

Non-Life Insurance Industry

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Balance Sheet

Total assets of non-life insurance companies in FY 1999 amounted to KRW 26,486 billion, which increased by 18 percent over the previous year. One of the reasons for the big jumps of total assets of the bond & surety insurance company since FY 1997 is to be found in the receiving huge amounts of public funds. Another reason for the increase of total assets may be explained by the fact that the stock market recovered in FY 1999.

In FY 1999, the portion of investment in securities increased again, accounting for 45.1 percent of total assets. The percent invested in bond showed a sudden increase by 88.9 percent over the previous year.

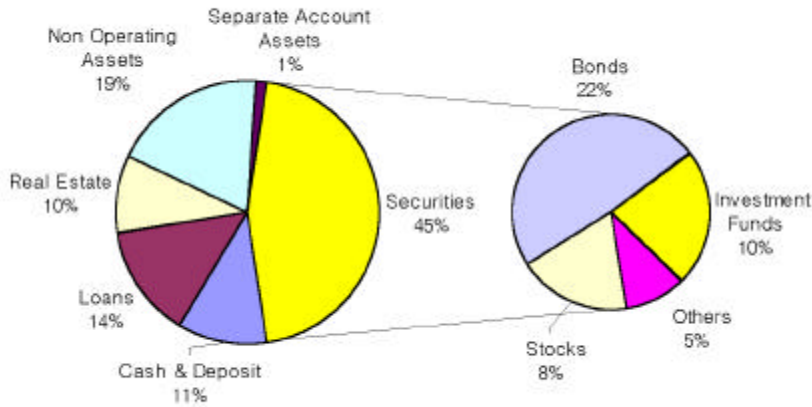
In recent years, capital stock of the Korea insurance industry experienced dramatical fluctuations. In FY 1998, capital stock sharply decreased owing to the merger of two bond & surety insurance companies.

However, in FY 1999 capital stock showed a sudden increase as the merged bond & surety insurance company received the huge amounts of public funds.

Separate account assets mean the assets created by the sale of occupational pension introduced in April, 1999.

The following chart shows the asset portfolio among the different asset classes. The proportion of securities continued an upward trend due to the rising stock market in 1999.

Asset Portfolio in FY 1999



Direct Premium Written

In FY 1999, insurance companies in Korea wrote KRW 14,452 billion in premium, an increase of 1.4 percent over the previous year, according to the gradual economic recovery. This was mainly supported by the growth of automobile insurance.

Of the total premiums, KRW 11,568 billion was generated from automobile and long-term insurance which together accounted for more than 80 percent of the total premium written.

The following chart shows the changes in the proportion of direct premiums among different lines of non-life insurance business. This trend shows clearly the explosive increasing portion of long-term insurance at the expense of fire and marine insurance.

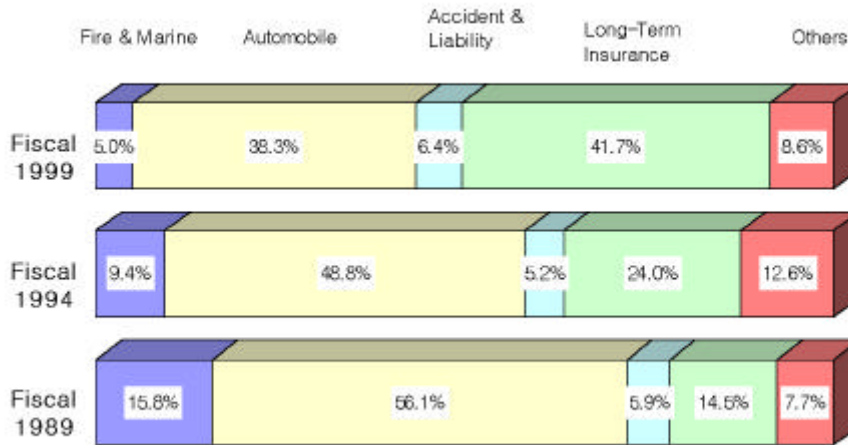
Abridged Balance Sheet

(KRW billion)

