KOREAN INSURANCE MARKET

2019 in Review

The Korean insurance market has been suffering due to prolonged low growth, interest, and fertility rates, as well as an aging population. It is now faced with greater hurdles amid the challenging economic conditions of the present. A steep rise in medical reimbursement and motor loss ratios—plus various regulatory requirements—are adding more challenges to the current insurance market.

In 2019, premium income generated by both life and non-life insurance is estimated at KRW 212.76 trillion, up 5.4% year on year. Overall profitability continued to decline, with the return on equity (ROE) falling to 4.41% in 2019, from 6.66 % in 2018.

Life insurance premium income in 2019 rose 5.8%, driven largely by an increase in premium incomes in protection and retirement annuities, while non-life insurance premiums grew 4.9% from the previous year backed by long-term, motor, retirement annuities, and general property and casualty (P&C) lines of business.

Premium Income

(Unit: KRW trillion)

	FY 2019	FY 2018	Change (%)
Life Insurers	117.26	110.84	5.8
Non-Life Insurers	95.50	91.07	4.9
Total	**212.76**	**201.91**	**5.4**

(Source: Financial Supervisory Service)

The entire insurance industry in Korea reported KRW 5.34 trillion in net income for 2019, plummeting 26.8% from a year earlier. Life insurers saw their net income fall by 22.8%, to KRW 3.11 trillion, mainly due to greater underwriting losses (KRW 782 billion). This was mainly the result of an increase in required capital reserve for guaranteed payments amid a drop in interest rates, as well as the underperformed investment income for the year after one-off gains from the Samsung Electronics share disposal by Samsung Life and Samsung Fire & Marine in 2018.

Non-life insurers, despite an increase in investment income totaling KRW 1.39 trillion, saw their net income drop by 31.7%, to KRW 2.22 trillion, mainly due to underwriting losses soaring to KRW 889 billion from the motor line's increased loss ratio and long-term insurance expenses.

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Net Income

(Unit: KRW trillion)

	FY 2019	FY 2018	Change (%)
Life Insurers	3.11	4.03	-22.8
Non-Life Insurers	2.22	3.25	-31.7
Total	**5.34**	**7.29**	**-26.8**

* Individual figures may not add up to the total shown due to rounding.
(Source: Financial Supervisory Service)

In 2019, the decline in net income negatively affected profitability indicators. The return on assets (ROA) ratio of the Korean insurance industry dropped slightly to 0.45%, while the return on equity (ROE) ratio dropped by 2.25%p, to 4.41%. As of the end of 2019, total assets of the insurance industry rose by 7.2% year on year, to KRW 1,238.92 trillion. Shareholders' total equity of the insurance industry swelled by 15.9%, to KRW 130.0 trillion, fueled by an increase in retained earnings and mark-to-market gains on AFS securities valuation in a declining interest rate environment. Meanwhile, Korea's insurance penetration rate fell slightly to 11.16% in 2019, but its ranking remained high at 5th place in the world.

ROA and ROE

(Unit: %)

		FY 2019	FY 2018	Change (%p)
ROA	Life Insurers	0.35	0.48	-0.13
	Non-Life Insurers	0.72	1.13	-0.41
	Total	**0.45**	**0.64**	**-0.19**
ROE	Life Insurers	3.87	5.55	-1.68
	Non-Life Insurers	5.48	8.86	-3.38
	Total	**4.41**	**6.66**	**-2.25**

(Source: Financial Supervisory Service)

Total Assets and Shareholders' Equity

(Unit: KRW trillion)

		FY 2019	FY 2018	Change (%p)
Total Assets	Life Insurers	918.17	857.20	7.1
	Non-Life Insurers	320.75	298.04	7.6
	Total	**1,238.92**	**1,155.24**	**7.2**
Shareholders' Equity	Life Insurers	87.04	74.00	17.6
	Non-Life Insurers	42.95	38.20	12.4
	Total	**129.99**	**112.20**	**15.9**

(Source: Financial Supervisory Service)

Insurance Penetration Rate

(Unit: %)

	FY 2019	FY 2018	Change (%)
Insurance Penetration Rate	11.16	11.60	-0.44

(Source: Korea Insurance Research Institute)

Prospects for 2020

Protectionism in global trade, along with many nations around the world that have aging populations, is holding back domestic economic growth. In addition, ever-intensifying challenges and structural changes—capital strains on balance sheets ahead of accounting method amendments in line with new global standards, market saturation, and interest rates nearing zero—are weighing on the insurance market's growth momentum.

