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Korean Reinsurance Co.

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Korean Reinsurance Co.

Anchor	a
Business Risk	**Very Strong**
Competitive position	Very strong
IICRA	Intermediate
Financial Risk	**Satisfactory**
Capital and earnings	Strong
Risk exposure	Moderately high
Funding structure	Neutral

\+

Modifiers	0
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0

=

SACP	a

\+

Support	**0**
Group support	0
Government support	0

=

A/Positive/--
Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Market leader in Korea, with a growing international presence.	Potential volatility in capital and earnings because of exposure to alternative investments or loans and exposure to natural catastrophes.
Strong capitalization to support business growth.	Higher reliance on retrocession than peers.
Relatively low capital and earnings volatility.	

Korean Reinsurance Co.'s (Korean Re) underwriting performance will be largely stable over the next two years. This is underpinned by the reinsurer's tightened underwriting guideline and reduction of underperforming insurance policies. We estimate Korean Re's combined ratio at 93%-95% during the next two years, under Korean International Financial Reporting Standard (K-IFRS) 17. The reinsurer's underwriting performance has been broadly stable in the past several years despite some catastrophe events such as typhoons and the COVID-19 pandemic.

Korean Re's moderate business growth and steady earnings will support its strong capitalization. We expect the reinsurer to continue prioritizing profitability rather than growth. Korean Re's commission arrangement associated with loss experience with local cedants and retrocession programs will also underpin its earnings stability. We anticipate Korean Re to prioritize stable management of its equity-like reserves, such as contractual service margin (CSM), after implementing K-IFRS 17 from 2023.

Korean Re will likely maintain its dominant position in the domestic reinsurance market in the next few years. The reinsurer's market position is underpinned by its distinctive competitive advantages as the only domestic reinsurer with a strong business franchise and longstanding relationship with local primary insurers. Korean Re has a market leading position in South Korea based on its diversified domestic business portfolio across commercial, long-term healthcare, life, and motor insurance. It is looking to gradually increase its international presence.

Outlook: Positive

The positive rating outlook on Korean Re and its core subsidiary Korean Reinsurance Switzerland AG (KRSA) indicates that we may raise our ratings on the reinsurers over the next 12-18 months. This reflects our view that Korean Re will sustain very strong capital adequacy, and maintain its stable operating performance and dominant position in the domestic reinsurance market while gradually expanding its international business portfolio.

Upside scenario

We could raise the ratings on Korean Re and KRSA over the next 12-18 months if Korean Re:

- demonstrates its prospective capital adequacy sustainably at the 99.95% confidence level; and
- sustains stable operating performance in line with our base case and maintains its dominant position in the domestic reinsurance market.

Downside scenario

We could revise the outlook to stable if Korean Re's:

- prospective capital adequacy weakens sustainably to below the 99.95% confidence level. This could happen due to aggressive business growth, especially in overseas markets, and underwriting and investment losses that we do not foresee in our base-case scenario;
- operating performance, as measured by the return on equity and the combined ratio, significantly weakens relative to peers'; or
- presence in the domestic reinsurance market weakens substantially.

Assumptions

- Korea's annual real GDP to grow by 2.6% in 2024 and 2.4% in 2025, after a 1.4% increase in 2023.
- Policy rate in Korea to decline to 3.25% as of end-2024 and 2.50% as of end-2025, from 3.50% as of end-2023.
- Korea's consumer inflation to decline to 2.7% in 2024 and 2.2% in 2025, from 3.6% in 2023.
- Unemployment rate to inch up to about 2.9% in 2024 and 2025, from 2.7% in 2023.

