

FITCH AFFIRMS SEOUL GUARANTEE INSURANCE'S IFS AT 'AA-'/STABLE

Fitch Ratings-Singapore/Hong Kong-27 February 2018: 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 affirmation reflects Fitch's view that there is expected support from SGI's 93.85% parent, Korea Deposit Insurance Corporation (KDIC) - a government agency - 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 supportive ownership. The company has also maintained its well-established market position in the specialised local credit and guarantee insurance market, very strong capitalisation commensurate with its business profile and strong financial performance.

The Stable Outlook reflects Fitch's expectation that SGI will maintain its financial fundamentals. This is supported by its prudent underwriting approach, which places a strong emphasis on bottom-line profitability as opposed to top-line growth.

SGI has a strongly entrenched market position in South Korea's guarantee and credit insurance market, with a market share of 23% at end-June 2017 based on risk exposure. Its market share has been above 20% for the previous three years. SGI's regulatory risk-based capital ratio was 433% at end-September 2017, in excess of the 100% regulatory minimum. Its capitalisation, as measured by Fitch's Prism Factor-Based Capital Model (FBM), was 'Very Strong' in 2016. Fitch expects SGI's FBM result for 2017 to remain at similar level.

Net income amounted to KRW381 billion in 3Q17 and its ROAE was 13% on an annualised basis (2016: 10%). The financial leverage ratio amounted to less than 5% at end-June 2017, well within the tolerance levels for SGI's rating.

These positive factors are counterbalanced by the inherent business risks associated with a niche business that moves in tandem with economic conditions, as well as the company's limited geographical diversification. SGI sources more than 95% of its business premiums from South Korea.

RATING SENSITIVITIES

An upgrade of SGI's rating in the near-term is unlikely unless there are sustained and strong improvements in its standalone financial fundamentals. An upgrade would also require an upgrade of the sovereign rating, as SGI's Insurer Financial Strength Rating is at the same level as the South Korean sovereign (AA-/Stable).

Downgrade triggers include:

- Downgrade of the South Korean sovereign or lower government support - either by a significant cut in the government's stake in KDIC or the sale of the government's shares to a financially weaker acquirer
- Deterioration in SGI's financial fundamentals, with a combined ratio above 95% (2016: below 85%) for a prolonged period
- Its capitalisation, as measured by Fitch's FBM, falling well below the 'Very Strong' level for a prolonged period

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Additional information is available on www.fitchratings.com

Applicable Criteria

Insurance Rating Criteria (pub. 30 Nov 2017)

<https://www.fitchratings.com/site/re/905036>

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