification, efficient operations and its strong internal liquidity profile. Tempering these strengths are the insurer's significant exposures to large claims associated with man-made and natural catastrophes, its moderate product and client diversification relative to other specialty insurers, as well as the potential volatility associated with its investment portfolio, which has a high weighting of common equities and alternative investments relative to most other traditional property & casualty insurers and reinsurers.

During the first six months of 2023, Everen reported net income of \$429 million, reflecting an underwriting profit of \$157 million and \$240 million in realized and unrealized investment gains, compared to a net loss of \$262 million that included \$613 million in realized and unrealized investment losses in the prior year period.

#### Exhibit 1

Everen's net income has been volatile in recent years due to unrealized gains and losses flowing through the income statement



Source: Company reports, Moody's Investors Service

## Credit strengths

- » Unique franchise as mutual insurer serving the global energy industry
- » Retrospective rating plan and loss recovery mechanisms, together with an overall strong membership credit profile, help secure capitalization and liquidity
- » Low cost and efficient operations, ample liquidity and strong capitalization
- » A significant portion of future premiums receivable are recorded as capital and surplus for Bermuda regulatory purposes

## Credit challenges

- » Significant catastrophe exposures, primarily arising from high value facility explosions and fires as well as natural catastrophe events globally
- » Moderate product and client diversification relative to other specialty insurers
- » Energy industry concentration of membership results in the aggregation of somewhat correlated credit risks, which, under extreme stress scenarios, could impair post-loss recovery mechanism
- » Substantial equity/alternatives investment allocation can lead to volatility in investment returns and capitalization

## Outlook

The outlook for Everen's A2 insurance financial strength rating is stable.

## Factors that could lead to an upgrade

Given Everen's current rating and its business and financial profile, there is limited potential for upward rating movement. However, we would view a material reduction in the firm's high risk assets (equities/alternatives and speculative grade bonds) as a percentage of shareholders' equity as an enhancement to the firm's overall credit profile.

## Factors that could lead to a downgrade

- » A decline in shareholders' equity of more than 20% over a 12 month period (exclusive of underwriting losses)
- » Any breakdown in the company's post-loss premium recovery mechanism
- » A significant reduction in the number of Members or their weighted average credit rating

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

Everen Limited [1][2]	2022	2021	2020	2019	2018
<b>As Reported (US Dollar Millions)</b>					
Total Assets	5,606	6,459	6,995	6,592	6,318
Total Shareholders' Equity	3,116	4,242	3,955	3,688	3,210
Net Income (Loss) Attributable to Common Shareholders	(777)	667	467	1,022	(691)
Gross Premiums Written	463	600	517	478	379
Net Premiums Written	463	600	517	478	379
<b>Moody's Adjusted Ratios</b>					
High Risk Assets % Shareholders' Equity	80.6%	75.7%	78.6%	80.0%	90.5%
Reinsurance Recoverable % Shareholders' Equity	1.3%	2.8%	1.7%	0.8%	0.8%
Goodwill & Intangibles % Shareholders' Equity	0.0%	0.0%	0.0%	0.0%	0.0%
Gross Underwriting Leverage	0.9x	0.6x	0.7x	0.8x	1.0x
Return on Average Capital (ROC)	-21.1%	16.3%	12.2%	29.6%	-18.3%
Sharpe Ratio of ROC (5 yr.)	16.7%	60.8%	48.3%	34.5%	24.9%
Adv. (Fav.) Loss Dev. % Beg. Reserves	-22.0%	-24.7%	-9.7%	-7.0%	-2.7%
Adjusted Financial Leverage	0.1%	0.0%	0.0%	0.0%	4.6%
Total Leverage	0.1%	0.0%	0.0%	0.0%	9.1%
Earnings Coverage	NM	NM	NM	56.8x	-41.8x

[1] Information based on US GAAP financial statements as of the fiscal year ended 31 December. [2] Certain items may have been relabeled and/or reclassified for global consistency.

