

Your Best Credit Partner

Surety Insurance In Korea

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01

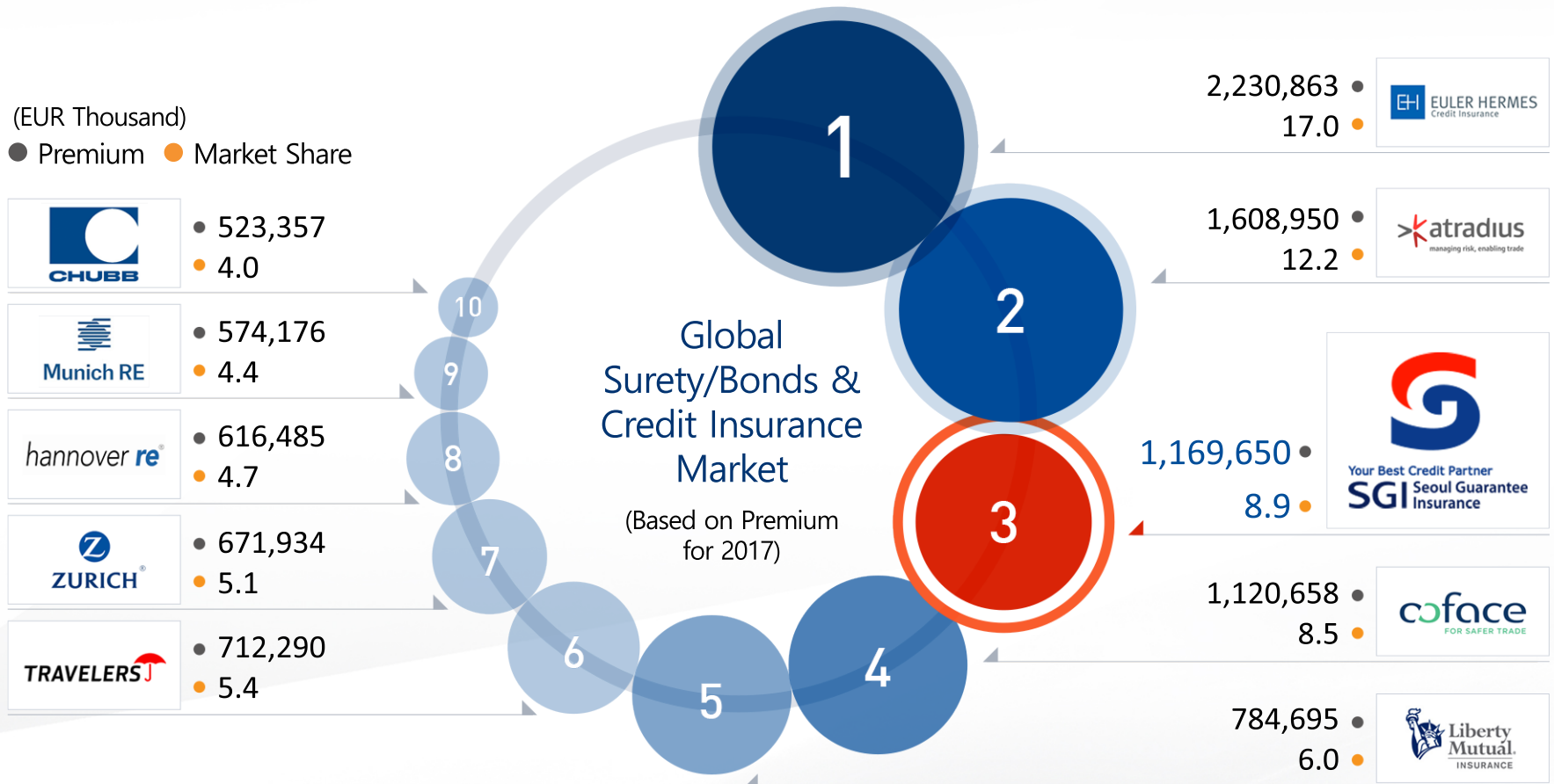
Introduction



✓ SGI ranked 3rd in Global Surety & Credit Insurance Market by Premium (No. 1 in Asia)

(EUR Thousand)

