S&P Global Ratings

Research

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

Key strengths	Key risks
Excellent capital adequacy in excess of the 'AAA' level, under our risk-based capital model.	Exposure to volatile capital markets and high inflation, which could hamper revenue and the earnings profile.
Dominant position in the liability business for the local public authorities segment.	Relatively small absolute size of capital.
Mutual player that has high client retention rates and a close and direct relationship with its members.	Concentration in the Irish local public authority's segment.

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 expect that IPB to maintain its strong underwriting performance. We expect underwriting results will remain strong in 2022, partly driven by lower claims frequency in the public liability line of business. On the back of lower claims frequency and severity, the company has managed to further improve its underwriting profitability with a net combined (loss and expense) ratio of 75.7% in 2021 from 92.6% in 2020. This reflects improved pricing, claims management, and fraud detection processes in the Irish non-life insurance market. However, given the volatility in capital markets and increased interest rates, IPB has faced losses in equity and bond market values. Overall, we forecast a net loss of about 30-40 million for 2022, but we expect IPB's earnings generation capability to recover to normal levels over the next two to three years as its underwriting performance is fully in-tact with a five-year average net combined ratio of 90.5%.

IPB holds a comfortable capital buffer above the 'AAA' confidence level, which we believe will remain in place until at least 2024 and will continue to support the company's creditworthiness. Despite the expected net loss for 2022, we expect IPB's capitalization to remain at excellent levels. This takes into account the ongoing 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 16.5% in 2021) 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 in an inflationary environment, higher-than-expected claims, 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 grew by 13.5% in 2021 and we expect GDP growth of 3.5% and 3% in 2022 and 2023, respectively.
- Consumer price index (CPI) inflation reported in 2021 was 2.4%. We forecast CPI of 6.7% and 2.9% For 2022 and 2023, respectively.
- At end-2021, unemployment was 6.2%. On average, we expect unemployment to be 6% for 2022-2023.
- Risk of unpredictable claims settlement will remain high in the Irish non-life market.

IPB Insurance CLG--Key Metrics

	2023f	2022f	2021	2020	2019	2018	2017
Gross premium written (mil. €)	>140	>140	138.0	144.1	159.2	161.0	141.0
Net income (mil. €)	10-20	<-30	46.0	17.0	47.1	(7.0)	38.0
P/C: net combined ratio (%)	<96	<96	75.7	92.6	92.8	94.1	97.3
P/C: Return on revenue (%)	N/A	N/A	33.1	18.8	18.7	18.0	19.2
Net investment yield (%)	1-1.5	<0	1.1	1.3	1.6	1.7	1.9
Return on shareholders' equity (%)	1-3	<-4	6.8	2.5	7.0	N/A	5.0

IPB Insurance CLG--Key Metrics (cont.)	2023f	2022f	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy*	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Extremely strong

f--S&P Global Ratings forecast. N/A--Not applicable. *The extremely strong assessment in 2017 reflects the rating constructionunder 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. In 2021, about 82% 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, 2021. 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 2021 Judicial Council 'Personal Injuries Guidelines' set new lower guideline levels for personal injury compensation awards in Ireland providing optimism that claims costs will decline in the years ahead, albeit the impact is still hard to quantify due to a variety of legal challenges. 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. We will monitor the development an ongoing impact on the technical results for IPB. The new set of personal injury compensation guidelines could bring compensation levels more into line with those in other countries.

At year-end 2021, IPB's business position has again proven resilient and the net combined ratio further improved to 75.7%, versus a five-year average of 90.5%--lower combined ratios indicate better profitability, with a combined ratio of greater than 100% signifying an underwriting loss. This significant underlying improvement results mainly from lower claims incurred, 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 a strong members retention level--at nearly 100% at the latest renewal in 2021.

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, which the company has completed in H1 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.

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 2024 at least.

