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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 our 'AAA' level under our risk-based model.	Concentration in the Irish local public authorities segment, which is quite litigious, with limited product lines.
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 cost.

We expect IPB Insurance CLG (IPB) will maintain its market leadership in the local public authority liability insurance business. It has built a strong and direct relationship with its mutual members, as evidenced by the very high retention rate of nearly 100%. IPB has managed to restore underwriting profitability with net combined (loss and expense) ratio of 94% in 2018 after three or four years of severe claims inflation affecting the Irish non-life insurance market.

IPB holds a comfortable capital buffer above the 'AAA' confidence level, which we believe will remain until 2021 at least. This takes into account the ongoing capital distribution plan and foreseeable members' dividends. Potential volatility to our base-case scenario lies in the relatively risky investment portfolio, due notably to the high share of equity investment (more than 14% in 2018) and IPB's focus on the Irish public liability segment, which has proven to be volatile, with claims that take longer to settle.

Outlook: Stable

The stable outlook reflects S&P Global Ratings' 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. 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 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

- The current forecast for underlying GDP growth over the medium term of about 3.0%, the greatest risk to the Irish economy continuing to be a possible no-deal Brexit.
- Consumer price index inflation to rise further, to 1.4% in 2020 from 1.0% in 2019.
- Risk of unpredictable claims settlement to remain high in the Irish non-life market.

Key Metrics

	2020f	2019f	2018	2017	2016
Gross premium written (mil. €)	~168	160	161	141	125
Net income (mil. €)	10.0-15.0	10.0-15.0	(7)	38	16
P/C: net combined ratio (%)	~95	~95	94.1	97.3	103.2
Return on revenue (%)	>10.0	>10.0	17.6	18.7	15.1
Net investment yield (%)	1.0-1.5	1.0-1.5	1.68	1.89	1.97
Return on shareholders' equity (%)	>2	>2	NA	5.0	2.0
Total shareholder equity	~680	>670	662	714	792
S&P Global Ratings capital adequacy*	Excellent	Excellent	Excellent	Extremely strong	Extremely strong

f--S&P Global Ratings forecast. *The extremely strong assessment in 2016 and 2017 reflects the rating construction under the previous insurance criteria framework.

Business Risk Profile: Satisfactory

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 client retention levels that have historically been very high--at nearly 100% at the latest renewal in 2019.

IPB's 2016 Value for Money (VFM) further demonstrates how effective its mutual insurance model is for its members. Indeed, this has contributed positively to its underwriting performance, which has been slightly stronger than its Irish peers' average over the cycle.

At end-2018, IPB delivered early on its 2020 internal target as its net combined ratio improved to 94%, versus a five year average of 99%. (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.)

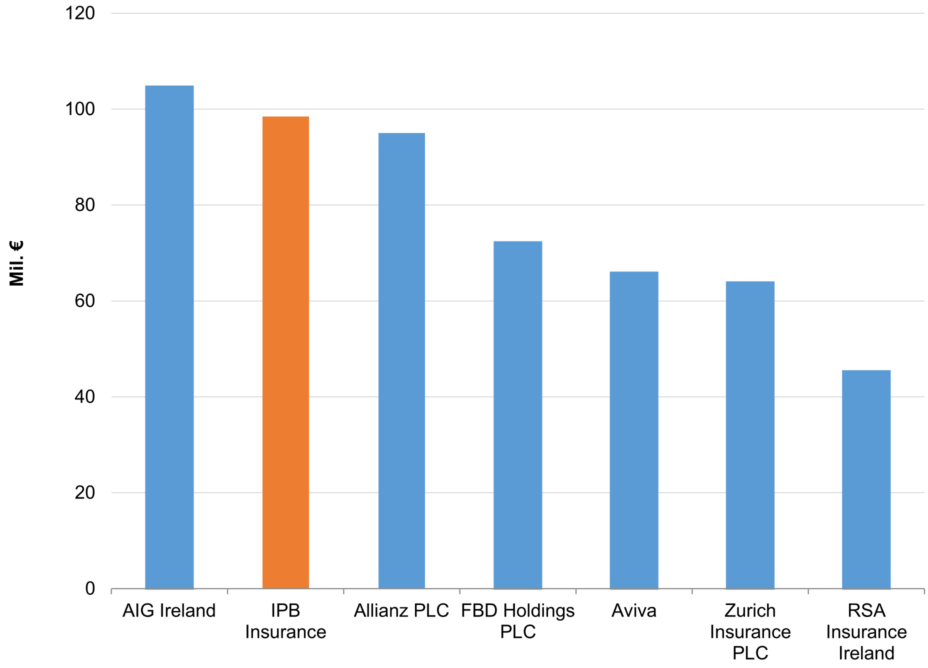
This gradual recovery results mainly from price corrections and a reduction in frequency permitted by risk mitigation initiatives in collaboration with its members. IPB also has one of the lowest expense ratios in the Irish insurance industry, at 12% in 2017, which is around 15 percentage points better than the industry average, according to our estimates.

