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Ratings

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IPB Insurance CLG

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IPB Insurance CLG

Anchor	a-	+	Modifiers	0	=	SACP	a-

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

Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

\+

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
Capital adequacy above the 99.99% confidence level under our risk-based capital model.	Geopolitical and economic risks persist, while inflation could still lead to some volatility in earnings.
High expertise and dominant market position in liability insurance for Ireland's local public authority segment, with high client retention rates and a close and direct relationship with its members.	Concentration in Ireland's local public authority segment.

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 demonstrated 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.

In our view, IPB will maintain its strong underwriting performance in the Irish non-life insurance market. We expect underwriting results will remain strong in 2024-2026, partly driven by disciplined underwriting and improving claim trends in the public liability business.

The net combined ratio stood at 90.5% for 2023. Although this is weaker than the exceptional combined ratio of 73.3% that IPB posted in 2022, it is well below the company's strategic target of 95%. IPB's underwriting performance aligns with a five-year average net combined ratio of 85%. 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 99.99% confidence level, which we believe will remain in place until at least 2026 and will continue to support the company's creditworthiness. IPB's capitalization remained excellent due to sound and stable buffers absorbing its investment losses in 2022. Given improving investment results and the strong underlying underwriting performance, we believe its capital will remain excellent over 2024-2026 based on members' robust 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 2023) 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 capital buffer 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 we view it as unlikely, we might consider lowering the ratings over the next two years if IPB's capitalization materially weakens, such that most of its capital surplus diminishes for a prolonged period, 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. We could also consider lowering the ratings if, although unlikely, the company loses its dominant position in the local public authorities segment, which could result in a significant loss of members.

Upside scenario

We are unlikely to take a positive rating action 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

- We expect GDP growth of 2.3% in 2024 and 2.2% in 2025, after a GDP decline of 3.2% in 2022.
- We forecast consumer price index (CPI) inflation of 2.2% for 2024 and 2.1% for 2025. CPI inflation was 5.2% in 2022.
- We expect average unemployment of about 4.0% for 2024-2025; it was 4.3% at end-2023.

IPB Insurance CLG--Key metrics

	2025f	2024f	2023	2022	2021	2020
Gross premium written (mil. €)	>185.0	>178.0	171.7	161.0	138.0	144.1
Net income (mil. €)	<30	<30	78.7	-48.3	46.0	17.0
Return on shareholders' equity (%)	~5,0	~5,0	12.3	-7.6	6.8	2.5
P/C: Net combined ratio (%)	<96	<96	89.9	73.3	75.7	92.6

IPB Insurance CLG--Key metrics (cont.)	2025f	2024f	2023	2022	2021	2020
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
P/C: Return on revenue (%)	N/A	N/A	26.3	35.5	33.1	18.8
Net investment yield (%)	>2.0	>2.0	2.4	1.5	1.1	1.3

f--S&P Global Ratings forecast. N/A--Not applicable.

Business Risk Profile: Satisfactory

IPB has built a dominant position in its niche segment of third-party liability insurance for local public authorities in Ireland. In 2023, about 76% of its earned premiums were third-party liability.

The insurer has a strong track record of member risk management, comprehensive claims initiatives, and customer service, improving the claims experience of its members through risk mitigation and hazard elimination. 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. Additionally, IPB benefits from strong control over its direct channel, through which it wrote more than 80% of its business as of Dec. 31, 2023.

The Irish insurance market hardened rapidly between 2015 and 2017, and subsequently softened from 2018. The current rates are sufficient for IPB to achieve sound profitability. However, the country's compensation culture increases claim settlement unpredictability, which remains relatively high, along with legal costs for insurers. In our view, the high cost of insurance for liability claims might come down over time with the 2021 Judicial Council's Personal Injuries Guidelines. These guidelines could bring compensation levels more into line with those in other countries. That said, the effect 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 will monitor the development and ongoing impact on IPB's technical results.

At year-end 2023, IPB's business position again proved resilient, although its net combined ratio was higher than in the previous year due increased claims costs. It is still well below the company's strategic target of 95%. The improvement in the five-year average of 85% is mainly thanks to: 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 2024.

