A Study on How Insurance Companies Can Contribute to the Funeral Services Market

Together with the recent spread of the funeral services market, the moral hazards and crimes from some funeral service providers have been provoking a stream of complaints from consumers. Thanks to the Installment Transactions Act enforced in 2010, the funeral services market in Korea is expected to be healthy, but there still exist concerns that consumers may get additional losses since many funeral service providers are unlikely to meet the requirements by the Act.

Under these circumstances, there are growing voices that insurance companies should enter the funeral services market with funeral insurance products. As such, this report is motivated to discuss the social needs of insurance companies’ participating to and the ways of contributing to the market.

In this report, we evaluate the strengths, weaknesses, opportunities, and threats when insurance companies join the market, and identify what risks they are faced with. Additionally, in order to take the risk that the funeral service providers provoke, we suggest that insurers outsource one of the providers or make it a subsidiary. Although a clear authoritative interpretation is somewhat reserved, there exists a legal basis on making a funeral service provider an insurer’s subsidiary simply by written notification.

Meanwhile, considering the providers’ continuous moral hazards, the report suggests that the financial supervisory authorities directly regulate and supervise the providers, leading to enhance their
financial soundness, and that they enact standard regulations for funeral services.

Finally, we are expecting that insurance companies’ participation in the funeral services market will eliminate quickly potential risk factors and moral hazards that the providers have generated, leading to regain the soundness of the market. In addition, it is expected that in such a market, fair competition and close cooperation between insurance companies and funeral service providers will improve market efficiency, and all the resulting benefits will get back to consumers.