S&P Global Ratings

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Associated Electric & Gas Ins. Services Ltd.

July 30, 2025

This report does not constitute a rating action.

Business risk: **Strong**

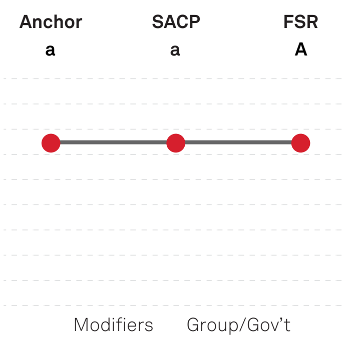
Excellent — Vulnerable

Competitive position: Strong
IICRA: Intermediate risk

Financial risk: **Very strong**

Excellent — Vulnerable

Capital and earnings: Excellent
Risk exposure: Moderately high
Funding structure: Neutral



Financial strength rating
A/Stable/--

FSR--Financial strength rating. ICR--Issuer credit rating. IICRA--Insurance industry and country risk assessment. SACP--Stand-alone credit profile.

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Credit Highlights

Overview

Key strengths	Key risks
Leader in the North American energy and utilities niche for liability and property coverage.	Longer tail reserve profile, which is susceptible to reserve adequacy risks.
A dual underwriting platform, Bermuda mutual and Lloyd's syndicate, that diversifies the company's earnings.	Exposed to earnings volatility from high-severity product profile of excess liability and moderate natural catastrophe risk.
Solid operating profitability that is capital accretive.	The company is relatively concentrated in the energy sector due to the mutual business.

S&P Global Ratings believes Associated Electric & Gas Insurance Services Ltd. (AEGIS) will maintain capitalization redundant at the 99.99% confidence level as per our risk-based capital adequacy model, supported by strong operating performance. The company's disciplined underwriting has resulted in strong performance, which continues to bolster its surplus. AEGIS' combined ratio (loss and expense), including member credits in the past five years (2020-2024), has averaged 91.9%. Prospectively, through 2025, we expect the group's combined ratio to range 91%-94%. Although we expect AEGIS to deploy capital for underwriting purposes and to enhance its product offerings based on its mutual members' needs, the company has no capital return obligations to its shareholders (because of its mutual business model).

AEGIS will continue to benefit from its strong competitive position, anchored by diversified operating platforms (Bermuda mutual and Lloyd's syndicate). The company has achieved deep penetration and holds a leadership position within investor-owned and municipal utilities, independent power producers, and generation co-operatives in North America. The mutual has about 303 member firms with an excellent longevity profile and strong retention ratio. In addition, its Lloyd's syndicate provides AEGIS with geographic, product, policyholder, and earnings diversification. Lloyd's contributed 43% to the group's gross premiums written (GPW) in 2024 and has minimal exposure to the energy sector. The syndicate has also been one of the top quartile performers and produced an average combined ratio of 86.0% in the past five years (2020-2024). Overall, we believe the company has well established competitive advantages in its markets.

Although well managed, we believe a key risk to AEGIS' earnings and capital stems from its loss reserves. The group has largely reported favorable reserve developments in recent years, excluding 2023, but its mutual platform has experienced some reserve strengthening largely related to its pre-86 environmental business. AEGIS has moderate exposure to severity risks through its excess liability lines in its mutual platform, and to natural catastrophe risk through its property lines. However, we believe AEGIS' sound risk management framework, along with prudent reinsurance strategy, will help moderate potential volatility within its risk tolerances.

Outlook

The stable outlook reflects our expectations that AEGIS will sustain its strong competitive position and generate solid operating profitability, in line with similarly rated insurers. We also expect AEGIS to enhance its product suite and meet the evolving needs of its members while maintaining its capitalization.

Downside scenario

We could lower our ratings in the next two years if:

- AEGIS' capitalization falls and stays below our very strong/99.95% confidence level, or
- Its operating performance deteriorates significantly relative to similarly rated insurers.

Upside scenario

We do not expect to raise our ratings in the next two years because we don't anticipate AEGIS' competitive position will strengthen further relative to that of highly rated peers.