Financial Risk Profile: Strong

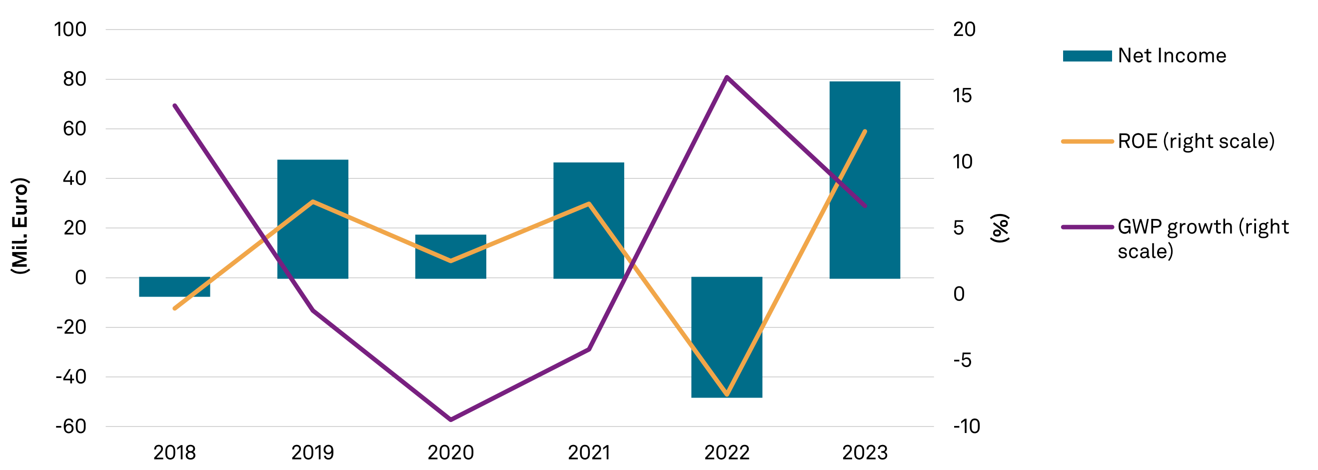
Capital adequacy above the 99.99% confidence level is a key strength for IPB. The company's capitalization under our risk-based capital model and Solvency II is stable, and we expect IPB will keep its capitalization at the current level and maintain Solvency II ratios within its targets over the next two-to-three years. However, the limited absolute capital base makes IPB more sensitive to shocks than companies with larger balance sheets.

Under our base-case scenario, we anticipate that IPB will report a net combined ratio below 95% over 2024-2026. 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.

Despite challenging macroeconomic and market conditions, IPB posted net income of about €79 million in 2023. In general, the insurer has delivered a healthy balance of capital growth and strong bottom-line results in the past, with five-year average net income of €28 million and a five-year average return on equity of about 4.2%. For 2024-2026, we also forecast a boost to prospective investment income as high-credit-quality bonds pull to par over the next two years. As such, we expect IPB's net income to recover to above €15 million over 2024-2026 assuming normalized capital market volatility.

Chart 1

Volatile net earnings and ROE reflects volatility in investment income



Source : S&P Global data.

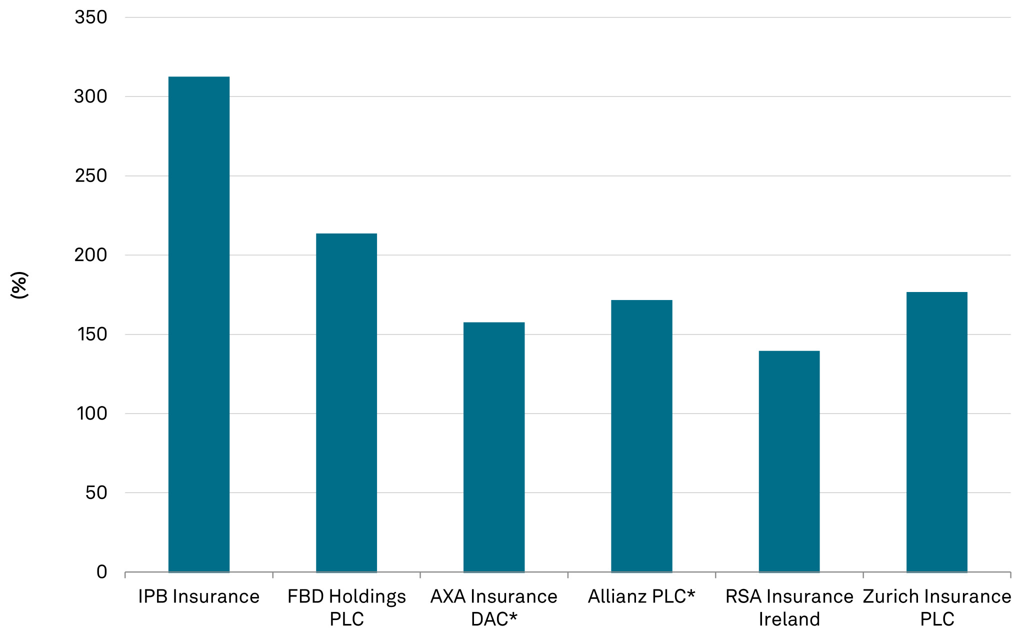
Potential risks to our forecasts include the long-term and volatile nature of the liability exposure, increased inflation, and IPB's somewhat higher volatility in investment income. We think some investment de-risking would help moderate volatility, with a decreasing share of equities over time.

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--the risk of claim inflation is relatively high (although moderating) and claims take longer to settle 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 2023



*2022 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 continually build-up capital and focus on its service-oriented model as a mutual insurance company.

Liquidity

IPB's liquidity remains exceptional, with a highly liquid asset portfolio and strong operating cash flow generation.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- IPB Insurance CLG Ratings Affirmed Following revised Capital Model Criteria; Outlook Remains Stable, June 19, 2024

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, 2024)*

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.