Classification	FY'95	FY'96	FY'97	FY'98	FY'99
Asset					
Cash & Deposit	2,391 (18.8)	3,315 (20.4)	3,711 (18.6)	2,763 (12.3)	2,906 (11.0)
Securities	4,155 (32.7)	4,939 (30.4)	6,407 (32.1)	9,481 (42.3)	11,929 (45.1)
Stocks	1,982 (15.6)	2,214 (13.6)	2,246 (11.3)	1,635 (7.3)	2,193 (8.3)
Bonds	2,068 (16.3)	2,610 (16.1)	3,985 (20.0)	3,079 (13.7)	5,817 (22.0)
Investment Funds	-	-	-	3,981 (17.7)	2,710 (10.2)
Others	105 (0.8)	116 (0.7)	176 (0.9)	785 (3.5)	1,209 (4.6)
Loans	2,788 (21.9)	3,708 (22.9)	4,468 (22.4)	3,548 (15.8)	3,627 (13.7)
Real Estate	1,115 (8.8)	1,393 (8.6)	1,753 (8.8)	2,355 (10.5)	2,578 (9.7)
Non Operating Assets	2,264 (17.8)	2,872 (17.7)	3,606 (18.1)	4,282 (19.1)	5,093 (19.2)
Separate Account Assets	-	-	-	-	353 (1.3)
Total Asset	12,711	16,228	19,944	22,430	26,486
Liabilities					
Insurance Reserve	10,305	13,486	17,398	20,533	22,399
Reserve for Outstanding Claims	2,538	2,983	3,887	6,153	6,881
Long-term Insurance Premium Reserve	3,888	6,057	8,215	9,401	10,701
Unearned Premium Reserve	3,212	3,699	4,205	3,714	3,473
Catastrophe Reserve	664	732	1,077	1,246	1,316
Other Liabilities	1,724	2,025	2,836	2,705	3,516
Separate Account Liabilities	-	-	-	-	353
Total Liabilities	12,029	15,511	20,234	23,238	26,269
Stockholder's Equities					
Capital Stock	421	435	441	360	2,435
Capital Surplus	385	423	402	1,076	1,360
Retained Earnings	-113	-117	-1,107	-2,174	-3,950
Capital Adjustment	-11	-25	-25	-71	372
Total Shareholder's Equity	682	717	-290	-809	217

Note: The figures in parentheses indicate percent of share.

Trend in Direct Premiums by Line



Direct Premium written showed an average growth of 7.2 percent from FY 1995 to FY 1999. However the direct premium written exhibited a negative growth in FY 1998 owing to the economic stagnation but a slight growth in FY 1999.

Direct Premium

(KRW billion, %)

Classification	FY'95	FY'96	FY'97	FY'98	FY'99
Direct Business	10,223 (33.4)	12,815 (25.4)	15,022 (17.2)	13,640 (-9.2)	13,876 (1.7)
bond & surety	701 (7.9)	651 (-7.2)	1,295 (99.1)	612 (-52.7)	575 (-6.1)
Reinsurance	0.6 (10.4)	0.7 (16.7)	0.8 (20.9)	1.3 (62.5)	1.3 (-3.1)
Total	10,924 (31.4)	13,466 (23.3)	16,318 (21.2)	14,254 (-12.7)	14,452 (1.4)

Note: The figures in parentheses indicate annual percent change.

Fire Insurance

In FY 1999, premium income from fire insurance decreased by 3.3 percent over the previous year, falling to KRW 265 billion. Premium income from fire insurance has continuously decreased for the past several years. The portion of fire insurance dropped from 3.5 percent in FY 1995 to 1.8 percent in FY 1999.

This was due to not only the fierce competition through deregulation in the insurance industry but also the changes of policyholders' preference pursuing an all risk policy. It seems that the downward trend will continue for a while.

Marine Insurance

Marine insurance's premiums registered KRW 457 billion, a strong increase of 22.3 percent over the previous year. In FY 1999, marine insurance benefited from increased exports and imports backed by advantageous trade-terms.

However, the growth rate will be bounded by the fall in price in the wake of deregulation and increasing cross-border transactions.