Korean Reinsurance Co.--Key metrics

(Bil. KRW)	2021a	2022a	2023a	2024f	2025f
S&P Global Ratings capital adequacy*	BBB	99.80%	99.95%	99.95%	99.95%
Insurance revenue	N/A	N/A	5,168	4,800-5,100	4,800-5,100
Gross premiums written	8,374	9,724	N/A	N/A	N/A

Korean Reinsurance Co.--Key metrics (cont.)					
(Bil. KRW)	**2021a**	**2022a**	**2023a**	**2024f**	**2025f**
Net income	178	175	284	210-250	210-250
Return on equity (%)	7.1	6.4	9.5	6.5-7.5	6.5-7.5
Net investment yield (%)	3.5	3.3	3.4	3.2-3.6	3.2-3.6
P/C: net combined ratio† (%)	101.4	100.7	94.3	93.0-95.0	93.0-95.0
Return on revenue (%)	2.7	2.9	6.8	5.5-6.5	5.5-6.5
Financial leverage‡ (%)	9.0	19.3	24.8	22.0-26.0	22.0-26.0
EBITDA fixed-charge coverage§ (x)	21.6	11.7	9.1	9.0-10.0	9.0-10.0

Data in 2023 and forecasts are based on Korean International Financial Reporting Standards (K-IFRS) 17 consolidated financials, and data prior to 2023 is based on K-IFRS 4 stand-alone financials. *S&P Global Ratings Capital adequacy refers to the relevant confidence level at a point in time. ‡Including pension deficit as debt. †Net combined ratio under IFRS17 is 'insurance service expenses net of reinsurance revenues' divided by 'insurance revenues net of reinsurance expenses'. §Based on EBITDA including net (un)realized investment gains/(losses). KRW--Korean won. a--Actual. f--Forecast. N/A-- Not available.

Business Risk Profile: Very Strong

Korean Re's dominant market position in South Korea with a long operating history and strong ties with local primary insurers underpin its competitive position. As the only domestic reinsurer in Korea, the company maintained a market share of approximately 50% in Korea's property and casualty (P/C) segment in terms of gross premiums written (GPW) over the past several years.

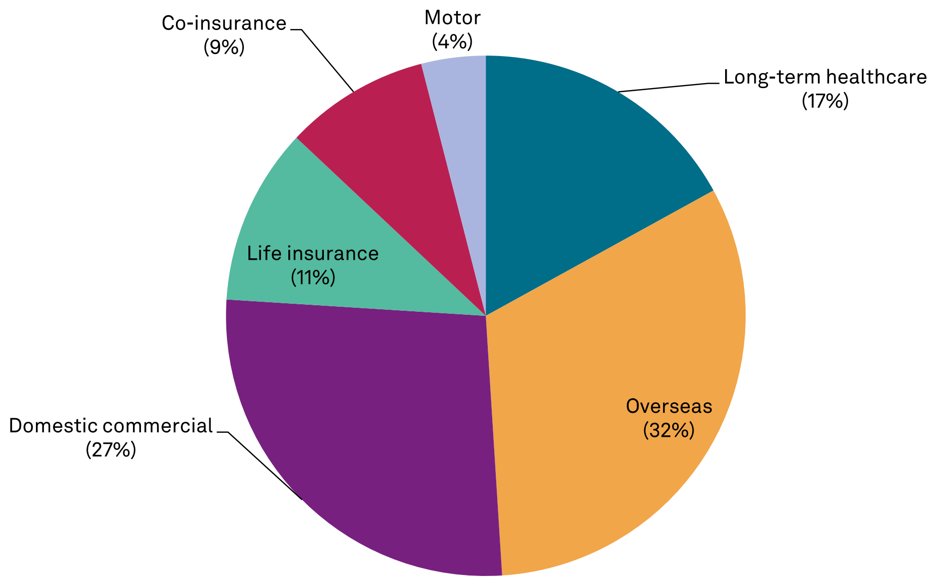
Continuing growth in Korean Re's overseas reinsurance portfolio would also provide some diversification benefits. As one of the major reinsurers in Asia, Korean Re has operations in Hong Kong, Singapore, Japan, and China. The company also established a subsidiary in Switzerland, Korean Reinsurance Switzerland AG (KRSA), in 2019 and set up operations in Colombia and the U.S. in the past few years to gradually expand its global footprint. Korean Re's overseas business portfolio accounted for about 32% of total GPW in 2023.

