A Study on the Capital Management Capacity of Korean Life Insurers

The decline in interest rates since the global financial crisis has reduced the real capital of many life insurers. This decrease in the real capital is not disclosed in the current accounting system, but in IFRS 17, which will take effect in 2021, the reduction in the real capital will be revealed through the market valuation of insurance liabilities. Also, the sensitivity of capital to interest rates of life insurers whose assets and liabilities are not well matched is expected to increase by the implementation of the insurance liability market valuation system (IFRS 17 and K-ICS). How to manage capital in response to the insurance liability market valuation system has become the most important issue for Korean life insurers.

This report analyzes the capacity of capital management of Korean life insurance companies. Diagnosing the capital management capacity of Korean life insurers can have important implications for the financial authority as well as life insurers. For the stable implementation of the insurance liability market valuation system, the financial authority needs to find complementary measures to ensure that capital requirements for regulatory change do not exceed the capital management capacity that the life insurance industry can afford.

The analysis shows that about 4 to 5 medium and large life insurance companies seem to have low capital management capacity. These companies are in the black, but their needs to raise capital are high, and the capital injection capacity of their controlling shareholders seems low. If they cannot cope with the impact of the insurance liability market valuation system, the stable implementation of the system will not be guaranteed. The financial authority needs to find ways to make soft landings of these companies.