Automobile Insurance

In FY 1998, direct premium written from automobile insurance decreased by 14.5 percent due to the recession, but in FY 1999 it showed a moderate growth.

In FY 1999, automobile insurance registered KRW 5,537 billion, an increase of 4.9 percent over the previous year. Whereas premium from voluntary automobile insurance showed a high growth, premium from compulsory automobile liability insurance showed a negative growth.

The high growth rate of voluntary automobile insurance was stimulated by the sales of new product, "Plus Automobile Insurance" which was introduced in the market in September 1999.

Bond & Surety Insurance

Bond & surety insurance continued to be sluggish in FY 1999, falling by 6.1 percent over the previous year, mainly due to the application of its own rigid underwriting standards.

Since FY 1997, the bond & surety insurance industry in Korea has undergone great changes. The two ailing bond & surety insurance companies merged in 1998. As the merged bond & surety insurance company went through continuous financial difficulties, a large amount of public funds were injected.

Accident & Liability Insurance

Accident and liability insurance is one of the most rapidly growing insurance lines over the past several years.

The development of new products and increasing needs for professional liability insurance have made a great contribution to this growth.

Long-Term Insurance and Individual Pension Insurance

Over the past decades, long-term insurance has continually grown and become one of the most important insurance lines.

Long-term insurance had shown the highest growth rate among non-life insurance lines before FY 1998. However, due to the slump of domestic economy, long-term insurance showed negative growths for two consecutive years. Personal annuity also has continued to show a

negative growth owing to a decrease in real income since the economic crisis in FY 1997.

In FY 1999, premium from personal annuity insurance diminished by more than 10 percent compared to the previous year. It can be said that personal annuity insurance is in a state of saturation.

Direct Written Premium by Line

(KRW billion, %)

Classification	1995	1996	1997	1998	1999
Fire	378 (3.5)	359 (2.7)	322 (2.0)	273 (1.9)	265 (1.8)
Marine	453 (4.1)	415 (3.1)	399 (2.4)	374 (2.6)	457 (3.2)
Automobile	5,010 (45.9)	6,031 (44.8)	6,177 (37.8)	5,280 (37.0)	5,537 (38.3)
Bond & Surety	700 (6.4)	650 (4.8)	1,294 (7.9)	611 (4.3)	574 (4.0)
Accident & Liability	566 (5.2)	715 (5.3)	843 (5.2)	905 (6.4)	918 (6.4)
Overseas Direct	41 (0.4)	49 (0.4)	79 (0.5)	86 (0.6)	67 (0.5)
Long-Term	3,059 (28.0)	4,375 (32.5)	6,302 (38.6)	6,045 (42.4)	6,031 (41.7)
Annuity	716 (6.6)	872 (6.5)	905 (5.5)	679 (4.8)	604 (4.2)
Total	10,924 (100.0)	13,466 (100.0)	16,318 (100.0)	14,254 (100.0)	14,452 (100.0)

Note: The figures in parentheses indicate percent of share.

Expenditures

Incurred Loss

Incurred losses have sharply increased since FY 1997 because of heavy losses of the bond & surety policies and high lapse & surrenders in the long-term savings policies.

Incurred Losses by Line

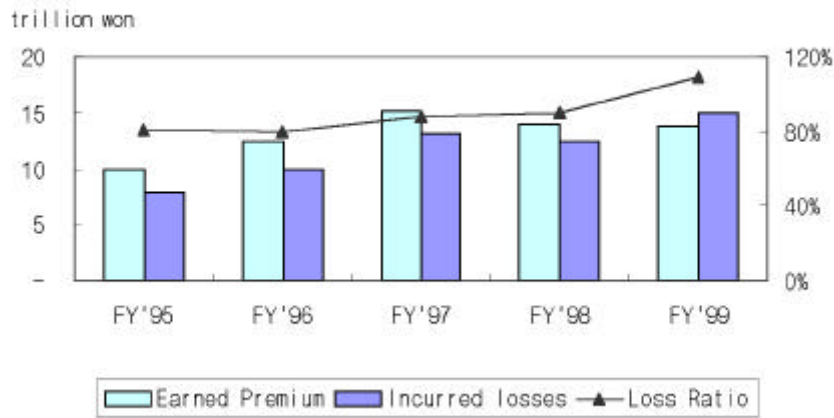
(KRW billion, %)