● Premium ● Market Share

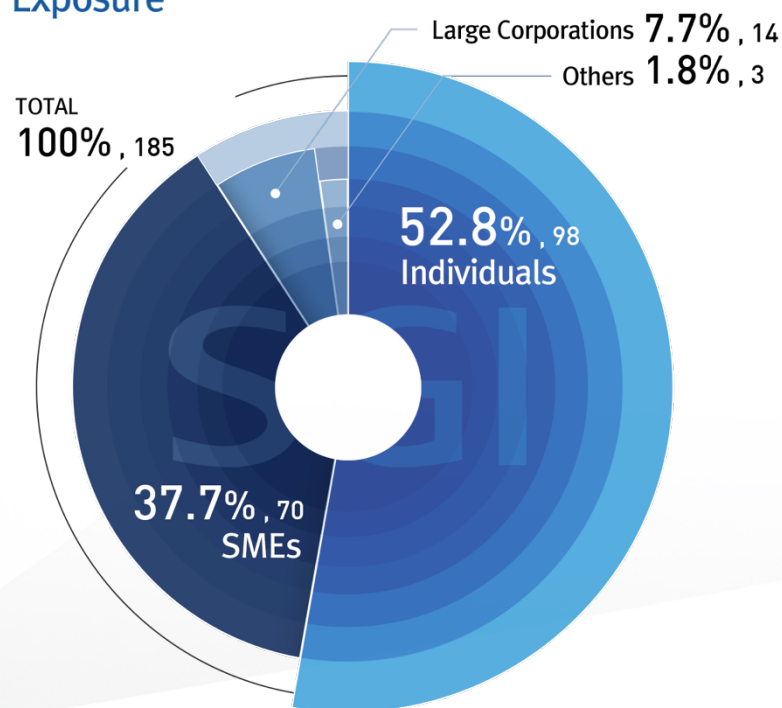


Client Portfolio

SGI has various types of clients including large corporations, SMEs and individuals.

*For year 2017
(USD Billion)

Exposure

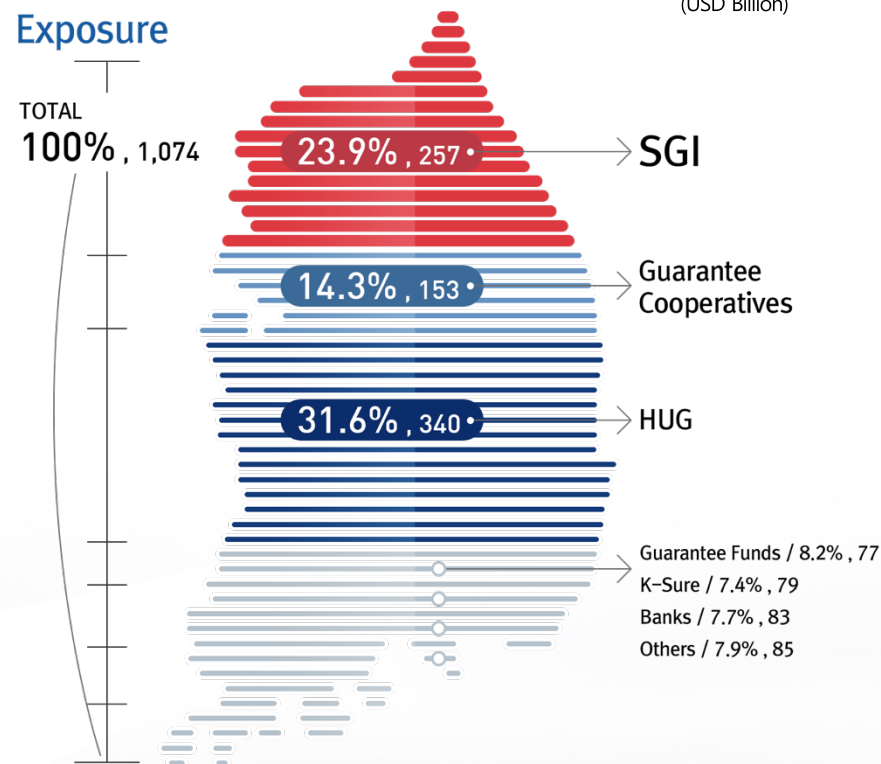


Domestic Market Share

SGI holds the leading position by taking 23.9% of the total domestic guarantee market exposure.

*As of December 31, 2017
(USD Billion)

Exposure



■ Korea Housing & Urban Guarantee Corporation (HUG) : guarantees the entire housing industry process ranging from sale leasing, supervision, licenses permits to the compensation for repair of apartments houses and multi-purpose buildings.

■ Korea Trade Insurance Corporation (K-sure) : provides comprehensive support to international transactions all around the world that are in line with a growing interdependence between trade and overseas investment.

