Research Update:

Korea Finance for Construction Assigned 'A+' Ratings; Outlook Stable

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Overview

- We believe Korea Finance for Construction (K-Finco) will maintain its excellent capital adequacy and dominance in the provision of guarantees and insurance for specialized construction companies in Korea.
- In our view, the cooperative will benefit from a high likelihood of extraordinary government support, if needed. This reflects its very important policy role and strong link with the government.
- We assigned our 'A+' long-term local-currency financial strength and issuer credit ratings to K-Finco.
- The stable rating outlook reflects our view that K-Finco will maintain excellent capital adequacy to support business growth, and benefit from a high likelihood of extraordinary government support over the next two years.

Rating Action

On Sept. 4, 2025, S&P Global Ratings assigned its 'A+' long-term local-currency financial strength and issuer credit ratings to Korea Finance for Construction (K-Finco). The rating outlook is stable.

Rationale

The rating reflects our view that K-Finco will maintain its niche position in providing guarantees and insurance for specialized construction companies in Korea. We also expect the cooperative to maintain excellent capital adequacy over the next two years at least, backed by steady capital contributions from members and diversified investment allocations.

We believe K-Finco will also benefit from a high likelihood of extraordinary support from the Korean government, if needed. This reflects the cooperative's very important role in supporting the domestic construction industry, and strong link with the Korean government.

We believe K-Finco will maintain its good niche market position. The cooperative provides guarantee and insurance to its members, which are mainly specialized construction companies in Korea. These companies perform specific and essential tasks within construction projects, such as reinforced concrete work, ground preparation and paving, interior architecture and assembly of window and roofing, etc. These companies are typically of small and medium size and operate as subcontractors for general construction companies. K-Finco has more than 63,000 member companies, out of the about 89,000 construction companies in Korea, as of end-June 2025.

K-Finco benefits from a legal framework that clearly defines its business scope. Korea's Ministry of Land, Infrastructure, and Transport has been supervising and overseeing K-Finco since its establishment in 1988. Although the cooperative's market share in the domestic guarantee sector is modest at about 2% as of end-2024, its market share within the construction guarantee sector is materially higher, with strong relationships with member companies.

K-Finco's profitability will likely face pressure over the next two years. We anticipate the cooperative's combined ratio will weaken to 115%-120% during this period, from about 109% in 2024, amid ongoing strains in the domestic construction sector. Its underwriting performance has historically been weak, with combined ratios of more than 100% (a combined ratio of above 100% indicate underwriting losses). We attribute the weakness to K-Finco's policy role of providing essential guarantee and insurance at competitive rates to member companies, and its high operating expenses.

We forecast a modest decline in K-Finco's return on average assets to 1.8%-2.0% over the next two years, from 2.3% in 2024. The cooperative's underwriting performance will remain a drag, despite steady investment results. Over the past 10 years, K-Finco's return of average assets was about 2.0% on average.

K-Finco's competitive position is comparable to that of CI Guarantee and Engineering Guarantee Insurance (EGI), but weaker than that of Seoul Guarantee Insurance Co. (SGIC), in our view. SGIC has a larger business scope, more diversified customer base, and stronger brand reputation than K-Finco; it is the only comprehensive guarantee insurance company in Korea. SGIC's underwriting profitability has also been higher than K-Finco's over the past decade.

K-Finco, CI Guarantee, and EGI are guarantee insurance cooperatives that only serve corporate customers in the construction industry. K-Finco has a broader and bigger customer base than CI Guarantee and EGI. CI Guarantee's primary customer base includes plant and mechanical companies, and EGI primarily serves engineering companies.

Steady new capital contributions from members will underpin K-Finco’s capital adequacy over the next two years. The cooperative’s robust capital buffer will support its moderate business growth across guarantee and insurance businesses. K-Finco will likely maintain a cash dividend payout ratio of about 80% of net income over the next two years, similar to 2024. We also view the cooperative's ratio of gross off-balance sheet guarantee exposure to shareholders’ equity to be manageable, at about 7x as of end-2024.

