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Research Update:

Hyundai Marine & Fire Insurance Co. Upgraded To 'A-' After Insurance Criteria Change; Outlook Stable

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Research Update:

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Overview

- Following a review under our revised insurance criteria, we are raising our ratings on Hyundai Marine & Fire Insurance Co. to 'A-'.
- The ratings on the insurer predominantly reflect our view of the insurer's very strong business risk profile and lower adequate financial risk profiles, based on its strong market position in Korea and lower adequate capital and earnings.
- The stable outlook reflects our view that the insurer will maintain its competitive position and capitalization at their current levels through 2015.

Rating Action

On June 26, 2013, Standard & Poor's Ratings Services raised its insurer financial strength and counterparty credit ratings on Korea-based property and casualty (P&C) insurer Hyundai Marine & Fire to 'A-'. The outlook is stable.

Rationale

The ratings reflect our view of Hyundai Marine & Fire's very strong business risk profile (BRP) and lower adequate financial risk profile (FRP), reflecting its very strong competitive position and lower adequate capital and earnings. We derive our 'a-' anchor for the company from the combination of the BRP and FRP assessments.

Overall, Hyundai Marine & Fire faces low industry and country risk because most of its businesses are in Korea's P&C market, which we assess as having low industry and country risk. This assessment will remain during 2013-2015 in light of the insurer's strategic focus on the Korean P&C market. Although the insurer has overseas operations, their revenue contributions are very limited and will remain small, in our view. At the same time, we see structural challenges in Korea's P&C market. We view the prolonged low interest-rate environment as a key challenge for insurers, as it will squeeze margins on long-term products and lower overall profitability. However, negative margins are unlikely to plague insurers in the near to medium term.

Hyundai Marine & Fire has a very strong competitive position in our view, largely reflecting its strong market position. The very strong competitive

position is also underpinned by its well-established franchise, good revenue contributions from controlled channels, stable operating performance, and diversified revenue sources. The insurer is the second-largest player in the Korean P&C market, with approximately 17% share in terms of direct premiums. This strong position stems from its well-known brand and well-managed distribution channel. It has successfully translated its strong market position into operating performance. The insurer's operating performance has improved to the level of its peers', thanks to stronger growth in the long-term protection business (risk business) than them. It recently saw strong growth in the protection-type long-term business, which has strengthened its profit base in both underwriting and investments. Despite unfavorable market conditions (prolonged strong competition and tightening of regulations), we assume in our base case that the company can achieve approximately 10% revenue growth annually during 2013-2015.

Hyundai Marine & Fire reports lower adequate capital and earnings, which we anticipate will continue in our base case. Its earnings prospects are likely to remain stable despite the unfavorable market environment. This should allow the insurer to maintain its capital at a level slightly below our benchmark for the 'BBB' rating category, which we consider modest compared to its peers in the same rating category.

In our base case, we assume Hyundai Marine & Fire will post annual net income of Korean won (KRW) 370 billion on average for 2013-2015, compared with approximately KRW250 billion on average over the past three years. We believe return on revenue will fall due largely to the low interest-rate environment. However, we believe the insurer's bottom line will grow. Favorable growth in its long-term business in-force will support continuous asset growth, and that should enable the insurer to increase its operating income.

In our view, Hyundai Marine & Fire's risk position reflects intermediate risk, supported by its satisfactory investment leverage and diversification. The insurer's relatively low capital and earnings volatility is another supportive factor to our assessment. It has a prudent investment policy and relatively small exposures to equity investments compared to its peers. The insurer also has good-quality and diversified fixed-income securities, in our view. Its capitalization is modest, but it has showed limited volatility over the past five years. Although Korea is exposed to natural disasters (typhoons), the insurer has proven that catastrophe (CAT) events do not cause additional volatility in capital and earnings. The insurer is well protected by conservative reinsurance programs, in our view. Its interest rate spread has narrowed as interest rates continue to fall. However, with adjustable rate features in interest-bearing liabilities, a prolonged low interest-rate environment will not add significant volatility in its capital and earnings. Also, the insurer has well-managed duration mismatches. We believe the insurer's risk position will remain at the current level, based on our view that it will remain prudent in its risk management and business strategy.

In our view, Hyundai Marine & Fire has adequate financial flexibility, largely reflecting its ability to access capital markets, and a zero debt position.

The insurer has a well-recognized P&C insurance brand in capital markets and has no refinancing concerns.

We regard Hyundai Marine & Fire's enterprise risk management (ERM) and management and governance practices as consistent with the ratings. Our assessment of ERM as adequate reflects our assessment of the fully functioning risk control system that it has in place to deal with all major risk factors. The insurer identifies and monitors major risks such as insurance, interest rate, market, and credit risks under a comprehensive risk management system. Its risk governance structure also supports its risk management. However, its strategic risk management, which is the process to optimize risk-adjusted returns, does not have fully developed controls. In addition, the process to identify and prepare for emerging risk is yet to be fully developed. In our view, the insurer's ERM 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.

Hyundai Marine & Fire's management and governance is satisfactory in our opinion. The insurer has a track record of prudent strategic planning, strong execution of strategies, and well-experienced top management. Throughout past business cycles, the insurer has shown that it sets strategic targets that take into account market conditions and are consistent with its capabilities. Its improved operating performance and capitalization are proof that its management and governance is functioning well. The tightening of regulations will improve the insurer's governance, especially from a risk management perspective. In our opinion, it will remain a top player in the market leveraging its management and governance.

We regard Hyundai Marine & Fire's liquidity as strong because of the availability of solid liquidity sources and its generally good-quality asset portfolio..

Outlook

The stable outlook is based on our view that Hyundai Marine & Fire will maintain its strong market position in Korea's P&C market. We also believe that it will maintain its capital and earnings at the current level, backed by stable operating performance with continued top-line growth.

We may lower the ratings if its earnings weaken to substantially less than our base-case assumptions, preventing it from sustaining capital at a level that is consistent with the current rating during the next two years. This could result from lower interest rates or unexpected underwriting losses.

We may raise the ratings if the insurer's capitalization improves substantially due to earnings that are stronger than our expectation.

Ratings Score Snapshot

Financial Strength Rating	A-/Stable
SACP	a-
BRP/FRP Anchor	a-
Business Risk Profile	Very Strong
IICRA	Low Risk
Competitive Position	Very Strong
Financial Risk Profile	Lower Adequate
Capital & Earnings	Lower 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

Related Criteria And Research

- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Ratings List

Upgraded; CreditWatch/Outlook Action	To	From
Hyundai Marine & Fire Insurance Co. Ltd.		
Counterparty Credit Rating		
Local Currency	A-/Stable/--	BBB+/Positive/--
Financial Strength Rating		
Local Currency	A-/Stable/--	BBB+/Positive/--

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