

A Study on the Prudential Supervision Framework of Korean Insurance Groups

The recent global financial crisis has brought home to financial supervisors the importance of concerted efforts of international and inter-sectoral cooperation and information exchange between supervisors in charge of global insurance groups. Especially, the importance of group-wide supervision framework with enhanced prudential supervision on global financial groups has received renewed spotlights. This study is based on similar sentiments of searching for a better way to supervise Korean insurance groups focusing on the prudential regulation and supervision.

After thorough reviews on principles and on-going discussions on group-wide supervision and prudential regulation by international organizations and financially developed countries as well as current financial supervision on insurance holding companies in Korea, we suggest three policy changes; the construction of group-wide supervision framework, consideration of group characteristics in assessing available capital and risks, and introduction of ORSA in order to allow tailor-made risk management by insurance groups.

Especially, for the improvement of prudential regulation of insurance groups in Korea, first, an insurance group should be treated as an economic entity and group-wide supervision framework should be introduced in capital regulation of insurance holding companies. Second, group-wide consolidation including non-financial manufacturing subsidiaries should be used in capital adequacy assessment of insurance groups to reflect group's true risks and available capital.

Finally, diversification effects and quality of capital should also be taken into consideration in evaluating group-wide capital adequacy.