S&P Global
Ratings

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DB Insurance Co. Ltd.

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Table Of Contents

DB Insurance Co. Ltd.

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

+

Modifiers	0
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0

=

SACP	a

+

Support	0
Group support	0
Government support	0

=

A/Stable/--

Financial strength rating

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

Credit Highlights

Overview	
Key strengths	**Key risks**
Strong business franchise as the third-largest property and casualty (P/C) insurer in Korea in terms of gross premiums written.	Potential investment volatility due to large exposure to loans or securities with alternative investment features.
Stable revenue contribution from controlled distribution channels.	Relatively weak capitalization of life insurance subsidiary.
Satisfactory capitalization to support business growth.	

DB Insurance Co. Ltd.'s (DBI)s continuing efforts to enhance pricing adequacy will support its financial performance. We anticipate the insurer's profitability will remain broadly stable after an improvement in 2020 and 2021. Premium hikes for loss-making medical indemnity insurance policies and cost control will underpin underwriting performance. This will largely offset a likely modest rise in auto loss ratios due to higher traffic volume amid an economic recovery. A rise in interest rates will also support investment returns.

Moderate business growth prospects and broadly stable investment asset allocation to underpin capitalization. We expect DBI's premium growth to slow down to about 4% per year over the next few years, mainly driven by slower growth in auto and commercial insurance as premium hikes have been mostly reflected up to 2021. The insurer will likely continue to focus on long-term protection-type policies while reducing long-term savings products. Loans or securities with alternative-investment features account for about one-third of DBI's invested assets as of end-2020. While these could increase investment volatility, we expect the insurer's adequate credit risk control to moderate potential investment volatility.

DBI's life insurance subsidiary has a weaker credit profile. DB Life Insurance Co. Ltd. (DBL) has a modest business presence and weaker capitalization than the parent. That said, DBL's efforts to limit the sale of high-guarantee policies and its small size relative to the P/C insurance business temper potential capital pressure on the parent, in our view.

Outlook: Stable

The stable outlook reflects our view that DBI will maintain its very strong competitive position in Korea's insurance market and sound capitalization over the next 18-24 months. 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 consolidated capital position, which includes DBL, deteriorates significantly. This could result from an aggressive investment strategy for loans or alternative investment securities, or a substantially weaker underwriting performance.

Upside scenario

Although it is unlikely, we may upgrade DBI if the insurer delivers strong and sustainable earnings with a prudent investment strategy that lead to a significant improvement in its capitalization over the next 18-24 months.

Key Assumptions

- Korea's annual real GDP will grow by 4.0% in 2021 and 2.8% in 2022 after a 0.9% contraction in 2020.
- Policy rates in Korea will increase to 1.00% by the end of 2021 and to 1.50% by the end of 2022. The policy rate currently stands at 0.75%.
- Unemployment rate to decrease to about 3.7% in 2021 and to 3.1% in 2022. This compares with about 4.0% in 2020.

DB Insurance Co. Ltd.--Key Metrics

	--Fiscal year ended--				
(Bil. KRW)	**2018a**	**2019a**	**2020**	**2021f**	**2022f**
Gross premiums written	12,332	12,941	13,952	14,500-15,500	15,000-16,000
Net income	515	373	502	580-680	600-700
EBITDA fixed-charge coverage* (x)	38	14	27	36-42	40-50
Financial leverage (%)	9	8	8	6-8	5.5-7.5
Return on equity (%)	11.0	7.0	8.5	9-11	9-11
S&P capital adequacy	**Satisfactory**				
Net investment yield (%)	3.2	3.2	2.9	2.9-3.2	2.9-3.2
Net combined ratio (%)	103	107	105	102-104	102-104
Return on revenue (%)	5.4	2.0	3.7	4.5-5.5	4.8-5.8

Note: Key metrics based on standalone financials. *Including net (un)realized gain/(loss) on investment. KRW--Korean won. a--Actual. f--Forecast.

Business Risk Profile: Very Strong

DBI is likely to maintain its very strong business presence in Korea's domestic insurance market. DBI is the third-largest P&C insurer in Korea. It accounted for about 16% of the sector's gross premiums written in 2020. DBI has a diverse business portfolio across long-term health and savings (62% of direct premiums written in 2020), auto (29%), and commercial lines (9%). The insurer also has a modest business presence to life insurance market through DBL, which is 99.4% controlled by DBI and accounts for about 20% of consolidated assets and 11% of equity as of June 30, 2021. DBL has about 2% market share in terms of gross premiums written in 2020.

DBI's well-established franchise and extensive controlled distribution network underpin its earnings stability, in our view. The insurer generates more than half of its premium income through controlled distribution channels. We expect this trend to continue for at least the next two years. DBI's operating efficiency, which we measure using the expense ratio, has been better than that of its major domestic peers, mainly due to its tighter cost controls and solid sales force. That said, DBI's concentrated exposure to Korea limits its geographical diversity, in our opinion.

