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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 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 relationship with its mutual members, as evidenced by the very high retention rate of nearly 100%. It is the only domestic mutual insurer in Ireland, thereby ensuring a direct relationship with mutual members, and resilience against competition.

We anticipate that that IPB's sound and stable underwriting results will continue. We expect underwriting results will remain solid in 2021, partly driven by lower claims frequency in the public liability line of business. The company has managed to restore underwriting profitability with a net combined (loss and expense) ratio of 92.6% in 2020. This result reflects the COVID-19 pandemic, improved pricing, claims management, and fraud detection processes in the Irish non-life insurance market. We forecast a net income of at least €10 million-€15 million for 2021-2023 on average.

IPB holds a comfortable capital buffer above the 'AAA' confidence level, which we believe will remain in place until at least 2023. We expect IPB's capitalization to remain at excellent levels. 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 (more than 15.1% in 2020) 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 expand 4% in 2021 and 3.6% in 2022.
- Consumer price index inflation will rise to 0.8% in 2021 and 1.0% in 2022.
- The Irish unemployment rate will rise to 7% for 2021-2022.
- Risk of unpredictable claims settlement will remain high in the Irish non-life market.

IPB Insurance CLG--Key Metrics

	2022f	2021f	2020	2019	2018	2017
Gross premium written (mil. €)	>150	>145	144.1	159.2	161.0	141.0
Net income (mil. €)	10-15	>15	17.0	47.1	(7.0)	38.0
P/C: net combined ratio (%)	<96	<96	92.6	92.8	94.1	97.3
P/C: Return on revenue (%)	>10	>10	18.8	18.7	18.0	19.2
Net investment yield (%)	1-1.5	1-1.5	1.3	1.6	1.7	1.9
Return on shareholders' equity (%)	2-4	2-4	2.5	7.0	NA	5.0
S&P Global Ratings capital adequacy*	Excellent	Excellent	Excellent	Excellent	Excellent	Extremely strong

f--S&P Global Ratings' forecast. P/C--Property/casualty. *The extremely strong assessment in 2017 reflects the rating construction under the previous insurance criteria framework.

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 in third-party liability.

IPB benefits from strong control over its direct channel, through which it wrote more than 80% of its business at Dec. 31, 2020. 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.

The Irish insurance market has recovered from a period of high claim inflation that led to severe pricing corrections over the past three-to-four years. The country's compensation culture increases claim settlements unpredictability, which remains relatively high, and legal costs for insurers.

The judicial council voted for new guidelines in March 2021 with a commencement date of April 24, 2021. The new set of personal injury compensation guidelines replace those in the Book of Quantum. They reduce overall compensation levels in Ireland and bring them into line with those in other countries. This could lead to lower compensation levels, since the main aim was to reduce damages for minor injuries. However, in individual cases, claimants can still let judges assess if claims are fair and reasonable. We consider that the new guidelines could bring down the high cost of insurance for liability claims in Ireland and consequently for IPB.

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 2020, IPB's net combined ratio improved to 92.6%, versus a five-year average of 96.0%--lower combined ratios indicate better profitability, with a combined ratio of greater than 100% signifying an underwriting loss. This gradual underlying 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 16% in 2020. This is much better than the industry average of 26%, according to our estimates, and demonstrates IPB's very high cost efficiency.

As part of its value-for-money (VFM) initiative introduced in 2016, IPB publicly stated its Solvency II ratio risk appetite at 200%. This will result in €205 million in retained earnings distributions, up from €200 million initially approved, 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. In our view, these measures have contributed to IPB's operational effectiveness and enhanced risk culture and underwriting performance, which were slightly stronger than the Irish peer average over the cycle. We believe that the VFM process has allowed IPB to demonstrate to its members the effectiveness of its mutual insurance model.

Being a service-oriented mutual insurer, IPB gave ex-gratia credits proportionate to the likely direct effects of COVID-19 and rebates to members in 2020. We expect IPB will also pass on similar benefits to its members in 2021 considering lower claims in the first half.

