

Research Update:

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

January 3, 2024

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- Implementing the revised capital model criteria has positively impacted our view of the financial strength of Associated Electric & Gas Insurance Services Ltd. (AEGIS).
- Therefore, we raised our long-term issuer credit and financial strength ratings on AEGIS to 'A' from 'A-'.
- The stable outlook reflects our expectation that AEGIS will maintain excellent capitalization, supported by solid operating profitability.

PRIMARY CREDIT ANALYST

Saurabh B Khasnis
Englewood
+ 1 (303) 721 4554
saurabh.khasnis
@spglobal.com

SECONDARY CONTACT

Taoufik Gharib
New York
+ 1 (212) 438 7253
taoufik.gharib
@spglobal.com

Rating Action

On Jan. 3, 2024, S&P Global Ratings raised its long-term issuer credit and financial strength ratings on Associated Electric & Gas Insurance Services Ltd. to 'A' from 'A-'. The outlook is stable.

Impact Of Revised Capital Model Criteria

- The improvement in capital adequacy under the revised capital model primarily reflects AEGIS' strengthened total adjusted capital due to the removal of a haircut on reserve discounts and the non-deduction of deferred acquisition costs.
- The benefits of risk diversification, which we now capture more explicitly in our analysis, also support capital adequacy.
- However, the recalibration of our capital charges to higher confidence levels partly offset these improvements.

Credit Highlights

Overview

Key strengths	Key risks
Leader in the North American energy and utilities niche for liability coverage.	Reserve adequacy risks could add to earnings volatility owing to inflationary pressures (core CPI and social inflation).
Dual underwriting platforms--Bermuda Mutual and a top-quartile (by performance) Lloyd's syndicate.	Susceptible to earnings volatility from high-severity product profile of excess liability and moderate natural catastrophe risk.
Solid operating profitability resulting in steady surplus/capital growth.	Relatively larger concentration in the energy sector within its mutual business.

Outlook

The stable outlook reflects S&P Global Ratings' expectations that AEGIS will sustain its strong competitive position and generate solid operating profitability, in line with similarly rated insurers. While we expect AEGIS to enhance its product suite and meet the evolving needs of its members, we expect its capitalization will remain unhindered.

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 to strengthen further relative to that of highly rated peers.

Rationale

We believe AEGIS can maintain excellent capitalization through 2025, supported by its capital management and strong capital-accretive earnings. We raised the ratings on AEGIS because, following the implementation of our revised capital adequacy methodology, AEGIS' capitalization as of year-end 2022 materially strengthened to our excellent/99.99% confidence level. We expect AEGIS will maintain its capitalization through 2025.

AEGIS is a mutual insurance company and has no debt on its balance sheet. Thus, it has no shareholder or debt servicing obligations. However, we believe AEGIS will continue to evaluate new underwriting opportunities while remaining disciplined and cater to the evolving needs of its member companies as the global energy market transitions to green and renewable energy from fossil fuels. While we expect the company's product suite to expand, we do not anticipate a material shift in its risk profile or its prospective capital requirements.

In our view, AEGIS' leadership position, diversified underwriting platforms, and underwriting profitability anchor its strong competitive position. AEGIS' competitive position is augmented by its leadership position and deep penetration in the North American investor-owned and municipal utilities, electrical generation, and transmission cooperatives market. Its Lloyd's syndicate platform, which contributes nearly half of its total gross premium written, complements the group's profitability (the syndicate is a top-quartile performer in the Lloyds marketplace) and materially diversifies earnings.

In the past five years (2018-2022), AEGIS' combined ratio including policyholder dividends has averaged 95.7%, in line with similarly rated insurers. (A combined ratio under 100% indicates an underwriting profit.) In 2023-2025, under our base case, we expect the group's combined ratio to be 95%-97%, including 5 percentage points of policyholder dividends.

Ratings Score Snapshot

	To	From
Financial strength rating	A/Stable/--	A-/Positive/--
Anchor	a	a-
Business risk	Strong	Strong
IICRA	Intermediate	Intermediate
Competitive position	Strong	Strong
Financial risk	Very strong	Satisfactory
Capital and earnings	Excellent	Strong
Risk exposure	Moderately high	Moderately high
Funding structure	Neutral	Neutral
Modifiers	-	-
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	-	-
Support	-	-
Group support	-	-
Government support	-	-

IICRA--Insurance Industry And Country Risk Assessment.

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

- Certain Issuer And Issue Ratings Placed Under Criteria Observation After Insurance Capital Model Criteria Update, Nov. 15, 2023
- Associated Electric & Gas Ins. Services Ltd., June 16, 2023

Ratings List

Upgraded; Outlook Action

	To	From
Associated Electric & Gas Ins. Services Ltd.		
Issuer Credit Rating		
Local Currency	A/Stable/--	A-/Positive/--
Financial Strength Rating		
Local Currency	A/Stable/--	A-/Positive/--

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.