

# RatingsDirect®

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## Seoul Guarantee Insurance Co.

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# Seoul Guarantee Insurance Co.

## Credit Highlights

Financial Strength Rating
Local Currency A+/Stable/--

### Overview

Key Strengths	Key Risks
High likelihood of extraordinary government support.	Concentrated business portfolio in the guarantee insurance segment.
Solid market presence as the only comprehensive guarantee insurer in Korea.	High sensitivity to a downturn in the economy.
Good operating performance backed by controlled distribution channels.	

*The likelihood of extraordinary government support to Seoul Guarantee Insurance Co. (SGIC) is high.* SGIC plays a very important policy role of supporting business operations of small and midsize enterprises (SME) as well as the stability of the housing market. The insurer maintains a strong link with the government through its majority owner, Korea Deposit Insurance Corp. (KDIC).

*SGIC will maintain its strong presence in Korea's guarantee insurance market.* SGIC's pricing power--stemming from its unique market position as the only comprehensive guarantee insurer and its controlled distribution channels--underpins its good operating performance. The insurer had a market share of about 25% in terms of the amount of guarantee provided in 2018.

*SGIC is exposed to potential volatility due to susceptibility of its business to economic and market downturns.* The insurer's policy role of supporting SMEs and individuals with mid to low credit profiles can also increase volatility. That said, SGIC will likely maintain its strong capitalization in the coming two years in our base case scenario.

## Outlook

The stable outlook on SGIC reflects our view that the insurer will benefit from a high likelihood of extraordinary support from the government over the next two years. We expect SGIC's strong business presence in Korea to help the insurer maintain its good operating performance. We also believe SGIC will maintain its current capitalization despite sluggish growth in the domestic market.

### Downside scenario

We may lower the ratings if:

- SGIC's operating performance deteriorates significantly, reflecting weak underwriting standards or aggressive overseas expansion;
- SGIC's capital weakens substantially due to unexpected losses in insurance operations amid a significant economic downturn in Korea; or
- The government opens the guarantee market to other larger domestic property and casualty insurers or privatizes SGIC rapidly, which could undermine the insurer's public role and link with the government.

### Upside scenario

Although we view this to be a remote scenario over the next one to two years, we could raise the rating on SGIC if:

- We revise upward our assessment of SGIC's stand-alone credit profile, possibly due to its enhanced competitive position while sustaining its good operating performance; and
- SGIC strengthens its link with the government such that we see a very high likelihood of extraordinary government support to the insurer.

## Key Assumptions

- Korea's real GDP growth to be 1.8% in 2019 and 2.1% in 2020, compared with 2.7% in 2018.
- The policy rate in Korea to remain flat in 2020, following a cut to 1.25% in October 2019 from 1.50%.
- The country's unemployment rate to remain largely stable at about 4% by 2020.

## Key Metrics

(Bil. KRW)	2016A	2017A	2018A	2019F	2020F
Gross premiums written	1,524	1,767	1,984	2000-2100	2150-2250
Net income	614	460	444	400-450	400-450
EBITDA fixed-charge coverage (x)	68	80	100	Over 100	Over 100
Financial leverage (%)	3	2	1	1-3	1-3
Return on equity (%)	16.3	11.7	11.1	10-12	10-12
S&P Capital Adequacy	<b>Strong</b>				

**Key Metrics (cont.)**

(Bil. KRW)	2016A	2017A	2018A	2019F	2020F
Net investment yield (%)	2.5	2.4	2.5	2-2.6	2-2.6
Net combined ratio (%)	64	69	74	73-77	75-80
Return on revenue (%)	42.1	36.7	32.4	30-35	30-35

KRW--Korean Won. A--Actual. F--Forecast.

