S&P Global 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 2025.	Secular trends and structural shifts in the global energy markets.
Unique retrospective premium plan, which mitigates potential underwriting risks.	Limited diversity in its product offerings, with a sole focus on energy.

We believe Everen Ltd. is positioning itself well amid the global energy transition. We believe the company's rebranding efforts will allow it to continue to service existing energy members in the traditional oil and gas-focused sectors while expanding its offering to target renewable energy assets. The company has added eight new sectors encompassing renewable energy operations such as solar and wind, helping to solidify its proposition in the energy market.

Everen's excellent capitalization remains resilient, in our view. Everen has significant capital redundancy at the 'AAA' confidence level, which supports its relatively aggressive investment philosophy. As of year-end 2022, approximately 43% of its total invested assets were allocated to public equities and alternative investments like fund of fund hedge funds. The company incurred investment losses from financial market volatility, which resulted in mark-to-market losses of $579 million in 2022. Shareholders' equity dropped to $3.1 billion in 2022 from $4.2 billion in 2021 due to investment (realized and unrealized) and underwriting losses for the year, but the company's significant capital buffer easily absorbed these losses.

We believe 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 enhancing its value to its members and maintaining substantial capital redundancy at the 'AAA' confidence level, 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 1.7% in 2023, 1.3% in 2024, and 1.5% in 2025
- 10-year U.S. Treasury note yield of 3.7% in 2023, 3.6% in 2024, and 3.4% in 2025
- U.S. core Consumer Price Index growth of 5.0% in 2023, 3.3% in 2024, and 2.4% in 2025

Everen Ltd.--Key metrics

(Mil. $)	2025f	2024f	2023f	2022	2021	2020
Gross premiums written	500-550	475-575	525-575	463.3	600.0	517.2
Change in gross premiums written (%)	*	*	*	(22.8)	16.0	8.3
Combined Ratio including corporate expenses (%)	100	100	100	154.6	59.0	91.2
Net income attributable to all shareholders§	100-140	80-120	300-350	(776.7)	667.5	466.5
Return on average shareholders' equity (%)	Low single digits	Low single digits	Low double digits	(21.1)	16.3	12.2
Return on revenue	Mid teens	Mid teens	Low teens	(38.2)	46.5	20.7

Everen Ltd.--Key metrics (cont.)						
(Mil. $)	**2025f**	**2024f**	**2023f**	**2022**	**2021**	**2020**
S&P Global Ratings' risk-adjusted capital adequacy| redundant (deficient) at the AAA confidence level (%)	AAA	AAA	AAA	AAA	AAA	AAA

*Not disclosed. §2023f includes un/realized gains reported in first-half 2023, 2024-2025f 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 as a stable provider of large insurance capacity to the energy industry. 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. However, the company has a limited product offering and sole exposure to the energy industry, which is undergoing structural shifts as global economies aim to reduce their carbon footprints. Government actions and policies remain a critical and unpredictable influence on the energy industry.

We expect the energy transition to continue to influence Everen's strategy, especially given that some of Everen's members have already made substantial investments in renewable energy, like solar and wind farms. As a result, Everen has adjusted its offerings in the past year. In 2022, the company changed its name and added eight new sectors, including biofuels and biochemicals, electrical storage, hydrogen, offshore and onshore wind, offshore and onshore carbon capture and storage, and solar. While traditional oil and gas will remain the bulk of Everen's exposure in the near term, we believe the rebranding and new sectors position Everen favorably in the evolving energy industry.

Pricing in the global commercial insurance markets have been increasing for the past several years and the trend is continuing in 2023. In particular, property and property catastrophe lines continue to experience material dislocation, resulting in meaningful rate increases. In our view, this further solidifies Everen's competitive advantage in the energy insurance market by providing capacity at cost to its members.

Everen is known for offering large line sizes, which the company increased to $450 million on a per-occurrence basis and a $1.35 billion event aggregation limit at the beginning of 2022. To cover losses related to designated named windstorms (DNWS), Everen also offers two separate pools that cover up to $150 million, part of $250 million in claims with an event aggregation limit of $750 million for DNWS. Additionally, DNWS losses up to an aggregate annual retention of $300 million are mutualized among all members, and any further DNWS losses are mutualized only among the DNWS pool members. Typically, members use Everen's large limits as cornerstone coverage and purchase additional cover from commercial insurance providers as needed.

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 66 in 2023, from 64 in 2022. We believe the company's rebranding efforts will increase interest from the energy industry and could grow the company's membership going forward. 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 $463 million in 2022 represent a proportion of underwriting losses for 2017-2021. In the six months ended June 30, 2023, the company had premiums written and earned of $271 million, compared to $224 million as of June 30, 2022. We expect premiums written through 2025 to fluctuate around $475 million-$575 million.