K-Finco will maintain diversified investment asset allocation. We estimate fixed-income assets, cash and cash equivalents accounted for about 47% of its total invested assets (including loans to members) as of end-2024 and expect the ratio to remain around that level. The cooperative will gradually increase its exposure to securities with alternative investment features to seek higher investment returns, in our view.

We believe K-Finco can absorb potential investment volatility rising from such investments, considering its capital strength. We estimate these investments accounted for about 22% of total invested assets as of end-2024.

K-Finco's moderately high risk exposure tempers its capital strength. The guarantee and insurance businesses are susceptible to domestic economic and market downturns. K-Finco's capital and earnings could face some volatility because the cooperative mainly supports small-to-medium sized specialized construction companies that are vulnerable to construction market downturns.

We also believe K-Finco can manage risks stemming from loans to member companies. This considers its historically low delinquency rates and credit losses. These loans account for about 26% of the cooperative's total assets as of end-2024. K-Finco provides low-cost loans to member companies, with their contribution to K-Finco's capital pledged as collateral.

K-Finco will continue to play a very important role for the Korea economy. In our view, a potential default at the cooperative would have a disruptive impact on Korea's construction industry and broader economy. Given K-Finco's huge membership in the specialized construction sector, such a default would significantly heighten operational and financial risks for developers or main contractors and raise concerns on the viability of construction projects. Typically, the cooperative's member companies are subcontracted by large general construction companies to carry out specific and essential tasks within construction projects.

We expect K-Finco to maintain a strong link with the government over the next two years. Although the government does not hold a direct stake in K-Finco, it participates in the cooperative's strategic decision-making process. The government appoints 16 out of 30 members of the management committee, which is a governing body above the board that oversees the management of K-Finco. This governance structure is defined in the Framework Act on The Construction Industry and its article of association.

Outlook

The stable rating outlook reflects our view that K-Finco will maintain its solid niche position as the main guarantee cooperative for specialized construction companies in Korea for the next two years at least. We anticipate steady capital contributions from member companies and adequate investment allocations will continue to support the cooperative's capital strength.

We see a high likelihood of extraordinary support for K-Finco from the Korean government, if needed, at least over the next two years. This reflects the cooperative's very important policy role in supporting the specialized construction industry in Korea and its strong link with the government.

Downside scenario

We may lower the ratings on K-Finco over the next two years if we expect:

- K-Finco's niche market position in the specialized construction guarantee market to weaken significantly or its profitability to materially deteriorate due to significantly larger claims or investment volatility;
- The cooperative's capital adequacy to erode substantially, possibly due to aggressive business expansion, sizable investment losses, or a reduction in new capital contribution from members; or
- K-Finco's policy role to reduce due to its diminished market share or the government's opening of the guarantee-insurance market to private property and casualty insurers.

Upside scenario

We view an upgrade of K-Finco as highly unlikely over the next two years. We could consider raising the rating if the cooperative: (1) significantly expands its market share in Korea's guarantee insurance market; and (2) improves underwriting profitability, with a combined ratio consistently below 100%, while maintaining excellent capital adequacy.

Rating Component Scores

Financial strength rating	A+/Stable/--
Anchor*	a-
Business risk	Satisfactory
IICRA	Intermediate
Competitive position	Satisfactory
Financial risk	Very Strong
Capital and earnings	Excellent
Risk exposure	Moderately high
Funding structure	Neutral
Modifiers	0
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
Support	2
Group support	0
Government support	2

*This reflects the cooperative's weak underwriting performance and small market share in the overall domestic guarantee market. ^Insurance Industry and Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Economic Outlook Asia-Pacific Q3 2025: Resilience May Vary, June 23, 2025
- Korea 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 15, 2025
- Insurance Industry And Country Risk Assessment: Korea Property/Casualty, Dec. 23, 2024

Ratings List

Ratings list	
New Rating	
Korea Finance for Construction	
Issuer Credit Rating	
Local Currency	A+/Stable/--
Financial Strength Rating	
Local Currency	A+/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.