

Research Update:

Korean Reinsurance Switzerland AG Assigned 'A' Rating; Outlook Stable

June 28, 2019

Overview

- We believe Korean Reinsurance Switzerland AG (KRSA) will play an integral role for the parent group to expand its reinsurance business in Europe.
- We expect KRSA to receive strong support from the group in operations, underwriting, reinsurance, and risk management. We view KRSA as a core subsidiary of Korean Reinsurance Co. (Korean Re).
- On June 28, 2019, S&P Global Ratings assigned its 'A' long-term issuer credit and financial strength ratings to KRSA. The ratings are equalized with the group credit profile.
- The stable outlook on KRSA reflects the outlook on Korean Re and our view that the insurer will remain a core subsidiary of the group over the next two years.

Rating Action

On June 28, 2019, S&P Global Ratings assigned its 'A' local currency long-term issuer credit and financial strength ratings to the Switzerland-based Korean Reinsurance Switzerland AG (KRSA). The outlook is stable.

Rationale

The ratings on KRSA reflects our view that the company is integral for the group's strategy to expand its business in Europe. We believe Korean Re (A/Stable/--) is strongly committed to growing its overseas business and is willing to provide long-term support to KRSA. In our view, KRSA is fully integrated with the group in terms of operational processes, underwriting practice, reinsurance arrangement, and risk management. We therefore view KRSA as a core subsidiary of Korean Re and equalize the ratings with the group credit profile of 'a'.

We expect KRSA to play a critical role in the group's international strategy and become a regional hub in Europe in the mid to long term. In our view, the establishment of KRSA will help the group facilitate customer relationship management and business growth in Europe. As a wholly owned

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entity, KRSA benefits from Korean Re's established track record of operating in the European region with almost 20 years of history. We do not regard KRSA as a startup, given that it inherits the group's expertise and clients. The European business accounted for about 15% of Korean Re's overseas business based on the premium written in 2018. The portion of Korean Re's overseas business has gradually increased to about 25% of the group's total premium written in 2018 from about 21% in 2014.

In our view, KRSA is fully integrated with the group and will receive strong support from the group despite its small capital and earnings contribution. We expect the representatives from the group to ensure alignment of operational processes and underwriting practices with the group. The risk management process is also aligned with the group's integrated risk management governance and control. The intragroup reinsurance arrangement such as quota share contract reflects the group's efficient capital management as well as risk management alignment. With two of the three board of directors coming from the group, we expect strong strategic influence from Korean Re.

KRSA's business performance will incur losses over the next year, due to initial setup expenses. KRSA will mainly focus on getting business transferred from the group over the next couple of years while growing its presence in the region over the mid to long term. The underwriting performance of Korean Re's European business had been more profitable and stable, when compared with the group's other domestic or overseas businesses. Korean Re's combined ratio for the European business has been about 85% over the past five years, lower than the group's overall combined ratio of about 99% during the period.

We expect KRSA to maintain an adequate capitalization in the context of the local regulatory requirement--backed by the group's capital support, when needed. On top of the recent US\$60million capital injection for KRSA's establishment in May 2019, additional provisions of capital are scheduled--amounting to US\$10 million for 2020 and US\$15 million for 2021. However, we view KRSA's target Swiss Solvency Test ratio of 120%-150% to be low, compared with its local peers.

Outlook

The stable outlook on KRSA reflects the outlook on Korean Re. The outlook also reflects our expectation that KRSA will remain a core subsidiary of the group over the next two years.

Downside scenario

We could downgrade KRSA if we lower the group credit profile. We could also downgrade KRSA if its importance to the group diminishes substantially due to a significant deterioration in its underwriting performance, coupled with unsuccessful business transfers from the group in the coming two years.

Upside scenario

We could upgrade KRSA if we raise the group credit profile.

Related Criteria

- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013

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- Criteria | Insurance | General: Enterprise Risk Management, May 7, 2013
- Criteria | Insurance | General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria | Financial Institutions | General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria | Financial Institutions | Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Insurance | General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

Korean Reinsurance Co., June 29, 2018

Ratings List

New Rating; CreditWatch/Outlook Action

Korean Reinsurance Switzerland AG

Issuer Credit Rating	
Local Currency	A/Stable/--
Financial Strength Rating	
Local Currency	A/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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