FitchRatings

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

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Fitch Ratings - Hong Kong - [publication date will be automatically inserted]
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 ‘Strong’ capitalisation, 'Strong' financial performance, and 'Favourable' company profile. SGI benefits from a one-notch uplift from its standalone credit quality due to the potential support from the government, via Korea Deposit Insurance Corporation (KDIC).

Key Rating Drivers

Ratings Reflect Parental Support: Fitch believes the government will provide support to SGI, if needed, due to its important policy role in providing guarantee insurance to various economic entities. KDIC holds a 93.85% stake in SGI. The company serves primarily SMEs and individuals – together comprising about 89% of its policyholders – and contributes to domestic economic stability as Korea’s sole comprehensive guarantee and credit insurer. We expect SGI to maintain a dominant market position in the short to medium term, although the government intends to gradually reduce its stake.

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‘Favourable’ Company Profile: SGI's company profile is 'Favourable', as a result of a 'Favourable' business profile and 'Neutral’ corporate governance compared with all other Korean non-life insurance companies. The company offers a broad range of guarantee services, covering various economic sectors. This comprehensive coverage ensures that SGI plays a crucial role in supporting economic activities across the country. It has consistently maintained a market share of above 24% despite competitive pressures, and is the second-largest domestic guarantee provider in terms of total exposure.

We expect the company to face challenges in managing risks associated with the cyclical nature of the credit and guarantee business throughout economic and industry cycles. It also has a high business concentration risk, with above 95% of its total exposure from the domestic market.

Solid Capitalisation: We believe SGI has a sufficient capital buffer to withstand shocks from increased claims. Its capital position, measured by the Fitch Prism Global Model, was ‘Very Strong’ in 2023 and 1H24. Its regulatory solvency ratio under the Korean Insurance Capital Standard (K-ICS) improved to 445.4% in 1H24 (2023: 437.3%), well in excess of the 100% minimum regulatory requirement. This provides a capital cushion for a potentially volatile business portfolio, particularly amid economic volatility and operating environment challenges.

Performance Volatility: We expect SGI's underwriting performance to decline due to an increase in claims paid in 2023 and 2024, although this could be mitigated somewhat by sound investment returns. The combined ratio rose to 96.5% in 1H24 (2023: 81.6%, 2022: 68.1%). Annualised return on equity fell to 3.2% in 1H24 (2023: 8.3%). The weaker underwriting performance was due mainly to rising claim frequency resulting from high interest rates and a slowdown in the economy. We expect underwriting performance to normalise from 2025 with a gradual interest-rate cut.

Active Investment Strategy: SGI is likely to adjust its investment portfolio to optimise returns, while managing risks effectively. The company has increased its exposure to alternative investments, such as private-equity funds, infrastructure and commercial real-estate funds, to enhance its overall financial performance and resilience against market fluctuations. That said, the risky-asset ratio remained manageable at 34.6% in 1H24, lower than our criteria guideline for IFS 'AA-' rated insurers.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A downgrade of South Korea's Long-Term Local-Currency Issuer Default Rating (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.

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

- Significant deterioration in SGI's company profile in terms of market franchise and operating scale;

- Deterioration in SGI's profitability, with return on equity below 6% on a sustained basis.

- Weakening in capitalisation, measured by the Prism Global score falling to the 'Strong' level and the K-ICS ratio falling below 360% for a prolonged period.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

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

- Sustained improvement in SGI's company profile, with increased geographical diversification and operating scale;

- Improvement in underlying profitability, with return on equity above 12% on a sustained basis.

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs

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in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY	RATING			PRIOR
Seoul Guarantee Insurance Company	LT IFS	AA-	Affirmed	AA-

[View Additional Rating Details]

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Additional information is available on www.fitchratings.com

Applicable Criteria

Insurance Rating Criteria (pub.04-Mar-2024)(includes rating assumption sensitivity)

Applicable Models

Prism Global (ex-U.S.) Model, v1.8.1 (1)

Additional Disclosures

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