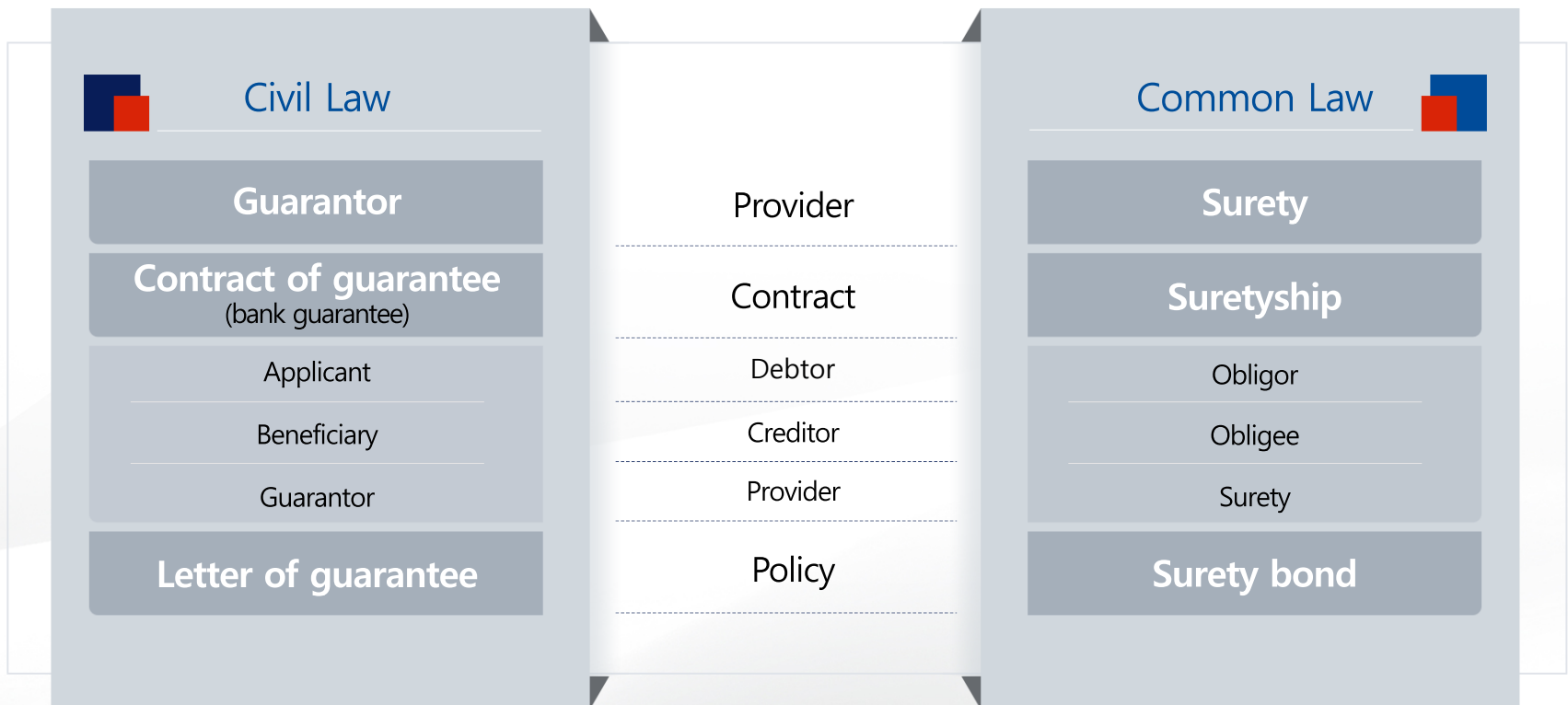
02

Introduction of Guarantee Insurance



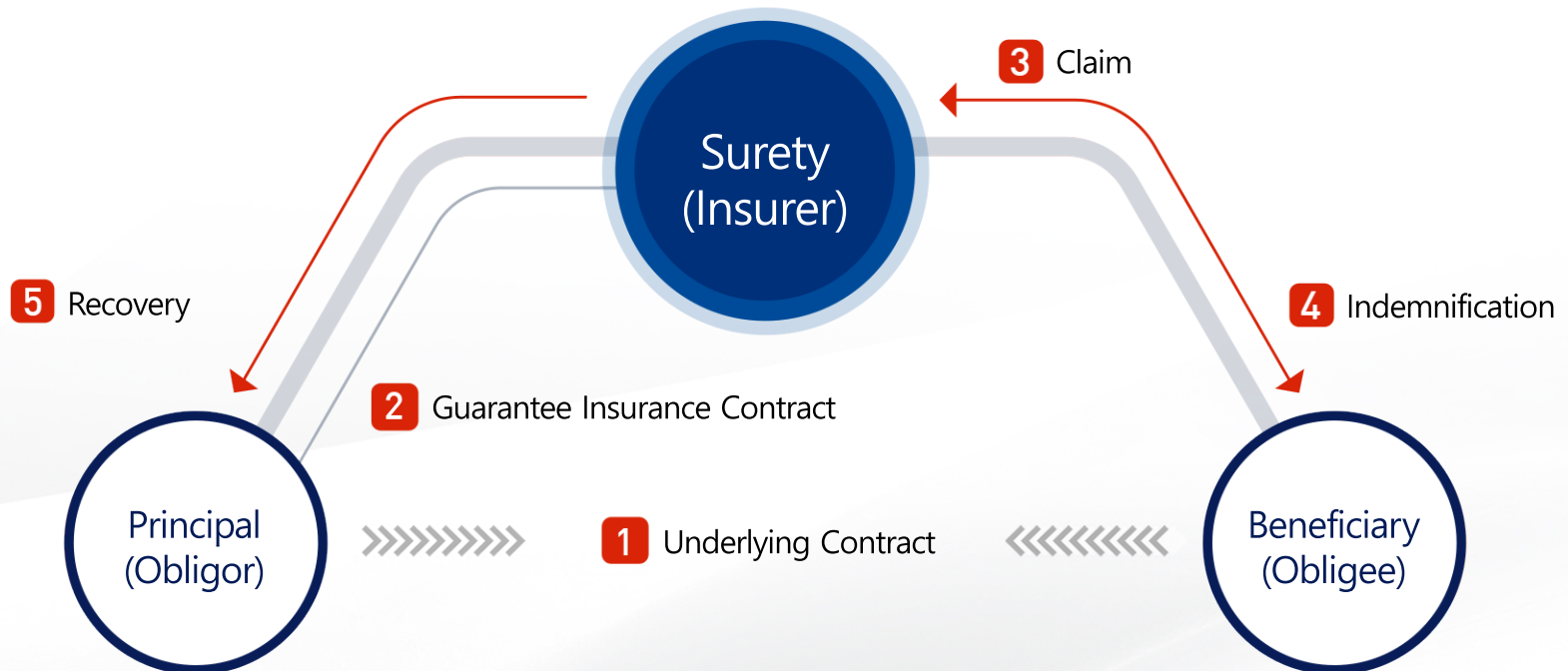
LEGAL GROUND FOR GUARANTEE INSURANCE

- ✓ Guarantee Insurance supplied by insurers is so-called a “conditional guarantee” issued by a 3rd party (guarantor). It is also referred to as an accessory guarantee provided in relation to the underlying contract obligation.
- ✓ In comparison, banks issue (performance) bonds in the form of Standby L/C or L/G, of which undertaking is done on first demand, unconditionally and independently. (Int’l standards : URDG 758, ISP98, etc.)



LEGAL GROUND FOR GUARANTEE INSURANCE

- ✓ Guarantee: In the case an obligor does not perform its obligations, a third party which is not an obligor undertakes the responsibility for performance obligations instead.
- ✓ The insurance company (insurer) receives a premium from the principal (obligor) and in turn indemnifies the beneficiary (obligee) against any loss in the event the principal (obligor) fails to perform its obligations as stipulated in the contract.
- ✓ Guarantee insurance relieves the principal of the need to submit deposits to the beneficiary. It assists the beneficiary by easier debt collection.



01

Obstacle to SMEs' Growth and Development

- ✓ Difficult to access financial services
- ✓ Financial services discriminating SMEs & large corporations



02

Why do banks avoid SMEs?

- ✓ High Risk
→ Reducing credit line
Requiring more collateral
- ✓ Information asymmetry

03

Why is guarantee insurance needed?

- ✓ Primary business, Strong expertise
- ✓ Lower transaction costs, Wide customer base, High quality services requiring no collateral
- ✓ Complementing the weakness of banks' services



COMPARISON WITH OTHER NON-LIFE INSURANCE

Guarantee Insurance