We anticipate Korean Re's overseas business will grow at a modestly higher pace than its matured domestic business. The expansion will not materially affect its overall intermediate industry and country risk profile over the next two years. In addition, Korean Re is growing its co-insurance business with domestic life insurers and the expansion will likely be gradual, in our view.

Chart 1

Korean Re has a diversified business portfolio

Portfolio breakdown in terms of gross premium written in 2023



Sources: Company data. Overseas is composed of property and engineering, life, casualty, motor, marine and other business lines.

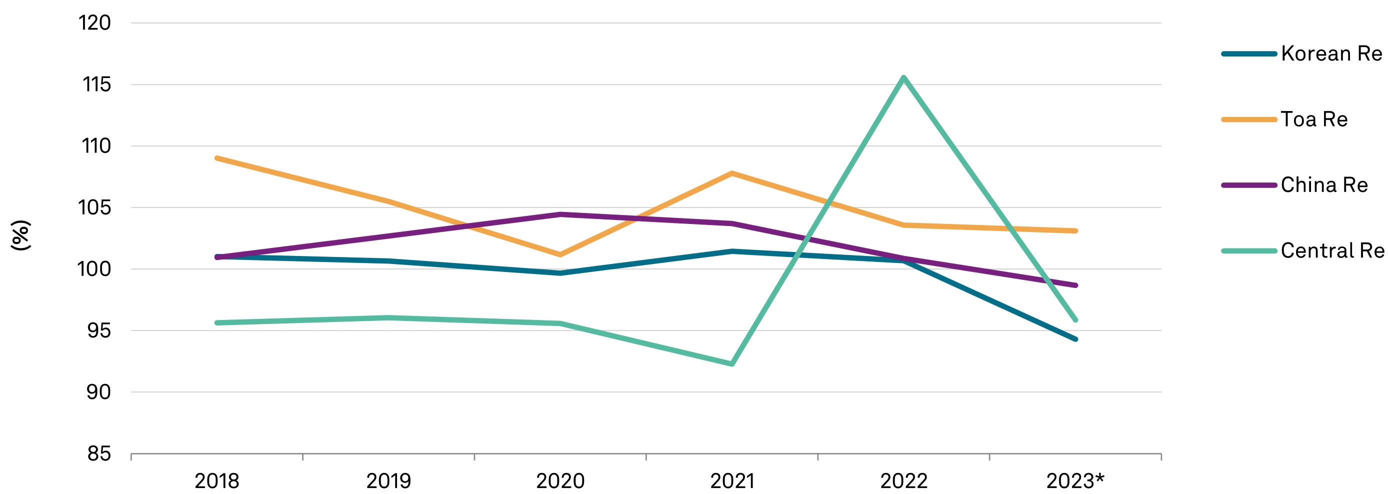
Korean Re's tightened underwriting standards and sliding-scale commission arrangement with local cedants will keep its underwriting performance largely stable. The reinsurer has been steadily reducing underperforming reinsurance accounts in domestic personal accident and long-term health reinsurance business portfolios in the past few years.

We forecast Korean Re's combined ratio will stay broadly stable at 93%-95% over the next two years under K-IFRS 17. Korean Re has demonstrated relative stability in terms of underwriting performance compared with the average of the regional peers', in our view. The reinsurer's combined ratio under K-IFRS 17 was 94.3% in 2023, measured as net insurance expense divided by net insurance revenue. This compares with the combined ratio under K-IFRS 4 of about 100.7% in 2022, calculated as the ratio of costs and claims to premiums. We attribute the gap to the exclusion of savings premiums and reserves and indirect expenses from insurance service results and the discount on reserves under K-IFRS 17.

