

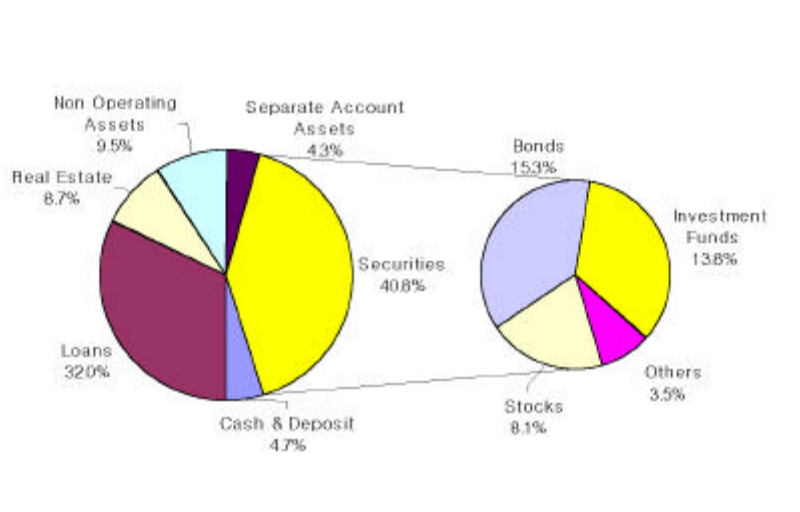
Life Insurance Industry

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Balance Sheet

Total assets of life insurance companies in FY 1999 amounted to KRW 110,295 billion, which increased by 19.2 percent over the previous year. This growth is attributed to the increase in policy reserves, the public funds brought in by the Korean government's restructuring program, and the additions to separate account assets.

Asset Portfolio in Fiscal 1999



Assets of life insurance companies are largely composed of financial instruments such as stocks, bonds, loans, and real estate. About 40 percent of life insurer assets were held in securities in FY 1999. The investments in securities amounted to KRW 32,301 billion in FY 1998 and KRW 44,946 billion in FY 1999, respectively. They were an increase of 37.6 percent and 39.1 percent in each year and much higher than a 9.8 percent rise in FY 1997. This significant increase can be explained by the stock market recovery after the economic crisis.

Loans accounted for 38.4 and 32.0 percent of total assets in FY 1998 and 1999, respectively. Holdings of loans have sharply decreased since FY 1998.

The reason for the significant increase of non-operating assets in FY 1998 can be explained by the fact that the unamortized acquisition cost was allocated in non-operating assets by the revision of the accounting regulation. Separate account assets and liabilities meaning the assets and liabilities, respectively, were created by the selling of occupational pensions introduced on April, 1999.

Insurance Contracts Trend

Premium income written by the new business contracts in FY 1999 amounted to KRW 265,619 billion, a decrease of 9.9 percent over the previous year. The decrease is caused by the major companies, not by the new entrants of which premium income increased by 11.8 percent over the previous year.¹⁾

The amount of lapses and surrenders decreased from KRW 251,536 billion in FY 1998 to KRW 178,557 billion in FY 1999. This decline can be explained by the low interest rate, the growth of householder earnings, and the maintenance-oriented strategy of insurance companies. However, the maintenance rate varies considerably between the major companies and the new entrants. The latter shows significantly higher maintenance rate than the former.

Business in force represents all the existing and new policies excluding those that have been terminated owing to maturities, lapses,

1) The Korean life insurance companies can be classified into two groups: the major companies and the new entrants. The major includes the largest six companies: KOREA, FIRST, SAMSUNG, HUNGKUK, KYOBO, and DONGAH.

