Insurance Industry Outlook and Issues 2012

This report tries to provide various growth projections in 2012 for the life and non-life insurance industry, along with the Korean economy.

According to our growth projections, the real gross domestic product of Korea is forecasted to grow by 3.5 percent, down 0.2 percentage points from 2011 due to a continuous slump in domestic demand and export trade in the aftermath of the ongoing global sovereign debt crisis. However, assuming that the debt crisis may get somewhat solved in 2012, a strong preference for risk-free asset is likely to moderate, leading to a rise in yields on Treasury bonds and a fall in KRW/USD exchange rate by a small margin.

Meanwhile, the total insurance premium income of the life and non-life insurance industry in fiscal 2012 is likely to increase by 11.2 percent because of a continuous increase in savings-type insurance and retirement pension plan.

Specifically, the total premium income of life insurance companies will increase by 8.5 percent in fiscal 2012, up 2.3 percentage points from the previous year. The reason for this is that it is expected to continue a sharp increase in savings-type insurance (a 10.0 percent increase) and retirement pension plan (a 27.5 percent increase). In addition, it is likely to change into a positive growth of 2.2 percent in protection-type insurance with an expansion of new product releases. Group insurance is expected to grow by 23.2 percent with the sharp increase in retirement pension plan.

On the other hand, the total direct premiums written (hereafter,
premium income) of non-life insurance companies are likely to increase by 15.1 percent in fiscal 2012 because we expect a good performance of long-term insurance, annuity, and retirement pension plan. In terms of premium incomes by line of business, long-term insurance will grow by 15.4 percent with a strong growth trend in savings-type, casualty insurance, and so on. Thanks to a change in regulations, for instance, an increase in tax-qualified amount to 4 million won, the pension sector including retirement pension plan will grow by 38.7 percent. In contrast, automobile insurance is likely to end up in a growth rate of 5.5 percent because despite an increase in big and expensive cars and an obligation to insure scooters under 50 cc, it might be probably difficult to raise premiums of automobile insurance, along with a slowdown in car registration increase. Besides, short-term non-life insurance will grow by 6.6 percent since we anticipate a slowdown in marine and casualty insurance from the likelihood of economic slump in 2012.

In order to get around some problems with which the insurance industry may be faced under these business circumstances in 2012, we provide the following four suggestions in the report: (a) strengthening a sound management including risk management, (b) managing longevity risk and controlling excessive medical treatment, (c) reinforcing education for insurance consumers and implementing insurer’s social responsibility, and (d) coming up with effective plans for dealing with changes in regulation.

More specifically, it is first suggested that insurance companies be managed soundly, along with risk management. That is, they should be ready to cope with a serious decrease in insurance demand from a
slowdown in the economy and household debt problems in 2012. Also, they are required to monitor home loans, along with refraining from excessive competition for insurance interest rates.

Second, owing to the aging population rapidly increasing in Korea, it seems that insurance companies will be more exposed to longevity risk with a rapid increase in medical expenses. As such, they are required to manage longevity risk more systematically and make an effort to control excessive medical treatment.

Together with a growing trend towards consumer protection, it becomes important to strengthen consumers’ capability to understand financial products which have been becoming more complicated. In this regard, we suggest that insurance companies participate more actively in educating insurance consumers. In addition to this, insurers need to provide them with all the comfort and convenience for purchasing insurance, along with continuing support for the vulnerable to insurance.

Meanwhile, it is likely that there will be the Korean Financial Supervisory Service’s action in fiscal 2012 to reduce commissions on insurance solicitors’ sales of savings-type insurance, leading to a decrease in incomplete sales and an increase in continuous contract rate. Moreover, the action is likely to contribute to enhancing insurance solicitors’ settlement rate in the long run, leading to improving their professionalism and income. Finally, in this report, we suggest effective plans available for the enforcement of the Privacy Act as of September 30, 2011 because the Act prevents insurance companies from accessing data about persons involved in insurance accident, leading to a difficulty in uncovering insurance frauds.