Classification	FY'95	FY'96	FY'97	FY'98	FY'99
Fire	132	157	185	131	127
Marine	105	115	120	97	93
Automobile	3,533	4,010	3,774	3,257	3,646
bond & surety	551	636	1,882	2,137	4,460
Accident & Liability	230	299	358	346	362
Overseas Direct	11	14	24	28	27
Overseas Inward	18	26	52	34	40
Long-Term	2,863	3,867	5,825	5,618	5,572
Annuity	515	775	925	769	687
Total	7,957	9,899	13,145	12,418	15,013

In FY 1999, incurred loss, one of the most important aspect of underwriting results, amounted to KRW 15,013 billion, an increase of 20.9 percent over the previous year. This deteriorated loss ratio, surpassing the growth rate of premium written, directly affecting the underwriting results.

The primary reason for the deteriorated loss ratio in FY 1999 can be explained by the upsurged loss amounts of the bond & surety insurance industry, resulting from a series of company failures such as the Daewoo crisis.

Loss Ratio of Non-Life Insurance



Net Operating Expenses

In FY 1999, net operating expenses registered a strong increase over the previous year but fell below the long-term average trend for the last five years. The reason for this strong increase can be found in the massive initial investment costs for e-business and an increase of advertisement expenditures.

After the financial crisis, insurance companies have constantly endeavored to streamline the corporate structure and distribution channels. This resulted in the sharp decrease of operating expenses in FY 1997 and 1998.

Investment Income

In FY 1999, total investment income of non-life insurance industry amounted to KRW 2,519 billion, an increase of 26.8 percent over the previous year.

Operating Expenses by Line

(KRW billion, %)

Classification	FY'95	FY'96	FY'97	FY'98	FY'99
Fire	140 (21.6)	142 (1.4)	155 (8.9)	129 (-16.4)	114 (-11.5)
Marine	90 (22.5)	98 (9.1)	117 (19.4)	96 (-18.2)	88 (-8.1)
Automobile	1,140 (34.4)	1,686 (47.9)	1,846 (9.5)	1,720 (-6.8)	1,777 (3.3)
bond & surety	110 (13.0)	129 (17.0)	119 (-7.7)	109 (-7.7)	69 (-37.4)
Accident & Liability	127 (36.6)	173 (36.6)	211 (21.5)	223 (5.7)	156 (-30.0)
Overseas Direct	9 (-20.0)	8 (-9.9)	12 (55.3)	17 (36.0)	16 (-4.5)
Overseas Inward	11 (-0.9)	10 (-7.3)	15 (48.8)	22 (43.6)	23 (4.2)
Long-Term	556 (27.7)	967 (73.8)	1,235 (27.7)	1,018 (-17.5)	1,241 (21.8)
Annuity	158 (60.8)	176 (11.7)	143 (-19.1)	57 (-59.9)	89 (56.0)
Total	2,341 (31.3)	3,390 (44.8)	3,852 (13.6)	3,391 (-12.0)	3,572 (5.3)

Note: The figures in parentheses indicate annual percent change.

Investment Income

(KRW billion)

Classification	FY'95	FY'96	FY'97	FY'98	FY'99
Direct Business	783	1,075	1,461	1,808	2,220
bond & surety	54	51	53	81	205
Reinsurance	54	60	87	98	94
Total	891	1,186	1,601	1,987	2,519

The reason for the high growth rate of investment income in FY 1999 is to be found in the upsurged stock market.

Underwriting Results

For five consecutive years, overall underwriting results have worsened and deficit amounts have continuously increased.