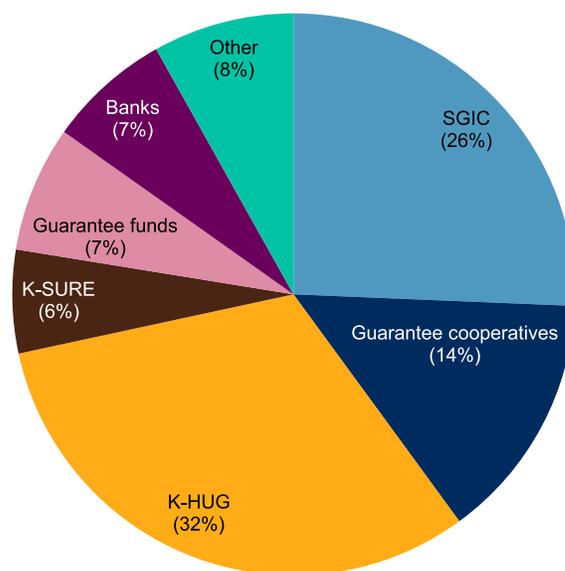
**Business Risk Profile**

SGIC will likely maintain its strong presence in Korea's guarantee insurance market, underpinned by its position as the only comprehensive provider of guarantee insurance in Korea. Other guarantee insurance providers--including cooperatives, banks, and guarantee funds operated by the government--serve specific customer or market segments, as restricted by regulations. SGIC accounts for approximately 25% market share in terms of the amount of guarantee provided in 2018.

In our view, the Korean nonlife insurance industry will sustain stable operating profitability supported by high barriers of entry despite low growth prospects. The Korean nonlife insurance industry faces intermediate industry and country risk.

**Chart 1**

**Korea Domestic Guarantee Market Share 2018 (Based On Exposure)**



KHUG: Korea Housing & Urban Guarantee Corp. K-SURE: Korea Trade Insurance Corp. Source: S&P Global Ratings.

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We expect SGIC to leverage its leading position in the domestic guarantee market, while gradually expanding its overseas portfolio (especially in China). We expect SGIC's pricing power--stemming from its strong market position and controlled distribution channels--to underpin its operating performance over the medium term.

Sluggish economic conditions in Korea may lead to deterioration in loss ratios, especially in SGIC's policy-related products. These policy-related products--generally targeting citizens with mid to low credit profiles, small business owners, and SMEs--will place pressure on the insurer's loss ratios. SGIC's combined ratio slightly deteriorated to about 74% in 2018 from about 69% a year ago. The insurer's average combined ratio was maintained at about 70% over the past five years, lower than its peers' average of about 85%.

