

Insurance Industry Outlook and Issues 2016

This report provides growth projections in 2016 for the insurance industry as well as the Korean economy.

In 2016, the Korean economy is expected to grow by 2.8%, increasing by 0.4%p over 2015, as exports and capital investment will be improved, while private consumption recovery trend will continue to be stagnant.

In 2016, consumer prices will rise by 1.3%, increasing by 0.5%p over 2015, with a slowdown in decline trend of international raw material prices. Interest rate of Korea treasury bonds (3-year) is expected to rise annual average 2.0% some time after a increase in the U.S.'s Treasury bond rate. In spite of a continuing current account surplus, the won/dollar exchange rate will record 1,180 won due to a rise in the U.S.'s Treasury bond rate and yuan depreciation.

In 2016, the global economy is expected to grow by 3.6%, increasing by 0.5%p over 2015, as developed and developing countries will grow steadily. The global risk factors for the economy are persistence of low growth and the possibility of hard landing in China. Economic downside risk is expected to higher than upside risk.

In 2016, both life insurance and non-life insurance will increase over 2015, and premium income will grow to 7.8%, increasing by 0.7%p over 2015.

To be specific, the premium income of life insurance is expected to increase by 8.6% (without retirement pension 5.2%), which is 1.4%p higher than 2015, since the premium income of personal insurance increased thanks to a rise in the premium income of saving type insurance. Moreover, the premium income of life insurance will grow, if large companies are obligate to have retirement pension policy. The risk factors are a system for reduction in expected rate of interest, which was in effect in 2015, an increase in interest rate risk, a slump in financial markets due to internal and external factors of the financial crisis, and a passage of law for employment

retirement benefit security by mutual agreement between opposing parties.

For non-life insurance, the premium income will increase by 6.8% (without retirement pension 4.4%), which is 0.1%p lower than 2015, due to a low growth of long-term non-life insurance and automobile insurance, and a slowdown in individual annuity and general non-life insurance premiums.

The changes in the environment of insurance industry are: first, continuing low growth and expansion of the uncertainty in the financial markets; second, demographic and household structure changes, and the expansion of interest in the retirement income; third, expanded needs for the insurance industry' social role, financial integration and composite; fourth, financial reform and liability market price valuation system is scheduled to adopt and to cope with this, insurers should consider issues, such as i) developing management strategies in a low growth fixation and risk, ii) responding systematically to financial reform, iii) seeking strategy for small and medium-sized insurers, iv) reacting strategically to IFRS4 Phase II , and v) dealing with financial integration and composite.

First of all, the report suggests that insurers should establish the business strategies accord with the new normal era to respond to low growth and low interest rates. After financial crisis, profitability has deteriorated and the growth has decreased. This is not a temporary phenomenon, rather it is caused by structural factors such as low growth and low interest adhesion, demographic changes, and financial regulations. Therefore, the insurers should enhance the corporate value by changing business objectives from short-term profit to long-term profit. Moreover, this report emphasizes that risk-weighted capital, product development, and asset management strategy should be established under the enterprise risk management system.

Second, the main purpose of financial reform is to enforced the solvency, consumer protection, and market order; however, the regulations related to products and price are self-regulated. As the market competition will be regularized, the insurers

should highlight the unique competitiveness in the field of product development, asset management, and distribution channels. On the other hand, insurance industry confidence should be improved by making market order to be sound through strengthening agents' responsibility.

Third, as low growth adherence and financial reform will affect more to small and medium-sized insurers rather than large insurers, small and medium-sized insurers should differentiate competitiveness based on their own strength and should consider overcoming size inferiority through M&A.

Fourth, insurers should establish a concrete capital expansion plan, as capital is expected to be reduced according with the adoption of liability market price valuation system. The financial supervisory proposed to improve the regulations, which support insurers' IFRS Phase II adoption.

Fifth, convergence and conglomerate among financial companies, such as Internet Only Bank, financial integration and composite, Individual Savings Account (ISA) adoption, and insurance supermarket, have been accelerated; therefore, insurers should improve product competitiveness through capabilities of risk evaluation and should create new added value by utilizing fintech and big data.