Insurance Industry Outlook and Issues 2015

This report provides growth projections in 2015 for the insurance industry as well as the Korean economy.

In 2015, the Korean economy is expected to grow by 3.7%, increasing by 0.2%p over 2014, due to a slow recovery trend of private consumption. Since economic growth rate is expected to be improved slightly, consumer prices will rise by 2.0%, increasing by 0.4%p over 2014.

In 2015, interest rate of Korea treasury bonds (3-year) will be maintained around 2.6% due to a decrease in the U.S.'s Treasury bond rate and a lowered Korean base rate. In spite of a continuing current account surplus, the won/dollar exchange rate will record 1,040 won, which is similar to 1,049 won in 2014, due to a rise in the U.S.'s Treasury bond rate, a decrease in inflow of foreign investment, and possibility of emerging economies' currency disturbances.

The global risk factors for the economy are the change of monetary policy in the U.S., the slowdown of economic growth in China, and the expansion of the geopolitical unrest. The domestic risk factors for the economy are increasing household debts, corporate debts, and weakened yen.

In 2015, as the base effect of tax-free benefit is disappeared and the surplus of household funds are saved as pension and insurance, the growth rates of both life insurance and non-life insurance will increase over 2014, and premium income will grow to 5.2%, increasing by 1.7%p over 2014.

For life insurance, since premium income of saving type insurance,

guarantee insurance, and group insurance increased steadily, the premium income of life insurance is expected to increase by 5.4%, which is 3.0%p higher than 2014.

For non-life insurance, premium income will increase by 4.8%, which is 0.5%p lower than 2014, due to a low growth of long-term non-life insurance, automobile insurance, and general non-life insurance premiums, as subscription rate of medical insurance has increased.

This report suggests the management issues for insurance companies and the policy issues for regulators, given the changes in the market environment, such as the New Normal era, which is characterized by low growth, low interest rate, and population ageing, and the regulatory changes. The presented management and policy tasks are ① searching for business strategies for New Normal era, ② continuously finding new growth engines, ③ efficiently managing cost, ④ responding to regulatory changes in the insurance industry.

First, the report suggests that insurers should establish the business strategies that strengthen their core capabilities and improve their enterprise values to survive in the new economic and financial situation (the New Normal era). Recent economic and financial situation is not the recession, but it occurred from structural factors such as population ageing, stagnant investment, and deteriorated income distribution structure. Therefore, the business strategy during a low growth period due to structural factors should be different from due to economic recession.

Second, new business opportunities should be found 0and customer-oriented business structure should be established to

maintain the sustainable growth in the new economic and financial situation. Moreover, insurers need to seriously consider overseas business, the market for the aged, and liability insurance market as new growth engines.

Third, in the new economic and financial situation, insurers should sustain their business performances and improve cost efficiency in product development and operation process as well as human resources. In addition, the improvement in the cost structure and the management of expense ratios will be insurers' crucial business priorities.

Fourth, insurers should systematically react to recent changes in financial regulation such as liberalizing insurance premium rate scheme, improving consumer trust, and strengthening solvency regulation. While regulators should make an effort to establish the environment where self-regulation principle can work, insurers should make sure that strengthening self-regulation will not harm consumer rights and sound business conduct.