S&P Global Ratings

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IPB Insurance CLG

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IPB Insurance CLG

Anchor	a-
Business Risk	**Satisfactory**
Competitive position	Satisfactory
IICRA	Intermediate
Financial Risk	**Strong**
Capital and earnings	Very strong
Risk exposure	Moderately high
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a-

+

Support	**0**
Group support	0
Government support	0

=

A-/Stable/--
Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview	
Strengths	**Risks**
Highly capitalized, with capital likely to remain in excess of the 'AAA' level under our risk-based capital model.	Concentration in the Irish local public authorities segment.
Dominant position in the liability business for the local public authorities segment.	Small absolute size of capital.
Mutual player that has high client retention rates and a close and direct relationship with its members.	Compensation culture in Ireland increases the risk of unpredictable claim settlements and high legal costs.

S&P Global Ratings expects IPB Insurance CLG (IPB) will maintain its market leadership in the local public authority liability insurance business. IPB has built a strong and direct relationship with its mutual members, as evidenced by the very high retention rate of nearly 100%. The company has managed to restore underwriting profitability with a net combined (loss and expense) ratio of 92% in 2019 after four years of severe claims inflation affecting the Irish non-life insurance market.

We anticipate that overall negative effects from the COVID-19 pandemic will hit IPB's earnings. We expect underwriting results will remain solid in 2020 despite the ongoing pandemic, in particular due to lower claims frequency in the public liability line of business. Having said that, due to volatility caused by the pandemic and ongoing lower interest rates, we expect investment income will be somewhat depressed in 2020 and therefore forecast net income of €5 million-€10 million.

IPB holds a comfortable capital buffer above the 'AAA' confidence level, which we believe will remain in place until at least 2022. We believe that COVID-19 will be an earnings event but not a capital event for IPB. Capitalization will remain redundant at the 'AAA' level. This takes into account the ongoing capital distribution plans and forecast members' dividends. Potential volatility to our base-case scenario lies in the investment portfolio, due notably to the somewhat higher share of equity investment (more than 14.9% in 2019) and IPB's focus on the Irish public liability segment, which has proven volatile, with claims that take longer to settle.

Outlook: Stable

The stable outlook reflects our view that IPB's excess capital position will support the rating over the next two years. We expect IPB will 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 materially weakens, so that most of its excess capital erodes, as measured by our capital model. This could follow a prolonged period of underpricing, higher-than-expected claims as a result of COVID-19, or a series of extraordinary losses in IPB's investment portfolio, for instance. We could also consider lowering the ratings if the company loses 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 challenging claims environment within the Irish non-life insurance industry, will continue to weigh on the ratings.

Key Assumptions

- Ireland's GDP will contract 10.5% in 2020 and recover in 2021 and 2022 with growth of 6% and 4% respectively.
- Consumer price index inflation will curtail to 0.0% in 2020 and rise to 0.8% in 2021 and 1.1% in 2022.
- The unemployment rate will rise to 13.9% in 2020 and reduce to 8.5% in 2021 and 6% in 2022.
- Risk of unpredictable claims settlement will remain high in the Irish non-life market.

Key Metrics

	2021f	2020f	2019	2018	2017	2016
Gross premium written (mil. €)	>160	>160	159	161	141	125
Net income (mil. €)	10-15	5-10	47	(7)	38	16
P/C: net combined ratio (%)	<96	<96	91.8	94.1	97.3	103.2
P/C: Return on revenue (%)	>10	>10	19.5	18.0	19.2	15.1
Net investment yield (%)	1-1.5	1-1.5	1.58	1.68	1.89	1.97
Return on shareholders' equity (%)	>2	>0	7	N.A.	5	2
S&P Global Ratings capital adequacy*	Excellent	Excellent	Excellent	Excellent	Extremely strong	Extremely strong

f--S&P Global Ratings forecast. *The extremely strong assessment in 2017 reflects the rating construction under the previous insurance criteria framework. N.A.--Not avilable.

Business Risk Profile: Satisfactory

IPB is a mutual insurer that has built a dominant position in its niche segment of third-party liability insurance for the local public authorities in Ireland. About 80% of its business written is third-party liability business.

IPB benefits from strong control over its direct channel, through which it wrote more than 80% of its business as of Dec. 31, 2019. 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.

The Irish insurance market is gradually recovering from several years of high claim inflation that led to severe pricing corrections. The risk of unpredictable settlements remains relatively high. We view IPB's business position as resilient to these pressures, with strong underwriting performance and client retention levels that have historically been very high--at nearly 100% at the latest renewal in 2020.

