



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

Fitch Ratings - Singapore/Hong Kong - 11 February 2020:

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

### Key Rating Drivers

The rating takes into consideration the company's 'Favourable' business 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 extend the insurer support, 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.

Fitch assesses SGI's business profile as 'Favourable' compared with that of all other Korean non-life insurance companies. It has a substantive domestic business franchise and 'Favourable' operating scale, while its business risk is somewhat diversified. The agency therefore scores SGI's business profile at 'a+' under its credit-factor scoring guidelines.

SGI has a dominant market position in South Korea's guarantee and credit insurance market, with a market share of 25.7% at end-June 2019 based on risk exposure. Its market share has been above 20% for the previous five years. The company has inherent business risks associated with a niche business that moves in tandem with economic conditions, with limited geographical diversification. SGI sources more than 95% of its business premiums from South Korea. The company has minimal business exposure to the China market and does not expect significant business impact from the outbreak of the 2019-nCov coronavirus.

SGI's regulatory risk-based capital ratio was 404.6% at end-September 2019, well in excess of the 100% regulatory minimum. Its capitalisation, as measured by Fitch's Prism Factor-Based Capital Model (FBM), was 'Very Strong' in 2018. Fitch estimates SGI's FBM for 2019 remained at a similar level. The financial leverage ratio amounted to less than 5% in September 2019 and remains commensurate with SGI's rating category.

Fitch views SGI's financial performance as 'Strong'. Net income amounted to KRW298 billion for 9M19 and return on equity was 9% on an annualised basis (2018: 11%). The combined ratio was below 84% in 9M19.

### RATING SENSITIVITIES

Upgrade sensitivities include:

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

Downgrade sensitivities include:

- 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 business profile in terms of market franchise and operating scale; or
- a deterioration of SGI's financial fundamentals, with a combined ratio above 104% for a prolonged period and capitalisation, as measured by Fitch's FBM, falling well into the 'Strong' level.

## ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - 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 our 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- ● Affirmed	AA- ●

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

## FITCH RATINGS ANALYSTS

Primary Rating Analyst  
Siew Wai Wan  
Senior Director  
+65 6796 7217  
Fitch Ratings Singapore Pte Ltd.  
One Raffles Quay #22-11, South Tower  
Singapore 048583

Secondary Rating Analyst  
Jeffrey Liew  
Senior Director  
+852 2263 9939

Committee Chairperson  
Terrence Wong

Senior Director  
+852 2263 9920

## **MEDIA CONTACTS**

Alanis Ko  
Hong Kong  
+852 2263 9953  
alanis.ko@thefitchgroup.com

Leslie Tan  
Singapore  
+65 6796 7234  
leslie.tan@thefitchgroup.com

Peter Hoflich  
Singapore  
+65 6796 7229  
peter.hoflich@thefitchgroup.com

Wai Lun Wan  
Hong Kong  
+852 2263 9935  
wailun.wan@thefitchgroup.com

## **Applicable Criteria**

Insurance Rating Criteria (pub. 18 Nov 2019)

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