

Seoul Guarantee Insurance Co.

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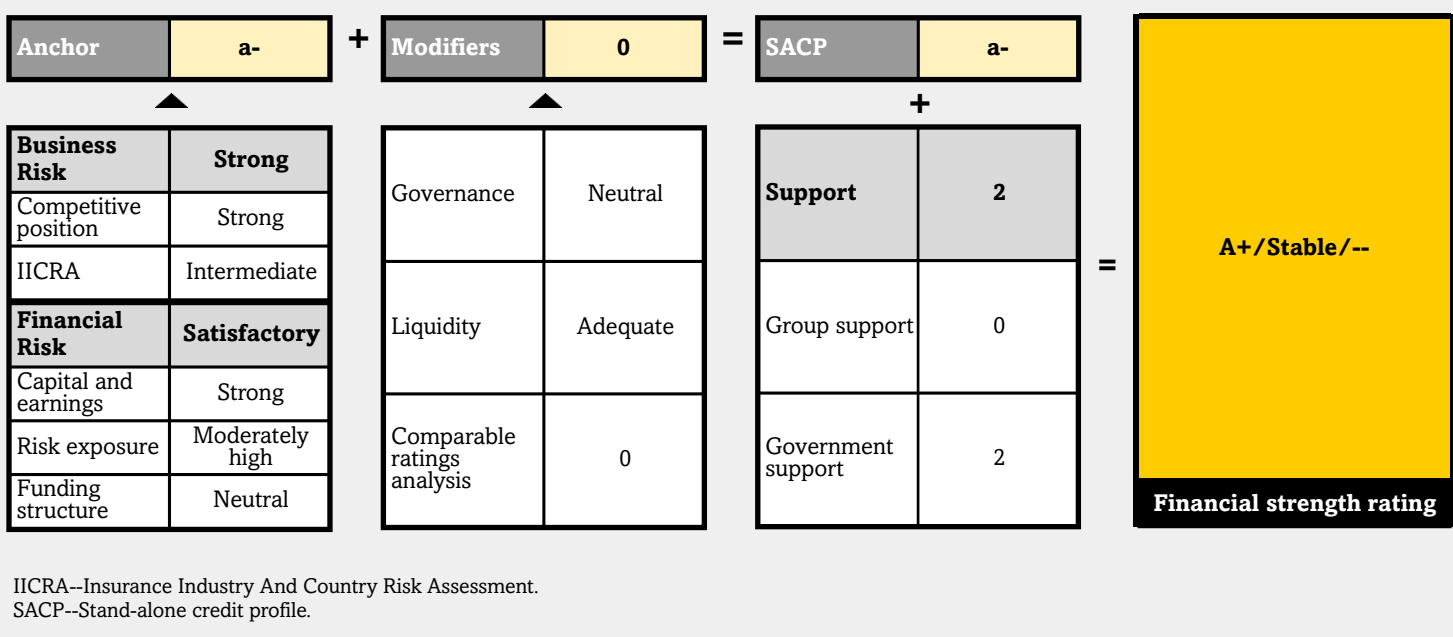
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Seoul Guarantee Insurance Co.



Credit Highlights

Overview

Key strengths	Key risks
Strong market presence as the only comprehensive guarantee insurer in Korea.	High sensitivity to downturns in the economy.
Good operating performance backed by well-controlled distribution channels.	Lower geographic diversification than that of global peers.
Significant government ownership and high likelihood of support, if needed.	

We expect Seoul Guarantee Insurance Co. (SGIC) to maintain strong capitalization over the next two years. This is supported by moderate business growth and prudent investment allocations. The insurer's profitability will remain broadly stable over the next two years, in our view. Its efforts to strengthen risk controls on underperforming policies and gradual improvements in investment returns amid higher interest rates will underpin this. This is despite overall premium cuts and subdued domestic economic growth prospects. That said, the sensitivity of guarantee insurance to economic and market downturns dilutes this capital strength to some degree.

SGIC will maintain its strong presence in Korea's guarantee insurance market. The company has pricing power from its unique market position as the only comprehensive guarantee insurer in Korea and with controlled distribution channels through its own branches and online channels. These factors will likely underpin SGIC's business stability over the next two years. The insurer had about a 25% share of the amount of outstanding guarantees provided in Korea's financial system as of end-2022.

