

A Study on Executive Compensation in Korean Insurance Companies

The current low interest rate environment and the introduction of new insurance accounting standard and solvency system, such as IFRS 17 and K-ICS have demanded that Korean insurance company executives enhance firm value by taking a long-term perspective in business. The purpose of executive compensation is to retain competent executives and motivate them to exert their best efforts to improve a value of firm. Therefore, the properly designed executive compensation package can play an important role in long-term growth and development of insurance companies.

Unlike other developed countries, executive compensation in Korean insurance firms is mainly comprised of fixed salary that is not directly tied to performance, thereby resulting in weak relationship between executive pay and performance. In contrast, developed countries have offered executives performance-based incentive pay by using stocks and stock options in order to incentivize them to improve a firm's long-term value. While there has been no disclosure of detailed information on the process and method for determining executive compensation for Korean firms, developed countries have strengthened the disclosure of executive compensation and extended shareholders' participation in executive pay to increase effective shareholder monitoring on executive compensation.

Based on our empirical results and analyses, this study suggests that Korean insurers should consider increasing the proportion of variable pay closely linked to performance and the portion of deferred variable pay in

executive compensation in order to motivate executives to improve financial performance and firm value. In addition, it is essential to increase tenure of CEO in Korean insurance companies (currently less than 3 years) to effectively align their tenure with CEO compensation plans designed for enhancing firm's long-term value. With respect to regulatory aspects of executive compensation, financial authorities should require Korean insurers to publicly disclose detailed information about the process and formula for determining executive pay, and they need to seek ways to extend shareholders' participation in the setting of executive compensation.