S&P Global
Ratings

RatingsDirect®

IPB Insurance CLG

Primary Credit Analyst:
Charles-Marie Delpuech, London (44) 20-7176-7967; charles-marie.delpuech@spglobal.com

Secondary Contact:
Tatiana Grineva, London (44) 20-7176-7061; tatiana.grineva@spglobal.com

Research Contributor:
Ami M Shah, Mumbai (91) 22-4040-8340; ami.shah@spglobal.com

Table Of Contents

IPB Insurance CLG

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

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

Major Rating Factors

Strengths	Weaknesses
• Highly capitalized, with capital likely to remain in excess of our 'AAA' level under our risk-based model. • Dominant position in the liability business for the local public authorities segment. • Mutual player that has high client retention rates and a close and direct relationship with its members.	• Limited product lines and geographic diversification. • Narrow client base, and more-sensitive to political risks than its peers. • Insurance claims inflation remains a challenge, despite improving economic factors in Ireland. • Somewhat high exposure to risky assets.

Rationale

The ratings on IPB Insurance CLG (IPB) reflects S&P Global Ratings' view of IPB's extremely strong level of capital and its market leadership in the Irish local authority liability insurance business, where it has built a strong and direct relationship with its mutual members.

These strengths are somewhat offset by IPB's relative lack of diversification through its product offering, its reliance on a narrow member base and the adverse claim environment in Ireland which we view as credit weaknesses.

Outlook: Stable

The stable outlook reflects our view that IPB's excess capital position will provide resilience and stability for the rating over the next two years. We expect IPB to retain a disciplined approach to underwriting during this period, while maintaining high client retention.

Downside scenario

Although unlikely, we might lower the ratings over the next two years if IPB's level of capitalization were to materially weaken, so that most of its excess capital was eroded. This could follow a prolonged period of underpricing or a series of extraordinary losses in IPB's investment portfolio, for instance.

We could also consider lowering the ratings if the company were to lose its dominant position in the local public authorities segment, which could result in a significant loss of members.

Upside scenario

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

Base-Case Scenario

Macroeconomic Assumptions	Company-Specific Assumptions
• The current forecast for underlying GDP growth over the medium term of 2.5%-3.0% for Ireland could be put at risk in a disorderly Brexit scenario. • Consumer price index inflation to rise further, to 1.4% in 2019 from 1.0% in 2018. • Claims inflation to remain moderate to high in the Irish non-life market.	• Average gross written premium growth of about 8% a year over the next two years, largely supported by rate increases and new business growth from existing members. • Continued capital distribution to members of €25 million a year over 2019-2022.

Key Metrics

	2020f	2019f	2018f	2017	2016	2015	2014	2013
Gross premium written (mil. €)	~175	~165	~155	141	125	113	97	89
Net income (mil. €)	10-15	10-15	10-15	38	16	52	66	79
Net combined ratio (%)	<98	<98	<98	97.3	103.2	105.6	93.9	35.5
Return on shareholders' equity (reported; %)	<2.0	<2.0	<2.0	5.0	2.0	6.7	9.0	11.8
Return on revenue (%)	8.0-10.0	8.0-10.0	8.0-10.0	18.7	15.1	13.2	28.9	54.4
Net investment yield (excluding realized/unrealized gains and losses)	~1.0	~1.0	~1.0	1.9	2.0	1.9	2.6	3.0
Total reported capital (mil. €)	~665	~680	~695	714.2	791.6	790.6	754.1	698.5
Revenue (mil. €)	>150	>140	>130	138.1	123.9	117.4	106.1	102.5
S&P Global Ratings capital adequacy	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong

f--Forecast.

Company Description: Non-Life Mutual 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 80% 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 had an overall non-life insurance market share of about 4%, 15% of the liability, and €141 million in GPW as of December 2017 (ninth-largest insurer in Ireland, by GPW).

Business Risk Profile: Satisfactory

The Irish insurance market is volatile, pricing is challenging, and the risk of unpredictable settlements is relatively high. We view IPB's business position as resilient to these pressures, as further demonstrated by the 2016 Value for Money (VFM) review, which showed how effective IPB's mutual insurance model is for its members.

IPB's client retention levels have historically exceeded 95%--at the latest renewal, more than 98% of clients renewed their contracts. This has contributed positively to its underwriting performance, which has been slightly stronger than Irish peers' average over the cycle. During 2013-2017, IPB recorded a cumulative net underwriting profit of over €40 million; the industry as a whole recorded a total loss of more than €500 million during this period. At end-2017, IPB's net combined ratio improved to 97%, reflecting rate increases in 2017. (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.)

We expect IPB to see continued gross premium growth of 8% a year in 2018-2020. Our projections reflect IPB's historical member retention, continuous rate increases, removal of excess, and slight growth outside its core member base.

IPB benefits from strong control over its direct channel, through which it wrote about 85% of its business as at December 2017. We see some competitive advantage in writing most of the liability book on a claims-made basis; many competitors would not offer products on this basis.

