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# IPB Insurance CLG

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| Anchor | a- | Modifiers | 0 | a- | | 0 | | Financial Strength Rating |
| Business Risk: Satisfactory | | ERM and Management | 0 | Liquidity | 0 | Group Support | 0 | A-/Stable/-- |
| Financial Risk: Strong | | Holistic Analysis | 0 | Sovereign Risk | 0 | Gov't Support | 0 | |

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

## Rationale

### Business Risk Profile: Satisfactory

- The only domestic mutual insurer in Ireland, thereby ensuring a direct relationship with mutual members, high retention rates, and resilience against competition.
- Dominant position in the liability business for the local public authorities segment.
- Advantageous underwriting position due to the majority of IPB Insurance CLG (IPB)'s policies being written on a claims-made basis.
- Limited product and geographic diversification.
- Narrow client base, and more sensitive to political risks than its peers.
- Improving economic factors in Ireland, but insurance claim volumes trending upward.

### Financial Risk Profile: Strong

- Capital position is a key strength for the rating and capital adequacy is likely to remain in excess of the 'AAA' level.
- No exposure to long-term employee benefit commitments and limited foreign exchange risk exposure.
- High investment leverage (the ratio of volatile or illiquid assets to total adjusted capital--our definition of risk-adjusted capital) compared with European non-life peers.
- Exposure to relatively long-tailed reserving risk.
- Some concentration risk exposure--through deposits, fixed-income, and equity investments--to the financial services sector.

### Outlook: Stable

S&P Global Ratings' stable outlook on Ireland-based IPB reflects our view that the insurer's excess capital position provides resilience and stability for the rating over the next three years. We expect IPB to retain at least an adequate competitive position and maintain its operating performance, with a combined ratio (losses plus expenses) of 100% or below (a ratio below 100% signifies underwriting profitability).

#### Downside scenario

Although unlikely, we might lower the ratings if capital adequacy were to weaken below an extremely strong level, or if earnings weakened consistently and substantially more than in our base-case assumptions (for example, if combined ratios went above 105%).

We could also consider lowering the ratings if the company proves unable to maintain its adequate competitive position. This could result from a failure to manage strategic growth carefully, with a consequent loss of members or a weakening of member service.

#### Upside scenario

We view a positive rating action as unlikely during the next two years, due to IPB's concentration on liability business for local public authorities, and structural changes in the claims environment within the Irish non-life-insurance industry.

## Base-Case Scenario

### Macroeconomic Assumptions

- Our GDP growth estimate is 4.1% for 2017. We expect Ireland's strong growth to moderate to about 3% annually over the next four years as the economy closes the output gap toward the end of the forecast period. We forecast that consumer price index inflation will rise slightly to 0.5% in 2017, from 0.2% in 2016.
- An ongoing improvement in the outlook for public finances, aided by debt refinancing moves, economic recovery, and anticipated windfalls from the banking sector. While IPB members are experiencing budgetary constraints, the majority are demonstrating that they are managing within these constraints by continuing to post current year surpluses.

### Company-Specific Assumptions

- Capital adequacy within the 'AAA' range.
- Average growth in gross written premium of about 15%-20% in next two years and then expected growth of 5% in 2019. A net combined ratio of approximately 99% in 2017-2019 (lower combined ratios indicate better profitability) assuming no prior-year reserve releases.
- Pretax profits (excluding one-off items) of €25 million in 2017 and €15 million-€20 million in 2018-2019.
- Net investment yield of less than 1.5% in 2018-2019.
- Capital distribution to members as per value-for-money (VFM) report.

### Key Metrics

| | 2018F | 2017F | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|
| GPW (mil. €) | >170 | >140 | 125 | 113 | 97 | 89 | 90 |
| Pretax income (mil. €) | 15-20 | ~25 | 18.2 | 59.4 | 73.0 | 92.8 | 109.6 |
| Net combined ratio (%)* | <100 | <100 | 103.2 | 106.6 | 94.8 | 35.6 | 118.6 |
| Net investment yield (excluding realized/unrealized gains and losses) | <1.5 | <1.5 | 2.0 | 1.9 | 2.6 | 3.0 | 3.4 |
| S&P Global Ratings capital adequacy | Extremely strong | Extremely strong | Extremely strong | Extremely strong | Extremely strong | Extremely strong | Extremely strong |

*Excluding the impact of the strengthening in reserves, IPB delivered a net combined ratio of 65% in 2012.

