S&P Global
Ratings

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DB Insurance Co. Ltd.

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DB Insurance Co. Ltd.

SACP* Assessments				SACP*		Support		Ratings
Anchor	a	+ Modifiers	0	= a		+ 0		= Financial Strength Rating
Business Risk		ERM and Management	0	Liquidity	0	Group Support	0	A/Stable/--
Very Strong								
Financial Risk		Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	
Upper Adequate								

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Major Rating Factors

Strengths	Weaknesses
• Strong business franchise as the third-largest P&C insurer in Korea in terms of direct premiums written. • Stable revenue contribution from controlled distribution channels. • Good earnings buffer to cover interest on debt obligations.	• Sensitivity to investment volatility due to large exposure to loans or securities with alternative investment features. • Relatively low capitalization when compared with other 'A' rated insurers, although improving.

Rationale

The rating on DB Insurance Co. Ltd. (DBI) reflects our view of the company's strong business presence in Korea's property/casualty (P&C) insurance market. The insurer is likely to generate stable revenues backed by its well established reputation and distribution network. That said, DBI is sensitive to investment volatility due to its large exposure to loans or securities with alternative investment features. While DBI has lower capitalization than other 'A'-rated insurers, the company's capitalization has improved due to its stronger profit generation with proactive underwriting risk controls.

Outlook: Stable

The stable outlook reflects our view that DBI will sustain its robust business presence in Korea's P&C insurance market and sound capitalization over the next one to two years. We believe DBI's prudent underwriting philosophy, shift toward protection products, and investment strategy that focuses on long-term high quality bonds will support its capitalization.

Downside scenario

We may lower the rating if DBI's earnings weaken substantially below our base-case assumptions, preventing the company from sustaining capital at a level consistent with the current rating over the next one to two years. This could result from unexpected losses from insurance operations, or an aggressive investment strategy for loans or alternative investment securities. A substantial deterioration of the capital position of DBI's life insurance subsidiary, DB Life Insurance Co. Ltd. (DBL) could also pressure DBI's overall capitalization; but we view this as unlikely in the next one to two years.

Upside scenario

Although it is unlikely, we may upgrade DBI if stronger earnings than we expect and a prudent investment strategy significantly enhance the capitalization of both DBI and DBL over the next two years while the companies continue to maintain an adequate risk profile.

Macroeconomic Assumptions

- Policy rates in Korea will increase to 2.0% by 2019 from the current 1.5%.
- Korea's annual real GDP growth will be 2.7% in 2018 and 2.6% in 2019.

Key Metrics

Key Metrics

(KRW in billions)	2015A	2016A	2017A	2018F	2019F
Gross premiums written	11,447.4	12,006.4	12,255.6	12,500-12,700	12,750-12,850
Net income	412.7	470.2	622.0	590-630	620-660
EBITDA fixed-charge coverage (x)	145.6	233.4	33.4	27-30	28-31
Financial leverage (%)	0.0	0.0	5.0	4-7	4-7
Return on equity (%)	11.7	12.3	14.8	13.5-15.5	13.5-15.5
S&P capital adequacy	Lower Adequate	Lower Adequate	Upper Adequate	Upper Adequate	Upper Adequate
Net investment yield (%)	3.6	3.3	3.2	3.0-3.4	3.0-3.4
Net combined ratio (%)	103.6	102.8	101.5	100.5-102.5	100.5-102.5
Return on revenue (%)	3.9	4.5	6.2	5-7	5-7

KRW--Korean won. A--Actual. F--Forecast. Forecast data represent S&P Global Ratings' base-case assumptions.

Business Risk Profile: Very Strong

We expect DBI to maintain its very strong competitive position underpinned by its well established franchise, good revenue contributions from controlled channels, and stable operating performance. We expect DBI to remain the third-largest insurer in the Korean P&C market. It had an about 16% market share of direct premiums in 2017. DBI has business operations across long-term, auto, and commercial lines in the domestic insurance market.

We expect DBI to continue to generate over half of its premium income through its controlled distribution networks amid intensifying competition. We believe DBI's operating efficiency, which we measure using the expense ratio, is high compared with that of its major domestic peers due to its solid sales force and tighter cost controls.