Source: Moody's Investors Service

## Profile

Established in 1971, Everen (formerly known as Oil Insurance Limited) is a mutual insurer that provides property, well control, non-gradual pollution liability, windstorm, terrorism, cyber terrorism, construction and cargo insurance to 66 energy companies located in the United States, Canada, Australia, Europe, Latin America and Asia. Everen offers insurance limits of up to \$450 million on a per occurrence basis and \$1.35 billion on an aggregate basis for multiple policyholder claims arising out of one event (for non-Atlantic named windstorm events). Everen discontinued writing Offshore Gulf of Mexico windstorm coverage in 2018. The company continues to offer windstorm coverage in all other onshore and offshore areas of the Atlantic Basin and the world.

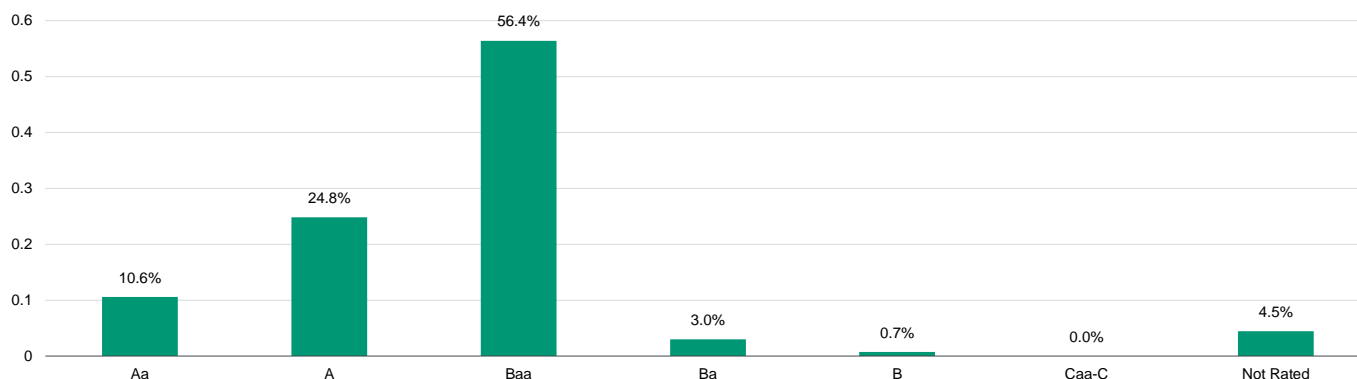
Everen's post-loss premium plan results in a credit profile similar to that of a collateralized debt obligation in that Everen's policyholders and creditors bear the senior unsecured credit risk of the Member companies. Additionally, Everen's credit profile is enhanced by the ability of the company's board of directors to allocate any unpaid obligations from defaulting Members to the remaining Members. As a result, the mutualization of losses on an effectively "joint and several-like" basis greatly reduces the likelihood of a credit loss.

Everen's membership base is heavily skewed toward higher credit quality companies within the energy sector. The weighted average credit rating of Everen's members was approximately Baa1 with about 92% of Everen's insured exposure (and source of future premiums) derived from members with investment grade debt ratings (Exhibit 3).

Exhibit 3

**Credit ratings of Everen's members is skewed heavily toward investment grade**

Everen Limited: weighted average credit rating of members



Moody's ratings as of September 19, 2023

Source: Moody's Investors Service

**Detailed credit considerations**

Moody's rates Everen A2 for insurance financial strength, which is in line with the adjusted scorecard-indicated outcome produced by Moody's insurance financial strength rating scorecard (Exhibit 7).

**Insurance Financial Strength Rating**

The key factors influencing the ratings and outlook are:

**Market position, brand and distribution: Unique franchise and large limits provide cornerstone insurance capacity for members**

As a result of Everen's focused strategy as a mutual insurer to the energy industry, the company's market position is modest relative to most of its Bermuda peers in terms of net premiums written. However, Everen provides some of the largest limits in the energy insurance market (up to \$450 million per occurrence for non-Atlantic Named Windstorm events) and the company's client base is comprised solely of its members, who value the large and stable capacity provided by the company to serve as a "cornerstone" around which to build their risk management programs.

