

# Fitch Upgrades Korea Finance for Construction IFS to 'A+'; Outlook Stable

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Fitch Ratings - Hong Kong - 08 Jun 2025: Fitch Ratings has upgraded Korea Finance for Construction's (KFINCO) Insurer Financial Strength (IFS) Rating to 'A+' (Strong), from 'A' (Strong). The Outlook is Stable.

The upgrade follows Fitch's review of the industry and additional information from the cooperative. As a result, this has raised our perception of KFINCO's importance to South Korea's (AA-/Stable) construction industry. The rating also takes into consideration KFINCO's 'Very Strong' capitalisation, 'Moderate' company profile and stable financial performance.

KFINCO has a policy-oriented role in supporting stability of the construction industry. We believe KFINCO has strong linkages with the government. The government appoints the majority of the entity's operating committee and board members under the Framework Act on the Construction Industry (FACI), resulting in strong influence on the cooperative's strategic decision-making process. In addition, the construction cooperative reform of 2021 explicitly says that in the event of a crisis in the construction industry, the government will act as the lender of last resort.

We view KFINCO as very important to the government, and this results in a two-notch uplift from its standalone credit quality.

## KEY RATING DRIVERS

**Very Important Policy Role:** Fitch believes that KFINCO has a crucial policy role in South Korea's construction industry, especially in supporting specialty construction companies. KFINCO, which is supervised by Ministry of Land, Infrastructure and Transport (MoLIT), offers primarily guarantee, insurance and loans to members. MoLIT is involved in the business and decision-making process of the cooperative, resulting in high integration with the government. We expect the government to provide financial support, if needed, due to KFINCO's policy role to stabilise the construction industry.

**'Very Strong' Capitalisation:** We view that KFINCO's capital buffer remains solid. Capitalisation, measured by the Fitch Prism Global Model score, was consistently above 'Very Strong'. The regulatory capital ratio was 485% at end-2024 (2023: 501%), well above the regulatory minimum of 100%, providing a substantial cushion against potential volatility in its business. The ratio of guarantee exposure to total shareholder funds was 7.3x at end-2024 (2023: 6.9x), below the MoLIT's threshold of 20x.



KFINCO's capital, generated solely from members' paid-in capital, has grown with increasing membership and additional share contributions. Capital exceeded KRW6.2 trillion in 2024 and covered over 90% of total assets. This strong capital base enables KFINCO to continue its operations without the need for external borrowings and explicit government support.

**Earnings Exposed to Economic Conditions:** KFINCO is vulnerable to economic downturns that may increase claims due to its niche focus. Guarantee claims rose in 2022-2024 due to a slowdown in the country's construction sector, while the impact on overall earnings was mitigated by better investment income. The combined ratio remains high due to rising losses from the guarantee business, but is partly offset by guarantee reserve reversals. ROE improved to 2.5% in 2024, with a three-year average of 2.0%, which is below our criteria guidelines for IFS 'A' rated insurers. However, profit maximisation is not KFINCO's key strategic priority given its policy-oriented role.

**'Moderate' Company Profile:** Fitch ranks KFINCO's company profile as 'Moderate', reflecting its niche focus, compared with other Korean non-life insurers. KFINCO has maintained a dominant market position in specialty construction guarantees, capturing a market share of over 62% in 2024. KFINCO has taken a measured approach to diversifying its business geographically and has recruited general construction and non-construction companies with sound fundamentals as members.

**Manageable Investment Risk:** KFINCO has maintained a prudent investment approach that focuses on high-quality fixed-income securities and cash equivalents. The Fitch-calculated risky asset ratio was 28.7% at end-2024 (2023: 29.1%). Risky assets consist of alternative investment, shares in affiliates and equities. KFINCO recognised impairment losses from alternative investments, such as overseas commercial real-estate funds and domestic private equity funds, but we believe it has a sufficient capital buffer to absorb these losses.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

#### **For the IFS Rating:**

- A downgrade of South Korea's Long-Term Local-Currency Issuer Default Rating (AA-/Stable).
- A significant reduction in KFINCO's policy role and perceived weakening of state support.

#### **For the Standalone Credit Quality:**

- Significant deterioration in capitalisation, such as the Prism score falling to 'Strong' and the regulatory capital ratio falling to below 300%.



- Material deterioration in financial performance for a sustained period.

## **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

### **For the Standalone Credit Quality:**

- Significant improvement in the company profile; for instance, an increase in operating scale and market share as well as profitable business diversification.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG CONSIDERATIONS**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

