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## Seoul Guarantee Insurance Co.

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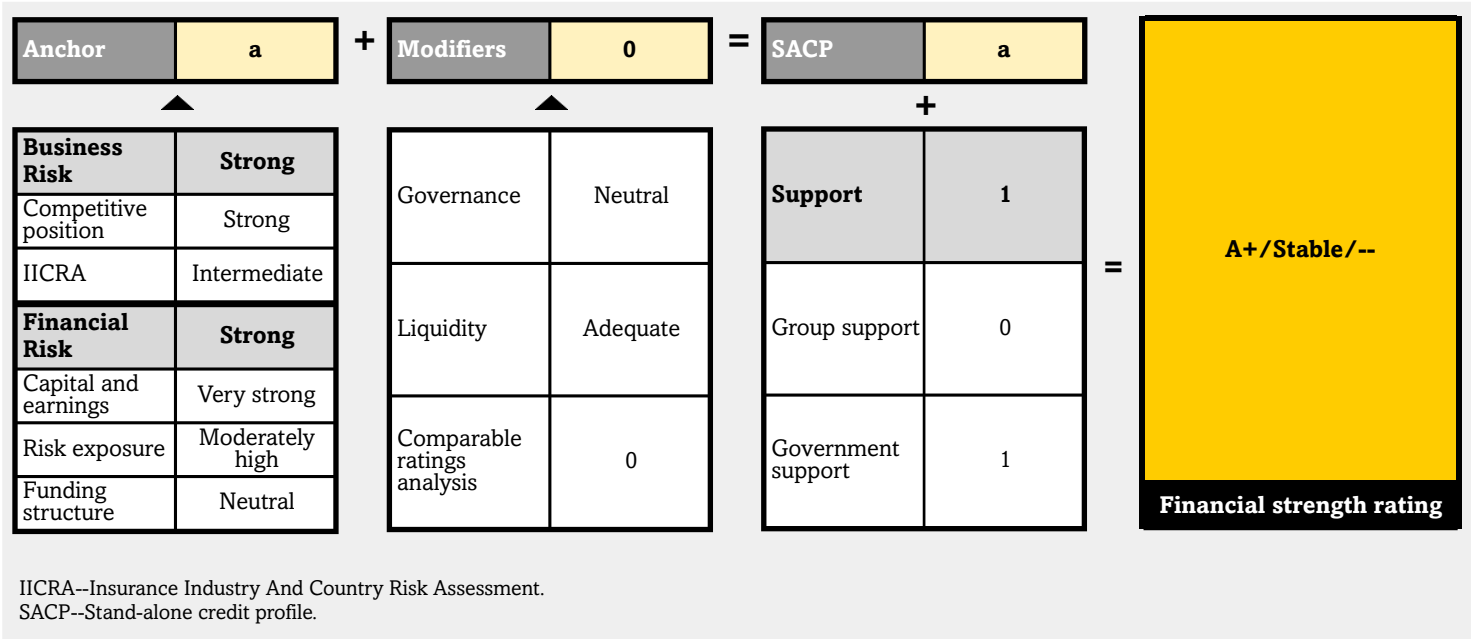
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# Seoul Guarantee Insurance Co.



## Credit Highlights

### Overview

#### Key strengths

Solid market presence as a comprehensive guarantee-insurer in Korea with strong pricing power.

Very strong capitalization.

Significant government ownership and high likelihood of support, if needed.

#### Key risks

Less geographic diversification than global peers'.

Financial performance highly sensitive to economic downturns.

**Seoul Guarantee Insurance Co. (SGIC) will maintain its strong presence in Korea's guarantee-insurance market.** The company exercises pricing power as the only comprehensive (multi-product) guarantee-insurer in Korea. It provides a wide range of guarantee and credit insurance products to individuals and enterprises across various industries through its controlled branch and online distribution channels. These factors will likely underpin SGIC's business stability over the next two years. The insurer had a solid 24% share of the amount of outstanding guarantees provided in Korea's financial system as of end-2023.