Chart 1

Top Seven Irish Peers: Gross Liability Premium Underwritten At Year-End 2016

Source: S&P Global Ratings.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

Financial Risk Profile: Strong

IPB's capital position is a key strength for the rating. Capital adequacy is expected to remain at the 'AAA' level, as per our risk-based model, until 2020, despite further dividend payments of €25 million over the next three years and a likely reduction in pretax earnings.

Under our base-case scenario, we anticipate that IPB will report a net combined ratio of about 98% in 2018-2020, and will not gain much from prior-year reserve releases. We expect IPB to apply appropriate rate increases to support rising inflation and additional risks coming from the move to full ground-up cover.

We project that net investment returns will fall below historical levels in 2018-2020, to 1.0%. The reduction mainly reflects the lower reinvestment yields recorded in 2018 after nearly €190 million of relatively high-yield governments bonds expired.

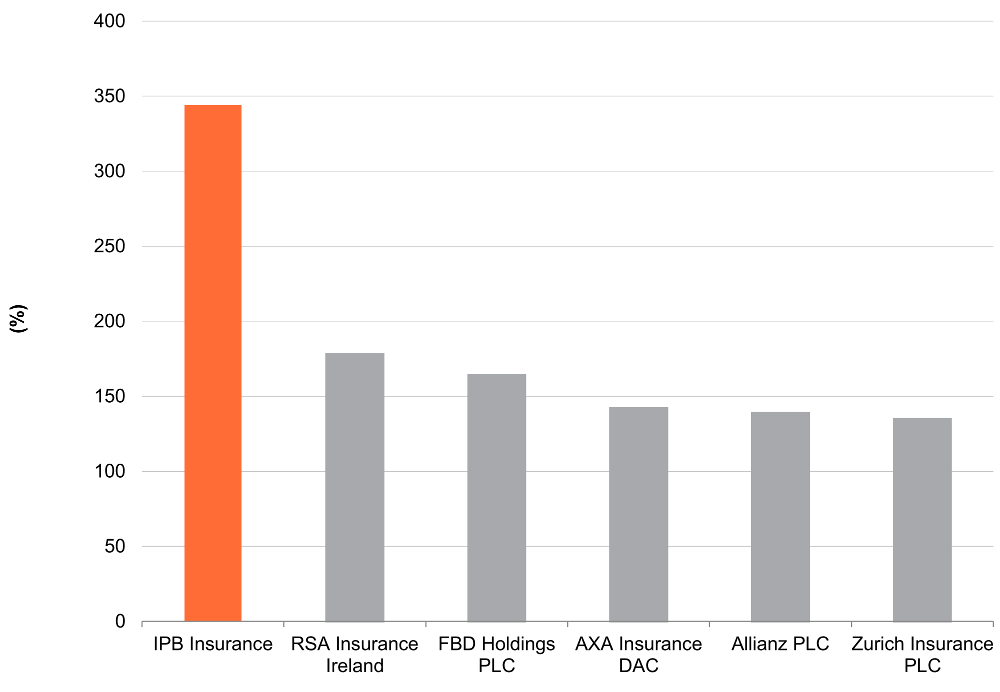
We expect net income to reduce to €10 million-€15 million in 2018-2020 as a result.

Potential risks to our forecasts include the long-term and volatile nature of the liability exposure and IPB's relatively high investment risk. Exposure to high-risk assets (equities, real estate, loans, and bonds rated 'BB+' or lower) represented 55% of capital at year-end 2017.

We view IPB' unleveraged balance sheet as a strength. Should IPB be required to access funds, it is more likely to increase premium or its use of reinsurance than access the debt market.

Chart 2

Irish Peers: Reported Solvency II Ratio At Year-End 2017



Source: S&P Global Ratings.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

Other Assessments

We consider IPB's approach to risk management as appropriate. Risk tolerances are well-defined and limits are regularly reviewed. IPB applies various stress and scenario tests to its business plans and clearly communicates around its solvency needs and capital target.

We consider IPB capable of managing unexpectedly large claims. We calculate that about €700 million of liquid assets would be available in a stressed situation--this represents more than 3.0x liquidity needs.

We view the management team at IPB as experienced--it 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

Rating Score Snapshot	
Financial strength rating	A-/Stable/--
Anchor	a-
Business risk profile	Satisfactory
IICRA	Intermediate
Competitive position	Adequate
Financial risk profile	Strong
Capital and earnings	Very strong
Risk position	Moderate risk
Financial flexibility	Adequate
Modifiers	0
ERM and management	0
Enterprise risk management	Adequate
Management and governance	Satisfactory
Holistic analysis	0
Liquidity	Exceptional
Support	0
Group support	0
Government support	0

IICRA--Insurance industry and country risk assessment.

Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - 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 November 21, 2018)	
Operating Company Covered By This Report	
IPB Insurance CLG	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer 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.

Additional Contact:
Insurance Ratings Europe; insurance_interactive_europe@spglobal.com

Copyright © 2018 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.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.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.standardandpoors.com/usratingsfees.

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