Underwriting Results in Non-Life Insurance

(KRW billion)

Classification	FY'95	FY'96	FY'97	FY'98	FY'99
Fire	-1	-21	-69	-26	-36
Marine	97	59	1	28	30
Automobile	-224	-305	264	303	-429
bond & surety	-84	-155	-1,303	-1,536	-3,550
Accident & Liability	58	43	51	37	118
Overseas Direct	3	4	4	2	-1
Overseas Inward	3	-1	-23	7	18
Long-Term	-351	-476	-700	-605	-798
Annuity	39	-85	-161	-152	-172
Total	-462	-937	-1,938	-1,942	-4,820

Note: Catastrophe Reserve and Policyholder's Dividend Reserve are not regarded

Especially in FY 1999, underwriting results sharply deteriorated due to increased automobile accidents and Daewoo crisis.

In contrast, accident & liability insurance improved substantially compared to the previous years.

Total Income and Expenditure

The underwriting expense sharply increased in FY 1999. This became the main reason for the upsurged net losses in FY 1999.

Total Income and Expenditure in Non-Life Insurance

(KRW billion, %)

Classification		FY'95	FY'96	FY'97	FY'98	FY'99
Income	Underwriting	9,839	12,361	15,058	13,866	13,765
	Investment	891	1,186	1,601	1,987	2,519
	Other	80	55	246	188	530
	Total	10,810	13,602	16,905	16,041	16,813
Expenditure	Underwriting	10,529	13,366	17,339	15,982	18,633
	Investment	114	99	382	1,096	878
	Other	27	68	150	459	619
	Total	10,671	13,533	17,872	17,537	20,129
Net Balance	Underwriting	-690	-1,005	-2,281	-2,116	-4,868
	Investment	776	1,087	1,218	891	1,641
	Other	53	-13	96	-271	-89
	Total	139	69	-967	-1,495	-3,316
Tax		7	13	25	-271	116
Net Income/Losses		133	56	-992	-1,495	-3,432

For the past five years, direct insurance companies have showed profits, but the net income of total non-life insurance showed a deficit owing to heavy losses by the bond & security insurance companies in FY 1999.

After recording a downturn in FY 1997, the deficit amounts of net income have continuously increased.

Income Statement

(KRW billion)

Classification	FY'95	FY'96	FY'97	FY'98	FY'99
Direct Business	167	98	56	219	90
Bond & Surety	-43	-50	-1,045	-1,818	-3,551
Reinsurance	9	8	-2	4	29
Total	133	56	-992	-1,595	-3,432

Management Efficiency

The combined ratio for total business deteriorated significantly to 135.5 in FY 1999, from 115.1 in FY 1998. The worsening combined ratio was triggered not only by the deteriorated loss ratio but also by the increasing expense ratio. The combined ratio has increased since FY 1997. In particular, the increase was significant in FY 1999 when the Daewoo crisis occurred.

Total loss ratio showed the highest level since FY 1995. This significant deterioration reflected the recent economic stagnation. In contrast, the loss ratio for fire, marine and casualty line have a stable pattern for the past five years.

In FY 1999, the yield rate of total asset was 10.9 percent, an increase of 1.1 percent points over the previous year. Direct business showed the highest yield rate over the last five years.

Combined Ratio

(%)

Classification		FY'95	FY'96	FY'97	FY'98	FY'99
Direct business	Loss Ratio	80.4	78.9	78.8	78.8	83.9
	Expense Ratio	22.4	26.5	24.7	25.6	27.0
	Combined Ratio	102.8	105.4	103.6	104.4	110.9
Bond & Surety	Loss Ratio	96.8	103.9	267.2	305.6	462.4
	Expense Ratio	20.2	21.3	21.2	21.5	15.0
	Combined Ratio	117.0	125.2	288.4	327.1	477.4
Rein- surance	Loss Ratio	72.1	80.8	89.5	73.5	75.2
	Expense Ratio	29.3	29.1	28.7	27.2	23.4
	Combined Ratio	101.5	109.9	118.2	100.8	98.6
Total	Loss Ratio	80.9	80.1	87.3	89.6	109.1
	Expense Ratio	22.6	26.4	24.8	25.5	26.4
	Combined Ratio	103.5	106.5	112.1	115.1	135.5

Loss Ratio by line

(%)

