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## Seoul Guarantee Insurance Co.

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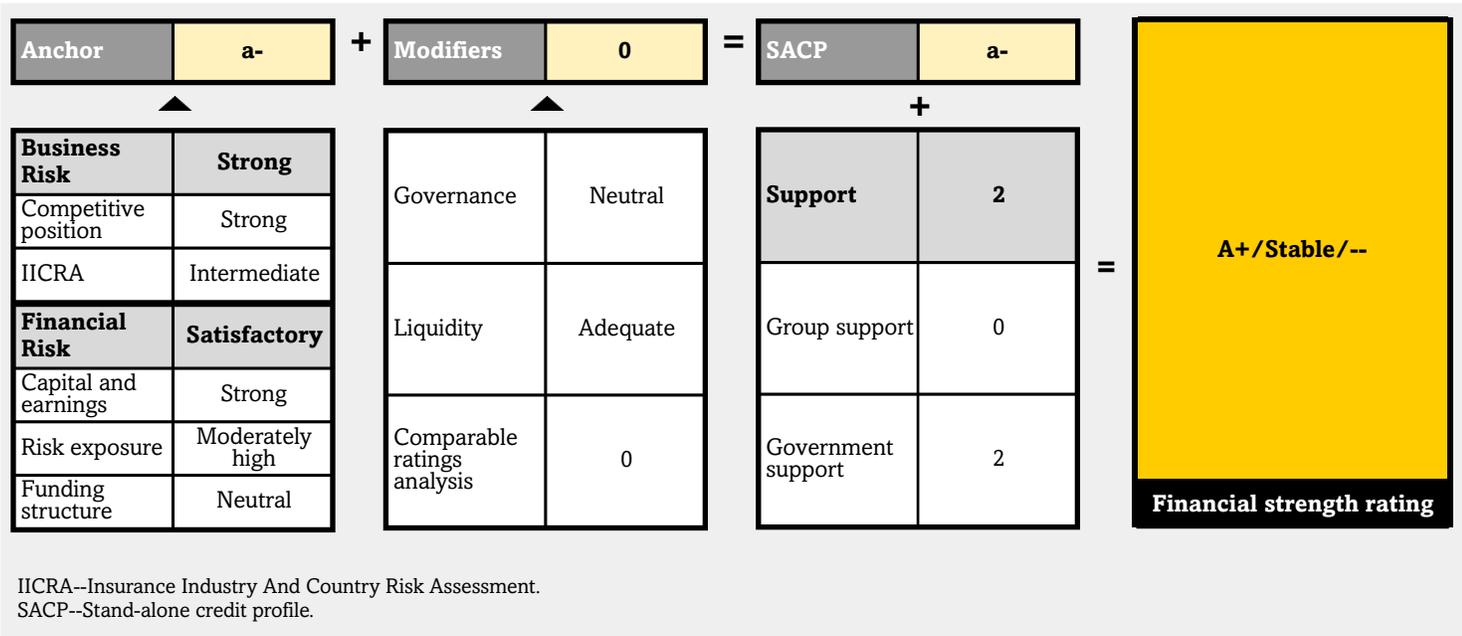
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# Seoul Guarantee Insurance Co.



## Credit Highlights

Overview	
Key strengths	Key risks
High likelihood of extraordinary government support.	High sensitivity to a downturn in the economy.
Solid market presence as the only comprehensive guarantee insurer in Korea.	Low geographic diversification benefits relative with global peers'.
Good operating performance backed by controlled distribution channels.	

**The likelihood of extraordinary government support to remain high.** Seoul Guarantee Insurance Co. (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 in Korea. 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.** The company'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. SGIC had a market share of about 26% in terms of the amount of guarantee provided in 2019.

**SGIC is exposed to potential volatility from economic and market downturns.** The insurer's policy role of supporting SMEs and individuals with mid-to-low credit profiles can also increase volatility. The COVID-19 outbreak could pressure SGIC's profitability, especially if the pandemic is prolonged. That said, SGIC will likely maintain its strong capitalization in the coming two years in our base case scenario.