**We expect SGIC to maintain very strong capital and earnings over the next two years.** The insurer's excellent capital adequacy is supported by moderate business growth and broadly stable investment allocations. Our assessment of SGIC's very strong capital and earnings considers the high ratio of the insurer's outstanding guarantee exposure relative to shareholders' equity, at about 90x as of end-2023. That said, the sensitivity of guarantee-insurance business to economic and market downturns dilutes this capital strength to some degree.

*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 stability of the housing market by providing guarantee insurance in Korea. SGIC will likely maintain strong links with the government through Korea Deposit Insurance Corp. (KDIC), which owns 93.85% of the insurer. Although the government plans to privatize SGIC, we believe it will sell down its stake gradually over several years.

## Outlook: Stable

The stable rating outlook on SGIC reflects our view that the Korea-based insurer will benefit from a high likelihood of extraordinary support from the government, if needed, over the next two years. This is 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 a strong financial risk profile during this period with moderate premium growth.

### Downside scenario

We view a downgrade of SGIC as unlikely over the next two years. We may lower the ratings if:

- We believe the government will lose its controlling stake in SGIC amid the insurer's ongoing privatization or the government opens the guarantee-insurance market to other large domestic property and casualty insurers, undermining SGIC's link with or public role for the government; and
- SGIC's profitability deteriorates significantly, possibly due to weakened underwriting standards or aggressive overseas expansion or its capital adequacy weakens substantially during a significant economic downturn in 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 2.3% in 2024 and 2.0% in 2025, up from 1.4% in 2023.
- Policy rate in Korea to decline to 3.25% at end-2024 and 2.50% at end-2025, from 3.50% at end-2023.
- Unemployment rate to remain about 2.7% in 2024-2025, in line with the level in 2023.

### Seoul Guarantee Insurance Co.--Key metrics

(Bil. KRW)	2021a	2022a	2023a	2024f	2025f
S&P Global Ratings capital adequacy* (%)	A	99.99	99.99	99.99	99.99
Insurance revenue	N/A	N/A	2085.8	2,050-2,250	2,100-2,300

**Seoul Guarantee Insurance Co.--Key metrics (cont.)**

<b>(Bil. KRW)</b>	<b>2021a</b>	<b>2022a</b>	<b>2023a</b>	<b>2024f</b>	<b>2025f</b>
Gross premiums written	1,996	2,082	N/A	N/A	N/A
Net income	456.0	563.5	416.4	160-200	250-290
Return on equity (%)	0.0	10.7	8.2	2.5-4.5	4.0-6.0
Net investment yield (%)	2.3	2.4	2.4	2.2-2.4	2.2-2.4
P/C: net combined ratio (%)†	72.8	67.2	80.1	95.0-96.0	90.0-91.0
Return on revenue (%)	33.9	38.5	21.5	6.0-11.0	10.0-15.0
Financial leverage (%)**	0.8	0.8	0.8	0.7-1.0	0.6-0.9
EBITDA fixed-charge coverage (x)	120.2	128.8	96.2	35.0-45.0	55.0-65.0

Data and forecasts from 2023 onward are based on Korean International Financial Reporting Standards (K-IFRS) 17 and data prior to 2023 is based on K-IFRS 4. \*S&P Global Ratings Capital adequacy refers to the relevant confidence level at a point in time. \*\*Including pension deficit as debt. †Net combined ratio under IFRS17 is 'insurance service expenses net of reinsurance revenues' divided by 'insurance revenues net of reinsurance expenses'. KRW--Korean won. a--Actual. f--Forecast. N/A-- Not available. IFRS--- International financial reporting standards. Source: S&P Global Ratings.

## 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. SGIC provides a wide range of guarantee and credit insurance products including contract bonds, bid bonds, loan payment bonds and mortgage credit insurance. These products support individuals to meet their financing needs 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 a solid 24% share of total outstanding guarantees provided in Korea as of end-2023, placing it as second-largest in the guarantee insurance market.

