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Vero Liability Insurance Ltd.

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Credit Highlights

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Financial Strength Rating

Local Currency

AA-/Stable/--

Overview

Key strengths	Key risks
Core operating entity of Suncorp Group Ltd., one of Australia's largest multiline insurers.	Limited product diversity.
Strong market position in a key product set for the group.	Operates in segments that rely on third-party distribution channels.
Consistently very strong earnings.	

We expect the ratings on Vero Liability Insurance Ltd. (VLI) to remain equalized with those on Suncorp Group Ltd. (Suncorp). We assess VLI as core to the group, reflecting its alignment with the group's property/casualty (P/C) focus and its strong operating performance. As such, we believe Suncorp group will provide extraordinary support to VLI, if required.

VLI will remain a key part of Suncorp New Zealand's P/C operations, as the group's provider of liability lines in New Zealand. The insurer is wholly owned by Vero Insurance New Zealand Ltd., which is ultimately owned by Suncorp, and distributes its products through independent brokers and agents across New Zealand. We consider VLI to be an important part of Suncorp New Zealand, given our estimate that it is the second-largest liability writer in New Zealand.

VLI will continue to deliver very strong operating performance, which is a key credit strength for the insurer. In our view, VLI has consistently achieved results that are superior to its peers'. Over the past five years, the insurer had an average return on shareholder's equity of about 42% and a net combined ratio of about 73%. VLI had even stronger performance in fiscal 2021 (year to June 30, 2021), and we expect it to perform strongly again in fiscal 2022.

Outlook

The stable outlook on VLI reflects that on Suncorp as well as our expectation that VLI will remain a core subsidiary of the group.

Downside scenario

We may lower the ratings on VLI over the next 12-24 months if we were to lower the ratings on Suncorp, or if we expect the likelihood of extraordinary group support to weaken. The latter would be reflected in a change to our assessment of the subsidiary's group status from core. We consider a change to VLI's group status as unlikely over the next two years recognizing the alignment of operations, contribution to earnings, and diversification benefits provided.

Upside scenario

Although we consider it unlikely, we may raise the ratings on VLI over the next 12-24 months if we were to raise the ratings on Suncorp.

Key Assumptions

We base the following macroeconomic assumptions for New Zealand on our "Credit Conditions Asia-Pacific Q2 2022: A Divide Takes Shape" analysis published March 29, 2022.

- Real GDP to grow by 2.7% in 2022 and 3.0% in 2023.
- Consumer price index inflation to be 4.3% in 2022 and 2.4% in 2023.
- The unemployment rate to be 3.3% in 2022 and 3.4% in 2023.

Vero Liability Insurance Ltd.--Key Metrics

(Mil. NZ\$)	--Year ended June 30--				
	2021	2020	2019	2018	2017
Gross premiums written	133	118	116	104	92
Net income	25	19	21	17	12
Return on shareholder's equity (%)	48.5	39.5	47.9	41.4	32.6
Net combined ratio (%)	60.4	76.3	72.7	73.9	80.8
Net loss ratio (%)	30.7	41.8	35.9	36.2	42.3
Net expense ratio (%)	29.8	34.5	36.7	37.7	38.5
Return on revenue (%)	41.2	26.3	31.4	30.7	24.2

Business Risk Profile

VLI will maintain its very strong position in New Zealand's liability sector, in our view. VLI underwrites various professional indemnity and general liability covers, as well as some statutory liability insurance lines. We estimate the insurer is the second-largest liability writer in New Zealand, a position we believe it will maintain. With a track record of about 20 years, VLI is a wholly owned subsidiary of Suncorp and is managed as part of Suncorp's New Zealand franchise.

We expect VLI to continue its sound growth over the year to June 30, 2022, through its focus on relationship management service, expanded distribution channels, and a slight expansion in its product offering. The insurer has grown strongly in recent years, with a compound annual growth rate of about 9% by gross premiums written (GPW) over the past five years. In fiscal 2021, VLI's GPW increased about 13%, driven by strong retentions and solid rate improvements. Underwriting performance remains a key strength benefiting from appropriate risk-based pricing and selection.

VLI, however, remains more exposed to shocks than some peers, in our opinion, given its relative lack of business diversity and its reliance on third-party distribution channels. VLI's products are distributed through a wide range of independent insurance brokers and agents. The insurer's customers extend across individuals, small to mid-sized enterprises, large corporates, as well as community and government organizations.

We expect VLI to consistently generate strong earnings that are superior to its peers'. The insurer reported a net profit after tax of NZ\$25 million in fiscal 2021, up from NZ\$19 million the prior year. The result was achieved with a net combined ratio of 60% and a return on equity of 49%, which compared very favorably with peers. We anticipate VLI's earnings will remain strong in fiscal 2022, supported by strong claims management, downward trending commission costs, and steady customer growth.

Financial Risk Profile

A strong balance sheet and conservative financial management across the group underpin VLI's financial strengths. We assess capital adequacy across Suncorp Group's P/C businesses as very strong as of fiscal 2021, under S&P Global Ratings' risk-based capital model for insurers, with a sizeable buffer at that level. VLI also has a strong regulatory capital position on a stand-alone basis, with solvency cover of 2.18x the requirement as of June 30, 2021. We expect VLI's capital to remain around this level, with any excess capital to be returned to the group via dividends.

The group's comprehensive reinsurance program should reduce volatility in VLI's future earnings. The program lessens the insurer's exposure to large claims, natural hazards, and adverse experience. It includes catastrophe cover with an upper limit of A\$6.5 billion and a first-event retention of NZ\$50 million. This is further reduced to NZ\$25 million for the New Zealand subsidiaries through an internal reinsurance arrangement with the group. The reinsurance program remains supportive of its financial risk profile with cover consistent with prior years.

We regard VLI's reserving practices and investment portfolio as additional factors that support its ongoing financial

strength. Reserves are maintained to achieve a probability of sufficiency of 90%, which is significantly above the Reserve Bank of New Zealand's 75% requirement. VLI's investment portfolio is predominantly allocated to cash and investment-grade fixed interest securities, which we consider to be low-risk assets.

Other Key Credit Considerations

Governance

We view Suncorp New Zealand's governance as satisfactory. It has a number of common executives across its businesses, with a management team we consider to have a good depth and breadth of experience. In our opinion, Suncorp has a sound risk culture and exhibits a high degree of transparency.

Group support

We consider VLI to be a core subsidiary of Suncorp. This reflects our expectation that extraordinary support would be provided by the group, if needed. As such, the ratings on VLI are equalized with those on Suncorp.

Enterprise risk management

VLI benefits on an ongoing basis from Suncorp's extensive group-wide risk management framework, which we view as appropriate for a group of its size and complexity. We have not identified any material operational risk issues within the broader group, or within the Suncorp New Zealand entities.

Related Criteria

- 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: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Suncorp Group Ltd., March 29, 2022
- Credit Conditions Asia-Pacific Q2 2022: A Divide Takes Shape, March 29, 2022
- Suncorp Group Ltd. Set For Solid Full-Year Result, Feb. 8, 2022
- Suncorp Group Ltd. Upgraded To 'A+' From 'A', Core Subsidiaries Upgraded To 'AA-' From 'A+'; Outlook Stable, Dec. 14, 2021
- Insurance Industry And Country Risk Assessment: New Zealand Property/Casualty, Aug. 26, 2021

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Ratings Detail (As Of April 17, 2022)*

Operating Company Covered By This Report

Vero Liability Insurance Ltd.

Financial Strength Rating

Local Currency

AA-/Stable/--

Issuer Credit Rating

Local Currency

AA-/Stable/--

Domicile

New Zealand

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