

RATING ACTION COMMENTARY

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

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Fitch Ratings - Singapore - 15 Dec 2022: Fitch Ratings has affirmed Seoul Guarantee Insurance Company's (SGI) Insurer Financial Strength (IFS) Rating at 'AA-' (Very Strong). The Outlook is Stable.

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 its standalone credit quality due to the potential support from its parent.

KEY RATING DRIVERS

Positive Parental Support: Fitch believes that the state - via KDIC - sees SGI as having a critical role in providing stability to Korea's economy and developing local guarantee and credit businesses. Consequently, it will extend support, if needed, to SGI. SGI's management has said there are no government plans to privatise SGI in the short to medium term.

'Favourable' Company Profile: SGI's company profile is '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. SGI's has a dominant market share in the domestic guarantee and credit insurance market, which has remained above 20% in the past three years.

'Very Strong' Capital Buffer: SGI has maintained a healthy capital buffer to support its niche business, with the regulatory risk-based capital ratio (RBC) consistently well above the 100% minimum. The regulatory RBC was above 400% at end-2021 and end-June 2022. SGI's capitalisation, measured by Fitch's Prism Model score, was well into 'Very Strong' in 2021 and 1H22.

'Strong' Financial Performance: SGI's annualised return on equity (ROE) was about 11.8% for 1H22 (2021: 8.8%). We estimate the combined ratio was 57% for 1H22, with a three-year average of 73%. SGI is supported by experienced staff, most of whom have been with the company for over 10 years. The sustained profitability reflects the company's continued risk-management efforts to tighten underwriting criteria, adopt selective underwriting as well as strengthen claim monitoring and recovery measures.

Cyclicality and Concentration Risks: SGI faces challenges in managing appropriately the business risks associated with the cyclical nature of the credit and guarantee insurance. It also has high business concentration risk, as it sources almost all revenue from the domestic market.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to the standalone credit quality being revised higher:

- sustained improvement in the company profile, with increased business diversification and operating scale
- maintaining its profitability, for instance, with its ROE persistently above 12% for a sustained period, and capitalisation, measured by Fitch's Prism Model score, falling well into the 'Very Strong' level for a prolonged period

Factors that could, individually or collectively, lead to the standalone credit quality being revised lower:

- a significant deterioration in SGI's company profile in terms of market franchise and operating scale.

- a deterioration of SGI's profitability, with its ROE below 7% 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 negative rating action/downgrade:

- a downgrade of South Korea's Long-Term Local-Currency IDR (AA-/Stable)

- 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.

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

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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](#)

FITCH RATINGS ANALYSTS

Siew Wai Wan

Senior Director

Primary Rating Analyst

+65 6796 7217

siewwai.wan@fitchratings.com

Fitch Ratings Singapore Pte Ltd.

1 Wallich Street #19-01 Guoco Tower Singapore 078881

Jeffrey Liew

Senior Director

Secondary Rating Analyst

+852 2263 9939

jeffrey.liew@fitchratings.com

Terrence Wong

Senior Director

Committee Chairperson

+852 2263 9920

terrence.wong@fitchratings.com

MEDIA CONTACTS

Leslie Tan

Singapore

+65 6796 7234

leslie.tan@thefitchgroup.com

Wai Lun Wan

Hong Kong

+852 2263 9935

wailun.wan@thefitchgroup.com

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 16 Jul 2022\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Prism Factor-Based Capital Model, v1.8.0 (1)

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Seoul Guarantee Insurance Company

EU Endorsed, UK Endorsed

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Insurance Asia-Pacific South Korea