Korean Re's reinsurance utilization of about 22% in 2023 was higher than that of regional peers'. This reflects the retrocession cover for its domestic commercial and overseas businesses, and supports its earnings stability. However, we believe the reinsurer's capacity to manage risks could be tested if retrocession costs substantially increase or reinsurance utilization significantly declines.

Chart 2

Korean Re's combined ratio to stay largely stable
Net combined ratio trends of Asia-Pacific reinsurers



Note: Korean Re's 2023 combined ratio is based on K-IFRS 17 and data for prior years are based on IFRS 4. Central Re's combined ratio increased in 2022 mainly due to COVID-related policy claims. Sources: Company data, S&P Global Ratings.

Financial Risk Profile: Satisfactory

We believe Korean Re will likely sustain capital adequacy above the 99.95% confidence level over the next two years, thanks to moderate business growth and largely stable financial performances. This follows an improvement in its capital adequacy based on our risk-based capital model reflecting enhanced visibility on the reinsurer's future profits under K-IFRS 17.

In our base case, we project Korean Re's insurance revenue to grow by about 2% annually in the coming years, following a moderate contraction in 2024. The reinsurer will continue to focus on improving its portfolio mix and reducing underperforming reinsurance accounts, in our view. Korean Re will also continue to gradually grow its co-insurance business with domestic life insurers where it undertakes insurance risk and interest rate risk. Korean Re received a co-insurance contract from Samsung Life Insurance Co. Ltd., worth about Korean won (KRW) 700 billion in 2023. This accounted for about 8% of total liabilities at end-2023.

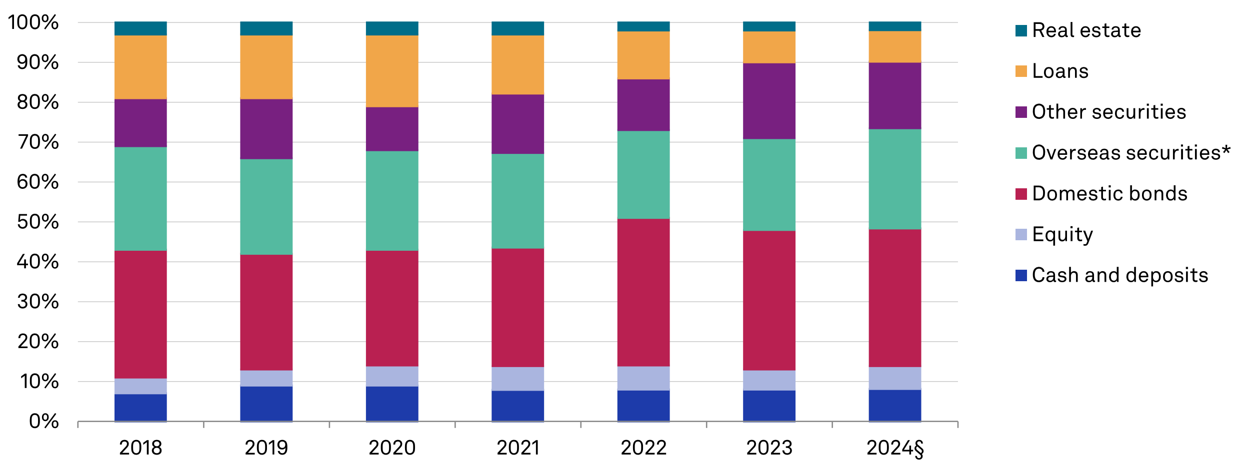
We forecast that Korean Re will maintain a stable dividend payout policy, with payouts at about 30% of net profits in the next two years. The reinsurer's regulatory solvency ratio, based on the new regulatory capital framework, Korean Insurance Capital Standard (K-ICS), was about 181% as of end-March 2024. This was well above the minimum regulatory requirement of 100%.

