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

=

Financial strength rating
A-/Stable/--

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

Credit Highlights

Overview

Key strengths	Key risks
Excellent capital adequacy under our risk-based capital model.	Exposure to volatile capital markets and high inflation, which could hamper revenue and the earnings profile.
High expertise and dominant market position in the liability business for the local public authority.	Somewhat concentrated in the Irish local public authority segment.
Mutual player with high client retention rates and a close and direct relationship with its members.	

S&P Global Ratings expects IPB Insurance CLG (IPB) will maintain its leadership in the local public authority liability insurance market. IPB has built a strong and long-term-focused relationship with its mutual members, as evidenced by high member satisfaction and a very high retention rate of nearly 100%. It is the only domestic mutual insurer in Ireland, thereby ensuring a direct relationship with mutual members, a focus on customer service, and resilience against competition.

We expect IPB will maintain its strong underwriting performance in the Irish non-life insurance market. We forecast underwriting results to remain strong in 2023-2025, partly driven by disciplined underwriting and improving claim trends in the public liability business. On the back of lower claims frequency, the company has further improved its underwriting profitability with a net combined (loss and expense) ratio of 73.3% in 2022 from 75.7% in 2021. IPB underwriting performance aligns with a five-year average net combined ratio of 86%. This reflects improved pricing, claims management, and fraud detection processes in the Irish non-life insurance market.

IPB has a comfortable capital buffer above the 'AAA' confidence level, which we believe will remain until at least 2025 and will continue to support the company's creditworthiness. Despite the net loss for 2022, IPB's capitalization remained excellent due to sound and stable buffers absorbing its investment losses. Given the bounce back of investment results and the strong underlying underwriting performance, we believe its capital will remain excellent over 2023-2025 based on a robust members' dividend policy. Potential volatility to our base-case scenario lies in the investment portfolio, due notably to the somewhat higher share of equity (around 15% in 2022) 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 maintain a disciplined approach to underwriting during this period, with high client retention.

Downside scenario

Although unlikely, we might lower the ratings over the next two years if IPB's capitalization materially weakens such 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 in the Irish non-life insurance industry, will continue to weigh on the ratings.

Key Assumptions

- Ireland's GDP grew by 12% in 2022 and we expect GDP growth of 2.0% and 2.5% in 2023 and 2024, respectively.
- Consumer price index (CPI) inflation reported in 2022 was 8.1%. We forecast CPI of 5.3% and 2.7% for 2023 and 2024, respectively.
- At end-2022, unemployment was 4.5%. On average, we expect unemployment to be 4.7%-5.0% for 2023-2024.

IPB Insurance CLG--Key metrics

	2024f	2023f	2022	2021	2020	2019	2018
Gross premium written (mil. €)	>160	>160	161.0	138.0	144.1	159.2	161.0
Net income (mil. €)	>15	>15	(48.3)	46.0	17.0	47.1	(7.0)
P/C: net combined ratio (%)	<96	<96	73.3	75.7	92.6	92.8	94.1
P/C: Return on revenue (%)	N/A	N/A	35.5	33.1	18.8	18.7	18.0

IPB Insurance CLG--Key metrics (cont.)							
	2024f	**2023f**	**2022**	**2021**	**2020**	**2019**	**2018**
Net investment yield (%)	>1	>1	1.5	1.1	1.3	1.6	1.7
Return on shareholders' equity (%)	1-3	1-3	(7.6)	6.8	2.5	7.0	N/A
S&P Global Ratings capital adequacy*	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent

f--S&P Global Ratings forecast.

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 local public authorities in Ireland. In 2022, about 76% of its earned premiums was in third-party liability. It has a strong track-record of member risk management, comprehensive claims initiatives, and customer service improving the claims experience of its members by risk mitigation and hazard elimination.

