

KOREAN INSURANCE MARKET FACING  
NEW ERA OF UNLIMITED COMPETITION

by Chan-jin Kim

The Korean insurance industry has steadily grown since the 1960s, the beginning of Korea's economic development, to the point where it now ranks as the sixth largest in the world in terms of premium volume. The recent expansion of governmental welfare policies and the increase in the aging population as well as frequent major accidents have lead the public to be more aware of future risks and insurance. As a result, the sales of annuity plans, security-type protection term insurance plans and severe illness protection insurance (e.g. cancer) have increased.

With this rapid growth, the insurance business environment has changed tremendously. The establishment of the WTO and Korea's joining the OECD has had an unprecedented impact on the Korean insurance industry. For instance, the introduction of a broker system, the liberalization of the reinsurance industry, the abolishment of the economic needs test (ENT), the extension of cross-border trade, and deregulation of products and pricing regulations have fundamentally restructured the

Korean insurance industry.

*Overview of the Life Insurance Industry*

Korea's life insurance industry has ranked as the 6th largest market in the world since the year 1989, following Japan, the U.S., the U.K., France and Germany in terms of premium income, despite its relatively short history of a half-century and the deteriorating economy. The ratio of premium income to the GDP is generally considered to represent the importance of insurance within a nation; according to this, Korea ranks as the third highest in the world. Due to the high savings rate and extensive awareness of risks, the life insurance industry ranks high in comparison with other economic sectors.

Looking at the business results for fiscal year (FY) 1995 (95.4~96.3), it can be seen that, while the rate of growth of new business slackened a little, growth rates of both premium income

*"Due to the high savings rate and extensive awareness of risks, the life insurance industry ranks high in comparison with other economic sectors."*

<Table 1> The Life Insurance Markets's Key Statistics

(unit: trillion won)

FY	New Business	Premium Income	Claims Paid	Total Assets
92	383.1	22.6	17.6	45.2
93	453.3	24.1	19.8	50.2
94	584.8	27.7	20.0	57.7
95	672.8	35.3	22.4	69.7

*"Both the life and non-life insurance industries have fared well recently due to economic, social and demographic factors."*

and assets were higher than those of the previous year. New business written during the year marked 672.9 trillion won, a growth rate of 15.1% over the year before. Premium income amounted to 35.3 trillion won, representing a 27.2% increase over FY94, mostly due to the rapid increase in single premiums affected by the introduction of comprehensive taxation on financial income and the high growth trends in employee severance pay and other group plans. Claims paid totalled 22.4 trillion won, a rise of 12.3% over FY94. Total assets reached 69.7 trillion won (80 trillion won at the end of 1996) in FY95, a growth rate of 20.8% over the previous year. Thus, the industry has maintained a consistent growth trend year after year.

#### *Overview of the Non-Life Insurance Industry*

The non-life insurance industry has recorded vigorous growth in a sea of political, economic and social changes along with the development of the national economy. The Korean non-life insurance industry has grown to rank number eleven in the world in terms of direct premiums in FY94.

With the growth of automobile insurance, long-term insurance and individual pension insurance, direct premiums stood at 10.9 trillion won or 31.4% more than the year earlier. Also, earned premium also increased to mark

9.8 trillion won, a 30.6% rise over the previous year. Net income returned to the black at 132.7 billion won and the non-life insurance companies (currently 11 domestic firms operating) that had suffered from severe deficits for the past five years managed to go back into the black. Direct claims paid totalled 5.6 trillion won, an increase of 12.2% over the year earlier, which is 19.2 percentage points lower than the 31.4% increase of direct premiums. Total assets marked 12.7 trillion won (15.4 trillion won at the end of 1996), a 32.6% increase over the year earlier, but the investment income rate dropped by 1.4 percentage points from previous year because of the drop in interest rates following financial liberalization and the sluggish stock market.

#### *Challenging Times Lying Ahead*

As was mentioned earlier, both the life and non-life insurance industries have fared well recently due to economic, social and demographic factors. The approaching globalization, liberalization and deregulation, however, are forcing insurance companies to change their previous business attitudes to cope with the new challenging era.

First, since April of 1994, the insurance industry has been implementing rate liberalization step-by-step, which will be completed in 1998. The free rating system was introduced in

<Table 2> The Non-Life Insurance Markets's Key Statistics

FY	Direct Premium	Earned Premium	Claims Paid	Assets
94	8.3	7.5	5.0	9.6
95	10.9	9.8	5.6	12.7

(unit: trillion won)

April 1996 only for limited lines of non-life insurance, but it is scheduled to be implemented next year for all lines of non-life insurance. In life insurance, rate liberalization is taking place in two stages, being divided into policyholders' dividends and premiums. The free-rating of interest dividends is being implemented this month, and the liberalization of expenses dividends will take place in or after 1998. In non-life insurance, most rating systems are being converted into free-rating systems after two years of using a range-rating system, except for automobile insurance and long-term non-life insurance.

Second, a liberalization schedule for the Korean insurance market was announced on Dec. 1, 1995 by the government to promote domestic insurers' international competitiveness and to improve policyholders' benefits and interests, in preparation for Korea's OECD membership. Most of these liberalization programs will be implemented this year. The major measures are as follows: 1) Introduction of a broker system and overseas liberalization; 2) Liberalization of the reinsurance industry; 3) Abolishment of the economic needs test when evaluating the qualifications of new entrants to the insurance industry 4) Approval for cross-border selling of any foreign life insurance products and most types of non-life products.

All these changes in Korea's insurance environment, which imply the advent of unlimited competition, demand the Korean insurance industry's hard efforts and reforms. Namely, the past circumstances of less competition among insurers due to fixed rates of premium and a mostly closed market have changed by the liberalization of rates and the opening of the market such that each insurer should develop new management strategies if it is to survive and prosper.

### *Suggestions for the Insurance Industry*

The liberalization and opening of the domestic insurance market will obviously bring greater competitive challenges from foreign insurers as well as hot competition among the domestic insurers. The industry should strengthen its competitiveness to prepare for the new environment in the insurance industry by introducing more substantive management concepts, reinforcing its capabilities, strengthening its solvency margin and improving underwriting techniques.

In addition, the market must be widened and soliciting organization needs to be developed. Enhanced efforts should be focused on the development of new business lines that have the functions of savings and investments, recruitment and training of skilled personnel, and the creation of an advanced insurance distribution system through media such as telemarketing or internet-marketing.

Also, customers must be provided with effective services. It needs to be recognized that customers should be given the best quality services by the industry as its function is to provide insurance coverage to society. Since restrictions on product sales are being lifted along with liberalization, it is necessary that new products reflect diversified customers' needs as much as possible.

Overall, the opening and liberalization of the insurance market mandates a new phase of business management. The company that overcomes these challenges wisely will flourish because the domestic insurance market will be widened with the continued development of the economy. On the other hand, the possibility of falling by the wayside will increase due to the coming intensified competition among domestic and foreign insurers in the market. **VIP**

*(Chan-jin Kim)*

*"Introducing more substantive management concepts, reinforcing its capabilities, strengthening its solvency margin and improving underwriting techniques."*