

## Insurance Industry Outlook and Issues 2017

This report provides growth projections for the Korean insurance industry in 2017, bases for the projections and recommendation of corporate strategy amid changes in market conditions and financial regulations.

In 2017, industry-level premium income is expected to grow by 2.2%, which is 1.0%p lower than 2016. To be specific, the premium income of life insurance is expected to increase by 1.7%, which is 1.0%p lower than 2016 thanks to the steady growth in protection-type insurance, while the premium income of non-life insurance will increase by 2.9%, which is 0.9%p lower than 2016 mainly due to the growth in auto insurance.

The bases of the projection are population aging, low economic growth and low interest rates, changes in financial regulation and corporate strategy. Population aging can be both risk and opportunity for the insurance industry as increase in life expectancy can increase the insurance demands although the exposure to longevity risk becomes bigger. Prolonged low interest rate environment due to low economic growth adversely affects the investment profits of insurers. And the strengthening financial regulation after the global financial crisis such as IFRS 17 and the advent of new solvency regulation require insurers to adjust their corporate strategy and goals.

Insurers are required to focus more on long-term corporate values rather than short term profits and align their evaluation and compensation schemes for senior managements to long-term values of the company. In order to achieve the new strategic goals, insurers should focus more on managing risks, capital and expenses to drive the corporate values up.

Specifically, we suggest de-risking by introduction of fees for the guaranty of minimum interest rates, management of capital structure in new market-price accounting system that will reduce capital, LDI considering returns as well as risks amid low

interest rate environment and FDI for better returns abroad, new profit sources such as financial advice for the affluent and compensation scheme for used car market and new channel strategy linking customers, products and channels to better serve the market segments refined in terms of income and assets of customers.