F--Forecast. GPW--Gross premiums written.

## Company Description: Non-Life Writer With A Strong Liability-Market Niche

IPB is a Dublin-based non-life insurer specializing in liability business for local public authorities and the health and education sectors. The mutual insurer was established in 1926 and is 100% owned by its members, who are predominantly Irish local authorities and educational training boards. Local authority members account for about 70% of gross premiums written (GPW). Most of its customers are members of the mutual.

IPB is one of the largest liability insurers in Ireland's non-life market. It has about a 3.8% overall non-life insurance market share, 15% liability market share, and €125 million in GPW as of December 2016 (ninth largest in GPW).

IPB's main line of business is liability (71% of GPW in 2016). Its remaining premium income comes from fire and other property damage (20%), motor (6%), and other (3%) for entities that are mostly funded by local authorities. In the past couple of years, the company has also launched several new products like cyber risk, professional indemnity, third party injury claims from flood, and crime insurance, among others. However, these lines have yet to achieve reasonable scale.

Of the risks, 98% stem from the Republic of Ireland, while the remaining 2% are from Northern Ireland (the biggest public sector economy in Europe). The company primarily distributes business directly. However, increasing volumes of business are being sourced through brokers.

## Business Risk Profile: Satisfactory

We consider IPB's business risk profile to be satisfactory, reflecting its market leadership in the Irish local authority liability insurance business and its direct relationship with its mutual members.

### Insurance industry and country risk: Intermediate risk

IPB faces intermediate industry and country risk, as it primarily writes liability business for local public authorities and the health and education sectors. As a result, IPB's exposure, especially to political risks in Ireland, is somewhat higher than that of its local peers.

Over the years, the Irish government's reforms of local government have involved restructuring and amalgamating the local government sector. While the sector is experiencing budgetary constraints, we take a positive view of the fact that the majority of councils are demonstrating successful management within these constraints, by continuing to post current year surpluses.

We view Ireland's country risk as low. We consider that Ireland's property/casualty (P/C) sector benefits from the country's favorable demographics, openness, and labor and product market flexibility.

We view Ireland's P/C industry risk as moderate. We have revised our assessment of market growth prospects in 2016 to positive from neutral as we now see clear signs of growth for the Irish non-life insurance market.

Irish P/C insurance market gross premiums increased by 13.6% in 2016 compared with 7.7% in 2015. We are also expecting growth of about 3%-5% in real terms in 2017 and 2018. The Motor Insurance Index shows average prices rose by a substantial average 28% (up to 50% in some cases) in the year to August 2016, taking average prices to about €900. These prices then came down in the second half of 2016, closing the year at about a 10% increase.

Nevertheless, we view sector profitability as negative, reflecting our belief that the market average combined ratio will remain at about 105% in 2017-2019.

Our assessment of profitability also reflects the more volatile nature of the Irish insurance market compared with several other European peer countries, including the U.K., Italy, and Spain.

The increased risk of unpredictable settlements is the main reason behind our negative assessment of product risk to trigger volatility.

**Table 1**

IPB Insurance CLG--Insurance Industry And Country Risk

| Insurance sector | IICRA | Business mix (%) |
|---|---|---|
| Ireland P/C | Intermediate risk | 100 |

P/C--Property/casualty.

### Competitive position: Dominant position in its core segment liability market

In our view, IPB has an adequate competitive position. This chiefly reflects the company's dominant position in its core segment liability market, which is relatively small.

Historically, IPB has had client retention levels of about 95%-99% (its latest renewal rate is 97% ). This has afforded IPB a sustainable competitive advantage over peers, enabled it to minimize its exposure to the more volatile personal lines of private car and household insurance, and contributed positively to its underwriting performance, which has been slightly stronger than Irish peers' over the cycle. During 2012-2016, IPB recorded a cumulative €27 million net underwriting profit compared with the industry's total loss of €1.0 billion. However, at end-2016, IPB recorded for the second consecutive year a net underwriting loss with a net combined ratio of 104%, which was more in line with improved figures from the whole industry.