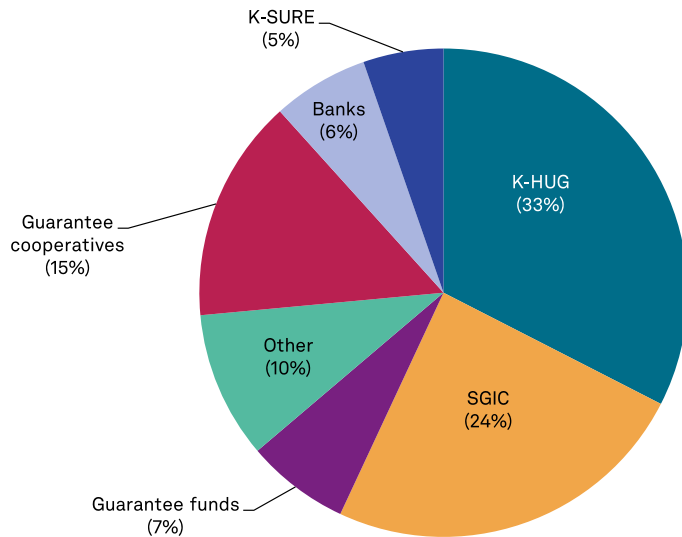
We expect SGIC to continue operating under intermediate insurance industry and country risk conditions, given that the insurer predominantly operates in Korea. It derived about 94% of its insurance revenue in 2023 domestically and we expect the contribution to remain largely stable over the next two years. The remainder was mainly from SGIC's overseas inward reinsurance business covering worldwide general property and casualty (P/C) risks as part of its business diversification.

SGIC will likely leverage its leadership in the domestic guarantee insurance market and gradually expand its overseas business. The insurer has operations in Vietnam, the U.S., United Arab Emirates, Indonesia, and China through its subsidiary, and branch or representative offices. We expect the pace of overseas expansion to be gradual. This is based on its record of cautious strategic planning and execution.

**Chart 1**

**SGIC has a strong presence in the domestic guarantee insurance market**

Korea domestic guarantee market shares in 2023 (based on outstanding guarantees)



Note: KHUG--Korea Housing & Urban Guarantee Corp. K-SURE--Korea Trade Insurance Corp. SGIC--Seoul Guarantee Insurance Co. Source: S&P Global Ratings. Copyright © 2024 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 unique market position and strong controlled distribution channels. The insurer mainly uses its own branches and online distribution, which help to keep its acquisition costs low.

We expect SGIC's profitability to gradually improve over the next two years after a deterioration in 2024. Sluggish property markets and elevated domestic interest rates will likely result in high claims frequency this year. This is particularly applicable to surety bonds in the construction sector and credit insurance related to jeonse (lump-sum refundable deposits for housing rental).

The insurer's tightening risk management amid broadly stable economic growth and lower domestic interest rates should support a gradual recovery in the combined ratio to 85%-90% in 2025-2026, after deteriorating to about 95% in 2024, in our assessment, from about 80% in 2023.

**Financial Risk Profile: Strong**

SGIC will likely sustain very strong capital and earnings over the next two years. The insurer's capital adequacy will remain excellent over our forecast period to 2026, based on our risk-based capital model. Moderate business growth

and broadly stable investment allocations will underpin this. That said, SGIC's sizable outstanding guarantee exposure relative to shareholders' equity, at about 90x as of end-2023, can expose the insurer to greater vulnerability in times of economic downturn than we assume in our capital model.

