Insurance Industry's Financial Service Diversification for Surviving a New Financial Environments

Financial markets has become a financial supermarket in which various kinds of financial services are integrated and diversified due to financial consolidation and conglomeration along with financial deregulation for a few decades.

In Korea, however, financial industry has been significantly restructured since 1997, but financial consolidation and conglomeration has not been fully developed as of U.S., U.K., and European Union, and their financial services are not diversified. For example, financial companies in Korea are smaller in size to compete with financial companies in developed countries. Also, the income sources are not well diversified, either; the share of banks' non-interest income is only about 20%, most of securities companies' income comes from brokerage operation, and insurance companies also restrict themselves to limited traditional insurance businesses.

In addition, Korea encounters a new financial environment; Korea is already an aging society and will become an aged society in less than two decades; carbon finance emerges as one of promising businesses in near future.

Thus, for Korea, it is generally accepted that financial consolidation and integration of financial activities should be sustained in spite of the global financial crisis, and financial companies should diversify their operations for surviving a new financial environment.

This report aims to provide guidelines and suggestions for sustainable growth of financial companies, especially insurance
companies. First, they should provide asset management services. Second, they should develop an integrated insurance product such as variable life insurance with an embedded option. Third, they should provide a pension fund management program. Fourth, they should explore an alternative risk transfer market and provide more various surety products. Finally, they should be capable of transferring money directly from an insurance account by participating the net clearing system.