Abridged Balance Sheet

(KRW billion)

Classification	FY'95	FY'96	FY'97	FY'98	FY'99
Asset					
Cash & Deposit	9,586 (13.8)	13,117 (15.7)	13,584 (13.6)	6,507 (7.0)	5,222 (4.7)
Securities	19,202 (27.6)	21,387 (25.7)	23,480 (25.8)	32,301 (35.0)	44,946 (40.8)
Stocks	8,941 (13.6)	10,155 (12.2)	9,195 (10.1)	5,361 (5.8)	8,965 (8.1)
Bonds	9,601 (12.8)	10,875 (13.1)	13,703 (15.1)	7,622 (8.3)	16,888 (15.3)
Investment Funds	-	-	-	17,223 (18.7)	15,247 (13.8)
Others	659 (0.9)	357 (0.4)	581 (0.6)	2,095 (2.3)	3,846 (3.5)
Loans	31,581 (45.3)	38,228 (45.9)	41,770 (47.2)	35,427 (38.4)	35,346 (32.0)
Real Estate	5,116 (7.3)	6,007 (7.2)	7,348 (8.1)	8,644 (9.4)	9,618 (8.7)
Non Operating Assets	4,192 (6.0)	4,550 (5.5)	4,740 (5.2)	9,419 (10.2)	10,441 (9.5)
Separate Account Assets	-	-	-	-	4,722 (4.3)
Total Asset	69,677	83,289	90,921	92,298	110,295
Liabilities					
Policy Reserve	68,658	82,535	90,592	95,062	99,917
Policyholders' Equity Adjustment	-	-	-	-34	2,692
Other Liabilities	1,298	1,652	1,947	2,189	3,199
Separate Account Liabilities	-	-	-	-	4,722
Total Liabilities	69,976	84,216	92,565	97,217	110,531
Stockholder's Equities					
Capital Stock	788	1,041	1,188	1,425	5,527
Capital Surplus	164	164	166	166	329
Retained Earnings	-1,268	-2,143	-3,004	-6,256	-6,724
Capital Adjustment	-	-	-	-254	633
Total Shareholder's Equity	-299	-927	-1,644	-4,919	-235

Note: The figures in parentheses indicate percent of share.

and surrenders. Business in force amounted to KRW 7,019,327 billion in FY 1999, an increase of 13.7 percent over the previous year. Since the rate of lapses and surrenders decreased sharply, business in force could increase although the premium incomes written by the new business contracts decreased.

Insurance Contracts Trend

(KRW billion, %)

Classification	FY'95	FY'96	FY'97	FY'98	FY'99
New Business	250,923 (26.9)	253,669 (1.1)	281,102 (10.8)	289,135 (2.9)	265,619 (-9.9)
Lapses & Surrenders	149,775 (29.6)	181,902 (21.5)	221,474 (21.8)	251,536 (13.6)	178,577 (-29.0)
Business in Force	428,973 (31.3)	505,751 (17.9)	566,382 (12.0)	610,331 (7.8)	701,933 (13.7)

Note: The figures in parentheses indicate annual percent change.

Premium Income by Group

Premium income written by life insurance companies increased steadily until FY 1997. However, the economic crisis at the end of 1997 resulted in a significant decrease of KRW 2,566 billion in FY 1998 compared to the previous year. However, premium income in FY 1999 slightly increased by 0.8 percent over the previous year because of the economic recovery, increase of insurance demand, and decrease of lapses and surrenders.

In the process of restructuring the insurance industry after the economic crisis, four life insurance companies were taken over by financially sound life insurance companies on August, 1998. This resulted in high market concentration in the life insurance industry. The

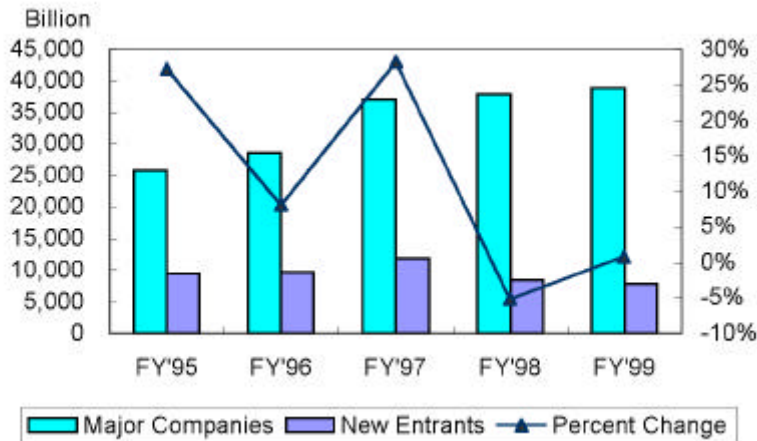
market share of the major companies increased from 75.8 percent in FY 1997 to 81.7 percent in FY 1998.