Financial Risk Profile: Excellent

Everen has excellent capitalization, which provides resiliency to any material earnings volatility caused by outsize investment losses. For instance, in 2022 the company fully absorbed $579 million of investment losses, stemming from equity and fixed maturity securities. Additionally, Everen's unique retrospective premium plan enables it to recoup 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 2022 was well redundant at the 'AAA' confidence level, and we expect it to remain so throughout 2025. In our capital adequacy assessment, we consider Everen's Theoretical Withdrawal Premiums (TWP; the net present value of its future premium collection) due from members with investment-grade issuer credit ratings. 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. The company has additional financial requirements for members rated speculative grade, such as upfront premium payments and additional security 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 stable insurance capacity.

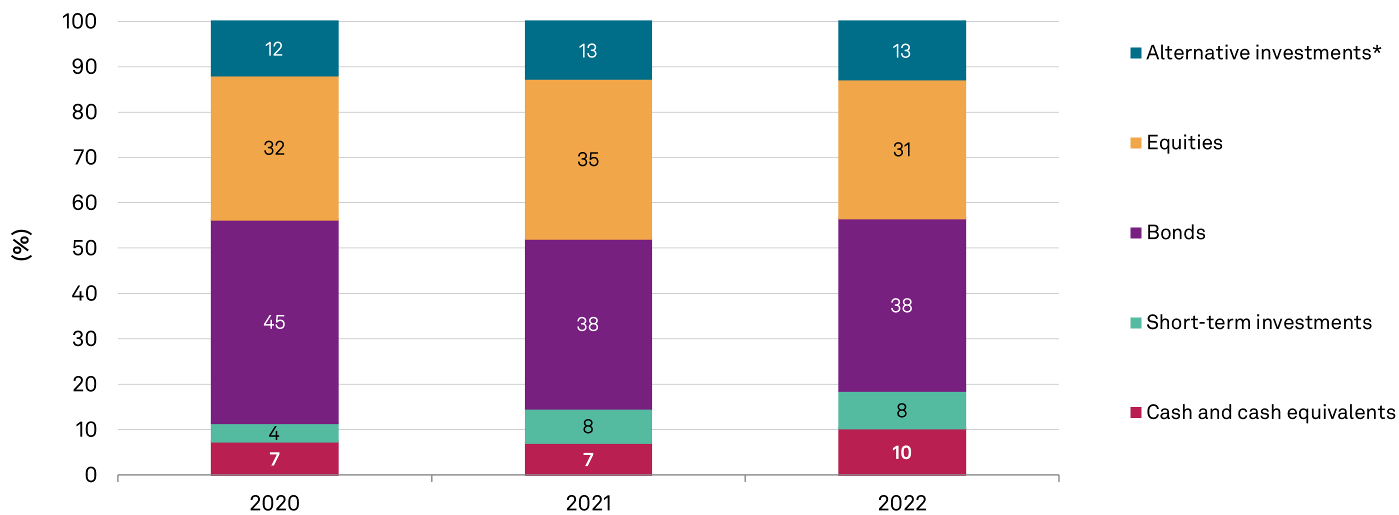
Everen's operating performance historically has been volatile, owing to its exposure to severity risk. Its combined ratios reported over the past three years were 154.6% in 2022, 59.0% in 2021,and 91.1% in 2020. (A combined ratio under 100% indicates an underwriting profit.) Nevertheless, since the company's 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.

The company's underwriting risk is mitigated by its unique premium plan, and its primary capital growth driver is 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 2022, approximately 43% of Everen's invested assets were public equities and alternative investments, which includes fund of fund hedge funds, and the rest was relatively high-quality fixed-income securities and cash.

Everen pursues a total-return strategy, with a lower allocation to fixed-income securities than most insurers and reinsurers based in Bermuda. As a result, its investment returns are highly volatile, as was evidenced in 2022. That said, investment losses began to unwind in the first half of 2023, when Everen reported $240 million in investment gains.

Chart 1

Everen Ltd.--Investment portfolio composition



*Alternative investments includes hedge funds, derivatives, 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, as it did in 2006. Still, the increasing importance and adoption of environmental, social, and governance practices by investors globally 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 averaging 30 or more years of experience in the insurance and energy industries. The team has been responsive to members' needs by tailoring its products and has 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 insight 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 its 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 three years while charging these losses back as premiums over five years. This method leads to less severe cash outflows.

Environmental, social, and governance

We think the structural shifts in the global energy market--resulting from growing adoption of renewable energy as a substitute for fossil fuels, increasing regulations, and reducing tax subsidies--could present challenges to the company's business strategy and, thereby, its competitive position.

However, the transitions in the energy market, along with the current market conditions in the commercial insurance industry, also present opportunities for Everen to further solidify its competitive advantage and value proposition to its member firms, which we believe the company is pursuing given its rebranding efforts and expansion of sectors covered to include renewable energy assets. 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

- Catastrophe Risk Appetite Varies Among Global Reinsurers, Aug. 24, 2023
- Industry Top Trends Update North America: Oil and Gas, July 18, 2023

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 September 26, 2023)*

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.