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 2023 at least. This takes into account the remaining retained earnings distribution of €25 million out of the €205 million planned through 2022.

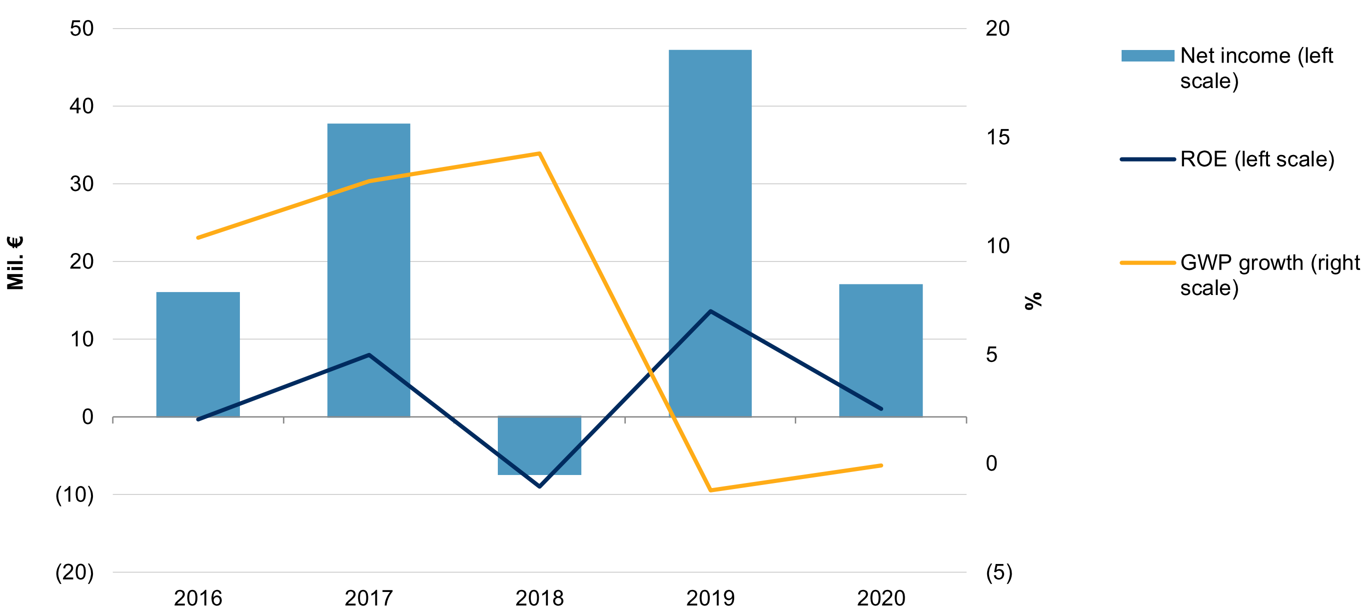
Our assessment of the capital position is mitigated by the small absolute size of capital, implying somewhat higher sensitivity to shocks than companies with bigger balance sheets.

Under our base-case scenario, we anticipate that IPB will report a net combined ratio below 96% in 2021-2023. 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 transfers 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 €22 million and a five-year average return on equity of about 3%. This is solid performance for a mutual insurer considering the current level of capital and service-oriented business model.

Despite Ireland's economic contraction in 2020, IPB reported net income of €17 million due to its strong underwriting results. Investment income has recovered in 2021, leading us to project another strong year with net income of more than €15 million. We then forecast a more normalized level of €10 million-€15 million for 2022-2023.