- ✓ Indemnifying against the loss incurred by an obligee as a result of the non-performance of contract obligations promised by an obligor
- ✓ "Fee for guarantee services" based on a percentage of the contract amount or Bond amount
- ✓ Standard or may be negotiated by owner or surety
- ✓ Guarantee Insurer, Obligor, and Obligee
- ✓ Insurance for Obligor and Obligee (three party agreement)

Main Characteristics

Parties Concerned

Estimate premium

Insurance Purpose

Insurance Forms

Non-life Insurance

- ✓ Compensation for accidental events
- ✓ Non-life Insurer and the Insured
- ✓ Actuarially determined
- ✓ Insurance for self-protection of the Insured (two party agreement)
- ✓ Vary by insurance company

* As of April 2018

Classification			No. of Products	Product Detail
Guarantee Insurance Products (55)	Fidelity		5	Fidelity Insurance
	Surety	Legal	11	License & Permit, Court (2), Taxation, etc.
		Non-Performance of Contract	31	[Non-Financial Guarantees] Bid, Performance, Maintenance, Advance Payment, Credit Sales, CGB, etc.
			8	[Financial Guarantees] Employee’s Loan, Small Loan, etc.
Credit Insurance Products (18)			18	[Commercial Credit Insurance] Trade Credit Insurance etc. [Consumer Credit Insurance] Mobile phone installment sales Mobile phone usage fees MCI, MI, etc.
Others (3)			3	Credit Card, Personal Check, etc.
Total			76	(Excl. R/G)

RISK EXPOSURE

* As of March 31, 2018

Classification			Risk Exposure (KRW Tril)	%
Guarantee Insurance Products	Fidelity		51.9	18.7
	Fulfillment of Obligation	Legal	30.4	10.9
		Contract (non-financial)	80.4	29.0
		Contract (financial)	17.5	6.3
Credit Insurance Products	Commercial Credit Insurance		9.2	3.3
	Personal Financial Credit Insurance		24.6	8.9
	Others (Mortgage, Installment Credit Insurance, etc.)		63.1	22.9
Total			277.2	100.0

