FY2017

Market Overview

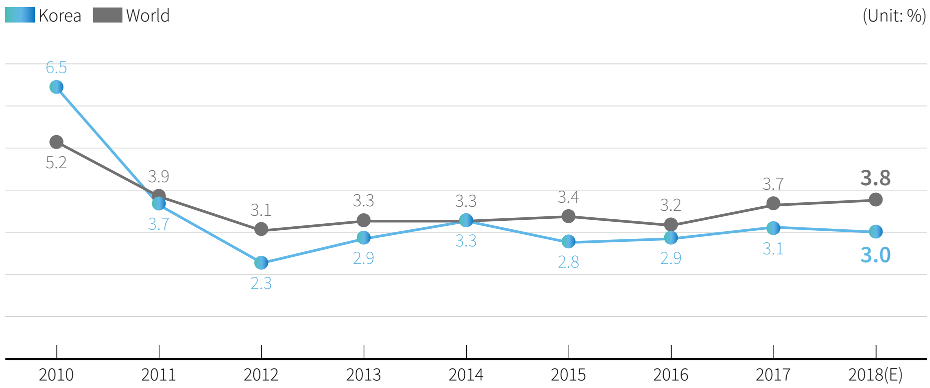
Korean Economy

2017 in Review

GDP

Korea's economic growth for 2017 beat earlier forecasts with improving exports and investment activities. According to the Bank of Korea, the nation's real gross domestic product (GDP) grew by 3.1 percent in 2017. This was well above the earlier projections of the mid-two percent range. The domestic economy had begun to slow from 2015 until the first half of 2017, with GDP growth hovering around the two percent level. However, improvements in exports and consumer confidence following the recovery of the world economy boosted local economic output in the second half of 2017.

GDP Growth Trends



(Source: Bank of Korea)

Consumer Spending

The nation's consumer spending grew by 2.6 percent in 2017 compared to 2.5 percent in 2016. Despite the government's efforts to enhance consumer confidence, political uncertainties at home were mainly to blame for the dampening of consumer spending on services and overseas consumption.

Equipment Investment

In 2017, equipment investment soared, recording a year-over-year growth of 14.6 percent after a sharp dip in the previous year. The improvement is due to expanding IT investment. In particular, there was a robust increase in investment spending on semi-conductor manufacturing equipment on the back of strong demand in the global semi-conductor industry.

Construction Investment

Investment in construction grew by 7.6 percent year over year, representing a weakening trend compared to the double-digit growth rate recorded a year earlier. It showed signs of slowing down in the second quarter and eventually turned negative at the end of the year, recording - 3.8 percent in the fourth quarter. A decrease in both civil engineering works and apartment construction triggered the downturn toward the end of the year.

Employment

Roughly 320,000 new jobs were created in 2017 – a slight improvement compared to the previous year. The main driving force was the government's employment policy and an improving construction sector. The number of new employees in the manufacturing sector declined by 18,000, affected by corporate restructuring in the shipbuilding industry. Despite the drop in the number of incoming tourists in Korea, the service sector continued to add new jobs. Health, social welfare and public administration recruits were particularly strong due to the government's job creation policy.

Inflation

The annualized inflation rate rose to 1.9 percent in 2017 from 1.0 percent in 2016. Due to severe weather and avian influenza, the prices of agricultural, livestock and agro-fishery products increased substantially. Industrial goods prices turned to an upward trend following rises in international oil prices. On the other hand, an uptrend in service prices slowed compared to the previous year, with rent and public service prices slowing down.

Current Account Balance

In 2017, Korea's current account surplus dropped to USD 78.5 billion from close to USD 100 billion in 2016. The figure of the merchandise account surplus remained strong, while the service sector continued to worsen, bringing the total current account surplus down to about 80% of what it stood in the previous year. The merchandise account surplus exceeded USD 120 billion thanks to expanding exports and global demand. On the other hand, service sector deficits reached USD 34.5 billion due to a sharp reduction in the number of Chinese tourists visiting Korea and restructuring in the shipping industry.

Interest Rates

The average three-year treasury yield in 2017 stood at 1.8 percent, up modestly compared to the previous year. The Bank of Korea (BOK) raised on November 30 its benchmark interest rate for the first time in more than six years, bringing an end to a period of record-low borrowing costs. The rate was raised to 1.5 percent from an all-time low of 1.25 percent as the nation's economic conditions convinced the central bank to begin normalizing its monetary policy.

Foreign Exchange Rate

The Korean won's weakening trend against the U.S. dollar was stalled in 2017, with the yearly average exchange rate slightly down to KRW 1,141 per U.S. dollar. At the beginning of the year, the won remained weak, as it was affected by growing concerns over North Korea-related political uncertainties and U.S. protectionary measures. As the year progressed, however, the won started to gain strength against the U.S. dollar, backed by reduced external uncertainties involving North Korea and an improving Korean economy. The value of the Korean won against the dollar increased by 12.8 percent throughout the year.

Prospects for 2018

GDP

The Korean economy is on track to solid recovery, with its GDP growth forecast at around 3.0 percent for 2018. The key drivers will be improving consumer spending and robust merchandise exports. Consumer spending is likely to continue moderate growth backed by the government's efforts to boost private consumption, while a trend of recovery in major economies should help boost the nation's exports. There are some downside factors, however, such as a slowdown in domestic construction investment and a substantial contraction in equipment investment.