Assumptions

- Real U.S. GDP growth of 1.7% in 2025, 1.6% in 2026, and 2.0% in 2027
- 10-year U.S. Treasury-note yields of 4.3% in 2025, 3.7% in 2026, and 3.7% in 2027
- U.S. core consumer price index (CPI) growth of 3.0% in 2025, 3.1% in 2026, and 2.4% in 2027

Associated Electric & Gas Ins. Services Ltd.--Key metrics

(Mil. $)	2027f	2026f	2025f	2024	2023	2022
Gross premium written	**	**	**	2,994	2,870	2,685
Change in gross premiums written (%)	Low-single digits	Low-single digits	High-single digits	4.3	6.9	11.3

Associated Electric & Gas Ins. Services Ltd.--Key metrics

(Mil. $)	2027f	2026f	2025f	2024	2023	2022
Net combined ratio including member credits (%)	91-94	91-94	91-94	87.3	91.5	91.7
Net income attributable to all shareholders	250-300	250-300	250-300	416.5	300.7	32.4
Return on average shareholders' equity/surplus (%)	High-single digits	High-single digits	High-single digits	16.5	13.8	1.6
Return on revenue (%)	Mid-teens	Mid-teens	Mid-teens	23.7	18.2	13.8
S&P Global Ratings' risk-adjusted capital adequacy (confidence level) §	99.99%	99.99%	99.99%	99.99%	99.99%	A§
Financial leverage including net present value of operating leases treated as debt and tax-adjusted pension deficits (%)	Low-single digits	Low-single digits	Low-single digits	0.4	0.6	1.0
Fixed-charge coverage ratio (x)	Above 8	Above 8	Above 8	543.5	325.1	178.4

f--Forecast. **Not disclosed. §--2022 capital adequacy is as per S&P Global Ratings' previous methodology.

Business Risk Profile

AEGIS' competitive position is underpinned by its dual platforms, Bermuda mutual and Lloyd's syndicate, and its leadership position and deep penetration in the North American investor-owned and municipal utilities, electrical generation, and transmission cooperatives market. In addition, its Lloyd's platform diversifies the group's operations and writes about 43% of the group's GPW. The syndicate is a top Lloyd's performer, bolstering the group's underwriting profitability.

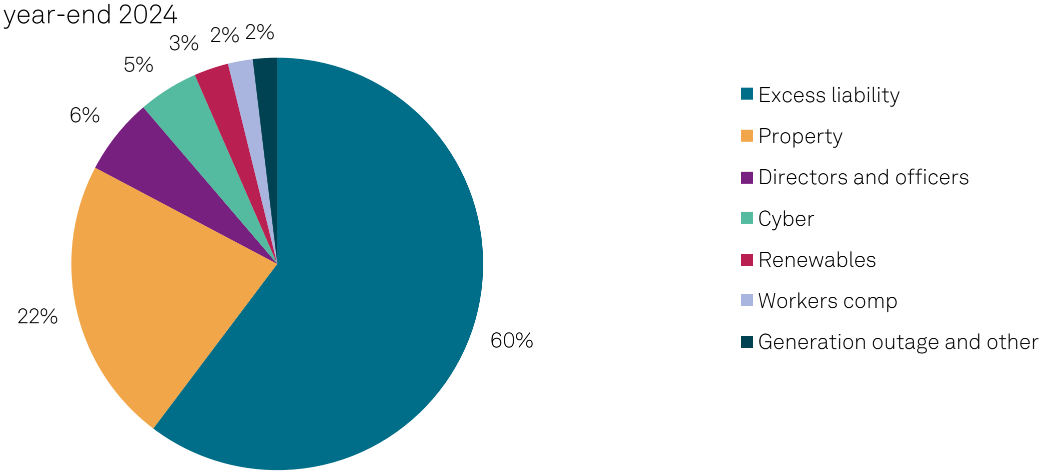
The Bermuda mutual platform has about 303 member firms, with excellent member longevity, and a strong and consistent retention ratio of 98%. While the mutual offers liability and property coverages, its Lloyd's syndicate writes about 21 classes and has a good balance of property and liability risk with a lower limit profile. In our view, Lloyd's business provides material geographic, product, earnings, and policyholder diversification to the group.

As a mutual, AEGIS' aims to provide stable capacity and adapt to the unique and evolving risks of its members by enhancing its product suite or expanding limits and coverages offered. AEGIS continues to support the transition to green and renewable energy with expanded offerings for the segment. We believe AEGIS will utilize its capital position proactively and expand its product offerings and limits to support the ever-evolving needs of the energy industry, all while maintaining its underwriting prudence.

Considering the mutual's penetration in the North American utilities market, we believe growth opportunities through new business in its traditional lines are relatively subdued. However, we believe renewable energy, along with other new products, like generation outage and cyber, are long-term growth areas for the company.