During 2022, Everen introduced eight new business sectors to its rating and premium plan to recognize the changing needs of its members as the energy sector evolves, including sectors dedicated to alternative and renewable energy operations, including: onshore and offshore wind, onshore and offshore carbon capture and storage, electrical storage, hydrogen, biofuels and biochemicals and solar.

While Everen has historically placed its coverage directly with its members, the company has established close relationships with the brokerage community as part of its strategy to broaden its marketing and distribution channels in an effort to attract high quality global members. Moody's believes the alignment of long-term interests between the company and its member/shareholders is unusually strong relative to its commercial market peers, which enhances the company's market position. As such, we view the company market position and brand in line with A-rated reinsurers rather than the unadjusted Baa scorecard metric.

**Business and geographic diversification: Energy industry focus limits diversification**

Everen's insurance products include property (physical damage), windstorm, non-gradual pollution liability, control of well, terrorism, cyber terrorism, construction and cargo coverages for its energy industry membership base. Moody's views the company's product mix as having the potential to produce highly volatile results, with large losses arising from hurricanes, floods and explosions/fires at high value facilities. While product and client diversification is relatively low, geographic diversification is good, as the company insures property exposures located throughout the world. Given the company's product concentration, we view this factor in line with Baa-rated reinsurers as compared to the unadjusted A scorecard metric.

**Asset quality: Significant equities/alternatives allocation contributes to earnings and capital volatility**

Everen's investment strategy is designed to provide strong short-term liquidity and ensure long-term capital appreciation. To this end, Everen's bond portfolio (mainly high investment-grade credits) and cash position support reserves and annual expected claims while equity and alternative investments support the firm's capital growth. While this strategy has produced superior long-term investment returns, it can also result in meaningful earnings and capital volatility during market downturns.

At year-end 2022, Everen had approximately \$5.4 billion of investments and cash. Fixed income securities and cash represented approximately 57% of total invested assets, while equity securities and other investments represented the remaining 43%. Everen's fixed income portfolio is of good credit quality, with 68.7% rated in the A range or higher, 25.3% in the Baa range and 6.0% below investment grade/not rated at year-end 2022. Total high-risk assets at year-end 2022 (including equities, below investment grade bonds, alternative investments and other invested assets) were approximately 46% of total invested assets and approximately 81% of adjusted shareholders' equity, which is higher than many of its similarly-rated peers.

Everen has not historically used reinsurance to supplement its capital position. At year-end 2022, there were no "traditional" reinsurance recoverables on the balance sheet, though we do consider \$39 million of retrospective premiums receivable to be akin to reinsurance recoverables in our calculation of reinsurance recoverables as a percentage of adjusted shareholders' equity. While presenting modest credit risk, the future contractually obligated premium receivables from its members are off balance sheet. Given the level of high risk assets, we view asset quality in line with A-rated reinsurers as compared to the unadjusted Aa scorecard metric.

**Capital adequacy: Strong capital position and loss recovery mechanism provide balance to significant catastrophe and large loss exposures**

At year-end 2022, Everen's gross underwriting leverage was approximately 0.9x, which Moody's considers to be low relative to the current rating and the company's business mix. We note that this metric can be volatile over time, depending on the extent of large losses (which impacts equity capital, loss reserves and future premium volumes) and investment performance.