Consumer Spending

Consumer spending is expected to rise by 2.7 percent, continuing a growing trend backed by the government's stimulus measures and weakening savings demand. Moreover, a significant improvement in the inter-Korean relationship could further boost consumer spending. Yet the increasing burden of household debt payment and a delayed improvement in job market conditions could limit any pick-up in consumer confidence.

Equipment Investment

Equipment investment growth is projected to slow down to 2.9 percent in 2018 following a sharp turnaround in the previous year. The IT sector, which led a 14.6% jump in 2017, is the main factor of the drastic downturn in overall equipment investment, and this slowdown trend is likely to continue into the coming year. However, non-IT sectors will show modest growth in their investment spending, including some new investments in new and eco-friendly technologies by the communications, motor, and petrochemical sectors.

Construction Investment

The strong pace of expansion in construction investment in the past several years seems to be over now. The nation's construction investment is expected to decline by 0.2 percent in 2018. In particular, the housing sector is slowing down rapidly as a large number of housing starts between 2015 and 2016 are now turning into completions. The non-housing sector is also experiencing a decrease in construction starts, and a cut in government spending on infrastructure is expected to render civil engineering works sluggish.

Employment

Around 260,000 new jobs are projected to be created in 2018, down from 320,000 in the previous year. In spite of a slumping construction sector, the unemployment rate is expected to remain at 3.8 percent, while the employment rate is projected at 61 percent. With improving exports, employment in the manufacturing industry will likely improve, but only at a gentle pace due to sluggish production in some sectors. In the service sector, new jobs will be added by the government's policy to spur job creation and a recovery in the number of incoming tourists.

Inflation

The nation's consumer price inflation is forecast to remain at 1.6 percent in 2018, down from 1.9 percent in 2017. The core inflation rate, which strips out volatile food and energy prices, is projected at 1.6 percent. Agricultural prices are likely to move upward, recovering from a large drop in the prior year. Also, public utility prices are expected to show a moderate increase due to the oil prices that have recently risen, but the extent of the increase will be limited due to the government's policy to stabilize prices. Still, it is possible that an increase in shale oil production may put a brake on the rising international oil prices. A slowdown in rent increases amid the growing supply of new apartments could also counterbalance some of the inflationary pressure.

Current Account Balance

Korea's current account surplus is anticipated to decrease to USD 70.5 billion in 2018, compared to USD 78.5 billion in 2017. Global economic recovery will expand the nation's exports, leading to an overall positive balance in the merchandise account. Also, exports in the service sector will rebound following a sharp decline in 2017 mainly due to an improving travel sector, contributing to reducing the nation's service account deficit.

Interest Rates

In 2018, the average three-year government bond rate is expected to increase marginally to 2.1 percent. As is widely expected in the market, the nation's benchmark interest rate will likely be raised over the course of the year. A tightening monetary policy by the U.S. Federal Reserve (Fed) may also push up market interest rates in Korea, but the rise will be only limited unless local economic conditions improve drastically.

Foreign Exchange Rate

The average KRW/USD exchange rate is projected at KRW 1,150 in 2018, slightly up from KRW 1,141 in 2017. The U.S. dollar is expected to gain some strength due to the government's economic stimulus programs and the monetary policy normalization by the Fed throughout the year. However, the upward pressure on the exchange rate may be limited as a potential boost for the dollar will be mostly outweighed by other central banks' move toward monetary policy tightening. Furthermore, the recovery trend of the global economy could curb demand for U.S. assets, leading to the dollar's weakness. Meanwhile, reduced geopolitical tensions involving North Korea have significantly decreased the volatility in the foreign exchange market.

Key Economic indicators

(Unit: %)

	2016	2017	2018 (E)		
			First Half	Second Half	Annual
Real GDP	2.8	3.1	3.0	2.9	3.0
Consumer Spending	2.5	2.6	3.1	2.3	2.7
Equipment Investment	-2.3	14.6	5.0	0.9	2.9
Construction Investment	10.7	7.6	1.6	-1.8	-0.2
Unemployment Rate	3.7	3.7	4.1	3.4	3.8
Current Account Surplus(USD billion)	98.7	78.5	28.0	42.5	70.5
Exports	2.1	3.8	2.8	4.3	3.6
Imports	4.5	7.4	2.9	3.7	3.3
Consumer Price Inflation	1.0	1.9	1.4	1.7	1.6
Three-year Treasury Yield	1.4	1.8	2.0	2.2	2.1
USD/KRW Exchange Rate (Won)	1,161	1,141	1,153	1,146	1,150

(Sources: Bank of Korea, Korea Institute of Finance)

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	0.49	0.32	0.17
	Non-Life Insurers	1.47	1.45	0.02
	Total	**0.73**	**0.59**	**0.14**
ROE	Life Insurers	5.73	3.73	2.00
	Non-Life Insurers	11.46	11.21	0.25
	Total	**7.61**	**6.15**	**1.46**

(Source: Financial Supervisory Service)

Total Assets and Shareholders' Equity

(Unit: KRW trillion)

		FY 2017	FY 2016	Change (%)
Total Assets	Life Insurers	833.0	782.1	6.5
	Non-Life Insurers	277.0	252.0	9.9
	Total	**1,110.0**	**1,034.1**	**7.3**
Shareholders' Equity	Life Insurers	72.3	65.8	9.9
	Non-Life Insurers	35.2	32.5	8.5
	Total	**107.5**	**98.2**	**9.5**

＊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)