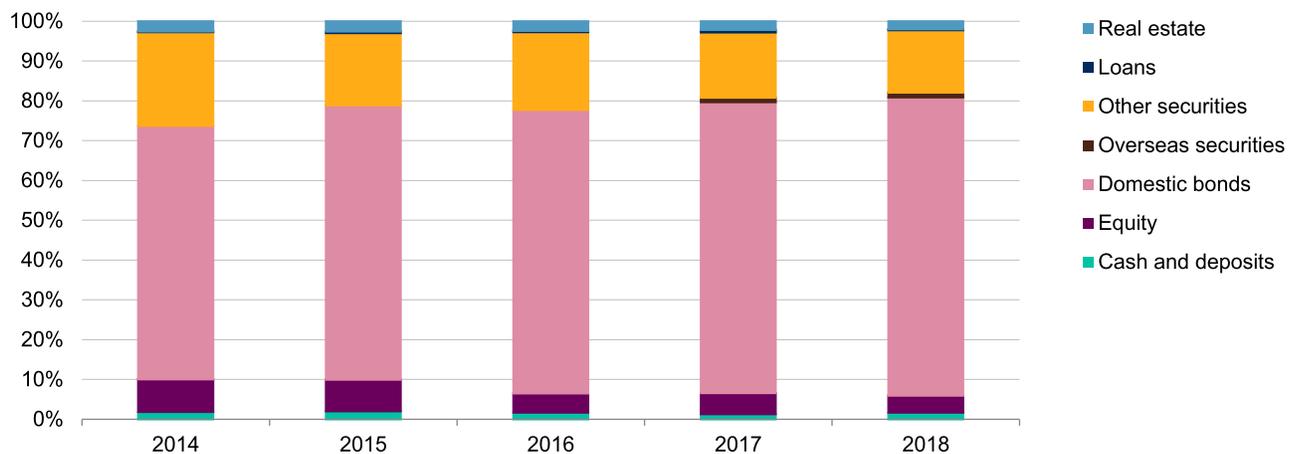
## Financial Risk Profile

SGIC's capitalization remains strong, reflecting prudent investment allocation and stable dividend policy. However, the sensitivity of guarantee insurance to economic and market downturns dilutes this capital strength. In particular, the insurer's increasing role in supporting SMEs and underwriting guarantee insurance of individuals with mid to low credit profiles could heighten the volatility.

Amid moderate growth prospects over the next few years, we project that SGIC's average net earned premium will grow by about 5% annually with a combined ratio of 75%-85% over 2019-2020. We also believe SGIC will likely maintain a relatively high dividend payout ratio of 40%-60% to repay the government's capital injection received over 2000-2001. SGIC's regulatory solvency ratio was about 388% as of June 2019, higher than that of most of domestic property and casualty insurers, and the regulatory minimum requirement of 100%.

SGIC will maintain its prudent investment strategy mostly consisting of quality fixed income securities diversified across sectors and obligors. As of Dec. 31, 2018, the relatively high-risk assets including alternative investments, loans, properties, and equities accounted for about 20% of the total invested assets.

Chart 2

**SGIC - Investment Asset Composition**

Source: Source: Financial Statistics Information System, S&P Global Ratings.  
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In our view, SGIC has a fully functioning risk control system to deal with major risk factors. We believe the company is still developing its process for identifying and mitigating emerging risk.

We expect SGIC to maintain its limited use of debt, benefitting from its largely stable profitability and strong market position. The insurer had outstanding commercial paper of about Korean won (KRW) 47 billion as of June 30, 2019.

## 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 the insurer's capabilities, taking into account market conditions. As a government-owned and highly regulated entity, SGIC maintains a well-developed governance structure.

### Liquidity

SGIC has good access to liquidity sources and holds sufficient liquid assets, in our view. We assess its liquidity ratio as 1.7x as of end-2018. We do not expect the insurer to face liquidity constraints in meeting its obligations over the next two years, backed by the good quality of its fixed income securities-based asset portfolio and stable operating performance.

### Government Support

With SGIC undertaking a policy role through the provision of low-margin guarantee insurance to SMEs and the lower-income population, we expect a high likelihood of the Korean government to provide SGIC with timely and sufficient extraordinary support in the event of financial distress. SGIC carries out policy roles by providing guarantees

through memoranda of understanding with the Ministry of SMEs and Startups as well as other government agencies, and by providing guarantees on loans and deposits for jeonse (lump-sum refundable deposits for rental). SGIC also provides guarantees on Saitdol loans, which help retail borrowers access credit at lower interest rates. Although these products can be offered by other financial institutions, we believe it to be unlikely given the nature of the guarantee insurance business, which requires strong underwriting standards with a long operating history in risk management.

We believe that as a majority owner of SGIC, KDIC can influence SGIC's business strategy through participation in shareholder and board-of-director meetings as well as through contracts for its business operations. KDIC owns a 94% stake in SGIC.

## Ratings Score Snapshot

Ratings Score Snapshot	
Business Risk Profile	Strong
Competitive position	Strong
IICRA	Intermediate Risk
Financial Risk Profile	Satisfactory
Capital and earnings	Strong
Risk exposure	Moderately High
Funding structure	Neutral
Anchor*	a-
<b>Modifiers</b>	
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
Support	+2
Group Support	0
Government Support	+2
Financial Strength Rating	A+

\*This is influenced by our view of SGIC's unique position in Korea's guarantee insurance market which underpins its competitive advantage, especially when comparing with peers in the bbb+ rating category.

## Related Criteria

- 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
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Seoul Guarantee Insurance Co. 'A+' Ratings Affirmed; Outlook Stable, Aug. 23, 2019

### Ratings Detail (As Of October 30, 2019)\*

#### 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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