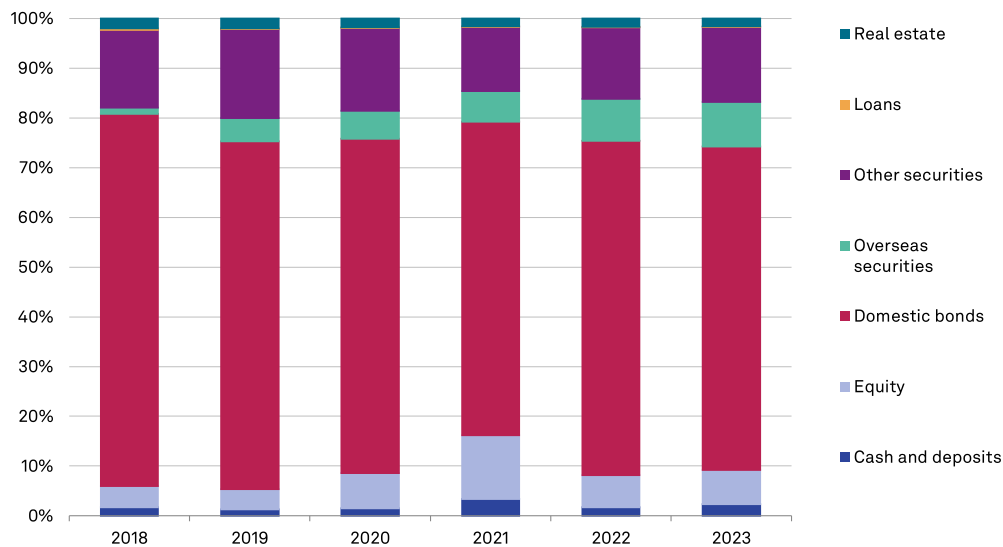
We project insurance revenue will increase by about 3% annually for SGIC over the next two years. This will be underpinned by the insurer's continuing efforts to grow its guarantee business, such as contract and payment bonds. The insurer will strengthen its online channels with digital innovations to improve customer reach and operating efficiency. It will also continue to improve pricing adequacy based on its tightening underwriting guidelines.

We expect SGIC to maintain its dividend payout ratio at 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 dividends in 2023. It monitors its regulatory capital positions closely to ensure it maintains 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 450.1% as of end-March 2024. This far exceeded that of most domestic P/C insurers and the regulatory minimum requirement of 100%.

We assess SGIC's risk exposure as moderately high, given the high susceptibility of its guarantee-insurance business to potential economic downturns. SGIC's policy role in supporting SMEs and individuals with mid-to-low credit profiles by providing guarantee insurance could heighten volatility in its financial performance and capital position, in our view.

**Chart 2**

**SGIC's investment asset allocations will likely be broadly stable**



Note: Overseas securities mostly consist of high-quality bonds. Data in 2023 based on K-IFRS 17 and 9. Data prior to 2023 based on K-IFRS 4 and IAS 39. SGIC--Seoul Guarantee Insurance Co. IFRS--International financial reporting standards. IAS--International accounting standards. Copyright © 2024 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 for the next two years. Relatively high-risk assets, including alternative investments, loans, properties, and equities, accounted for about 17% of the insurer's total invested assets as of end-2023. The insurer has had a 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 41 billion, which was less than 1% of its shareholders' equity, as of end-June 2024.

## 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 about 2.0x as of end-2023. 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. 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-2023.

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 divest a 10% stake in SGIC through a proposed initial public offering in the first half of 2025. 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 2024-2026 are based on IFRS 17 financial statements.

## Related Criteria

- 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: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Economic Outlook Asia-Pacific Q4 2024, Sept. 24, 2024
- Korea 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 30, 2024
- Seoul Guarantee Insurance Co. 'A+' Ratings Affirmed On Revised Capital Model Criteria; Outlook Stable, April 19, 2024
- Insurance Industry And Country Risk Assessment: Korea Property/Casualty, Dec. 19, 2023
- Korean Insurers And IFRS 17: Jury's Out If Increased Capital Is Here To Stay, Sept. 22, 2023

**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 26, 2024)\*****Seoul Guarantee Insurance Co.**

Financial Strength Rating

*Local Currency*

A+/Stable/--

Issuer Credit Rating

*Local Currency*

A+/Stable/--

**Holding Company**

None

**Domicile**

Korea, Republic of

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