Korean Re will likely prioritize stable management of its equity-like reserves, such as CSM. The reinsurer reported a decline in CSM balance by about 25% at end-2023 from a year ago, mainly due to changes in reserving assumptions following regulatory guidelines. We expect the magnitude of additional adjustments to CSM will likely reduce gradually over the next one to two years, as the reinsurer continues to strengthen and review its reserving assumptions. That said, any sizable or unexpected adjustments to CSM, possibly stemming from negative experience variance or changes in actuarial assumptions, could put burden on the reinsurer's capitalization.

Korean Re's investment portfolio is diversified but still susceptible to credit and market risks when compared with global peers. This is because it has higher allocation to loans and securities with alternative investment features, which accounted for about 25% of total invested assets as of end-March 2024.

Chart 3

Korean Re has a diversified investment portfolio



*Majority of overseas securities are comprised of bonds. §2024 data is as of end-March. Source: Financial Statistics Information System, S&P Global Ratings.

Korean Re is also exposed to natural catastrophe risk, although its exposure is lower than that of global reinsurance peers, considering its sound reinsurance protection, in our view. Its exposure to natural catastrophe events could gradually increase owing to its growing international presence.

We expect Korean Re to maintain sufficient earnings capacity to cover interest payments on its outstanding hybrid capital instruments. It has a total of about KRW808 billion of outstanding hybrid capital instruments, or about 25% of shareholders' equity, as of end-June 2024. We view these instruments as having intermediate equity content.

Korean Re has an established risk management framework and control system. The reinsurer manages its key risks using both qualitative and quantitative approaches. The risk appetite is determined based on the solvency ratio, risk-adjusted return, growth exposure, and liquidity. Korean Re manages its catastrophe risk exposure with its capital buffer and enforces that each department abides by the concentration limit.

Other Key Credit Considerations

Governance

Korean Re has a good ability to adjust and control the execution of its strategies. Throughout past business cycles, the reinsurer set strategic targets that considered market conditions and were consistent with its capabilities. The management team and board of directors have professional and independent members who effectively oversee business operations. They emphasize the role of risk management in the strategy, evolving the risk management culture across the company.

Liquidity

In our view, Korean Re has adequate liquid assets to meet immediate payment requirements arising from unexpected large claims. We expect the reinsurer to conduct regular stress tests to manage its liquidity. However, Korean Re's investments in loans and securities with alternative investment features assets would be less liquid than highly rated bonds.

Environmental, social, and governance

Given the nature of reinsurance business, Korean Re is exposed to some natural catastrophes. However, the company's effective use of retrocession mitigates such risks, in our view. Korean Re has set up an ESG committee within the board of directors in March 2022, which drives the company's ESG initiatives and ensures sustainable growth and development. We believe social and governance risk factors are largely in line with the overall insurance industry in Korea.

Accounting considerations

We base our analysis primarily on audited financial data prepared in accordance with Korean International Financial Reporting Standards.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Economic Outlook Asia-Pacific Q3 2024: Exporters And EMs Are Outperforming, June 24, 2024

- Korea 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 30, 2024
- Korean Reinsurance Co. And Subsidiary Outlooks Revised To Positive On Revised Capital Model Criteria; Ratings Affirmed, Feb. 28, 2024
- Insurance Industry And Country Risk Assessment: Korea Property/Casualty, Dec. 19, 2023
- Korean Insurers And IFRS 17: Jury's Out If Increased Capital Is Here To Stay, Sept. 22, 2023

Business And Financial Risk Matrix

Business risk profile	**Financial risk profile**							
	Excellent	Very Strong	Strong	**Satisfactory**	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+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	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 August 26, 2024)*

Operating Company Covered By This Report	
Korean Reinsurance Co.	
Financial Strength Rating	
Local Currency	A/Positive/--
Issuer Credit Rating	A/Positive/--
Related Entities	
Korean Reinsurance Switzerland AG	
Financial Strength Rating	
Local Currency	A/Positive/--
Issuer Credit Rating	
Local Currency	A/Positive/--
Domicile	Korea, Republic of

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.