A Study on the Entry and Exit in the Korean Insurance Market

This report evaluates entry and exit regulations in the Korean insurance industry and provides reform proposals, using international standards as a reference. Since entry and exit regulations affect the market structure, market conduct, and market performance of the industry, such regulations play a crucial role in ensuring competition amongst the insurers, improving efficiency of the market and thereby, increasing the social welfare.

Despite several deregulation measures, such as elimination of the ENT(Economic Needs Test), introduction of individual insurance-line licensing, and the introduction of exit criteria, entry and exit are rarely observed, while anti-competitive practices are often observed in the Korean insurance market.

We provide an overview of the history of entry and exit in the Korean insurance market since 1980s, and analyse the current market in the context of market structure, conduct, and performance. While both the life insurance market and the non-life insurance market are moderately concentrated, there exists wide disparities in the profitability across company groups: big, small and medium sized companies, etc. Also, we compare the regulations on entry and exit of the Korean insurance market with those of other countries.

In order to enhance consumer protection, develop the insurance industry, and make the current regulation more compatible to the global standard, we suggest several regulatory reform proposals.
Regarding entry regulations, first, for clarificatory purpose, the types of insurance businesses need to be modified. Second, more types of companies other than stock companies, mutual companies, and foreign insurers, such as captives and small sized companies, should be included. Third, application documents required for license should be simplified. Fourth, the capital requirements for license need to be reduced. Lastly, room for discretionary decisions of regulators should be minimized.

As regards exit regulations, first, the transfer of contracts criteria needs to be clarified. Second, the priorities for disposal of assets should be well defined. Third, the transparency of the exit regulations should be improved.