

Korean Insurance Market

2017 in Review

The Korean insurance market continued to slow down in 2017, declining by 1.9 percent compared to the previous year, amid improving but still weak macroeconomic conditions. The life insurance market contracted, while the non-life insurance market grew modestly. A decrease in savings insurance sales following tax benefit reduction was one of the key downside factors. Other challenges facing Korean insurers included low interest rates, the upcoming implementation of IFRS17 and a new RBC regime called K-ICS and a possible change in sales commission structure.

The volume of new business fell as the market reached the maturity stage. Increasing household debt also discouraged consumers from buying insurance or led to an increase in the insurance surrender ratio. Despite these challenges, insurers reported a significant improvement in bottom-line growth as their loss ratios declined in the wake of premium rate increases for motor insurance and medical expense insurance.

Premium Income

(Unit: KRW trillion)

	FY 2017	FY 2016	Change (%)
Life Insurers	113.9	119.8	-4.9
Non-Life Insurers	86.5	84.5	2.4
Total	200.4	204.3	-1.9

(Sources: General Insurance Association of Korea, Korea Life Insurance Association)

Insurers in Korea reported KRW 200.4 trillion in premium income for 2017, down 1.9 percent from a year earlier. The contraction was driven by a decrease in life insurance premium volume amid the ongoing trend of falling sales of savings life insurance and retirement annuity plans. Life insurance premiums diminished by 4.9 percent to KRW 113.9 trillion year over year, with savings insurance premiums down 12.3 percent. Life insurers also reported a drop in their premium income from retirement annuities by 4.5 percent.

There was a slowdown in the growth of life insurers' premium income from protection policies. Compared to a 7.1 percent growth in 2016, premiums for protection life insurance increased by 3.1 percent to KRW 40.6 trillion. Life insurance firms continued to focus on selling protection products in preparation for IFRS 17, which will come into effect in January 2021. Under the new standard, insurance liabilities will be calculated as the present value of future cash flows, and the use of current interest rates to discount the insurance liabilities will pressure the reported capitalization of insurers. The pressure will be more significant for insurers that have a large book of negative spread in-force savings policies.

Non-life premium income grew by 2.4 percent to KRW 86.5 trillion, backed by a 4.8 percent increase in general property and casualty (P&C) insurance premiums. The motor insurance sector also supported the overall growth of the non-life insurance market as its premium income rose by 2.8 percent to KRW 16.9 trillion. There was a 2.8 percent increase in long-term insurance premiums, which were worth KRW 49.1 trillion, or 56 percent of the total non-life insurance market.

The insurance industry in Korea reported robust net income results for 2017 - a 33 percent growth year over year to KRW 7.8 trillion - due to the combination of higher investment income and reduced underwriting losses according to the preliminary data released by the Financial Supervisory Service. Although they continued to suffer underwriting losses, their investment operations remained strong amid a bullish stock market and interest rate hikes, allowing them to stay in the black.

Life insurers saw their net income jump by 63.4 percent year on year to close to KRW 4 trillion, driven by a rise in investment income. Interest and dividend income boosted their investment profit by 3.1 percent to approximately KRW 22 trillion. Their underwriting losses also shrank, and a rise in interest rates helped ease a squeeze in the spread between the net investment yield and the guaranteed interest rates.

Non-life insurers recorded an 11.8 percent increase in net income to over KRW 3.8 trillion. Their underwriting losses diminished thanks to the continued improvement in motor insurance loss ratios. Rising interest rates also helped boost their investment profit, which was up 6.5 percent year on year to KRW 7.2 trillion.

Net Income

(Unit: KRW billion)

	FY 2017	FY 2016	Change (%)
Life Insurers	3,954.3	2,420.7	63.4
Non-Life Insurers	3,878.0	3,469.2	11.8
Total	7,832.3	5,889.9	33.0

(Source: Financial Supervisory Service)

ROA and ROE

(Unit: %)

	FY 2017	FY 2016	Change (%p)
ROA	Life Insurers	0.32	0.17
	Non-Life Insurers	1.45	0.02
	Total	0.73	0.59
ROE	Life Insurers	3.73	2.00
	Non-Life Insurers	11.21	0.25
	Total	7.61	6.15

(Source: Financial Supervisory Service)

Total Assets and Shareholders' Equity

(Unit: KRW trillion)

	FY 2017	FY 2016	Change (%)
Total Assets	Life Insurers	782.1	6.5
	Non-Life Insurers	252.0	9.9
	Total	1,110.0	1,034.1
Shareholders' Equity	Life Insurers	65.8	9.9
	Non-Life Insurers	32.5	8.5
	Total	107.5	98.2

* Individual figures may not add up to the total shown due to rounding.

(Source: Financial Supervisory Service)

In 2017, the return on assets (ROA) ratio of the Korean insurance industry improved by 0.14 percentage point to 0.73 percent, while the return on equity (ROE) ratio was up 1.46 percentage point to 7.61 percent. Non-life insurers reported higher profitability than life insurers, with an ROA of 1.47 percent and an ROE of 11.46 percent. Low profitability continued to present challenges to life insurers as they were struggling with underwriting losses as well as a decline in premium income.