**Outlook: Stable**

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. SGIC's strong business presence in Korea will 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, 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
- The government opens the guarantee market to other larger domestic property/ casualty (P/C) insurers or privatizes SGIC rapidly, which could undermine the insurer's public role and link with the government.

**Upside scenario**

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 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 to contract by 0.9% in 2020 due to economic strains from the COVID-19 pandemic, compared with growth of 2.0% in 2019, and expand by 3.6% in 2021.
- The policy rate in Korea to remain flat at 0.5% until 2022, from 1.25% as of end 2019.
- Unemployment rate to increase to 4.1% in 2020, and gradually stabilize at 3.9% in 2021 and 3.7% in 2022. This compares with 3.8% in 2019.

**Seoul Guarantee Insurance Co.--Key Metrics**

<b>(Bil. KRW)</b>	<b>2017a</b>	<b>2018a</b>	<b>2019a</b>	<b>2020f</b>	<b>2021f</b>
Gross premiums written	1,767	1,984	1,888	1900-2000	2000-2100
Net income	460	444	432	300-400	300-400
EBITDA fixed-charge coverage (x)	80	100	100	80-100	80-100
Financial leverage (%)	2	1	1	1-3	1-3
Return on equity (%)	11.7	10.9	10.0	6-9	6-9

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

<b>(Bil. KRW)</b>	<b>2017a</b>	<b>2018a</b>	<b>2019a</b>	<b>2020f</b>	<b>2021f</b>
S&P capital adequacy	<b>Strong</b>				
Net investment yield (%)	2.4	2.6	2.5	2-2.5	2-2.5
Net combined ratio (%)	68.7	73.5	79.3	84-88	82-86
Return on revenue (%)	36.7	32.4	28.5	20-25	20-25

KRW--Korean won. a--Actual. f--Forecast.

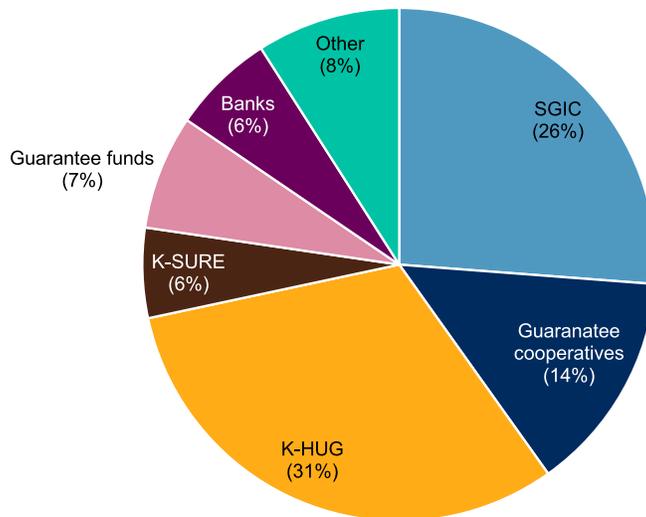
**Business Risk Profile: Strong**

SGIC will maintain its strong competitive presence in Korea's guarantee insurance market, underpinned by its position as the only comprehensive provider of guarantee insurance in Korea. Korea's guarantee insurance industry has a wide range of providers – ranging from cooperatives, banks and guarantee funds operated by the government. Unlike its peers, SGIC does not face regulations on reach to customers (specific customer groups) or market segments. Furthermore, the insurer's strong pricing power underpins its ability to generate steady underwriting profits, supported by prudent expense control and risk selection. The insurer derives its premiums predominantly from Korea, and we anticipate its global expansion will be gradual.