We expect IPB to record stable premium levels at above €160 million in 2019 and moderate growth of about 5% a year in 2020 and 2021. Our projections reflect IPB's historical member retention, continuous rate increases, and small growth outside its core member base.

IPB benefits from strong control over its direct channel, through which it wrote above 80% of its business as at December 2018. 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

IPB Holds A Leading Position In The Irish Liability Insurance Segment
Gross Liability Premium Underwritten At Year-End 2017



Source: Insurance Ireland

Financial Risk Profile: Strong

IPB's capital position is a key strength for the rating. We expect capital adequacy to remain comfortably above the 'AAA' level, as per our risk-based model, until 2021 at least. This takes into account the remaining retained earning distribution of about €100 million out of the €200 million planned through 2022. Our base case also includes a members' dividend payouts of 40%, reflecting the 2018 dividend guidance.

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

Under our base-case scenario, we anticipate that IPB will report a net combined ratio averaging 95% in 2019-2021. 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.

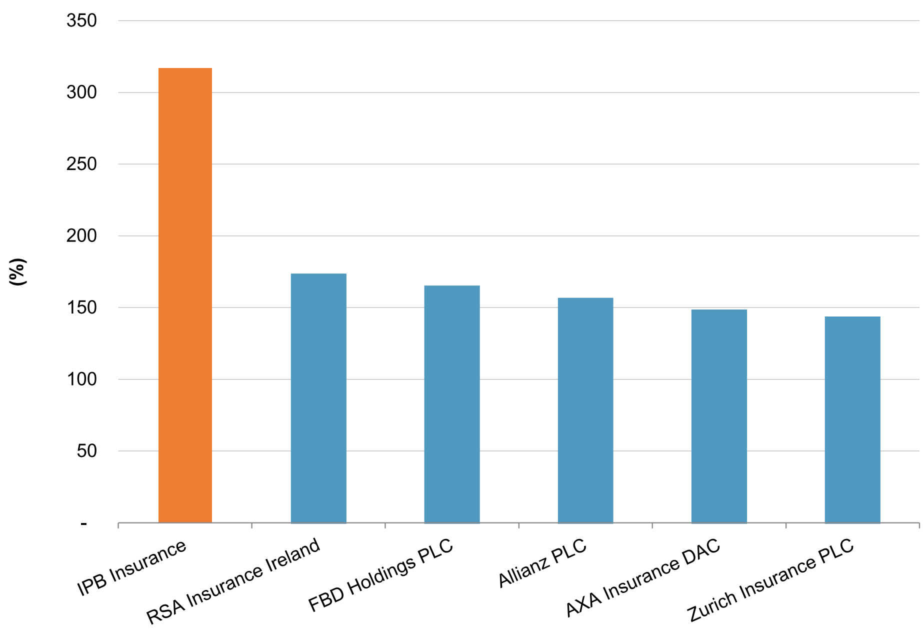
After recording negative investment value variation in 2018, net results for the year were €7 million negative. At mid-year 2019, financial markets had recovered, with a direct impact on the profit and loss: Net profit stood at €40 million. We forecast a net profit for 2020-2021 at a more normalized level of about €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, and bonds rated 'BB+' or lower) represented 52% of capital at year-end 2018. We expect some investment derisking will help to moderate volatility, with a decreasing share of equities, currently representing 14% of the investment portfolio.

We consider IPB's risk control framework as appropriate. Risk tolerances are well defined and IPB regularly reviews and monitors the risks. The company applies various stress and scenario tests to its business plans and clearly communicates around its solvency needs and capital target. Nevertheless, we identify specific risks to IPB's 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.

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.

Chart 2

IPB's High Capital Buffer Is A Key Strength For Its Rating
Reported Solvency II Ratio At Year-End 2018



Source : Companies' Solvency and Financial Condition Reports (SFCR).

Other Key Credit Considerations

Governance

The management team at IPB is experienced and continues to deliver robust profitability despite the structural and legal reforms in the Irish insurance market. As part of the VFM initiative introduced in 2016, IPB has publicly stated its Solvency II ratio risk appetite at 200%, which resulted in €200 million in retained earnings distributions to its members between 2018 and 2022, combined with measures aiming at accepting more risks from members and a focus on risk remediation and modified pricing. Effects of the latter are visible on the underwriting performance since 2017, evidencing operational effectiveness and enhanced risk culture across the company.

Liquidity

We consider IPB capable of managing unexpectedly large claims. We calculate that about €800 million of liquid assets would be available in a stressed situation--this represents more than 3.0x liquidity needs.

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

Related Research

- IPB Insurance CLG Affirmed At 'A-'; Outlook Stable, July 24, 2019
- Countdown To Brexit: Will There Be A Silver Lining For Ireland? Feb. 14, 2019

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 28, 2019)*	
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.