Premium Income by Group

(KRW billion, %)

Classification	FY'95	FY'96	FY'97	FY'98	FY'99
Major Companies	25,807 (73.1)	28,550 (74.8)	37,127 (75.8)	37,898 (81.7)	38,920 (83.2)
New Entrants	9,482 (26.9)	9,613 (25.2)	11,829 (24.2)	8,492 (18.3)	7,836 (16.8)
Total	35,288 [27.2]	38,163 [8.1]	48,956 [28.3]	46,391 [-5.2]	46,755 [0.8]

Note: The figures in parentheses and brackets indicate percent of share and annual percent change, respectively.



Premium Income by Types

Over the past five years, a remarkable growth has been observed in

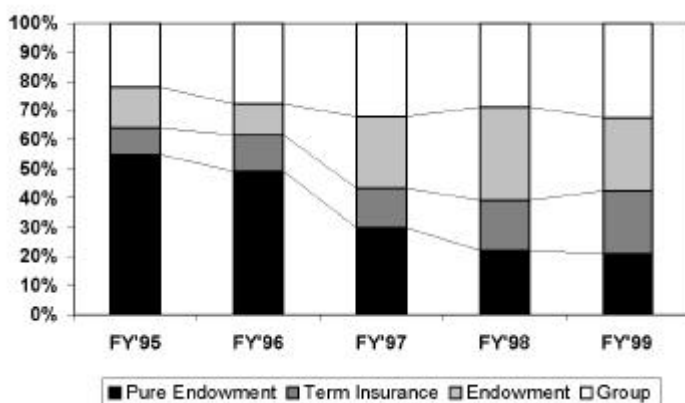
term insurance, especially in FY 1999 due to a high demand of accident and health insurance. However, the premium income of pure endowment has sharply decreased. The share of pure endowment was 62.4 percent in FY 1994 when personal annuities were introduced, but it decreased owing to a high demand for the protection-type insurance policies and a decrease of new contracts of personal annuities.

Premium Income by Types

(KRW billion, %)

Classification	FY'95	FY'96	FY'97	FY'98	FY'99
Pure Endowment	19,331 (54.8)	18,723 (49.1)	14,526 (29.7)	10,211 (22.0)	9,781 (20.9)
Term Insurance	3,243 (9.2)	4,782 (12.5)	6,673 (13.6)	7,925 (17.1)	10,046 (21.5)
Endowment	4,920 (13.9)	4,076 (10.7)	12,065 (24.6)	14,901 (32.1)	11,781 (25.2)
Individual Total	27,494 (77.9)	27,581 (72.3)	33,265 (67.9)	33,038 (71.2)	31,608 (67.6)
Group	7,794 (22.1)	10,583 (27.7)	15,691 (32.1)	13,353 (28.8)	15,147 (32.4)
Total	35,288 [27.2]	38,163 [8.1]	48,956 [28.3]	46,391 [-5.2]	46,755 [0.8]

Note: The figures in parentheses and brackets indicate percent of share and annual percent change, respectively.



The growth of the endowment products in FY 1998 was due to the insurance companies' efforts to increase their liquidity levels to make up for the rapid increase in surrenders during the economic crisis, but the selling of the endowment products sharply decreased in FY 1999.

Group insurance steadily grew until FY 1997. Its market share decreased in FY 1998 because of the business recession, but it recovered to the amount before the economic crisis in FY 1999.

