Insurance Industry Outlook and Issues 2013

This report tries to provide various growth projections in 2013 for the life and non-life insurance industry, along with the Korean economy.

The real gross domestic product of Korea is forecasted to grow by 2.5 percent, which is merely up 0.4 percentage points from 2012 due to a sluggish domestic demand and export trade in the aftermath of the ongoing global sovereign debt crisis. Decrease of GDP gap, which is defined real GDP less potential GDP, and a strong preference for risk-free asset are the main driving forces to a fall in yields on Treasury bonds. Relatively viable Korea economic performance compared to developed nations’ economy will lead strong Korea Won relative to US dollar.

Meanwhile, the total insurance premium income of the life and non-life insurance industry in fiscal 2013 is likely to increase by 6.5 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 3.8 percent in fiscal 2013, down by 2.7 percentage points from the previous year. The reason for this is that it is expected to slow down the speed of growth in savings-type insurance and retirement pension plan. In addition, it is likely to change into a positive growth of 1.4 percent in protection-type insurance with an expansion of new product releases. Group insurance is expected to grow by 5.1 percent with the complete transition of retirement insurance into 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 10.3 percent in fiscal 2013 because of running insurance premium in long-term insurance, annuity, and retirement pension plan. In terms of premium incomes by line of business, long-term insurance will grow by 12.1 percent with a strong growth trend in savings-type, casualty insurance, and so on. The pension sector including retirement pension plan will grow by 16.1 percent due to the steady needs of retirement income. In contrast, automobile insurance is likely to end up in a growth rate of 2.8 percent. Despite an increase in big and expensive cars and an obligation to insure scooters under 50 cc, it might be difficult to raise premiums of automobile insurance, along with a slowdown in car registration increase. Finally short-term non-life insurance will grow by 7.9 percent due to the low growth rate of marine and casualty insurance resulting from the sluggish economic growth in 2013.

In order to get around some problems with which the insurance industry may be faced under these business circumstances in 2013, we provide the following four suggestions in the report: (a) leveraging up population aging, (b) strengthening reinsurance business, (c) Scenario strategic management and asset management under low interest rates, and (d) business practice innovation responding to consumer protection trends.

More specifically, it is first suggested that insurance companies should be leveraging up the strong growth of private pension market including private health insurance and retirement pension market.

Second, in response to the rapid reinsurance industry circumstance
changes, it seems that insurance companies should strengthen reinsurance business and turn it into new growth engine.

Third, insurance companies should be prudent in asset-liability management in the phase of low interest rates in order to keep profitability and capital adequacy. Along with asset-liability management, they should come up with versatile asset management strategy under the probable economic situations. Specifically, insurers should not be inclined to go with more risky asset investment in order to make up investment income loss.

Lastly, with the strong trend towards consumer protection, insurers should actively respond to it in order to achieve sustainable growth. Insurance companies should arrange themselves to minimize compliance risk regarding the legislation of Financial Consumer Protection Law. In the long run, insurers should change their old fashioned business practice into the one that centers around financial customers.