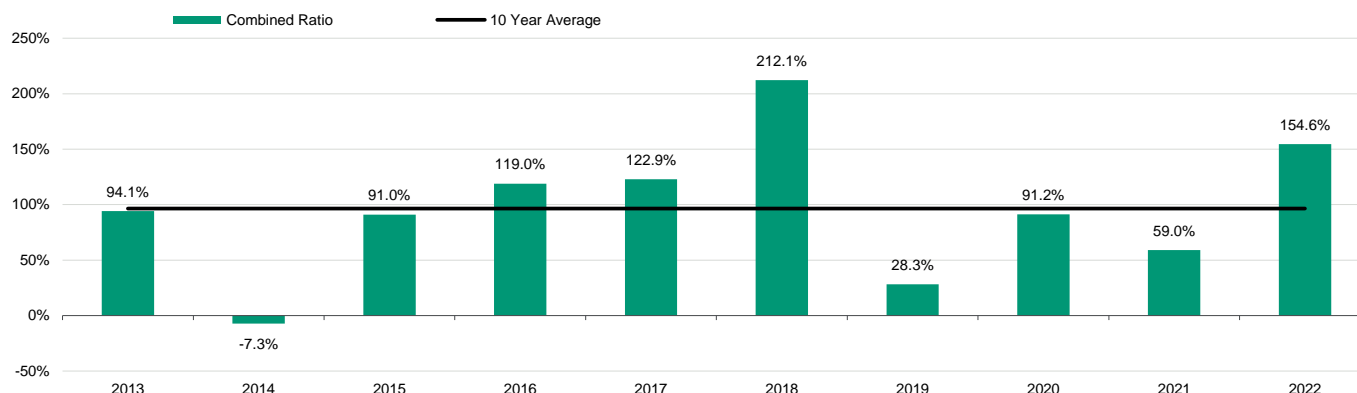
Historically, Everen's largest losses have arisen from hurricane damage to offshore energy platforms in the Gulf of Mexico. While the single event aggregation limit of \$1.35 billion (lower for Atlantic hurricane events) is an important risk mitigant, the ability of the company to recover losses over a five year period in the form of higher future premiums is a unique feature that greatly enhances the firm's capital adequacy. Everen discontinued writing Offshore Gulf of Mexico windstorm coverage in 2018, which significantly reduces the firm's exposure to hurricane losses. The company continues to offer windstorm coverage in all other onshore and offshore areas of the Atlantic Basin and the world.

Everen has received permission from the Bermuda Monetary Authority to record the estimated amount of the theoretical withdrawal premium due from existing members who have not elected to withdraw or redeem their shares in the company as statutory capital and surplus. At year-end 2022, the discounted value of the theoretical withdrawal premiums from current members with investment grade credit ratings was approximately \$995 million.

**Profitability: Volatile short term returns reflect accounting treatment of unrealized gains/losses on investments and loss/premium mismatch**

For the five years ended 2022, Everen's average net income return on capital was 3.7%. Everen's short-term profitability is highly volatile, and is heavily influenced by large loss activity and the ups and downs of the financial markets, as unrealized gains and losses flow through the income statement. Over the longer term, however, the company's loss recovery mechanism through premium increases to recover all insured losses over a five year period serves to smooth the longer term results. Although underwriting results are volatile from year to year, over the past 10 years, Everen's average combined ratio was 96.5% (Exhibit 4).

Exhibit 4

**Everen's 10-year average combined ratio is 96.5%**

Source: Company reports, Moody's Investors Service

During 2022, Everen reported a net loss of \$777 million, which included \$579 million of realized and unrealized investment losses. The 2022 combined ratio was 154.6% (2021: 59.0%), reflecting above-average incurred losses. During the first six months of 2023, Everen reported net income of \$429 million, reflecting an underwriting profit of \$157 million and \$240 million in realized and unrealized investment gains, compared to a net loss of \$262 million that included \$613 million in realized and unrealized investment losses in the prior year period.

Given the firm's core earnings power, we view the company's profitability in line with A-rated reinsurers rather than the unadjusted Ba score in the rating scorecard

**Reserve adequacy: Contractual recovery of losses removes reserve uncertainty over longer term**

For the seven years ended 2022, Everen reported average favorable loss reserve development of 10.2%. Like its reported profitability, Everen's reserve position can be volatile – and large reserve charges or releases can occur in any given year. Moody's is generally not concerned with the year-to-year fluctuations, however, as any adverse case reserve development will ultimately be recovered through higher premiums in future years. This is an important feature that further insulates the company from the uncertainties associated with the loss reserving process.