Expenditures

Claims Paid

Over the last four years, the amount of claims paid in life insurance has fluctuated owing to severe changes of surrenders. Claims paid amounted to KRW 24,545 billion in FY 1996, an increase of 9.6 percent over the previous year. It was KRW 41,176 billion and KRW 45,654 billion in FY 1997 and 1998, respectively. This drastic increase was due to a corresponding increase in surrenders during the economic crisis. However, claims paid in FY 1999 dropped by 15.7 percent, reaching KRW 38,490 billion resulting from a decline of surrenders.

Operating Expenses

Operating Expenses of life insurance companies are composed of acquisition expenses, administration expenses, and collection expenses. Operating expenses amounted to KRW 4,906 billion in FY 1998, a significant decrease of 31.6 percent over the previous year. This was due to changes in the insurance industry accounting standards, which allowed acquisition expenses to be treated as deferred payments. The

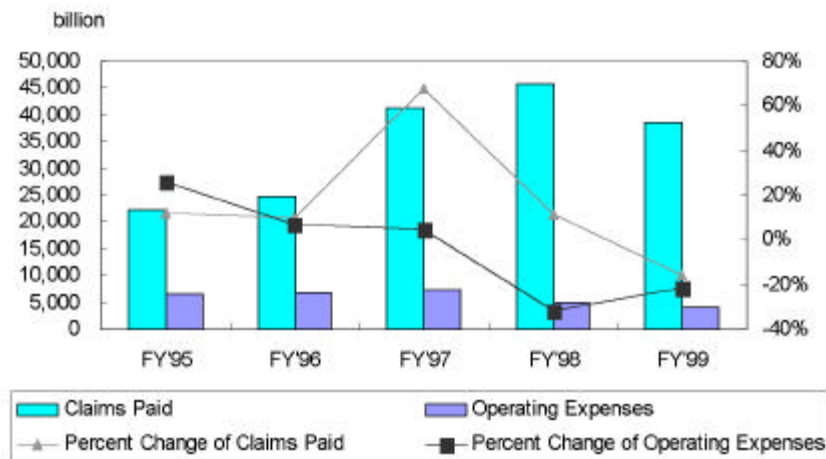
deferred acquisition expenses were KRW 2,398 billion. The acquisition expenses accounted for nearly 70 percent of total operating expenses including the deferred acquisition expenses.

Claims Paid and Operating Expenses

(KRW billion, %)

Classification	FY'95	FY'96	FY'97	FY'98	FY'99
Claims Paid	22,404 (12.3)	24,545 (9.6)	41,176 (67.8)	45,654 (10.9)	38,490 (-15.7)
Operating Expenses	6,419 (25.6)	6,833 (6.5)	7,175 (5.0)	4,906 (-31.6)	3,833 (-21.9)

Note: The figures in parentheses indicate annual percent change.



The operating expenses in FY 1999 also decreased by 21.9 percent over the previous year. This reduction can be explained by insurance companies' efficiency measures and restructuring.

Total Income and Expenditure

Net income (or loss) of insurance companies can be calculated by a summation of the business results of underwriting, investment, and other activities. Whereas loss has been observed in the underwriting and other activities, profit has been realized in the investment activities. Net loss in the underwriting and other activities, which amounted to KRW 6,836 billion in FY 1999, was greater than the investment profit, KRW 6,020 billion. Thus, net loss was observed in the insurance industry.

Total Income and Expenditure

(KRW billion, %)

	Classification	FY'95	FY'96	FY'97	FY'98	FY'99
Income	Underwriting	35,386	38,333	49,142	48,819	41,943
	Investment	6,530	7,584	9,096	10,046	10,607
	Other	43	359	1,694	4,242	263
	Total	41,959	45,953	59,932	63,107	52,812
Expenditure	Underwriting	41,745	45,585	58,156	55,602	47,830
	Investment	724	820	1,973	6,544	4,587
	Other	340	405	623	4,927	1,212
	Total	42,809	46,810	60,752	67,073	53,629
Net Balance	Underwriting	-6,360	-7,252	-9,013	-6,783	-5,887
	Investment	5,807	6,764	7,123	3,502	6,020
	Other	-296	-369	1,071	-686	-949
	Total	-850	-857	-820	-3,967	-816
Tax		0.6	13	26	543	165
Net Income(loss)		-850	-858	-845	-4,021	-981