IPB benefits from strong control over its direct channel, through which it wrote more than 80% of its business at Dec. 31, 2022. 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 hardened rapidly between 2015 and 2017 and began to soften in 2018. It continued this trend at a controlled rate during 2020-2021 due to pandemic-related frequency benefits. By late 2022 and early 2023 the market softening had begun to level off and current rates are sufficient to achieve sound profitability. However, the country's compensation culture increases claim settlements unpredictability, which remains relatively high, along with 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's Personal Injuries Guidelines set new lower guideline levels for personal injury compensation awards in Ireland, signalling 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 and 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 2022, IPB's business position has again proven resilient and the net combined ratio further improved to 73.3%, versus a five-year average of 86%--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, and a reduction in frequency stemming from risk mitigation initiatives in collaboration with its members. IPB also has strong member-retention--at nearly 100% at the latest renewal in 2023.

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 2025 at least.

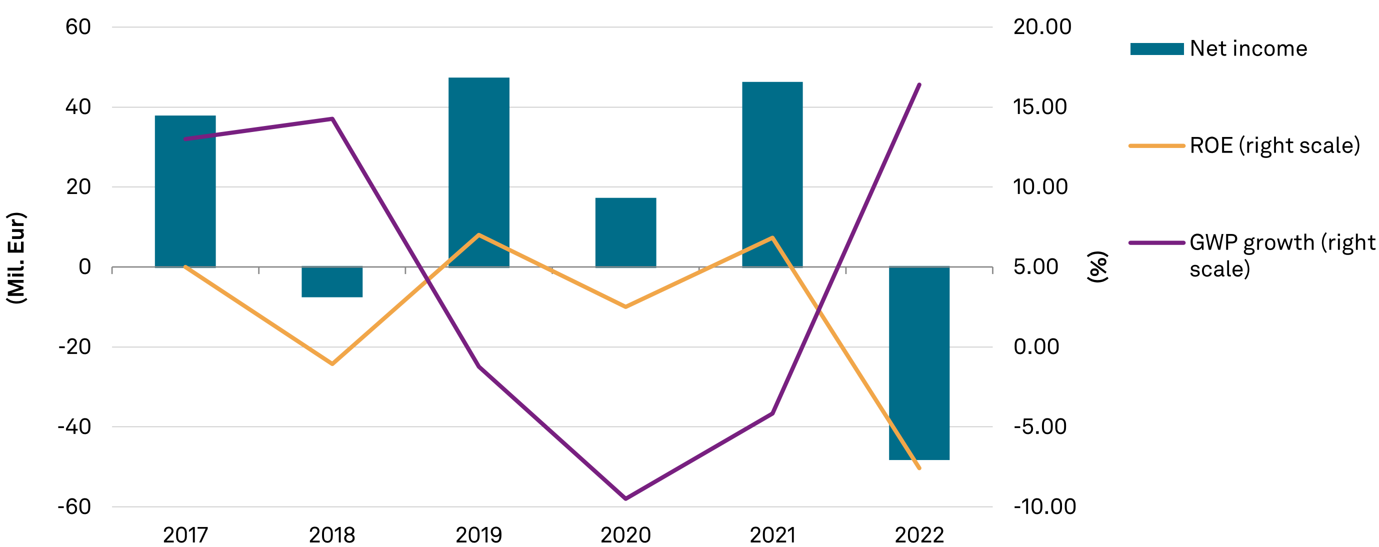
Our assessment of the capital position is mitigated by the small absolute size of capital, implying somewhat higher sensitivity to shocks than companies with bigger balance sheets.

Under our base-case scenario, we anticipate that IPB will report a net combined ratio below 96% over 2023-2025. 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.

However, given the volatility in capital markets and increased interest rates, IPB has faced losses in equity and bond market values. Overall, due to mark-to-market accounting, IPB saw a net loss of about €48 million in 2022, but we expect its earnings generation capability to recover to normal levels over the next two-to-three years as its underwriting performance aligns with a five-year average net combined ratio of 86%. For 2023-2025, we also forecast positive effects on prospective investment income as high-credit-quality bonds pull to par over the next two years; we expect IPB's net income to recover to above €15 million over 2023-2025 assuming normalized capital market volatility.

Chart 1

Volatile net earnings and ROE reflects volatility in investment income



GWP--Grosss written premium. ROE--Rate of equity. Source: S&P Global data.

Potential risks to our forecasts include the long-term and volatile nature of IPB's liability exposure, increased inflation, and somewhat higher investment-income volatility. We think some investment de-risking would help moderate volatility, with a decreasing share of equities over time.