While DBI predominantly operates in Korea, a market that we assess as having intermediate P&C insurance and country risk, we anticipate the insurer will gradually expand its overseas business. DBI has a presence in the U.S., China, Indonesia, and Myanmar through its branches or representative offices. It also has joint ventures in China and Vietnam. That said, the business contribution from these overseas businesses is fairly small.

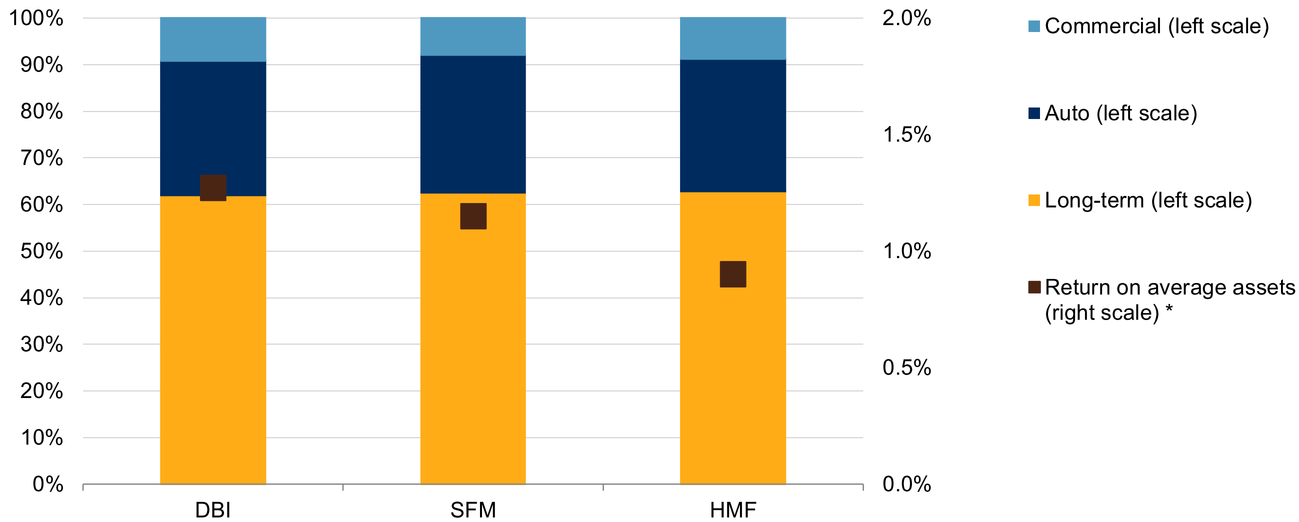
We expect DBI's operating performance to remain broadly stable over the next two years, after improvements in 2020 and 2021. We believe the insurer will continue to enhance pricing adequacy of medical indemnity insurance policies--which account for about one-third of its long-term risk premiums--and sustain efficient cost control. These factors should offset a likely modest increase in auto loss ratios as traffic volume increase along with a recovery in economic activity. In addition, rising interest rates will enhance DBI's investment returns.

We forecast DBI's combined ratio will stay at 102%-104% over the next two years, compared with about 104.7% in 2020 and 107.2% in 2019. The insurer's average combined ratio was about 103.8% over the past five years, better than the industry average of about 107.6%. DBI's combined ratio further improved to about 101.5% in the first half of 2021.

Chart 1

DBI's Business Mix Is Diversified

Direct premiums written by business line and return on average assets



Note: Long-term includes healthcare, accident, disease, property, and driver's insurance. Premium breakdown data as of 2020. Peers are Samsung Fire & Marine Co. Ltd. (SFM) and Hyundai Marine & Fire Insurance Co. Ltd. (HMF). *Return on average assets is based on the average of past five years. Source: Company data, S&P Global Ratings.

Financial Risk Profile: Satisfactory

We believe DBI's consolidated capital adequacy (including DBL) will remain satisfactory to support moderate business growth over the next two years. We expect the insurer to maintain relatively higher profitability on its P/C insurance operations compared with domestic industry average. This is due to its adequate underwriting strategy and strong distribution channels with tight expense control.

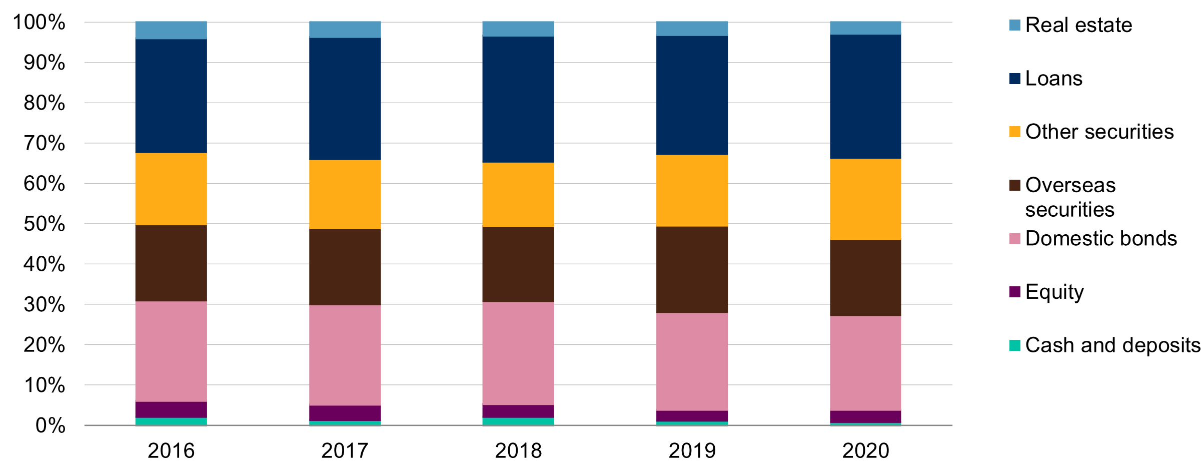
DBI's life insurance business has a weaker capital position than that of its P/C insurance business. However, DBL's size is relatively small and it will not add significant capital pressure on the parent, in our view. The standalone regulatory solvency ratios of DBI and DBL were about 211% and 162%, respectively, as of June 30, 2021, well above the minimum requirement of 100%.