AEGIS--Bermuda mutual platform business mix

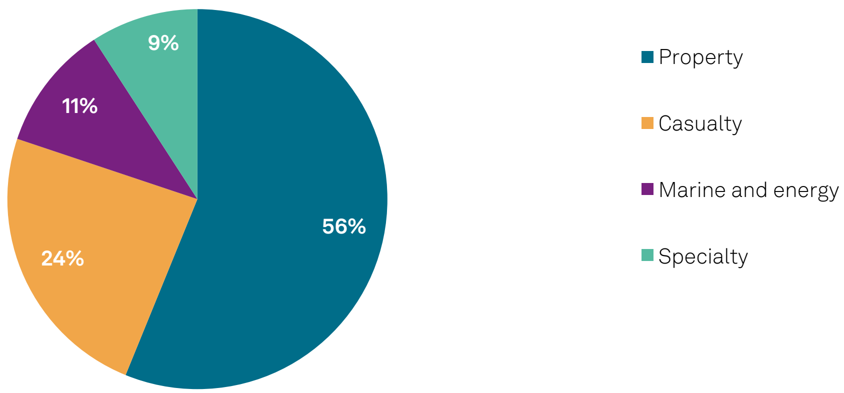
As of year-end 2024



Source: S&P Global Ratings.

AEGIS--Lloyd's syndicate business mix

As of year-end 2024

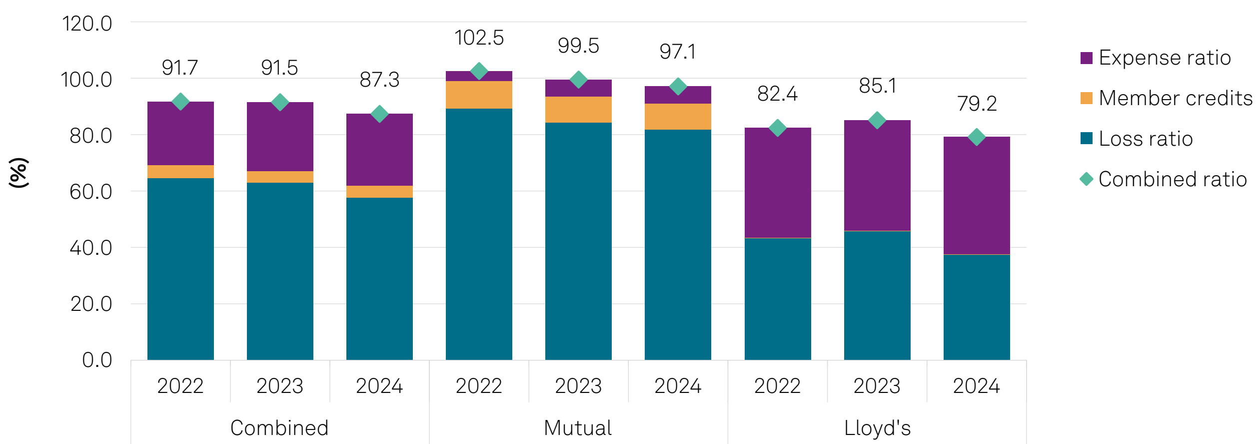


Source: S&P Global Ratings.

AEGIS has a strong track record of underwriting profitability. On a five-year average (2020-2024), the company reported a combined ratio, including member credits, of 91.9%. In 2024, the company produced an overall group combined ratio of 87.3% versus 91.5% in 2023, benefiting from favorable reserve developments and a lower accident year loss ratio. The mutual reported a combined ratio of 97.1% and the syndicate 79.2%. The group has been benefiting from rate increases, most notably in its excess liability business, with moderate increases in property and directors and officers business in its mutual and in its syndicate operations. However, we expect rate increases will moderate across most lines prospectively.

On a consolidated basis, AEGIS' GPW rose by 4.3% to $3.0 billion in 2024 from $2.9 billion in 2023. Growth was mainly driven by the mutual business, which had GPW increase 8.2%, while the Lloyds business contracted 0.3%. Under our base-case scenario, we expect GPW to increase by high-single digits in 2025, and low-single digits in 2026-2027, driven by rate stabilization across both the platforms. We expect the company's combined ratio, including member credits, to range 91%-94% through 2027. We also expect AEGIS to generate a return on equity in the high-single-digit range through 2027.

AEGIS' underwriting performance remains solid



Source: S&P Global Ratings.

Financial Risk Profile

AEGIS' financial risk profile is anchored by its excellent capitalization. It is partially offset by exposure to potential reserve volatility stemming from the long-tail liabilities and moderate exposure to severity risks. However, these risks are somewhat tempered by the company's sound risk management practices, including its prudent use of reinsurance.

As of year-end 2024, AEGIS' capital adequacy was redundant at the 99.99% confidence level. AEGIS' surplus has grown steadily in the past several years, driven by its underwriting profitability, debt-free balance sheet, and limited capital outflows owing to its mutual business operations (no shareholder capital returns).