At year-end 2019, IPB's net combined ratio improved to 92%, versus a five-year average of 98.4%--lower combined ratios indicate better profitability, with a combined ratio of greater than 100% signifying an underwriting loss. This gradual recovery results mainly from an improvement in risk-adequate underwriting, anti-fraud measures, price corrections, and a reduction in frequency permitted by risk mitigation initiatives in collaboration with its members. IPB also has one of the lowest expense ratios in the Irish insurance industry, at 14% in 2019. This is much better than the industry average of 25%, according to our estimates, and demonstrates IPB's very high cost-efficiency.

As part of its value-for-money initiative introduced in 2016, IPB publicly stated its Solvency II ratio risk appetite at 200%, which will result in €200 million in retained earnings distributions to its members between 2018 and 2022, combined with measures aimed at accepting more risks from members and a focus on risk remediation and modified pricing. This has contributed to its operational effectiveness and enhanced risk culture and underwriting performance, which has been slightly stronger than the Irish peer average over the cycle.

Since we expect Ireland's GDP will contract in the face of the current economic slowdown and recession environment amid the COVID-19 pandemic, we anticipate premiums will be stagnant in 2020, followed by marginal growth in 2021-2022. Our projections reflect IPB's historical member retention and rate increases, as well as growth in other business.

Financial Risk Profile: Strong

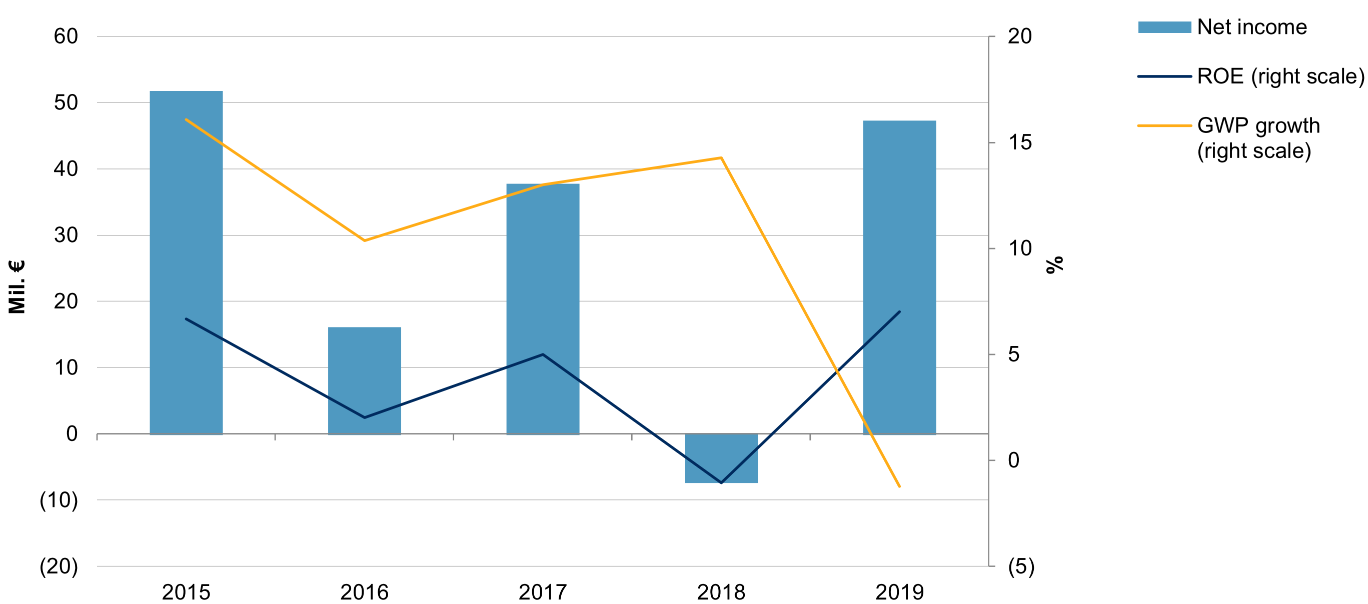
IPB's capital position is a key strength for the rating. We expect capital adequacy will remain comfortably above the 'AAA' level, as per our risk-based model, until 2022 at least. This takes into account the remaining retained earnings distribution of €50 million out of the €200 million planned through 2022.

Our assessment of the capital position is mitigated by the small absolute size of capital, implying somewhat higher sensitivity to shocks than companies with bigger balance sheets.

Under our base-case scenario, we anticipate that IPB will report a net combined ratio averaging 95% in 2020-2022. We believe IPB has applied appropriate rate increases to support claims inflation and we expect it will adequately price additional risks coming from the move to full ground-up cover and any other risk transfer from members. IPB has delivered a healthy balance of business growth and strong bottom-line results in the past with a five-year average net income of €29 million and a five-year average return on equity of about 4%. This is a solid level for a mutual insurer considering the huge capital base and service-oriented business model.