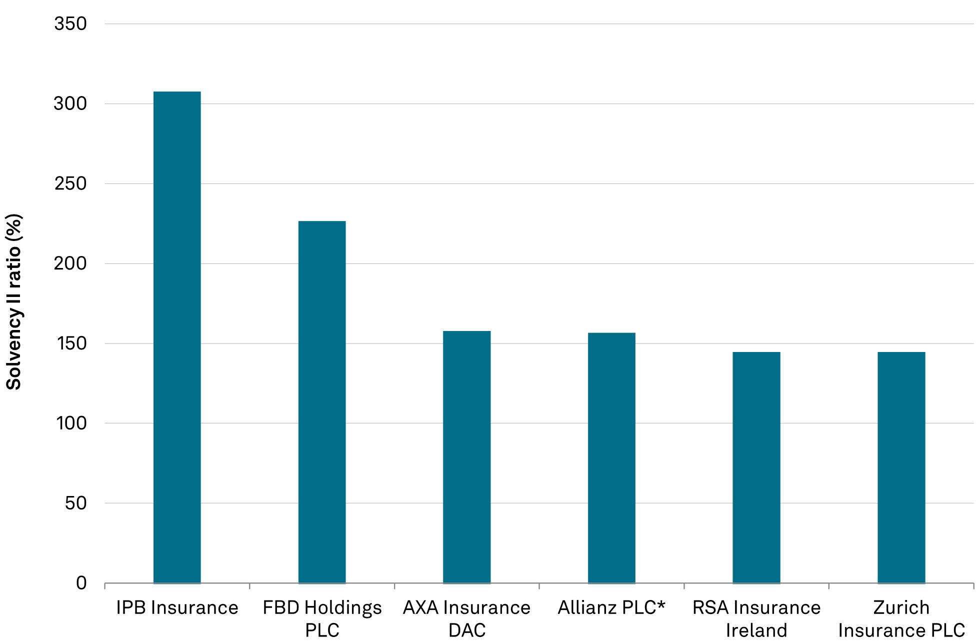
We consider IPB's risk control framework appropriate. Tolerances are well defined and the company regularly reviews and monitors risks. IPB applies various stress and scenario tests to its business plans and clearly communicates its solvency needs and capital targets. Nevertheless, we identify specific 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 look to accept all insurable risks from its members subject to meeting its stated risk appetite and appropriate policy terms, conditions, and pricing.

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 2022



*2021 number. 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 underwriting 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 its various available liquid sources such as its premium income, a 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 factors have no material influence on our credit rating analysis of IPB.

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: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Appendix

IPB Insurance CLG--Credit metrics history

Ratio/Metric	2022	2021	2020	2019	2018
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent
Total invested assets	1,183.0	1,300.0	1,271.2	1,241.8	1,186.2
Total shareholder equity	604.6	671.2	657.2	684.0	661.8
Gross premiums written	161.0	138.3	144.1	159.2	161.2
Net premiums written	127.2	108.8	117.7	133.5	137.1
Net premiums earned	127.2	107.2	118.7	136.4	137.6
Reinsurance utilization (%)	21.0	21.3	18.4	16.2	15.0
EBIT	(55.4)	51.9	18.3	53.2	(8.4)
Net income (attributable to all shareholders)	(48.3)	45.8	17.0	47.1	(7.3)
Return on shareholders' equity (reported) (%)	(7.6)	6.8	2.5	7.0	(1.1)
P/C: net combined ratio (%)	73.3	75.7	92.6	92.8	94.1
P/C: net expense ratio (%)	18.3	17.8	16.3	13.7	12.2

IPB Insurance CLG--Credit metrics history (cont.)

Ratio/Metric	2022	2021	2020	2019	2018
P/C: return on revenue (%)	35.5	33.1	18.8	18.7	18.0
Net investment yield (%)	1.5	1.1	1.3	1.6	1.7
Net investment yield including investment gains/(losses) (%)	(7.1)	2.1	0.8	3.6	(1.3)

P/C--Property/ Casualty. *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 2, 2023)*

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.