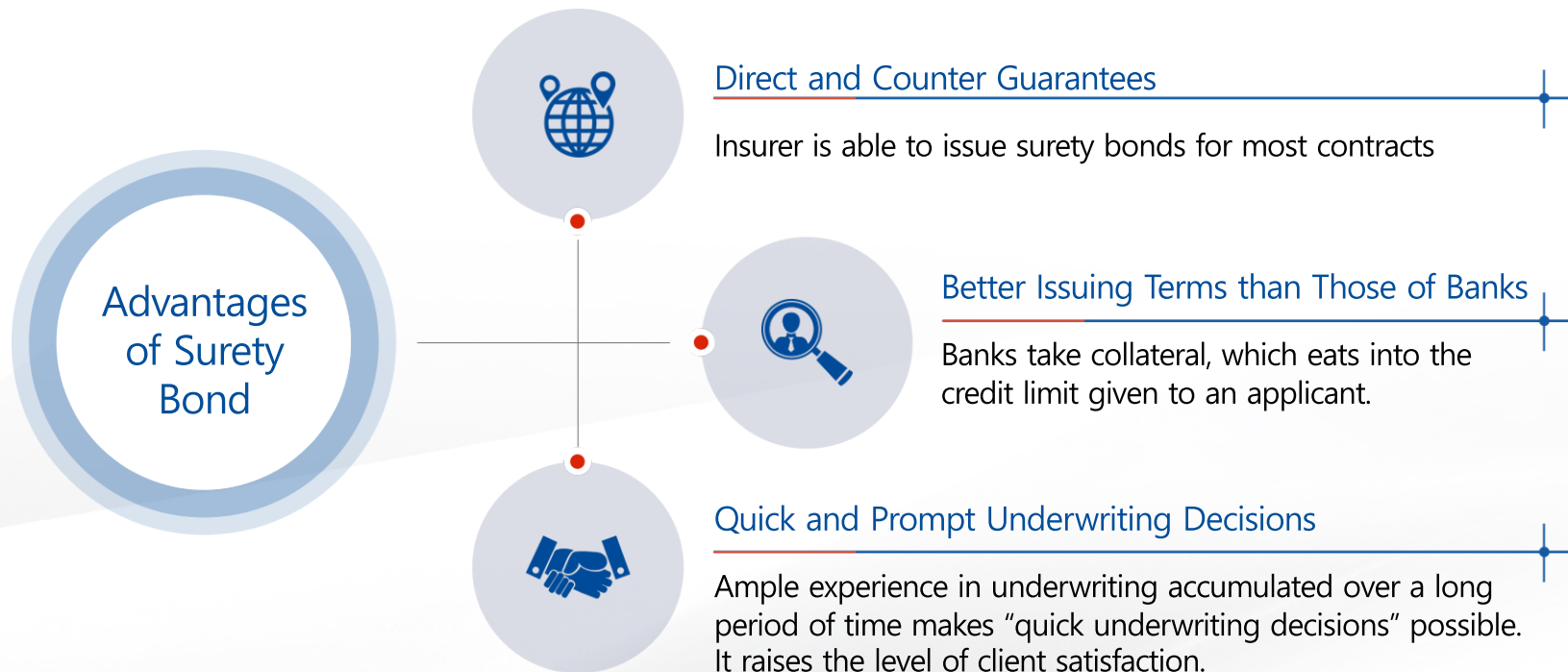
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Surety Products