Furthermore, IPB has built a strong competitive advantage in its core market by underwriting most of its liability book on a claims-made basis. In our view, this feature has partly deterred competitors from entering IPB's niche market. In addition, the company has strong direct channel control (about 80% of the company's business at December 2016), while it is increasing the broker channel in a targeted way.

Following the economic crisis, the Irish government established cross-functional reporting capabilities to provide it with a high-quality VFM analysis to assist with public policy-making.

We believe that the VFM process has allowed IPB to demonstrate to the government and IPB's members the effectiveness of its mutual insurance model. While the VFM analysis was not without risk for IPB, we believe that, on balance and in the context of market conditions in Ireland, it provides IPB with a means of broadening its base in the public sector, especially in areas where other insurance models are currently being deployed.

IPB continued to increase its premium base by €12 million (11%) in 2016 as a result of pricing increases of about 5% in 2016; retrospective premiums adjustment related to prior years and growth in new business from members and brokers.

We anticipate that IPB's gross premium will continue to increase substantially in the average range of 15%-20% in 2017 and 2018 and then slow down to about 5% in 2019. Our projections reflect a level of retention in line with history, continuous rate increase, removal of excess, and slight growth outside its core member base.

**Table 2**

| IPB Insurance CLG--Competitive Position | | | | | |
|---|---|---|---|---|---|
| | --Year ended Dec. 31-- | | | | |
| **(Mil. €)** | **2016** | **2015** | **2014** | **2013** | **2012** |
| Gross premiums written (GPW) | 124.9 | 113.0 | 97.0 | 89.0 | 90.0 |
| Change in gross premiums written (%) | 10.4 | 16.0 | 9.9 | (1.6) | 1.7 |
| Net premiums written | 103.7 | 96.0 | 76.0 | 70.0 | 72.0 |
| Change in net premiums written (%) | 8.6 | 25.4 | 8.5 | (3.0) | 2.7 |
| Total assets under management | 1,209.5 | 1,194.0 | 1,137.0 | 1,090.0 | 1,085.0 |
| Growth in assets under management | 1.3 | 5.0 | 4.3 | 0.5 | 11.6 |
| Reinsurance utilization (%) | 17.0 | 15.6 | 21.9 | 20.8 | 19.7 |

**Table 2**

| IPB Insurance CLG--Competitive Position (cont.) | | | | | |
|---|---|---|---|---|---|
| | --Year ended Dec. 31-- | | | | |
| **(Mil. €)** | **2016** | **2015** | **2014** | **2013** | **2012** |
| **Business segment (% of GPW)** | | | | | |
| Property/casualty | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

## Financial Risk Profile: Strong

We regard IPB's financial risk profile as strong overall, particularly reflecting sustained, extremely strong capital adequacy. There is some concentration risk--through bank deposits and fixed-income investments--via exposure to the financial services sector.

### Capital and earnings: Capital adequacy to remain at the 'AAA' level, despite further dividend payments and a likely reduction in pretax earnings

IPB's capital position is a key strength for the rating. We regard capital and earnings as very strong, and anticipate that it will remain so in our three-year projections. Our expectation until 2019 is that IPB's capital adequacy will continue to exceed our benchmark at the 'AAA' confidence level, despite capital distribution plans as per the VFM conclusions. In addition, IPB comfortably meets the Solvency Capital Requirement under Solvency II (over 3.5x).

**Table 3**

| IPB Insurance CLG--Capital | | | | | |
|---|---|---|---|---|---|
| | --Year ended Dec. 31-- | | | | |
| **(Mil. €)** | **2016** | **2015** | **2014** | **2013** | **2012** |
| Total capital | 792 | 791 | 754 | 698 | 630 |
| Change in total capital | 0.12 | 4.85 | 7.95 | 10.77 | 15.80 |

Under our base-case scenario, we anticipate that IPB will report a net combined (loss and expense) ratio of about 99% in 2017-2019, excluding one-off items. We expect no gains from prior-year reserve releases, considering continuous claim volatility expectations in the Irish insurance market. In order to achieve underwriting profits, we anticipate that IPB will apply appropriate rate increases to support a rise in inflation and additional risks coming from the move to full ground-up cover.

