A Study of Profit Structure of Insurance Companies

Korean insurance industry has overcome negative spread due to low interest with profit structure of the operational margin-based. But the profit structure of the operational margin-based was consistently criticized by public and media.

However the selection of the profit structure based on operation margin was unavoidable because of premium calculating framework and accordingly a direct or indirect regulation. It was not allowed for insurance companies to have enough safety margin in expected mortality/morbidity rates and expected interest rate was not freely chosen, either.

The current profit structure can not make enough margin to keep financial soundness and seems to be unable to develop a variety of products like Japan and can not effectively respond to population aging.

Insurance companies are required to change the profit structure to one based on mortality margin which can get confidence from public. The structure based on mortality margin will make insurance companies to enhance the basic capabilities of various product development, underwriting skills, claim management.

This can be achieved by mitigating the insurance regulation about safety margin as removing upper bound of safety margin and considering trend risk.