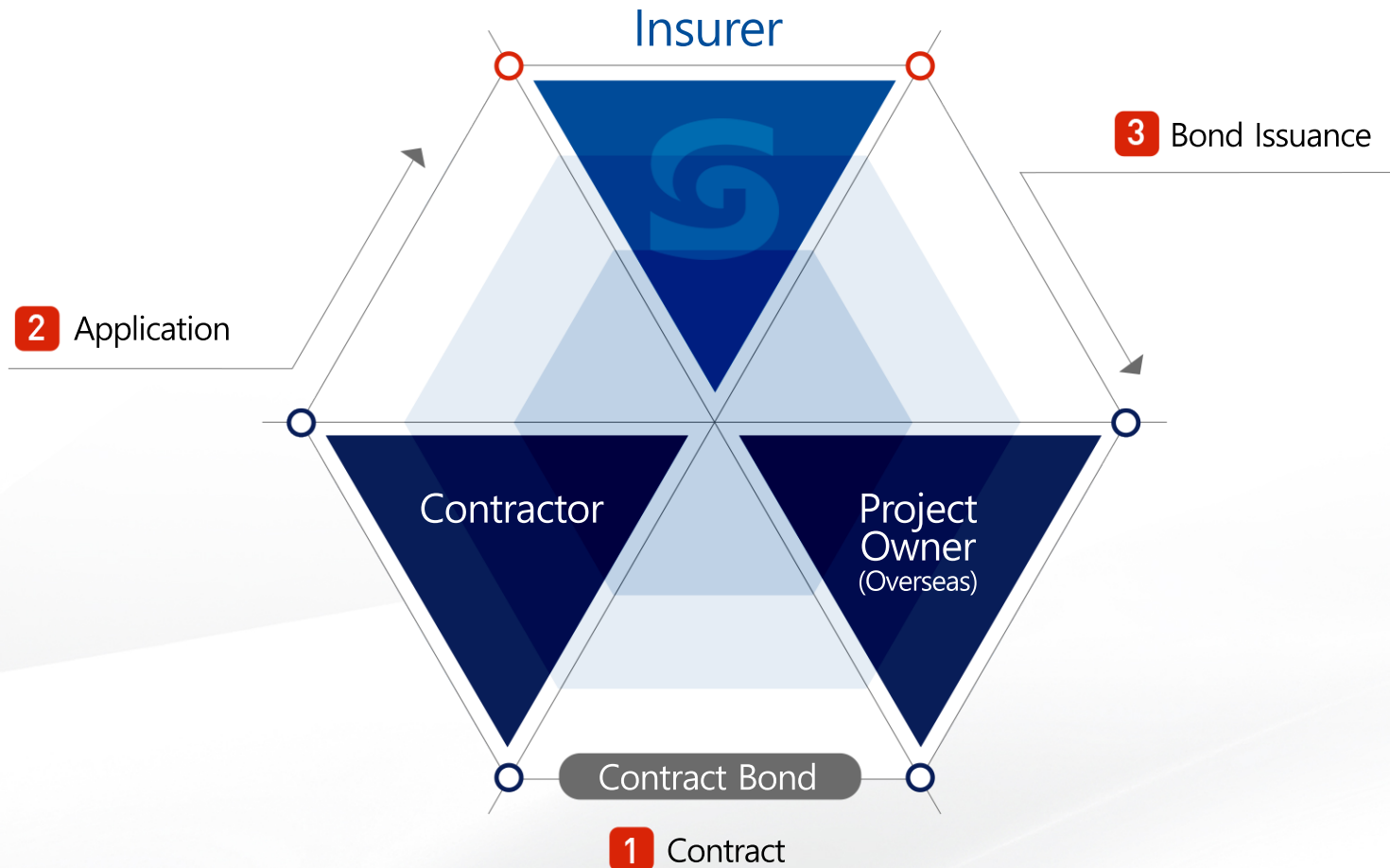


01 Definition of Surety Bond

- A Surety Bond is a convenient economic device used instead of an indemnitor, deposit or real estate collateral to guarantee a obligor's performance of its obligations or undertaking when the obligor conducts a wide range of economic activities.
- A Surety Bond indemnifies the owner against losses up to the bond amount when the obligor fails to perform or fulfill the obligation.



- ✓ Contract Bond is a guarantee in support of an underlying (master) contract.
- ✓ The parties to a contract bond are the Contractor, the Project Owner and the Guarantor (the insurer).





01 Bid Bond

Bid Bond is used as security instead of a bid deposit by the bidder in the event the project owner requires security as stated in various contracts. The bond amount is usually around 5% of the bid amount.



02 Performance Bond

Performance Bond is used as security instead of a contract deposit to indemnify the obligee for any loss resulting from the principal's failure to perform its obligations under the contract



03 Advance Payment Bond

Advance Payment Bond is used to guarantee the repayment of prepaid labor costs material costs and any other costs under various contracts.



04 Maintenance Bond

Maintenance Bond is used as security instead of a maintenance deposit for repair of defects maintenance repairs or corrective changes after the completion of a contract. The bond amount is around 5-10% of the contract price.