We project net investment returns to reduce in 2018-2019 to 1.5% from our expectations of 2% in 2017. The reduction reflects lower reinvestment yield expectations in 2018 and reduced invested assets post capital returns.

While we expect pretax profits to improve to €25 million in 2017, we project IPB to report reduced pretax profits of €15 million-€20 million in 2018 and 2019.

**Table 4**

| IPB Insurance CLG--Earnings | | | | | |
|---|---|---|---|---|---|
| | --Year ended Dec. 31-- | | | | |
| **(Mil. €)** | **2016** | **2015** | **2014** | **2013** | **2012** |
| Net income | 16 | 52 | 66 | 79 | 96 |
| Return on shareholders' equity (reported) (%) | 2.0 | 6.7 | 9.0 | 11.8 | 16.3 |
| Net expense ratio (%) | 14.3 | 14.9 | 16.7 | 18.2 | 16.9 |
| Net loss ratio (%) | 88.9 | 91.7 | 78.2 | 17.4 | 101.7 |
| Net combined ratio (%)* | 103.2 | 106.6 | 94.8 | 35.6 | 118.6 |
| Return on revenue (%) | 15.1 | 13.2 | 28.9 | 54.3 | 13.8 |

*Excluding the impact of the strengthening in reserves, IPB Insurance CLG delivered a net combined ratio of 65% in 2012.

### Risk position: Moderate risk position takes into account no exposure to employee benefits, high investment leverage, and some potential reserving risk

In our opinion, IPB exhibits a moderate risk profile, primarily based on its relatively high exposure to risky assets. The assessment also considers the long-term nature of the liability exposure, and some concentration risk in the investment portfolio.

We view investment risk as one of IPB's key risks. Exposure to high-risk assets (equities, real estate, loans, and bonds rated 'BB+' or lower) represented 51% of capital at year-end 2016. Overall composition of investment portfolio remained stable, with higher concentration of investments in government bonds, which represent about 50% of total invested assets. We note that IPB has no exposure to employee benefits and minimal exposure to foreign-exchange risk.

Investment duration remained unchanged in 2017, at 3.8 years, which provides some asset liability mismatch. There is some concentration of the bond maturity profile (about 30% of total bonds) in 2018.

Despite its track record of conservative reserving, we observe potential for future exposure to latent claims, legal risk, and claims inflation. We note that the majority of IPB's policies being written on a claims-made basis significantly mitigates IPB's exposure to latent claims.

Also, with the likelihood of lower investment income, underwriting volatility could become more important for IPB's performance in the future.

**Table 5**

| IPB Insurance CLG--Risk Position | | | | | |
|---|---|---|---|---|---|
| | --Year ended Dec. 31-- | | | | |
| **(Mil. €)** | **2016** | **2015** | **2014** | **2013** | **2012** |
| Total invested assets | 1,209 | 1,194 | 1,137 | 1,090 | 1,085 |
| Net investment income | 24 | 23 | 29 | 33 | 34 |
| Net investment yield (%) | 2.0 | 1.9 | 2.6 | 3.0 | 3.3 |
| Net investment yield including realized capital gains/(losses) (%) | 3.2 | 4.9 | 4.1 | 5.4 | 3.5 |
| Net investment yield including all gains/(losses) | 1.9 | 5.7 | 6.4 | 6.4 | 12.4 |

**Table 5**

| IPB Insurance CLG--Risk Position (cont.) | | | | | |
|---|---|---|---|---|---|
| | --Year ended Dec. 31-- | | | | |
| **(Mil. €)** | **2016** | **2015** | **2014** | **2013** | **2012** |
| **Investment portfolio composition (%)** | | | | | |
| Cash and short-term investments | 10.4 | 11.7 | 9.8 | 12.7 | 18.1 |
| Bonds | 60.8 | 60.9 | 65.0 | 62.4 | 64.1 |
| Equity investments | 19.2 | 21.7 | 20.5 | 19.7 | 14.7 |
| Real estate | 7.7 | 3.6 | 2.2 | 2.4 | 0.0 |
| Loans | 1.9 | 2.2 | 2.5 | 2.8 | 3.2 |

### Financial flexibility: Adequate, due to very strong capitalization and limited needs

IPB has adequate financial flexibility because of its limited needs and very strong levels of capital and earnings. In addition, the company has no debt on the balance sheet.