SGIC will leverage its leading position in the domestic guarantee market while gradually expanding its overseas portfolio. The insurer has about 26% market share in terms of the amount of guarantee provided in Korea as of end-2019. It also has operations in the United States, United Arab Emirates, Vietnam, and China through its branches or representative offices. SGIC has been working to establish a joint venture in China with several Chinese insurers. That said, we expect the pace of overseas expansion to be gradual. This is based on SGIC's record of prudent strategic planning and execution, and the volatile broader global market. The insurer will continue to generate most of its premium income from Korea, a market that we assess has intermediate P/C insurance industry and country risk.

**Chart 1**

**SGIC Has A Strong Presence In Korea's Domestic Guarantee Market**  
Market share based on exposure in 2019



K-HUG--Korea Housing & Urban Guarantee Corp. K-SURE--Korea Trade Insurance Corp. Source: S&P Global Ratings.  
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SGIC's pricing power--stemming from its strong market position and controlled distribution channels--will underpin its operating performance, despite some deterioration, over the next one to two years. The insurer's combined ratio deteriorated to about 79% in 2019 from about 69% in 2017 as loss ratios of credit insurance products deteriorated. Credit insurance products comprise about 38% of SGIC's business portfolio in terms of guarantee exposure as of end 2019, and include policy-related products such as guarantees on loans and deposits for jeonse (lump-sum refundable deposits for rental) or guarantees on mid-rate retail loans.

As the COVID-19 pandemic pressures the Korean economy, loss ratios of policy-related products will remain elevated for at least the next 12 months. This comes despite SGIC's raising of premium rates for these loss-making product lines. We expect its combined ratio to be 82-88% in the next two years. SGIC's average combined ratio has been about 73% over the past five years, lower than that of global peers such as Euler Hermes S.A. and CESCE (Compañía Española de Seguros de Crédito a la Exportación S.A. Cía. de Seguros y Reaseguros).

**Financial Risk Profile: Satisfactory**

SGIC's strong capital adequacy, as measured by our capital model, reflects the insurer's moderate business growth and prudent investment allocation. However, the sensitivity of guarantee insurance to economic and market downturns

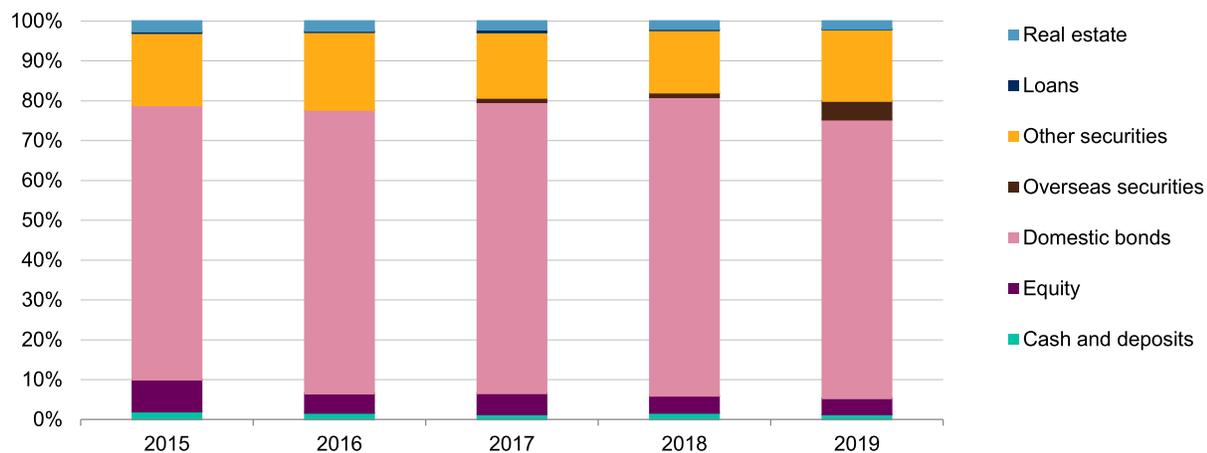
dilutes this capital strength. In particular, SGIC's increased role in supporting SMEs and in underwriting guarantee insurance of individuals with mid to low credit profiles could heighten the volatility.