Chart 1

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



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

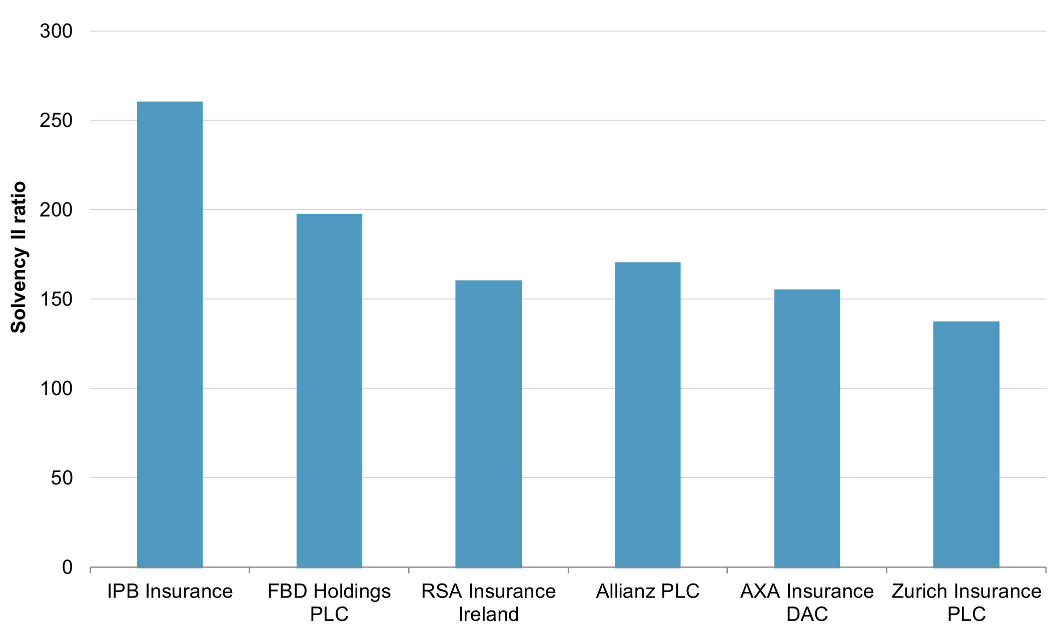
Potential risks to our forecasts include the long-term and volatile nature of the liability exposure and IPB's somewhat higher volatility in investment income. Exposure to high-risk assets (equities, real estate, loans, bonds rated 'BB+' or lower, and unrated bonds) represented 60% of total adjusted capital, according to our risk-based capital model, at year-end 2020. We expect some investment de-risking will help to moderate volatility, with a decreasing share of equities over time.

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 excellent capitalization, under our risk-based 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 2020



IPB has a debt-free balance sheet and we believe it has a sufficient capital buffer to meet future financing needs. Should IPB need to access external funds, it is more likely to increase premiums, or use increased levels 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 model 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.

Appendix

IPB Insurance CLG--Credit Metrics History

Ratio/Metric	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Extremely strong*
Total invested assets	1,271.2	1,241.8	1,186.2	1,239.2
Total shareholder equity	657.2	684.0	661.8	714.2
Gross premiums written	144.1	159.2	161.2	141.1
Net premiums written	117.7	133.5	137.1	118.2
Net premiums earned	118.7	136.4	137.6	114.7
Reinsurance utilization (%)	18.4	16.2	15.0	16.3
EBIT	18.3	53.2	(8.4)	42.3
Net income (attributable to all shareholders)	17.0	47.1	(7.3)	37.6
Return on shareholders' equity (reported) (%)	2.5	7.0	(1.1)	5.0
P/C: net combined ratio (%)	92.6	92.8	94.1	97.3
P/C: net expense ratio (%)	16.3	13.7	12.2	14.4
P/C: return on revenue (%)	18.8	18.7	18.0	19.2
Net investment yield (%)	1.3	1.6	1.7	1.9
Net investment yield including investment gains/(losses) (%)	0.8	3.6	(1.3)	3.2

P/C--Property/casualty. *The extremely strong assessment in 2017 reflects the rating construction under the previous insurance criteria framework.

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 11, 2021)*

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.