

**RATING ACTION COMMENTARY**

# **Fitch Affirms Seoul Guarantee Insurance's IFS at 'AA-'; Outlook Stable**

Wed 09 Feb, 2022 - 오후 11:33 ET

Fitch Ratings - Singapore/Hong Kong - 09 Feb 2022: Fitch Ratings has affirmed Seoul Guarantee Insurance Company's (SGI) Insurer Financial Strength (IFS) Rating at 'AA-' (Very Strong). The Outlook is Stable.

## **KEY RATING DRIVERS**

The rating reflects SGI's 'Favourable' company profile, 'Very Strong' capitalisation and 'Strong' financial performance. It also incorporates Fitch's expectation that Korea Deposit Insurance Corporation (KDIC), a government agency that owns 93.85% of SGI, will provide support to the insurer, if needed, based on SGI's importance in promoting and developing the domestic credit and guarantee insurance market. SGI benefits from a one-notch uplift from Fitch's standalone assessment due to the potential support from its parent.

SGI maintained a healthy capital buffer to support its niche business. Its regulatory risk-based capital ratio was consistently well above the 100% minimum, amounting to above 400% at end-2020 and end-September 2021. Fitch considers its capitalisation, measured by the Prism Model score, 'Very Strong' in 2020 and 9M21.

SGI's annualised return on equity was about 10.8% for 9M21 (2020: 7%) and we estimate the combined ratio was 62%, with a three-year average of 78%. The

sustained profitability was reflective of the company's continued risk management efforts to tighten its underwriting criteria, adopt selective underwriting as well as strengthen claim monitoring or recovery measures.

Fitch assesses SGI's company profile as 'Favourable', as a result of a 'Favourable' business profile and 'Moderate/Favourable' corporate governance compared with all other South Korean non-life insurance companies. It has a substantive domestic business franchise and 'Favourable' operating scale, although this is offset by its somewhat diversified business risk given its niche focus. The agency therefore scores SGI's company profile at 'a+' under our credit-factor scoring guidelines.

SGI has a dominant market position in Korea's guarantee and credit insurance market, with a market share in this niche segment of above 20% by guarantee exposure for the past three years. The company has inherent business risks associated with a niche industry that moves in tandem with economic conditions, and limited geographical diversification as it sources more than 95% of its business premiums from Korea.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- a reduction in government support via KDIC, such as a significant cut in the government's stake in KDIC or the sale of the government's shares to a financially weaker acquirer.
- a significant deterioration in SGI's company profile in terms of market franchise and operating scale.
- a deterioration of SGI's financial fundamentals, with a combined ratio above 104% for a prolonged period and capitalisation, measured by Fitch's Prism Model score, falling into the 'Strong' level.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- sustained improvement in the company profile, with increased business diversification and operating scale
- maintaining its combined ratio below 99% and capitalisation, measured by Fitch's Prism Model score, falling well into the 'Very Strong' level for a prolonged period.

## BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

## RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR
Seoul Guarantee Insurance Company	Ins Fin Str AA- Rating Outlook Stable Affirmed	AA- Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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**APPLICABLE CRITERIA**

[Insurance Rating Criteria \(pub. 26 Nov 2021\) \(including rating assumption sensitivity\)](#)

## **APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.7.2 ([1](#))

## **ADDITIONAL DISCLOSURES**

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Seoul Guarantee Insurance Company

EU Endorsed, UK Endorsed

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