Assessment on Domestic Life Insurers’ Liability: A Interest rate Sensitivity(Duration) Approach

The Korean Insurance industry poses major challenges encompassing the persistent period of low interest rate environment, an introduction of market-consistent accounting such as International Financial Accounting Standard(IFRS) 17 and International Capital Standard(K-ICS) for solvency regime, etc. Along with these challenges, the return of major advanced countries’s monetary policy to normalcy makes matter worse to our insurance industry in terms of heightening uncertainty of the shape of the domestic yield curve in terms of level, slope and curvature. The shape of the yield curve plays an important role in the calculation of interest rate sensitivity of liabilities with long range of maturity. Our report provides a market-consistent framework of the calculation of the present value of insurance liabilities and the corresponding interest rate risk in terms of duration. The major empirical finding derived from our model is that the duration of the liabilities in the major life insurers in Korea are estimated to be about 15 years.