04

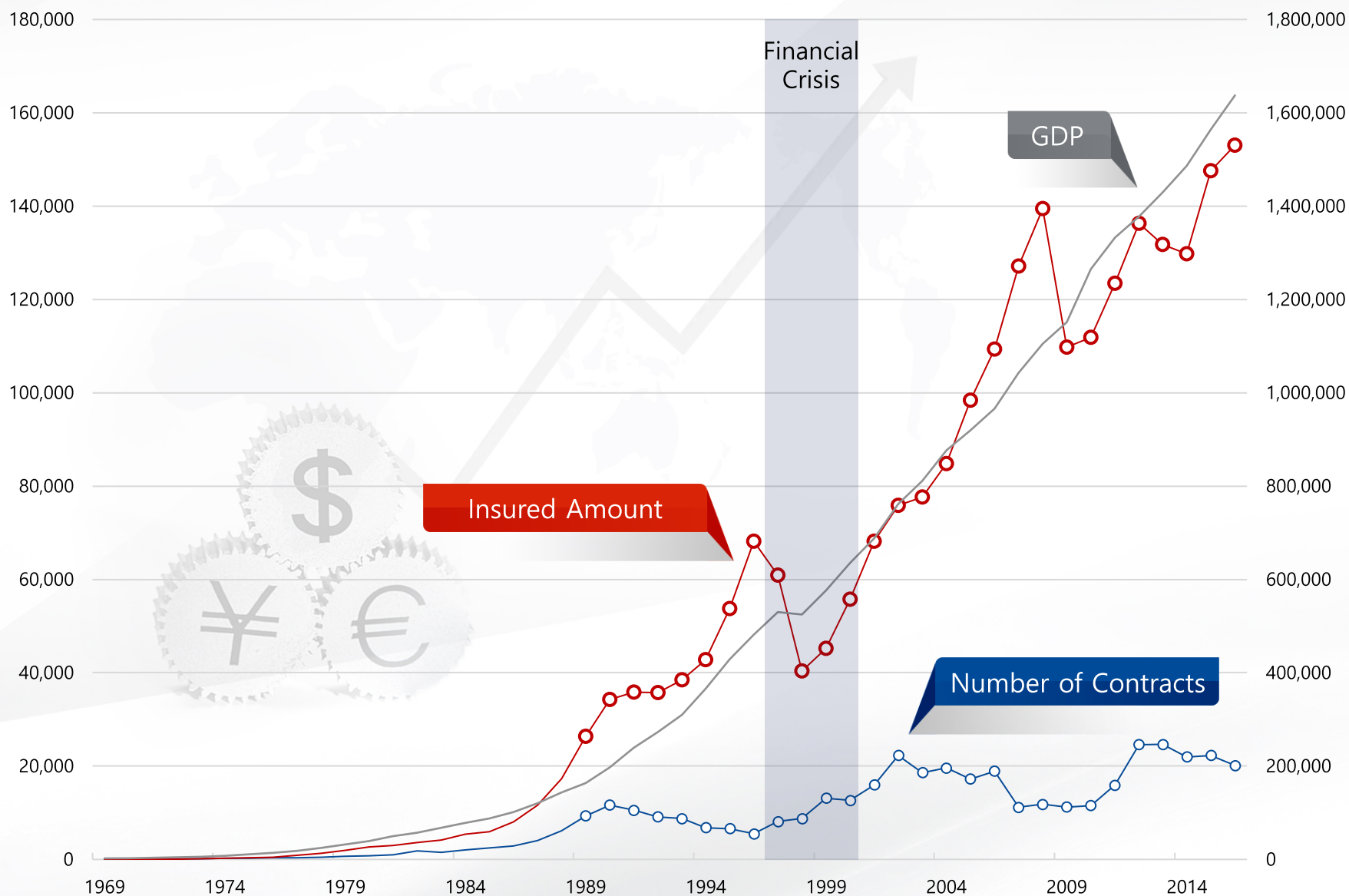
Economic Development & Guarantee Insurance

ECONOMIC DEVELOPMENT & GUARANTEE INSURANCE

Insured Amount (KRW Billion)

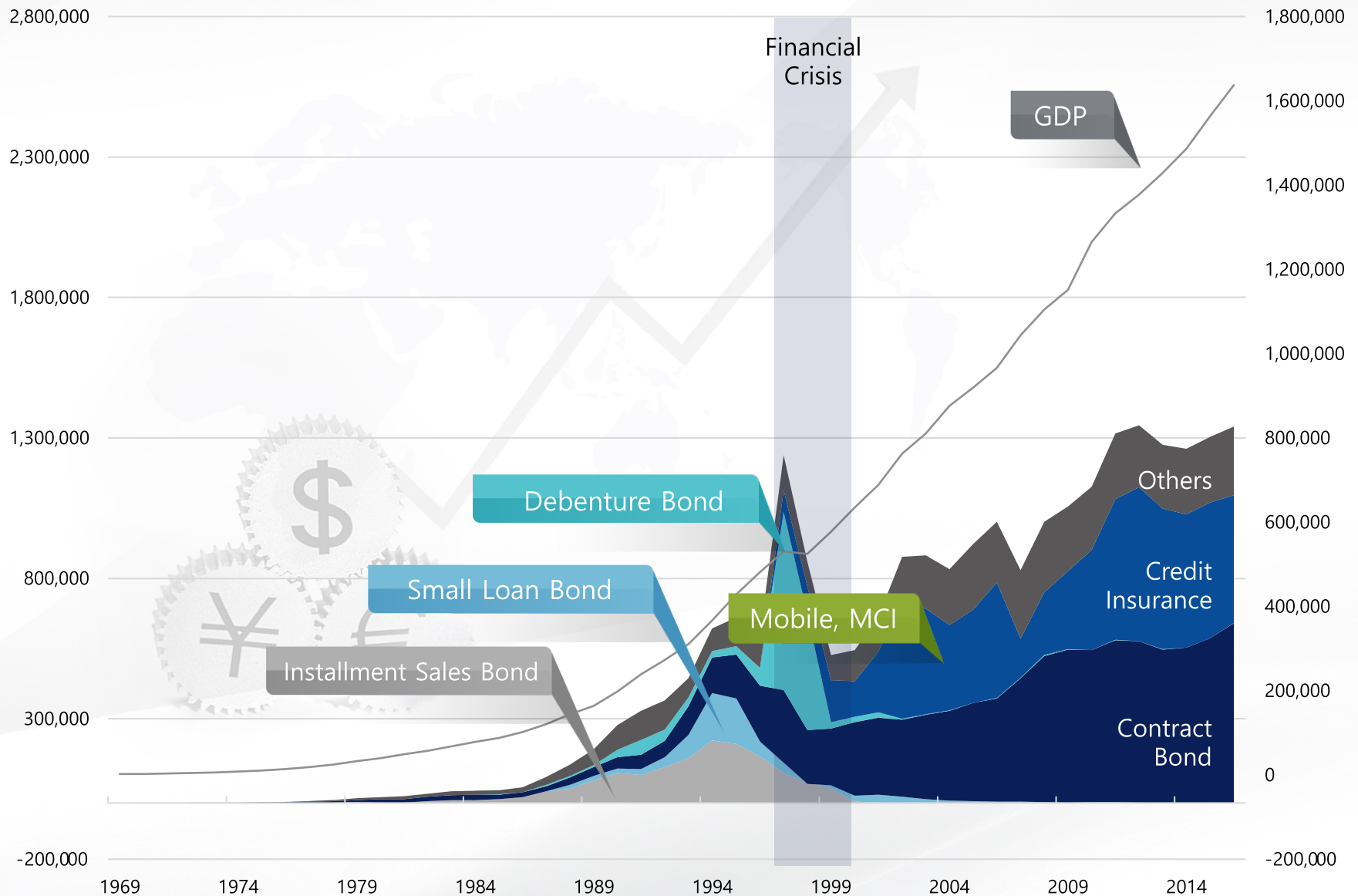
Number of Contracts (in 1,000)