Amid moderate growth prospects over the next few years, we project SGIC's average net earned premium will increase by 3%-5% annually. The company will continue to have solid underwriting profitability, despite some deterioration.

SGIC will likely maintain a high dividend payout of 30%-50% to repay the government's capital injection received over 2000-2001. SGIC's regulatory solvency ratio was about 408% as of June 30, 2020, higher than that of most of domestic P/C insurers and the regulatory minimum requirement of 100%.

**Chart 2**

**SGIC Has A Stable Investment Portfolio**  
Break-up of investment assets



Source: S&P Global Ratings.  
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SGIC will maintain its prudent investment strategy over the next few years amid low yields. The insurer's solid underwriting profitability enables it to maintain a stable investment portfolio that mostly consists of high quality fixed income securities diversified across sectors and obligors. As of Dec. 31, 2019, SGIC's relatively high-risk assets including alternative investments, loans, properties, and equities accounted for about 20% of the total invested assets.

SGIC will continue to increase its overseas investments, although at a very gradual pace, in our view. These overseas investments comprise mainly investment grade bonds of financial institutions or companies based in developed market countries. We consider the insurer's sensitivity to foreign exchange movements as limited given its use of rolling foreign exchange swaps. However, the increase in foreign exchange risk hedging costs could lower its investment yields, especially amid heightened financial market volatility.

SGIC will prudently manage risks and proactively formulate its business strategy, in coordination with the government

via KDIC. The insurer has a fully functioning risk control system to deal with major risk factors. It has developed its risk models to reflect the guarantee insurance sector's sensitivity to economic cycles. SGIC sets its risk appetite by incorporating its risk-adjusted return, business growth plans, and capital solvency. That said, we believe the company is still developing its process for identifying and mitigating emerging risk.

SGIC's financial leverage will remain low, reflecting its prudent capital management strategies. The insurer had outstanding commercial paper of only about Korean won (KRW) 46 billion as of Dec. 31, 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 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 and holds sufficient liquid assets, in our view. We assess its liquidity ratio as 1.6x as of end-2019. 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 see a high likelihood of timely and sufficient extraordinary support from the Korean government in the event of financial distress. Our ratings approach is based on SGIC's very important role for, and strong link with, the Korean government.

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 were launched through a joint effort between SGIC, regulators, and lenders. SGIC provides guarantees for the product so that retail borrowers with low to mid-range credit scores can access credit at lower interest rates.

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.

## 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

- Insurance Industry And Country Risk Assessment: Korea Property/Casualty, June 30, 2020
- Republic of Korea 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 21, 2020
- Seoul Guarantee Insurance Co., Oct 30, 2019
- Seoul Guarantee Insurance Co. 'A+' Ratings Affirmed; Outlook Stable, Aug 23, 2019

## Appendix

Seoul Guarantee Insurance Co.--Credit Metric History					
(Bil. KRW)	2019	2018	2017	2016	2015
Total invested assets	6,851.7	6,721.3	6,267.3	5,998.8	5,632.6
Total shareholder equity	4,472.0	4,179.9	3,950.9	3,900.8	3,655.1
Gross premium written	1,887.7	1,984.0	1,767.1	1,524.2	1,443.0
Net premium written	1,622.9	1,770.9	1,608.9	1,386.8	1,318.8
Net premium earned	1,645.2	1,601.7	1,468.4	1,376.4	1,274.8
Reinsurance utilization (%)	14.0	10.7	9.0	9.0	8.6
EBIT	563.9	599.9	625.4	819.6	684.8
Net income (attributable to all shareholders)	431.6	443.6	460.0	614.3	511.3

KRW--Korean won.

**Business And Financial Risk Matrix**

<b>Business risk profile</b>	<b>Financial risk profile</b>							
	Excellent	Very Strong	Strong	<b>Satisfactory</b>	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+
<b>Strong</b>	aa-/a+	a+/a	a/a-	<b>a-/bbb+</b>	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 October 30, 2020)\*****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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