Furthermore, a soaring loss ratio in motor and medical reimbursement products, as well as increasing expenses, appear to be putting more pressure on profitability. Most recently, due to the outbreak of the coronavirus pandemic, sales activity and volume have seriously been contracted. Consequently, as a result of this adverse development that calls on a policy rate cut by the Central Bank of Korea in response to limiting the economic damage from the coronavirus outbreak, market interest rates are feared to approach near the zero percent rate, posing a downside risk to insurers' investment yield.

In 2020, the entire insurance industry is forecast to remain static, with premium income growth rate assumed at 0.0%, largely affected by a -2.2% growth outlook on the life insurance segment, which is heading toward a contraction for the fourth consecutive year.

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Insurance Market Growth Trends

(Unit: KRW trillion, %)

	FY 2017		FY 2018		FY 2019		FY 2020 (F)
	Premium	Growth Rate	Premium	Growth Rate	Premium	Growth Rate	Growth Rate
Life	113.97	-4.9	110.84	-2.7	117.26	5.8	-2.2
Non-Life	88.34	4.5	91.07	3.1	95.50	4.9	2.6
Total	**202.31**	**-1.0**	**201.91**	**-0.2**	**212.76**	**5.4**	**0.0**
Real Economic Growth	3.1		2.7		2.0		2.1

(Source: Korea Insurance Research Institute, Bank of Korea)

Non-Life Insurance

The non-life segment is expected to grow by 2.6%, a figure lower than the previous year. By business line, long-term insurance is expected to grow by 3.4% due to a slowdown in long-term accident and health premium volume increase, as well as a decrease in protection-type portion. Motor insurance, which is currently experiencing complex factors, including a falling increase rate in the number of registered motor vehicles, de-marketing of premium discount offers, and an increase of online channel proportion, is likely to slightly grow by 0.9%. Overall, general P&C insurance—despite an expected expansion in mandatory insurance, such as elevator liability insurance and cyber insurance—is forecast to grow marginally by 2.8% due to declining trends in trade, construction, and investment activities.

Non-Life Insurance Market Growth Trends

(Unit: KRW trillion, %)

	FY 2018		FY 2019		FY 2020 (F)
	Premium	Growth Rate	Premium	Growth Rate	Growth Rate
Long-term	50.57	3.0	53.10	5.0	3.4
Annuity	14.30	5.9	14.98	4.8	2.0
Individual Annuity	3.55	-5.0	3.38	-4.8	-5.1
Retirement Annuity	10.75	10.2	11.60	7.9	3.9
Motor	16.72	-0.8	17.57	5.1	0.9
General P&C	9.48	6.3	9.85	3.9	2.8
Fire	0.29	-7.2	0.28	-3.4	-4.2
Marine	0.65	-7.6	0.63	-3.1	-1.7
Guarantee	1.86	12.1	1.93	3.8	1.9
Casualty	6.67	6.8	7.01	5.1	3.7
Total	**91.07**	**3.1**	**95.50**	**4.9**	**2.6**

* Individual figures may not add up to the total shown due to rounding.
(Source: Financial Supervisory Service, Korea Insurance Research Institute)

Life Insurance

In 2020, the life insurance segment is expected to see a setback of -2.2% growth, marking its fourth year of decline. The negative growth is attributable to the decreasing rate of protection policies and a continued decline in savings insurance. Protection insurance, adversely affected by whole-life market saturation and a rise in surrenders, is expected to grow only 2.4% year on year. General savings insurance is anticipated to shrink by 9.9% from a year earlier, mainly due to guarantee rate cuts in sync with falling interest rates and strategic de-marketing against potential regulatory changes. Despite efforts to boost sales, variable savings lines are expected to decline by 5.4% year on year amid concerns over the financial market's rising volatility.

Life Insurance Market Growth Trends

(Unit: KRW trillion, %)

	FY 2018		FY 2019		FY 2020 (F)
	Premium	Growth Rate	Premium	Growth Rate	Growth Rate
Protection	41.48	2.1	43.21	4.2	2.4
Savings	33.65	-13.5	31.73	-5.7	-8.4
Retirement Pension	35.71	3.4	42.33	18.5	-1.4
Total	**110.84**	**-2.8**	**117.26**	**5.8**	**-2.2**

※ Individual figures may not add up to the total shown due to rounding.
(Source: Financial Supervisory Service, Korea Insurance Research Institute)