We view AEGIS' risk exposure as moderately high owing to its material exposure to long-tail liabilities, which exposes the company's capital and earnings to reserve adequacy risk. The company's underwriting portfolio is also susceptible to earnings volatility through its exposure to severity lines, like excess liability coverage, which dominates its mutual business underwriting. It also has moderate exposure to property-catastrophe risk from its property lines written through both the mutual and Lloyd's platforms. However, the company employs sound risk management, and prudently uses reinsurance to protect its surplus and minimize earnings volatility. While we expect AEGIS will continue to enhance its value proposition to mutual members through expanded limits or new products, we do not expect the company's risk profile to change materially.

The company's $7 billion investment portfolio is well diversified, with 73.0% consisting of fixed-income investments with a weighted-average credit quality of 'AA-', 15.9% exposure to equities and alternative investments, 1.3% to mortgage loans, and 9.8% in cash and cash equivalent securities. However, its proportion of risk assets (defined as equity securities, alternative investments, and non-investment-grade and unrated fixed-income securities) is somewhat high

(32.1%) relative to its total adjusted capital, which could affect the company's capital strength during times of market volatility.

AEGIS has greater financial flexibility, somewhat limited by its mutual business model. The company does not have any debt on its balance sheet, and its only financial obligation relates to its operating leases, which we consider part of our financial leverage calculations. Its financial leverage as of year-end 2024 was minimal, at about 0.4%, while its fixed-charge coverage was well in excess of 8x. The company does not intend to issue any debt in the near term; therefore, we expect its financial leverage will remain minimal through 2027 and its fixed charge coverage will remain well over 8x, prospectively.

Other Credit Considerations

Governance

We view AEGIS' governance as neutral, anchored by a sound risk management culture and management expertise in the energy industry. The company has a well-articulated risk appetite approved by its board of directors. Senior management, along with the board of directors, many of whom hold leadership positions in the energy sector, work in collaboration to identify emerging risks and develop products to meet the sector's risk needs. AEGIS has also successfully diversified its risk by writing uncorrelated business through its London syndicate, and we expect no material change to this strategy.

Liquidity

We regard AEGIS' liquidity as exceptional, supported by a high-quality, short-duration liquid investment portfolio, and lack of any debt obligations.

Environmental, social, and governance

Environmental, social, and governance factors remain neutral to our credit rating analysis of AEGIS.

Accounting considerations

AEGIS is a mutual insurance company domiciled in Bermuda that prepares consolidated U.S. generally accepted accounting principle (GAAP) financial statements. We analyze its operating performance and capital adequacy on a consolidated GAAP basis.

Beginning in 2008, AEGIS elected the fair-value option for all direct insurance contracts classified as excess workers' compensation, as well as the related reinsurance contracts. It chose this method to reflect the significant elapsed time between the issuance of the contracts and final settlement of the obligations, adjusted for the risk of variation in the amount and timing of future cash flows. These contracts are recorded at fair value, with changes in fair value recorded in the consolidated statements of income and comprehensive income in the period of change. As a result, company reported premiums and incurred losses do not include activity related to the company's excess workers' compensation insurance and reinsurance contracts. Therefore, the company's reported net premiums earned, and the loss and combined ratios, do not reflect the excess workers' compensation business written. However, for better comparisons with its peers, we assess AEGIS using its audited nominal financial statements. Our loss and combined ratios noted reflect the premiums, losses, and expenses associated with the workers' compensation line. Hence, our financial metrics could be somewhat different than company-reported metrics.

Furthermore, AEGIS provides member credits to policyholders based on each member's proportionate share of accumulated premiums and/or total surplus. We treat these member credits as policyholder dividends and include them in our combined ratio calculations.

Rating Component Scores	
Business Risk Profile	**Strong**
Competitive position	Strong
IICRA	Intermediate risk
Financial Risk Profile	**Very Strong**
Capital and earnings	Excellent
Risk exposure	Moderately high
Funding structure	Neutral
Anchor	**a**
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable rating analysis	0
Current Credit Rating	
Local currency financial strength rating	A/Stable/--
Local currency issuer credit rating	A/Stable/--

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- 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

Related Research

- Associated Electric & Gas Ins. Services Ltd. Ratings Raised To 'A' From 'A-' On Criteria Revision; Outlook Stable, Jan. 3, 2024

Ratings Detail (as of July 30, 2025)*	
Operating Company Covered By This Report	
Associated Electric & Gas Ins. Services Ltd.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--

Ratings Detail (as of July 30, 2025)*

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.