Chart 1

Volatile Net Earnings And ROE Reflect Volatility In IPB's Investment Income



Source: S&P Global Ratings. ROE--Return on equity. GWP--Gross written premiums.

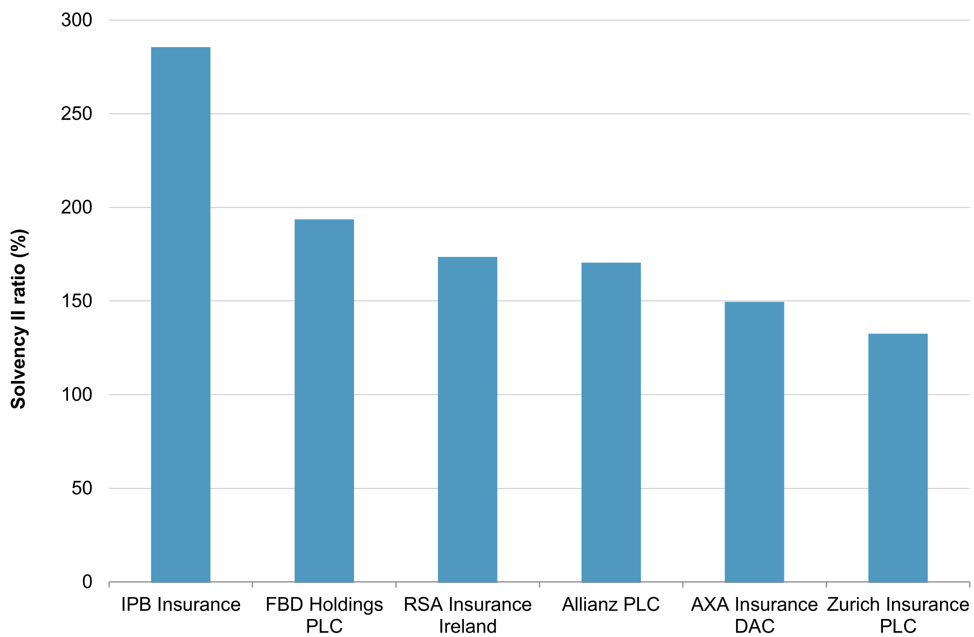
Having said that, we expect lower earnings in 2020 of €5 million-€10 million caused by pressure on investment income given the capital markets downturns related to COVID-19. We forecast a net profit for 2021-2022 at a more normalized level of €10 million-€15 million. Potential risks to our forecasts 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, bonds rated 'BB+' or lower and unrated bonds) represented 51% of total adjusted capital, according to our risk-based capital model, at year-end 2019. We expect some investment de-risking will help to moderate volatility, with a decreasing share of equities--as already seen over the course of 2020.

We consider IPB's risk control framework appropriate. Tolerances are well defined and the company regularly reviews and monitors risks. IPB applies various stress and scenario tests to its business plans and clearly communicates its solvency needs and capital targets. Nevertheless, we identify specific risks to its activities. Because of IPB's concentration on public-sector liability risks on the Irish market--which is quite litigious--risk of claim inflation is relatively high (although moderating) and time to settle claims is longer than average. In addition, because of its mutual status, IPB will accept all risks from its members with no selection beyond pricing and board and management satisfaction that the risk accepted remains compliant with its agreed risk appetite.

IPB has an excellent capitalization, under our risk-based capital model, and we believe capital levels are sufficient to support its profitable growth strategy and execute its retained earnings distribution. Furthermore, the Solvency II ratio compares well with that of other Irish entities.

Chart 2

IPB's High Capital Buffer Is A Key Rating Strength
Reported Solvency II ratio at year-end 2019



Source: Companies' solvency and financial condition reports 2019.

IPB has a debt-free balance sheet and we believe it has a sufficient capital buffer to meet future financing needs. Should IPB be required to access external funds, it would be more likely to increase premiums or its use of reinsurance than access the debt market.

Other Key Credit Considerations

Governance

The management team at IPB is highly experienced and continues to deliver robust profitability despite the structural and legal reforms in the Irish insurance market. IPB's communication is very transparent and it has a clear strategy to continuously build-up capital and focus on its service-oriented strategy as a mutual insurance company.

Liquidity

IPB's liquidity is sound, thanks to the various liquid sources available to the company, such as its premium income, favorable liability profile, and a very-liquid asset portfolio. IPB can generate recurring cash flows from its operations and we do not forecast any refinancing concerns.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- 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

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 November 20, 2020)*

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.