Korea Life Insurers’ Financial Integration: Current and Implications

It has been 10 years for Korea life insurers to get licence for financial advisory and trust business, in other words, asset management business. The reason why Korea government granted asset management business for life insurance companies was to respond financial demand changes due to population aging and to find another growth engine for life insurers.

As demands for pension and annuities has been growing with separate account asset financial advisory and administration fee income of life insurers regarding policy holders’ accumulated assets has been growing. The share of fee income out of revenue in 2016 is around 4%, which is huge number compared to 0.29% in 2001. We analyze U.S. life insurers’ fee income relevant to separate account asset management, which is around 7.2% in 2016 for life/annuity industry and average fee income ratio to revenue out of 19 big insurers is around 22.1%. Although there exists some different aspects with respect to population aging, financial demand, capital market size, fee structure, fee income of Korea life insurers’ separate asset management is expected to be a new growth engine.

In order to find some implications whether Korea insurers are allowed to run bank for payment settlement system, we compare business performance for 19 big insurers by two groups: one is insurers with bank subsidiaries and the other is insurers without bank subsidiaries. Estimation results show that there is no sufficient evidence to say that banking subsidiary contributes insurer’s return on equity.

Based on these results, we conclude that life insurers’ separate account asset
management would be a new growth engine when pension/annuity market matured with life insurers financial advisory capacity enhanced. Lastly, fee structure on financial advisory and/or asset management needs to be organized.