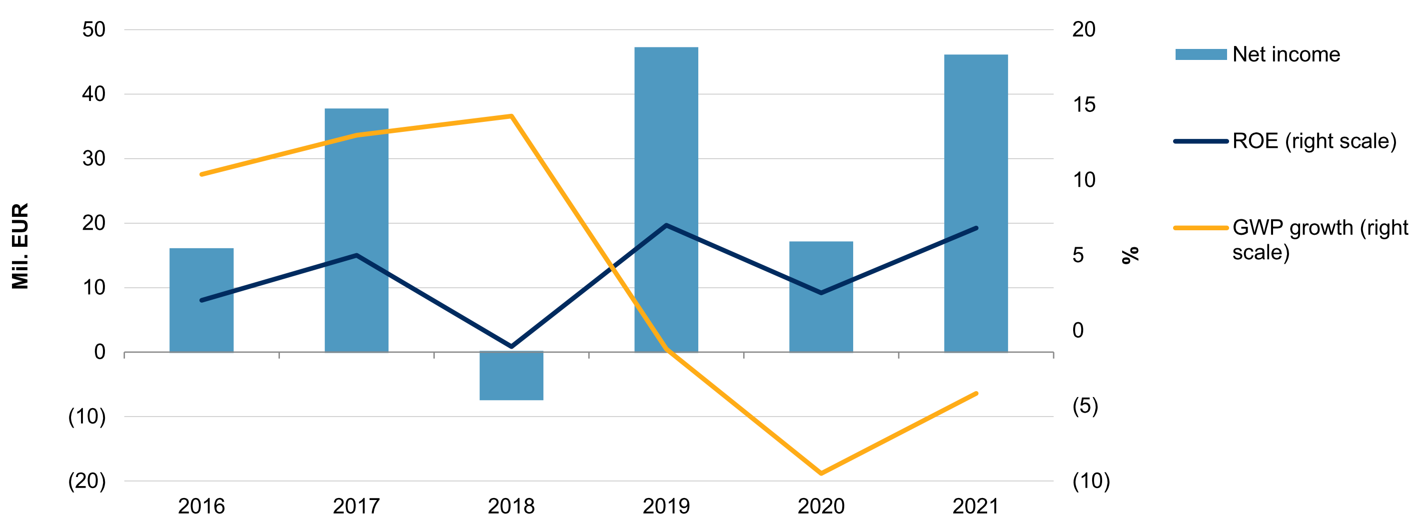
Our assessment of the capital position is mitigated by the small absolute size of capital, implying somewhat higher sensitivity to shocks than companies with bigger balance sheets.

Under our base-case scenario, we anticipate that IPB will report a net combined ratio below 96% over 2022-2024. 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 capital growth and strong bottom-line results in the past with a five-year average net income of €28 million and a five-year average return on equity of about 4%. This is solid performance for a mutual insurer considering the current level of capital and service-oriented business model.

Despite overall market volatility and bottlenecks arising due to heightened inflation in 2021, IPB reported net income of €46 million due to its strong underwriting results. However, in 2022 capital markets volatility constrained investment income. As a result and due to the mark-to-market accounting, we expect a net loss of €30-€40 million in 2022 mainly given the lowering of equity and bond market values due to increasing interest rates. For 2023-2024, we forecast ongoing strong underwriting results and some positive effects on prospective investment income as high credit quality bonds pull to par over the next two years. As a result, we expect IPB to recover and to achieve a normalized net income of between €10-€20 million based on normalized capital market volatility.

Chart 1

Volatile Net Earnings And ROE Reflects Volatility In Investment Income



Source : S&P Global data

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 and 2021, which has led to decline in gross written premiums (see chart 1).

Potential risks to our forecasts include the long-term and volatile nature of the liability exposure, increased inflation, 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 49% of total adjusted capital, according to our risk-based capital model, at year-end 2021. We expect some investment de-risking will help to moderate volatility, with a decreasing share of equities over time.