We see a high likelihood of extraordinary government support for SGIC in case of need. We believe the insurer will continue to undertake a very important policy role in supporting small and midsize enterprises (SMEs) as well as the housing market by providing guarantee insurance in Korea. While the government plans to gradually reduce its stake

in SGIC, it will likely remain a significant majority shareholder for at least the next two years and maintain influence on the insurer's management and business strategy. Out of the 93.85% stake in SGIC held by Korea Deposit Insurance Corp. (KDIC), the government plans to sell a stake of about 10% in the public market by end-2023 and gradually reduce its stake in multiple phases over the next several years.

Outlook: Stable

The stable rating outlook on SGIC reflects our view that the insurer will benefit from a high likelihood of extraordinary support from the government if needed over the next two years, despite its ongoing privatization.

We expect SGIC to maintain a strong business presence as the only comprehensive guarantee insurer in Korea. In our view, the insurer will maintain strong capitalization during this period amid moderate premium growth.

Downside scenario

We may lower the ratings on SGIC if:

- We think the government will lose its controlling stake in SGIC amid the ongoing privatization or the government opens the guarantee market to other large domestic property and casualty insurers, undermining SGIC's link with or public role for the government;
- SGIC's operating performance deteriorates significantly, possibly due to weak underwriting standards or aggressive overseas expansion;
- The insurer's capital weakens substantially due to unexpected losses in insurance operations amid a significant economic downturn in Korea; or
- We lower the sovereign ratings on Korea.

Upside scenario

We view an upgrade of SGIC as highly unlikely over the next two years.

Key Assumptions

- Korea's real GDP to grow by 1.0% in 2023 and 2.0% in 2024, after a 2.6% increase in 2022.
- Policy rate in Korea to remain at 3.50% at end-2023. The policy rate was last raised to 3.50% in January 2023 from 3.25% as of end-2022.
- Unemployment rate to remain largely stable at about 2.9% in 2023 and about 3.0% in 2024, from 2.9% in 2022.

Seoul Guarantee Insurance Co.--Key metrics*

(Bil. KRW)	--Fiscal year ended--				
	2020a	2021a	2022a	2023f	2024f
Gross premiums written	1953	1996	2082	2050-2250	2100-2300
Net income	329	456	564	510-550	520-560
EBITDA fixed-charge coverage (x)	66.3	120.2	128.8	110-120	115-125
Financial leverage (%)	0.9	0.8	0.8	0.7-1.0	0.7-1.0
Return on equity (%)	7.1	8.8	10.7	9.0-11.0	9.0-11.0
S&P Capital Adequacy	Strong				
Net investment yield (%)	2.2	2.3	2.4	2.4-2.6	2.5-2.7
Net combined ratio (%)	85.8	72.8	67.2	72-73	73-74
Return on revenue (%)	21.3	33.9	38.5	30-35	30-35

S&P Global Ratings' forecasts above do not reflect implementation of International Financial Reporting Standards 17 (IFRS 17 Insurance Contract) and IFRS 9 (IFRS 9 Financial instruments) from January 2023. KRW--Korean won. a--Actual. f--Forecast.

Business Risk Profile: Strong

SGIC will maintain its strong competitive presence in Korea's guarantee insurance market, supported by its position as the only comprehensive guarantee insurance company in the country. Korea's guarantee industry has a wide range of providers, including cooperatives, banks, and guarantee funds that the government operates. Guarantee insurance products include surety bonds, performance bonds, and loan payment bonds to support individuals and enterprises to conduct business.

Unlike the other guarantee providers, however, SGIC is not subject to regulations on specific customer groups or market segments. The insurer had about a 25% share of total outstanding guarantees provided in Korea as of end-2022.

