

# Vero Liability Insurance Ltd.

April 29, 2025

This report does not constitute a rating action.

## Credit Highlights

### Overview

Key strengths	Key risks
Core operating entity of Suncorp Group Ltd., one of Australia's largest property/casualty (P/C) insurers.	Limited product diversity.
Strong market position in New Zealand, in a key commercial product segment for the group.	Liability lines more exposed to economic and social inflation pressures.
Consistently very strong earnings.	

**Our rating on Vero Liability Insurance Ltd. (VLI; AA-/Stable/--) is equalized with that on Suncorp Group Ltd.'s core operating entities.** We assess VLI as core to the group, reflecting its close strategic alignment with Suncorp (core operating entities rated AA-/Stable/--) and strong operating performance. As such, we believe the group will provide extraordinary support to VLI, if required.

**In our view, VLI will remain Suncorp's specialty provider of liability lines in New Zealand.** We consider VLI to be an important part of Suncorp's New Zealand operations, given it is the second-largest writer of liability lines—a key commercial product. While the specialist insurer has limited product diversity and reliance on third party distribution, it does benefit from the broader resources of Suncorp.

**VLI's specialist underwriting capability should continue to deliver very strong operating performance.** The insurer has consistently achieved results that are superior to those of its peers. Over the past five years, it delivered an average return on shareholder's equity of about 52% and a combined ratio of about 61%. As a liability insurer, VLI's operating performance is less affected by climate and natural disaster events, although it may be more exposed to economic and social inflation pressures.

**VLI's position in Suncorp is strengthening.** The group is focusing on being a pure-play P/C insurer after the divestment of its banking business in July 2024 and New Zealand life insurance business in January 2025. We believe this will allow for greater strategic and management attention on the core business—both at a group and subsidiary level.

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## Outlook

The stable outlook on VLI reflects that on Suncorp's core operating entities and our expectation that VLI will remain a core subsidiary of the group.

### Downside scenario

We may lower the rating on VLI over the next two years if we lower the ratings on Suncorp's core operating entities.

We may also lower the rating on VLI if we expect the likelihood of extraordinary group support to the insurer to weaken. This 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

We could raise the rating on VLI over the next two years if we raise the ratings on Suncorp's core operating entities, reflecting a strengthened group credit profile.

## Assumptions

We base the following macroeconomic assumptions for New Zealand on our "Credit Conditions Asia-Pacific Q2 2025: Squeezed From Both Sides," analysis published on March 26, 2025.

- New Zealand's real GDP growth to be 1.5% in 2025 and 2.3% in 2026; consumer price index inflation 2.2% in 2025 and 2.1% in 2026; and average unemployment rate 5.3% in 2025 and 4.9% in 2026.

### Vero Liability Insurance Ltd.--Key metrics

(Mil. NZ\$)	2024	2023	2022	2021	2020
Insurance revenue*	152	153	144	133	118
Net income	40	35	28	25	19
Return on shareholders' equity (%)	61.6	59.2	51.6	48.5	39.5
Net investment yield (%)	4.3	3.2	2.3	2.4	2.8
Return on revenue (%)	32.2	44.7	49.5	41.2	26.3
P/C: net combined ratio (%)	58.7	57.7	51.7	60.4	76.3

\*Prior to 2024, gross premium written. Data prior to 2024 reported under IFRS 4, data from 2024 onwards based on IFRS 17.

## Business Risk Profile

**VLI is well placed to maintain its very strong position in New Zealand's liability insurance sector.** The insurer underwrites professional indemnity and general liability cover, as well as some statutory liability insurance lines. We estimate it is the second-largest liability writer in New Zealand. VLI will likely maintain this position, given its strong underwriting capabilities and

association with the "Vero" brand and broader group resources. VLI is a wholly owned subsidiary of Suncorp and represents about 5% of Suncorp's New Zealand insurance revenue.

**We believe the liability insurer is more exposed to economic and social inflation shocks than multiline peers.** Claims in liability lines may be more frequent at times of economic stress, and severity is influenced by social inflation factors such as community expectation for compensation, legal actions, and court awards. Earnings volatility could also arise due to VLI's limited business diversity. The insurer distributes its products through a range of independent insurance brokers and agents but maintains solid end-client relationships.

**We expect VLI's revenue to grow 2%-4% in fiscal 2025 (ending June 30, 2025).** VLI's insurance revenue increased by about 3% to NZ\$151 million in fiscal 2024. Growth drivers were modest price increases with good business retention. Pressures that could arise in fiscal 2025 include ongoing price competition and market capacity in commercial lines, and slowdown in new business under lackluster economic conditions.

**VLI will likely maintain consistently strong earnings that are superior to peers.** This is thanks to strong underwriting and claim management capabilities, expense efficiency, and solid investment income. The insurer reported a net profit after tax of NZ\$40 million for fiscal 2024, up from NZ\$35 million in fiscal 2023. The combined ratio of 59% and return on equity of 61% were very favorable when compared with domestic peers.

## Financial Risk Profile

**VLI's strong balance sheet and the group's conservative financial management are key financial strengths.** The insurer has a strong regulatory capital position, with a solvency ratio of 1.91x as of June 30, 2024. We expect capital to remain robust, with excess capital returned to the group.

**Participation in the group's comprehensive reinsurance program tempers volatility in VLI's earnings.** The program includes catastrophe cover with an upper limit of A\$6.75 billion for fiscal 2025 and a low first-event retention of NZ\$25 million. The insurer also utilizes quota share reinsurance, with low per-event retentions across its portfolio.

**VLI's reserving practices and investment portfolio support its financial strength and stability.** The insurer takes a prudent approach to reserving, as its regular reserve releases indicate. Its investment portfolio predominantly comprises cash and investment-grade fixed interest securities, which we consider to be low-risk assets.

## Other Credit Considerations

### Governance

We view governance of Suncorp's New Zealand business as sound. The group has an overlap of executives and directors across its businesses, assisting in the flow of funds and information. We believe the management team has 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. In our view, the group would provide extraordinary support to VLI, if needed. As such, we equalize the ratings on VLI with those on Suncorp's core operating entities.

VLI is a wholly owned subsidiary of Suncorp, with Vero Insurance New Zealand Ltd.—the group's main commercial lines insurer in New Zealand--its immediate parent.

## Environmental, social, and governance

We view environmental, social and governance factors as neutral to the rating on VLI.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- 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

- Suncorp Group Ltd., April 16, 2025

### Ratings Detail (as of April 28, 2025)\*

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#### Operating Companies Covered By This Report

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#### Vero Liability Insurance Ltd.

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#### Financial Strength Rating

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*Local Currency* AA-/Stable/--

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#### Issuer Credit Rating

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*Local Currency* AA-/Stable/--

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New Zealand

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\*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.

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