We expect DBI's proactive pricing adjustments for auto and loss-making medical indemnity policies to improve its underwriting performance. This will likely offset some pressure on the expense ratio stemming from intensifying competition. DBI's loss ratio has steadily improved to about 82% in 2017, from about 87% in 2014. This ratio is lower than that of DBI's major P&C insurance peers in Korea.

We anticipate moderate business growth for DBI as it focuses on protection policies and reducing savings policies. This comes amid the insurer's preparation for IFRS 17, under which liabilities will be marked to market.

Financial Risk Profile: Upper Adequate

We believe DBI's consolidated capital adequacy including DBL, as measured by S&P Global Ratings' capital model, will improve and sustain at a sound level over the next two years. In our view, the better value generation of protection policies will benefit the company's capital and earnings. We expect DBI's stable dividend payout ratio of around 25% to also support its capitalization. DBI's consolidated regulatory risk-based capital (RBC) ratio was 202% as of Dec. 31, 2017, well above the regulatory requirement of 100%.

We expect DBL's capital and earnings to be stable, albeit weaker than DBI's. We anticipate that DBL will focus more on protection policies such as whole life insurance products. The company has limited exposure to legacy high-yield fixed rate savings policies unlike major life insurers. DBL is 99.8% owned by DBI, and accounts for about 22% of its consolidated assets and 13% of equity as of Dec. 31, 2017.

DBI is likely to remain sensitive to investment volatility due to its large exposure to loans or securities with alternative investment features. We estimate that the company's loans (excluding policyholder loans) or securities with alternative investment features account for about 40% of total invested assets as of Dec. 31, 2017. We expect DBI to implement a prudent investment strategy that focuses on long-term high quality bonds and not take significant credit risks.

In our view, DBI has adequate financial flexibility, largely reflecting its ability to access capital markets and its modest debt position. The insurer has a well recognized P&C insurance brand in capital markets and therefore has no significant refinancing concerns. We expect DBI to maintain a healthy interest coverage and low financial leverage over the next two years.

Other Assessments

We believe that DBI has an established risk control system to deal with major risk factors. In our view, the insurer's enterprise risk management will continue to evolve, given its plan to internally develop a more integrated and strategic risk management system, as well as Korea's developing regulatory requirements along with the IFRS17 implementation from 2021. We expect DBI and DBL to more closely align their risk management framework to regulatory developments. We anticipate that DBI will take a consolidated approach to reviewing its regulatory solvency including DBL. The group is designated as one of seven financial conglomerates that will be required to have their comprehensive risk management monitored across all related companies.

We believe DBI's well-experienced top management has a record of prudent strategic planning and strong execution skills. Throughout past business cycles, management has shown that it sets strategic targets that take into account market conditions and are consistent with its capabilities. DBI's stable operating performance and capitalization prove that its management and governance is functioning well.

We regard DBI's liquidity as strong because of the availability of solid liquidity sources and a good-quality asset portfolio. Nevertheless, the liquidity ratio, as our criteria define it, is lower than that of major domestic peers because DBI invests a relatively larger share of its portfolio in loans or securities with alternative investment features. We expect DBI's liquidity profile to stay stable considering the company's continuing focus on good quality fixed-income investments in the coming years.

Rating Score Snapshot

Financial Strength Rating	**A/Stable/--**
BRP/FRP Anchor	a
Business Risk Profile	Very Strong
IICRA*	Intermediate Risk
Competitive Position	Very Strong
Financial Risk Profile	Upper Adequate
Capital & Earnings	Upper Adequate
Risk Position	Intermediate Risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management & Governance	Satisfactory
Holistic Analysis	0
Liquidity	Strong
Support	0
Group Support	0
Government Support	0

*Insurance Industry And Country Risk Assessment.

Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- 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
- 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

- Credit FAQ: How Will IFRS 17 Affect The Credit Quality Of Insurers?, Jun 5, 2018
- Insurance Industry And Country Risk Assessment: Korea Life, Oct. 11, 2017
- Insurance Industry And Country Risk Assessment: Korea Property/Casualty, Aug. 1, 2017

Ratings Detail (As Of July 26, 2018)	
Operating Company Covered By This Report	
DB Insurance Co. Ltd.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
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.