Due to the existence of some long-tail exposures, we view the company's reserve adequacy to be in line with A-rated reinsurers rather than the unadjusted Aaa score in the rating scorecard

**Financial flexibility: No financial leverage, strong liquidity**

Everen does not have any debt currently outstanding. The lack of financial leverage in the capital structure enhances the firm's financial flexibility. However, as a mutual company, Everen does not have the ability to raise common equity capital from institutional investors, though in the past, the members have injected additional capital into the company through special premium calls to offset large claims losses. Despite the firm's lack of financial leverage, the company's raw score for this metric is capped at A2 based on Bermuda's A2 sovereign debt rating.

During Q1 2023, Everen paid a \$200 million dividend to its members (Full year 2022: \$350 million). Dividends are typically paid to member shareholders when the company believes it has excess capital relative to its conservative capital management strategy that contains a sizable capital buffer to internally modeled stress scenarios.

## Liquidity analysis

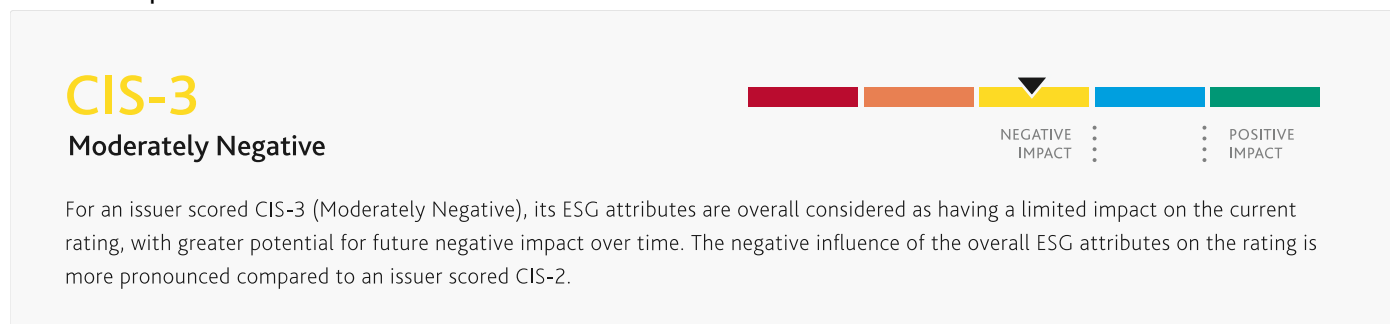
Everen maintains sufficient liquidity from its operating cash flows and high cash and short term investment balances (\$1 billion at year-end 2022) to finance claims payments. Everen has no debt outstanding.

## ESG considerations

### Everen Limited's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 5

#### ESG Credit Impact Score

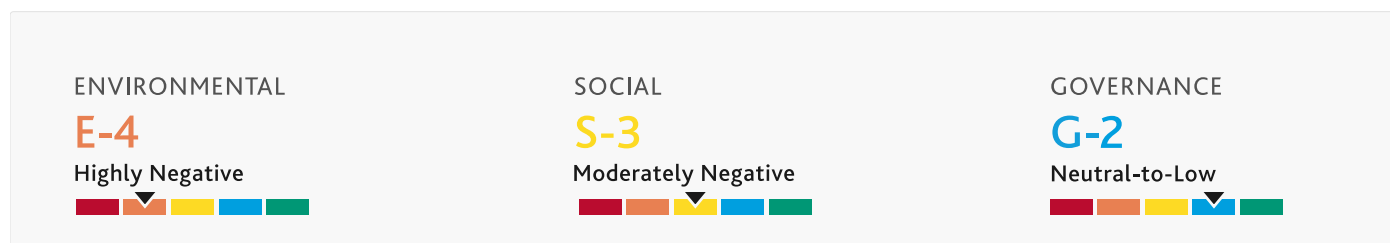


Source: Moody's Investors Service

Everen Limited's **CIS-3** reflects the limited impact of environmental and social risks on the rating to date, with greater potential for physical climate risk to impact the rating over time. Everen's governance profile benefits from its mutual ownership structure and unique structural features which include a retrospective loss recovery funding mechanism that eliminates pricing and loss reserve risk over the long term.