GDP (KRW Billion)



Premium Income (KRW Million)

GDP (KRW Billion)



70's

- ✓ Annual growth rate of GDP at 9.2%
- ✓ Alternative to a guarantor for people who get a job
- ✓ Alternative to deposits borne by private companies

Main Guarantee Products

- Annual growth rate of premium at 53.7%
- Provided Fidelity Bond
- Provided Contract Bond

80's

- ✓ Annual growth rate of GDP at 8.7%
- ✓ Supported growth of the automobile industry
- ✓ Supported loans for companies which want to expand their production facilities

Main Guarantee Products

- Annual growth rate of GDP at 28%
- Contract Bond, Lease Bond
- Installment Sales Bond

90's

Main Guarantee Products

- Bail and Court Bond
- Debenture Bond
- Housing Purchase and Construction Fund Bond

- ✓ Annual growth rate of GDP at 6.7%
- ✓ Supported housing finance
- ✓ Protected human rights and promoted Court Bond
- ✓ Supported direct financing of companies

Main Guarantee Products

- Installment Credit Insurance
- Commercial Credit Insurance
- MCI, MI

2000's

- ✓ Annual growth rate of GDP at 4.3%
- ✓ Supported development of the ICT industry
- ✓ Adopted the European trade credit guarantee system
- ✓ Supported the low-income population to purchase houses

Precondition 1

Establishment of Legal Framework

Laws and Regulations on Government's Procurement Contract

- ✓ Act on Contracts to Which State is a Party
Article 9 (Bid Deposit), Article 50 (Contract Deposit), Article 62 (Maintenance Deposit)
- ✓ Enforcement Decree of Act on Contracts to Which the State is a Party
Article 37 (Bid Deposit), Article 50 (Contract Deposit), Article 62 (Warranty Deposit)
- ✓ Enforcement Rule of Act on Contracts to Which the state is a Party
Article 51 (Payment of Contract Deposit)
Article 55 (Payment of Deposit via Guarantee Insurance, etc.)



• Types of Collateral

- 01 Payment guarantee issued by domestic and foreign banks
- 02 Securities issued by securities firms and investment financial institutions
- 03 Guarantee insurance policy issued by insurance companies
- 04 Payment guarantee issued by mutual guarantee cooperatives
- 05 Certificate of time deposit
- 06 Beneficiary certificate

Precondition 1

Establishment of Legal Framework

01

Credit Information Act

- Promotion of Distribution and Use of Credit Information

02

Institution Centralizing Credit Information

- Managing credit information systematically and comprehensively
- Enabling credit information to be shared and utilized by financial institutions, etc.

03

Target institutions

- All financial institutions including banks, insurers, savings banks and mutual guarantee cooperatives

04

Types of Credit Information Business

- Credit information inquiry, Credit investigation, Debt collection, Credit evaluation

05

Target credit information

- Identification : Identifying the holders of particular credit information
- Transaction : Loan, credit card, cash service, guarantee of obligations, credit granting to companies
- Capability : Assets, debts, income, details of business, financials
- Judgment : Delinquency, subrogated payment, bankruptcy, disturbance of financial order
- Public : Individual rehabilitation, workout



Key financial
system



Support for
growth
potential

01



Roles of
Guarantee
Insurance

05



Support for
obligations

02

04



Stabilization
of transactions

03



Revitalization of the transaction on credit

| GUARANTEE INSURANCE USED GLOBALLY

Europe

BGs and Guarantee Insurance are widely used.

Credit Insurance

Bank Guarantee

Surety Bond

South East Asia

Both BGs and Guarantee Insurance are acceptable.

Surety Bond, Standby L/C

Middle East/Africa

BGs are prevalent.

Americas

Both Guarantee Insurance and Standby L/Cs are used.





Your Best Credit Partner
SGI Seoul Guarantee Insurance

THANK YOU