

A.M. Best Upgrades Ratings of Korean Reinsurance Company



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HONG KONG, FEBRUARY 22, 2011

A.M. Best Co. has upgraded the financial strength rating to A (Excellent) from A- (Excellent) and issuer credit rating to "a" from "a-" of **Korean Reinsurance Company** (Korean Re) (South Korea). The outlook for both ratings has been revised to stable from positive.

The ratings reflect Korean Re's sound risk-based capitalization, consistent operating performance, its dominant market position in the Korean reinsurance industry and excellent risk management culture. Additionally, over the past five years, the company has successfully diversified its revenue source by further expanding into the overseas reinsurance markets as well as cooperatives markets in Korea.

Korean Re has maintained a stable capital position over the past five years. The five-year average compound annual growth rate of its adjusted capital and surplus (sum of capital and surplus and catastrophe reserves) was 12%, and the company's adjusted capital and surplus stood at KRW 1,274 billion (USD 1.1 billion) as of September 2010. Korean Re's risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), improved in fiscal year 2009 and is expected to improve further in fiscal year 2010. Korean Re's local solvency ratio as of September 2010 stood at 227%. Going forward, A.M. Best expects that the company's current level of risk-based capitalization will be maintained with limited volatility.

Korean Re's portfolio consists of three main groups: domestic personal business, domestic commercial business and overseas business. The domestic businesses generated stable investment income and enabled the company to grow its overseas business without showing high volatility in its bottom line. Although Korean Re's overseas business showed a high combined ratio, which exceeded 100% in fiscal years 2007 and 2008, the adjusted net income (sum of net income and accumulation of catastrophe reserves) level was maintained above KRW 100 billion for the same period. Korean Re has stabilized its overseas portfolio since fiscal year 2009 and expects to record a combined ratio in the low 90s in fiscal year 2010, which is in line with its domestic commercial business.

Partially offsetting these positive rating factors is Korean Re's strong competition in the Asian reinsurance market and the increasing premium retention in Korean direct companies.

As the sole domestic reinsurer, Korean Re has a dominant presence in the Korean reinsurance market. Although this position will not change in the foreseeable future, A.M. Best has noted that the large non-life players in the market have been increasing their premium retention in line with improvement in their capitalization.

A.M. Best also notes that with the increase in the risk loss ratio of the long-term business, Korean Re is currently exposed to higher risk and may incur higher underwriting losses from this line of business going forward.

The principal methodology used in determining these ratings is [Best's Credit Rating Methodology - Global Life and Non-Life Insurance Edition](#), which provides a comprehensive explanation of A.M. Best's rating process and highlights the different rating criteria employed. Additional key criteria utilized include: "Understanding Universal BCAR" and "Natural Catastrophe Stress Test Methodology." Methodologies can be found at www.ambest.com/ratings/methodology.

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