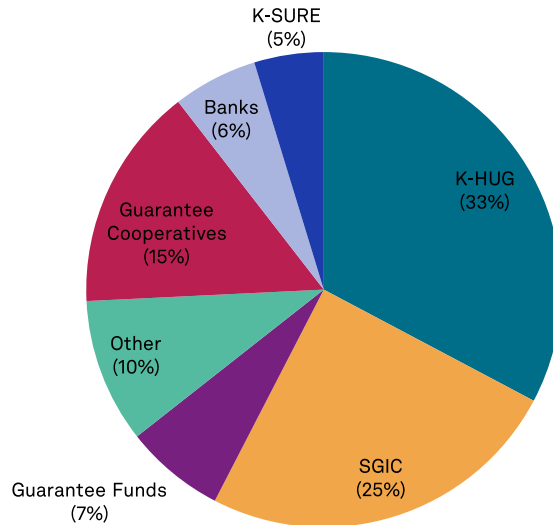
We expect SGIC to continue operating under intermediate insurance industry and country risk, given that the insurer predominantly operates in Korea. It derived about 92% of its premiums in 2022 domestically and we expect the contribution to remain largely stable over the next two years. The remainder was from SGIC's overseas inward insurance business covering worldwide general P/C risks as part of its business diversification.

SGIC will likely leverage its leadership in the domestic guarantee insurance and gradually expand its overseas business. The insurer has operations in Vietnam, the U.S., United Arab Emirates, Indonesia, and China through its branch or representative offices. SGIC has also been working to establish a business partnership with a Chinese guarantee insurance platform company to grow its business in the Chinese market. That said, we expect the pace of overseas expansion to be gradual. This is based on its record of prudent strategic planning and execution.

Chart 1

SGIC has a strong presence in the domestic guarantee insurance market

Korea domestic guarantee market shares in 2022 (based on outstanding guarantees)



Note: KHUG: Korea Housing & Urban Guarantee Corp. K-SURE: Korea Trade Insurance Corp. Source: S&P Global Ratings. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

SGIC's pricing power will likely underpin its business stability over the next two years. The pricing power stems from its strong market position and controlled distribution channels. The insurer mainly uses its own branches and online distribution channels, which help to keep acquisition costs low.

We expect SGIC's financial performance to remain largely stable in the next two years. This is despite overall premium cuts effective from 2023 and challenging operating conditions amid slowing economic growth in Korea. We forecast the insurer's return on average assets to be about 5.4%-5.6% over the next two years, compared with about 5.8% in 2022 and 4.8% in 2021. SGIC will continue efforts to strengthen its underwriting guidelines and claims recovery management, especially on underperforming credit insurance policies. We also expect investment returns to gradually increase amid higher domestic interest rates.

Financial Risk Profile: Satisfactory

SGIC will maintain strong capital adequacy over the next two years, as measured by S&P Global Ratings' capital model. Moderate business growth and prudent investment allocations will underpin this, in our view. However, the sensitivity of guarantee insurance to potential economic downturns dilutes this capital strength. In addition, SGIC's

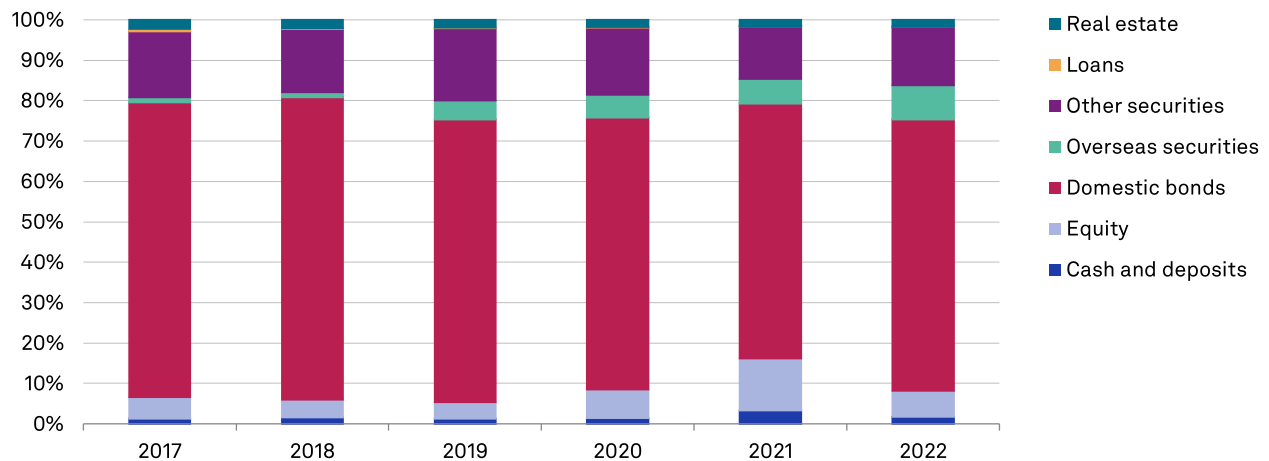
policy role in supporting SMEs and individuals with mid-to-low credit profiles by providing guarantee insurance could heighten the volatility, in our view.