Generally, IPB has limited external sources of capital and liquidity, given its mutual status and the financial constraints on its members. Should it be required to access funds, it could increase premium or its use of reinsurance.

**Table 6**

| IPB Insurance CLG--Financial Flexibility | | | | | | |
|---|---|---|---|---|---|---|
| | --Year ended Dec. 31-- | | | | | |
| **(Mil. €)** | **2016** | **2015** | **2014** | **2013** | **2012** | **2011** |
| Members dividend | 15 | 15 | 10 | 10 | 10 | 10 |
| Social dividend | 1 | 1 | 3 | 3 | 5 | 0 |
| Net income | 16 | 52 | 66 | 79 | 96 | 57 |
| Total dividends to net Income (%) | 100 | 31 | 20 | 16 | 16 | 18 |

## Other Assessments

### Enterprise risk management: Adequate

IPB's enterprise risk management (ERM) is a neutral factor for the ratings and we assess it as adequate. We believe that IPB has adequate risk controls for its material risks. We also view IPB's approach to strategic risk management and risk models as limited, but developing. A deterministic model adequately reflects the business.

The importance of IPB's ERM to the rating is low, given IPB's capital surplus and its stable and specialist business model. The main risks for the company relate to insurance underwriting and market risk. The company has a comprehensive risk appetite framework to cover all risks identified, including liquidity risk, catastrophe risk, credit risk, and operational risk. Risk tolerances are well-defined and limits are regularly reviewed. Furthermore, an embedded risk report aids the close monitoring of risk limit breaches and measures their mitigation.

Since 2016, the actuarial function is in-house, reinforcing reserving control. Introduction of a modified rating approach improves controls related to pricing risk and reduces risk of antiselection.

The use of standard formula for Solvency II capital purposes is now well-embedded within the organization, with clear links to the overall solvency needs of IPB. Business plans are, in our view, well-challenged by stress and scenario testing.

### Management and governance: Conservative, with a focus on members' needs

We assess IPB's management and governance as adequate. This is based on management successfully adding commercial characteristics to its traditional mutual mindset. In addition, IPB is assessing how to further grow and diversify the company, while continuing to prioritize serving members' needs within the company's strategy.

In our opinion, the experienced management team at IPB has a good track record of being operationally effective. The team continues to deliver reasonable profitability despite the structural and legal reforms in the Irish insurance market. It has achieved this by aligning its strategy with organizational capabilities and marketplace conditions. It has also successfully developed and implemented a comprehensive risk management framework with defined policies and control systems.

In our view, management has been proactive in foreseeing risks that can affect future earnings, such as the reduction of discount rates on bodily injury claims and increasing legal costs.

Financial management is conservative and in line with the company's needs. Its underwriting is fairly conservative, while its risk appetite clearly defines risk thresholds and monitors them on a regular basis.

### Liquidity: Exceptional, owing to the credit quality and liquidity of IPB's asset portfolio

We regard IPB's liquidity as exceptional, owing to the strength of available liquidity sources (mainly premium income) and an asset portfolio that contains about €1.0 billion of liquid assets. There is no debt on the balance sheet and we consider the company to be capable of managing unexpectedly large claims.

## Accounting Considerations

The financial statements published by the company are prepared in accordance with International Financial Reporting Standards. The financial statements have been prepared on a historical cost basis, except financial assets and financial liabilities, which are measured on a fair value basis and routed through profit and loss.

## Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General: Enterprise Risk Management, May 7, 2013
- General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

| Ratings Detail (As Of December 20, 2017) | |
|---|---|
| **Operating Company Covered By This Report** | |
| **IPB Insurance CLG** | |
| Financial Strength Rating | |
| *Local Currency* | A-/Stable/-- |
| Counterparty Credit Rating | |
| *Local Currency* | A-/Stable/-- |
| **Domicile** | Ireland |

*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.

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