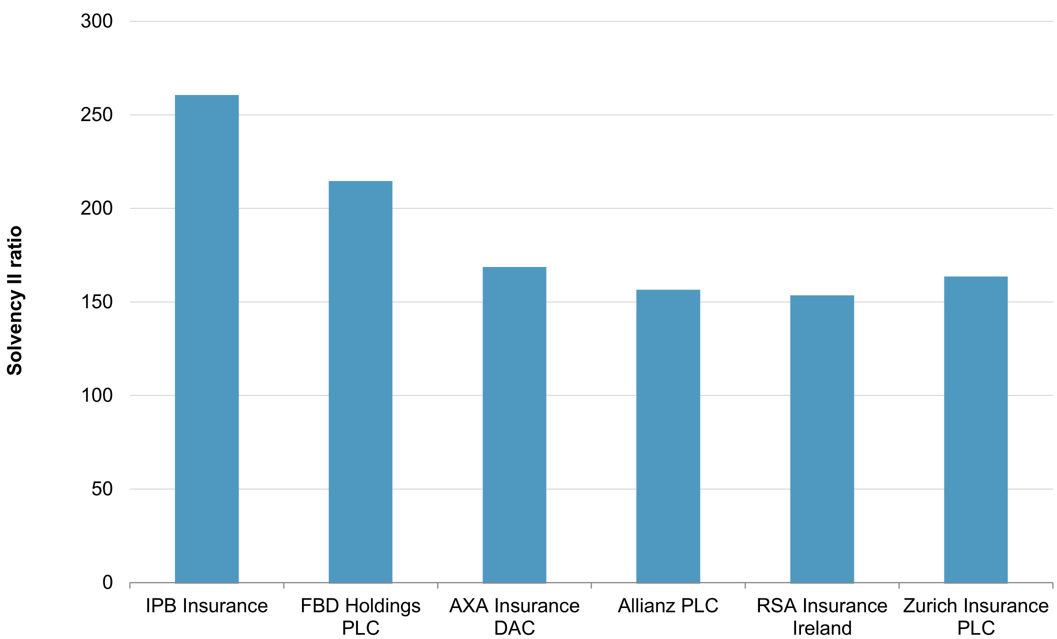
We consider IPB's risk control framework appropriate. Tolerances are well defined and the company regularly reviews and monitors risks. IPB applies various stress and scenario tests to its business plans and clearly communicates its solvency needs and capital targets. Nevertheless, we identify specific 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. 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 2021



Source: S&P Global Ratings.

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.

Environmental, social, and governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Appendix

IPB Insurance CLG--Credit Key Metrics

Ratio/Metric	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Extremely strong*
Total invested assets	1,300.0	1,271.2	1,241.8	1,186.2	1,239.2
Total shareholder equity	671.2	657.2	684.0	661.8	714.2
Gross premiums written	138.3	144.1	159.2	161.2	141.1
Net premiums written	108.8	117.7	133.5	137.1	118.2
Net premiums earned	107.2	118.7	136.4	137.6	114.7
Reinsurance utilization (%)	21.3	18.4	16.2	15.0	16.3
EBIT	51.9	18.3	53.2	(8.4)	42.3
Net income (attributable to all shareholders)	45.8	17.0	47.1	(7.3)	37.6
Return on shareholders' equity (reported) (%)	6.8	2.5	7.0	(1.1)	5.0
P/C: net combined ratio (%)	75.7	92.6	92.8	94.1	97.3
P/C: net expense ratio (%)	17.8	16.3	13.7	12.2	14.4
P/C: return on revenue (%)	33.1	18.8	18.7	18.0	19.2
Net investment yield (%)	1.1	1.3	1.6	1.7	1.9

IPB Insurance CLG--Credit Key Metrics (cont.)

Ratio/Metric	2021	2020	2019	2018	2017
Net investment yield including investment gains/(losses) (%)	2.1	0.8	3.6	(1.3)	3.2

*The extremely strong assessment in 2017 reflects the rating constructionunder 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 29, 2022)*

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.