However, some of the major companies and foreign companies have shown underwriting profit as well as investment profit. Net loss in the industry is thus mainly caused by the new entrants. Their deferred

operating expenses was amortized from FY 1994. Since then the insurance industry has suffered net loss. The other reasons for net loss of new entrants can be explained by two factors: excessive operating expenses and asset portfolio. They spent more in the operating expenses than expected expenses to compete in the industry. The ratio of non-operating assets to total assets held by the new entrants was much higher than the ratio of the major companies, which resulted in relatively low investment profit.

Management Efficiency

The ratio of claims paid, which is represented by dividing claims paid by premium written, was just 63.5 percent in FY 1995, but it increased sharply in FY 1998. This significant increase was due to a corresponding increase in lapses and surrenders during the economic crisis. The ratio recovered slightly in FY 1999.

The ratio of lapses and surrenders is calculated by dividing lapses and surrenders by a summation of business in force at the beginning of the year and new business. The ratio shows a similar pattern to the ratio of claims paid except for FY 1999 in which it decreased significantly to 20.5 percent. The transition from a volume-oriented underwriting strategy to a maintenance-oriented strategy may explain this decline.

The ratio of operating expenses to premium written showed 10.6 percent in FY 1998, a drastic decrease over the previous year. This reduction was owing to changes in the insurance industry accounting standards as mentioned above. The ratio also decreased to 8.2 percent in FY 1999. The decline can be explained by other factors: insurance companies' ongoing cost-cutting and restructuring.

The average yield rate of total assets during the last five years was

about 11 percent which was below the bond yield.²⁾ Owing to the high interest rates during the economic crisis the yield rate of total assets was 11.6 percent in FY 1998, slightly higher than the yield rate in other fiscal years.

Management Efficiency

(%)

Classification	FY'95	FY'96	FY'97	FY'98	FY'99
Ratio of Claims Paid	63.5	64.3	84.1	98.4	82.3
Ratio of Lapses and Surrenders	25.9	26.6	28.1	29.4	20.5
Ratio of Operating Expenses	18.2	17.9	14.7	10.6	8.2
Ratio of Operating Assets	94.0	94.5	94.8	89.8	86.3
Yield Rate of Total Assets	10.8	10.4	11.0	11.6	11.1

Distribution

Sales in the life insurance market are dominated by tied agents (known as solicitors). They work for one company on a commission basis and are supervised by a sales manager. The quality and professional knowledge of solicitors varies between domestic and foreign companies. Whereas the solicitors of foreign companies are full-time trained professionals, domestic companies do not have such caliber. However, domestic companies are nowadays trying to employ highly qualified solicitors to improve efficiency in insurance sales.

2) Yield rate of total assets is computed as " $2 \times \text{Investment Income} / (\text{Assets at the beginning of the year} + \text{Assets at the end of the year} - \text{Investment Income})$ ".

The number of solicitors in the life insurance industry has steadily decreased. It decreased by 30.9 percent to 241,429 in FY 1999 compared to 349,206 in FY 1995. In contrast with the decrease of the number of solicitors, productivity has steadily increased from KRW 101 million to KRW 194 million. However, the increased rate declined from FY 1998.

Distribution

(In Person, KRW million, %)

Classification	FY'95	FY'96	FY'97	FY'98	FY'99
The Number of Solicitors	349,206	323,966	293,398	246,193	241,429
	(3.1)	(-7.2)	(-9.4)	(-16.1)	(-1.9)
Productivity	101	118	167	188	194
	(23.4)	(16.6)	(41.6)	(12.9)	(2.8)

Note 1: The figures in parentheses indicate annual percent change.

Note 2: Productivity is calculated by dividing premium income by the number of solicitors.