We project gross premiums written will increase by about 3% annually for SGIC over the next two years. This will be underpinned by the insurer's efforts to grow guarantee products, such as contract bonds. The insurer will continue to strengthen its online channels with digital innovations to improve customer reach and operating efficiency. SGIC cut premium rates for some of its policies in 2022, following an improved loss experience in 2021.

We expect SGIC to maintain a high dividend payout ratio of about 50% over the next two years. This is to repay the government's capital injections in 2000-2001. The insurer paid out about 50% of its annual net profit in 2022 as dividends. It monitors its regulatory capital positions closely to ensure it sustains appropriate levels of capital and liquidity with a sufficient buffer. SGIC's regulatory solvency ratio based on Korea Insurance Capital Standards (K-ICS), which was implemented from 2023, stood at about 413.3% as of end-March 2023. This far exceeded that of most domestic P/C insurers and the regulatory minimum requirement of 100%.

Chart 2

SGIC's investment asset allocations will likely be broadly stable



Note: Overseas securities mostly consist of high-quality bonds. Source: S&P Global Ratings. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

We expect SGIC to maintain a largely stable investment portfolio consisting mainly of high-quality fixed-income securities diversified across sectors and obligors. Relatively high-risk assets, including alternative investments, loans, properties, and equities, accounted for about 22% of the insurer's total invested assets as of end-2022. The insurer has good track record of managing stable investment asset quality over the past few years.

SGIC could increase its overseas investments, although at a gradual pace, in our view. The insurer's overseas investments comprise mainly investment-grade bonds of financial institutions or companies in developed markets. We consider its sensitivity to foreign exchange movements as limited, given its hedging strategy using foreign exchange swaps. That said, an increase in hedging costs could lower investment yields, especially amid heightened financial

market volatility.

SGIC will likely continue to adequately manage risks and proactively formulate its business strategy, in coordination with the government via KDIC. The insurer utilizes various risk models, which is in accordance with K-ICS, the new regulatory capital framework effective from 2023. Its risk appetite is set by incorporating its risk-adjusted return, business growth plans, and capital adequacy.

SGIC's financial leverage will likely remain low, reflecting its proactive capital management strategies. It had a small amount of outstanding commercial papers, of about Korean won 42 billion as of end-2022.

Other Key Credit Considerations

Governance

SGIC's ability to adjust and control the execution of its strategies is in line with peers', despite its policy roles. In general, the insurer's strategic plans are consistent with its capabilities, taking into account market conditions. As a government-owned and highly regulated entity, SGIC maintains a stable governance structure.

Liquidity

SGIC has good access to liquidity sources. The insurer also holds sufficient liquid assets, in our view. It had a liquidity ratio of 1.4x as of end-2022. We do not expect it to face constraints in meeting its obligations over the next two years, given the good quality of its fixed-income securities-based asset portfolio and good operating performance.

Government support

With SGIC undertaking a policy role by providing guarantee insurance to SMEs and the lower-income population, we see a high likelihood of timely and sufficient extraordinary support from the Korean government in the event of financial distress. We base our ratings approach on the insurer's very important role for, and strong link with, the Korean government.

SGIC carries out policy roles through memoranda of understanding with the Ministry of SMEs and Startups as well as other government agencies. The insurer provides surety bonds such as performance bonds and payment bonds for SMEs and low-income individuals to conduct business in various industries such as construction and retail.

Policy-related products SGIC provides include guarantees on Saitdol loans. The insurer, together with regulators and domestic lenders jointly launched these products in 2016. SGIC provides guarantees for the loans so that retail borrowers with low to midrange credit scores can access loans at lower interest rates. In addition, SGIC provides guarantees on loans and deposits for jeonse (lump-sum refundable deposits for housing rental). These are important for the stability of the housing market as part of the government's key policy agenda.