Exhibit 6

#### ESG Issuer Profile Scores



Source: Moody's Investors Service

## Environmental

Everen faces high environmental risks, stemming primarily from physical climate risk globally. The frequency and severity of weather-related catastrophe events is increasing, but mitigants for Everen include its ability to recover prior losses through its retrospective rating plan, the exclusion of offshore Gulf of Mexico windstorm events, its strong diversification and its good capitalization. Everen also has exposure to carbon transition risk due to the firm's concentrated energy industry membership base with exposures to carbon-based sectors that face the prospect of having high cost assets stranded as renewable energy sources become a larger percentage of the global energy mix. However, many of Everen's members are investing significant amounts of capital into new energy technologies and renewable energy production assets that could mitigate this risk over time.

## Social

Everen faces moderate social risk, including low exposure to customer relations risk due to its focus on providing insurance to its members. Everen is exposed to certain demographic and societal trends, primarily through its non-gradual pollution liability exposures, where claims could be subject to rising jury awards and other forms of social inflation. Here, the company's retrospective rating and

premium plan significantly mitigates the risk of permanent capital erosion from higher than expected losses as all insured losses incurred by the company are recouped over the next five years through premiums.

### Governance

Everen faces low governance risks. The firm's governance policies and its financial disclosure standards are in-line with many of its publicly-traded peers. Everen has a clear corporate and financial strategy and structural features that protect the company against tail risks, including explicit aggregate limits to losses arising from one event and the company's unique rating and premium plan which contractually recovers losses over a five year period through premium adjustments. The mutual ownership structure helps align the interests of policyholders/owners and company managers. Everen maintains a high weighting of equity securities and alternative investments relative to most property & casualty insurers. While this strategy has produced superior long-term investment returns, it can also result in meaningful earnings and capital volatility during market downturns.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.



## Methodology and scorecard

Exhibit 7

### Everen Limited

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	ScoreAdj	Score
Business Profile								A	A
<b>Market Position, Brand, and Distribution (20%)</b>								Baa	A
-Relative Market Share Ratio						X			
-Direct Reinsurance Premiums % GPW	X								
<b>Business and Geographic Diversification (15%)</b>								A	Baa
-Business and Geographic Diversification			X						
Financial Profile								A	A
<b>Asset Quality (10%)</b>								Aa	A
-High Risk Assets % Shareholders' Equity			80.6%						
-Reinsurance Recoverable % Shareholders' Equity	1.3%								
-Goodwill & Intangibles % Shareholders' Equity	0.0%								
<b>Capital Adequacy (20%)</b>								Aa	Aa
-Gross Underwriting Leverage	0.9x								
-Gross Natural Catastrophe Exposure		X							
-Net Natural Catastrophe Exposure		X							
<b>Profitability (10%)</b>								Ba	A
-Return on Capital (5 yr. avg.)				3.7%					
-Sharpe Ratio of ROC (5 yr.)					16.7%				
<b>Reserve Adequacy (10%)</b>								Aaa	A
-Adv. (Fav.) Loss Dev. % Beg. Reserves (7 yr. avg.)	-10.2%								
<b>Financial Flexibility (15%)</b>								A	A
-Adjusted Financial Leverage	0.1%								
-Total Leverage	0.1%								
-Earnings Coverage (5 yr. avg.)						NM			
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								A2	A2

[1] Information based on US GAAP financial statements as of fiscal year ended December 31, 2022. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.

Source: Moody's Investors Service

## Ratings

Exhibit 8

Category	Moody's Rating
<b>EVEREN LIMITED</b>	
Rating Outlook	STA
Insurance Financial Strength	A2

Source: Moody's Investors Service

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