As of the end of 2017, insurers' total assets grew by 7.3 percent year on year to KRW 1,110 trillion. Non-life insurers recorded a higher growth rate of 9.9 percent compared to life insurers, which saw their assets increase by 6.5 percent. The total assets were made up of KRW 833 trillion from life insurance and KRW 277 trillion from non-life insurance. The total shareholders' equity of the insurance industry soared by 9.5 percent to KRW 107.5 trillion on the back of strong net income results for the year.

Meanwhile, Korea's insurance penetration rate has remained stable at the 12 percent range since 2014. In 2017, the rate was 12.1 percent, the 5th highest level in the world.

Insurance Penetration Rate

(Unit: %)

	FY 2017	FY 2016	Change (%p)
Insurance Penetration Rate	12.1	12.8	-0.7

(Source: Korea Insurance Research Institute)

Prospects for 2018

Slow economic growth and high levels of market maturity are driving down the growth of the insurance industry in Korea. Premium income is set to grow by 1.24 percent in 2018. Although the nation's nominal economic growth rates have been on track to recovery since 2012, its insurance market growth has continued to slow down to -1.9 percent in 2017 from 3.5 percent in 2016 and 5.5 percent in 2015.

Insurance Market Growth Trends

(Units: KRW trillion, %)

	FY 2015		FY 2016		FY 2017		FY 2018(F)
	Premium	Growth Rate	Premium	Growth Rate	Premium	Growth Rate	Growth Rate
Life	117.2	6.0	119.8	2.2	113.9	-4.9	0.3
Non-Life	80.2	4.8	84.5	5.4	86.5	2.4	2.5
Total	197.4	5.5	204.3	3.5	200.4	-1.9	1.24
Real Economic Growth	2.8		2.8		3.1		3.0

(Sources: Korea Insurance Research Institute, General Insurance Association of Korea, Korea Life Insurance Association)

Non-Life Insurance

The non-life insurance market is forecast to grow by 2.5 percent in 2018. By line of business, general P&C insurance is expected to grow by 4.5 percent, backed by marine (excluding hull insurance), guarantee, liability and accident businesses. The expansion of mandatory insurance such as disaster liability insurance is also driving the growth of the general P&C insurance market. However, a decrease in government budget for social infrastructure development may adversely affect construction investment, leading to a drop in surety bond premiums. Motor insurance premiums are expected to increase by 3.2 percent as the number of high-valued vehicles is rising. Premium rate decreases, however, will limit the growth of the overall motor insurance market. A contraction in non-life savings insurance and annuity plans is set to continue into 2018 due to stagnant household income growth and reduced tax benefits for those products.

Non-Life Insurance Market Growth Trends

(Units: KRW trillion, %)

	FY 2016		FY 2017		FY 2018(F)
	Premium	Growth Rate	Premium	Growth Rate	Growth Rate
Long-term	47.8	2.6	49.1	2.8	2.1
Annuity	11.8	13.7	11.7	-1.4	1.8
Individual Annuity	3.9	-3.6	3.7	-4.5	-5.0
Retirement Annuity	7.9	24.7	7.9	0.0	5.0
Motor	16.4	9.4	16.9	2.8	3.2
General P&C	8.5	2.6	8.9	4.8	4.5
Fire	0.3	-1.0	0.3	-1.5	-2.0
Marine	0.6	-14.3	0.6	5.9	2.0
Guarantee	1.6	0.6	1.7	9.6	5.4
Casualty	6.0	5.4	6.3	3.7	4.7
Total	84.5	5.3	86.5	2.4	2.5

(Sources: Korea Insurance Research Institute, General Insurance Association of Korea)

Life Insurance

The life insurance market is expected to grow by 0.3 percent next year. This slow growth reflects a continued decline in savings insurance premiums, driven by potential pressures on insurers' capitalization upon the adoption of IFRS17, which will require insurers to measure their policy liabilities at current interest rate values and provide higher levels of reserves. Savings life insurance premiums are expected to decrease by 3 percent. Meanwhile, sales of unit-linked savings policies are likely to grow on the back of a strong stock market performance. Another boost will come from the retirement annuity sector, which is expected to grow 5.3 percent.

Premium income from protection policies is projected to increase by 2.8 percent in 2018 as life insurance companies are seeking to sell more protection products such as long-term healthcare and critical illness policies, instead of savings products. Given the maturity of the market, however, a rapid growth of the market is unlikely. The government's plan to expand national healthcare insurance coverage may reduce demand for protection products offered by private insurers. On the other hand, increasing life expectancy may create demand for new types of life and health insurance products.

Life Insurance Market Growth Trends

(Units: KRW trillion, %)

	FY 2016		FY 2017		FY 2018(F)
	Premium	Growth Rate	Premium	Growth Rate	Growth Rate
Protection	39.3	7.1	40.6	3.1	2.8
Savings	44.3	-3.9	38.9	-12.3	-3.0
Retirement Annuity	36.1	5.2	34.5	-4.5	5.3
Total	119.8	2.2	113.9	-4.9	0.3

* Individual figures may not add up to the total shown due to rounding.

(Sources: Korea Insurance Research Institute, Financial Supervisory Service)