We believe that, as a majority owner of SGIC, KDIC will continue to influence SGIC's business strategy. It can achieve this by participating in shareholders' and board of director meetings, as well as through contracts for its business operations. KDIC owned 93.85% of SGIC as of end-2022.

We expect the government to remain a significant majority shareholder in SGIC for at least the next two years. This is despite the government's plans to gradually reduce its ownership in SGIC held by KDIC. KDIC plans to dispose of a

10% stake in SGIC through a proposed initial public offering in the fourth quarter of 2023. Following the listing, KDIC may sell up to about 33% of its shares in SGIC over the next three years, subject to market conditions, and subsequently, dispose of the remaining shares over the long term. The purpose of the IPO and ongoing sell-down is to expedite the insurer's repayment of public funds to the government.

Environmental, social, and governance

ESG credit factors have no material influence on our credit rating analysis of SGIC. The insurer's environmental, social, and governance risk factors are broadly in line with the overall insurance industry in Korea.

SGIC has set up ESG-related management committees to oversee its ESG strategies. The structure should help the insurer further enhance its long-term ESG planning and identify areas of focus in the coming years.

While SGIC undertakes policy roles, it also operates as a profit-seeking enterprise. We view social factors as a neutral consideration for the insurer.

Accounting considerations

We base our analysis primarily on fully audited financial data prepared in accordance with Korean International Financial Reporting Standards (IFRS). Our base-case assumptions for 2023-2025 are based on IFRS 4 financial statements. SGIC will apply IFRS 9 and 17 in its financial disclosures from 2023 annual reports. Gross written premiums will not be reported any more under IFRS 17, with gross insurance contract revenue taking its place.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Insurance | Specialty: Trade Credit Insurance Capital Requirements Under S&P Global Ratings' Capital Adequacy Model, Dec. 6, 2013
- 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

- Economic Research: Economic Outlook Asia-Pacific Q3 2023: Domestic Demand, Inflation Relief Support Asia's Outlook,
- Research Update: Korea 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 27, 2023
- Insurance Industry And Country Risk Assessment: Korea Property/Casualty, December 20, 2022
- Equity Content Assessment of Korean Bank and Insurance Hybrids Unchanged Following Recent Call Event, Dec. 7,

2022

Appendix

Seoul Guarantee Insurance Co.--Credit metrics history

	2022	2021	2020	2019	2018
Total invested assets (Bil. KRW)	7,748	8,451	7,365	6,852	6,721
Total shareholder equity (Bil. KRW)	5,027	5,486	4,840	4,472	4,180
Gross premium written (Bil. KRW)	2,082	1,996	1,953	1,888	1,984
Net premium written (Bil. KRW)	1,820	1,703	1,664	1,623	1,771
Net premium earned (Bil. KRW)	1,757	1,694	1,643	1,645	1,602
Reinsurance utilization (%)	13	15	15	14	11
EBIT (Bil. KRW)	739	652	434	564	600
Net income (attributable to all shareholders) (Bil. KRW)	564	456	329	432	444
Return on revenue (%)	38.5	33.9	21.3	28.5	32.4
Return on shareholders' equity (%)	10.7	8.8	7.1	10.0	10.9
Property/casualty: Net combined ratio (%)	67.2	72.8	85.8	79.3	73.5
Property/casualty: Net expense ratio (%)	17.6	17.9	16.9	16.2	20.2
Property/casualty: Return on revenue (%)	39.3	34.4	21.7	28.2	33.4
Net investment yield (%)	2.4	2.3	2.2	2.5	2.6
Net investment yield including investment gains/(losses) (%)	2.2	2.4	2.9	3.1	2.9

KRW--Korean won.

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/bbb-	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 September 20, 2023)*

Seoul Guarantee Insurance Co.

Financial Strength Rating

Local Currency

A+/Stable/--

Ratings Detail (As Of September 20, 2023)*(cont.)

Issuer Credit Rating

Local Currency

A+ / Stable / --

Holding Company

None

Domicile

Korea, Republic of

*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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