In our base-case assumptions, we project DBI's net premiums earned will grow by about 4% annually from 2022, after growth of about 8% in 2021. DBI's efforts to strengthen its presence in the online auto insurance market and premium hikes in the past two years supported premium growth in 2020 and 2021. We anticipate DBI's return on average assets (ROAA) on its P/C insurance operations will stay at about 1.3% over the next two years, compared with an average of about 1.1% in the past three years. We project the insurer will maintain its dividend payouts at about 25% of net income annually over the next two years.

DBL's profitability will remain weaker than that of DBI despite our expectation for a moderate improvement amid rising interest rates. DBL's ROAA in the past three years was about 0.2%. A mitigating factor is that DBL has limited exposure to legacy high-yield fixed-rate savings policies, unlike major life insurers.

Chart 2

DBI's Investment Asset Allocation In Loans And Alternative Investments Is Gradually Increasing



Most overseas securities are bonds. Source: Financial Statistics Information System, S&P Global Ratings.

We expect DBI to focus on long-term high-quality bonds to manage credit and interest rate risk. The insurer has a good record of risk control to moderate investment volatility. This is despite its large exposure to loans and securities with alternative investment features. Such investments accounted for about 35% of total invested assets as of end-2020.

DBI has an established risk control system to deal with major risk factors. We expect the insurer's risk management framework to continue to evolve, given its plans to internally develop a more integrated and strategic risk management system, as well as Korea's developing regulatory requirements along with the implementation of International Financial Reporting Standards 17 and the new capital framework of Korean-Insurance Capital Standard (K-ICS) from January 2023.

We expect DBI to maintain low financial leverage and sufficient earnings capacity to cover interest payments. The insurer has good access to capital markets, which mitigates any significant refinancing concerns, in our opinion.

Other Key Credit Considerations

Governance

DBI's experienced top management has a record of adequate strategic planning and strong execution skills, in our view. Throughout business cycles, management has set strategic targets that consider market conditions and are consistent with its capabilities. DBI's largely stable operating performance and capitalization compared with the industry peer average prove that its management and governance are functioning well.

Liquidity

We regard DBI's liquidity as adequate, supported by the insurer's access to solid liquidity sources and its good-quality asset portfolio. In our view, DBI holds adequate liquid assets to meet immediate payment requirements potentially arising from unexpectedly large claims.

Appendix

DB Insurance Co. Ltd.--Credit Metrics History

Ratio/Metric	2016	2017	2018	2019	2020
S&P Global Ratings' capital adequacy			Satisfactory		
Total invested assets (Bil. KRW)	30,885	33,999	36,711	40,411	43,502
Total shareholder equity (Bil. KRW)	3,964	4,415	4,911	5,721	6,064
Gross premiums written (Bil. KRW)	12,006	12,256	12,332	12,941	13,952
Net premiums written (Bil. KRW)	11,312	11,565	11,625	12,115	13,035
Net premiums earned (Bil. KRW)	11,103	11,441	11,592	11,871	12,670
Reinsurance utilization (%)	6	6	6	6	7
EBIT (Bil. KRW)	622	840	730	525	698
Net income (attributable to all shareholders) (Bil. KRW)	470	622	515	373	502
Return on revenue (%)	4.5	6.1	5.4	2.0	3.7
Return on shareholders' equity (reported) (%)	12.3	14.8	11.0	7.0	8.5
P/C: Net combined ratio (%)	102.8	101.5	102.8	107.2	104.7
P/C: Net expense ratio (%)	18.2	19.2	19.5	20.9	20.8
Net investment yield (%)	3.3	3.2	3.2	3.2	2.9

Note: Key metrics based on stand-alone financials. P/C--Property and casualty. KRW--Korean won.

Related Criteria

- 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
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Insurance Industry And Country Risk Assessment: Korea Property/Casualty, Oct. 25, 2021.
- Insurance Industry And Country Risk Assessment: Korea Life, Oct. 25, 2021.
- Korea 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 28, 2021.

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 November 18, 2021)*

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.