Classification	FY'95	FY'96	FY'97	FY'98	FY'99
Fire	4.9	56.5	68.5	56.1	61.9
Marine	35.9	42.3	50.2	43.9	46.0
Automobile	79.4	74.4	64.1	61.7	73.0
Bond & Surety	95.5	104.4	269.7	300.7	456.0
Casualty	55.5	58.0	57.7	57.1	56.9
Overseas Direct	49.1	52.8	60.3	60.6	63.6
Overseas Inward	56.6	73.3	118.0	54.4	49.2
Long-Term	93.3	88.7	91.6	93.1	92.6
Annuity	72.0	88.5	102.2	114.1	113.7
Total	64.8	80.1	87.3	89.6	109.1

Yield Rate of Total Assets

(%)

Classification		FY'95	FY'96	FY'97	FY'98	FY'99
Yield Rate of Total Assets	Direct Business	8.7	9.0	9.8	10.7	11.6
	Bond & Surety	5.7	5.1	3.8	4.0	7.6
	Reinsurance	6.9	6.7	8.2	8.0	6.8
	Total	8.3	8.5	9.3	9.8	10.9

Distribution Channel

Market Share by Distribution Channel

Direct premium written collected by solicitors and agents accounted for 90.6 percent of total premium written in FY 1999.

The proportion of premium collected by company employees and insurance pool have decreased in recent years. The portion of premium collected by insurance pool sharply dropped from 11.6 percent in FY 1995 to 0.4 percent in FY 1999. Premium collected by solicitors also decreased in FY 1999, by 0.5 percent points over the previous year.

In contrast, Premium collected by agents amounted to KRW 6,430 billion, an steep increase of 2 percent over the previous year, and showed the highest portion since FY 1995.

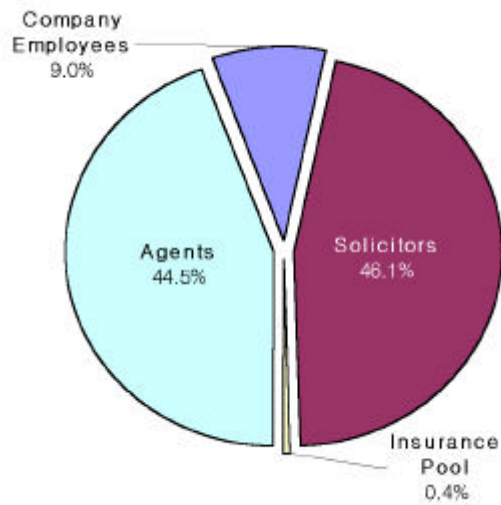
On the other hand, insurers are innovating their distribution channels to cope with ever-changing business environments.

Market Share by Premium Channels

(KRW billion, %)

FY Year	Company Employees		Solicitors		Agents		Insurance Pool		Total Amount
	Amount	Portion	Amount	Portion	Amount	Portion	Amount	Portion	
FY'95	1,399	12.8%	3,681	33.7%	4,575	41.9%	1,268	11.6%	10,924
FY'96	1,438	10.7%	5,528	41.1%	5,641	41.9%	859	6.4%	13,466
FY'97	2,153	13.2%	7,239	44.4%	6,631	40.6%	296	1.8%	16,318
FY'98	1,469	10.3%	6,648	46.6%	6,062	42.5%	74	0.5%	14,254
FY'99	1,304	9.0%	6,658	46.1%	6,430	44.5%	60	0.4%	14,452

Market Share by Distribution Channels



Solicitors and Insurance Agents

The non-life insurance distribution system in Korea can be categorized into four subsets: solicitors, agency, brokerage, and employee of insurance companies.

A person who desires to be a solicitor should register with the Financial Supervisory Service, while a person who desires to be an insurance agent or broker should register with the Financial Supervisory Commission.

At year-end of FY 1999, the number of solicitors and agents were 83,466 and 52,432 respectively, while those who were employed directly by the Korea insurance industry amounted to 24,524.

For three consecutive years, the number of solicitors has declined. It is not only due to the reform in the insurance industry after the financial crisis but also owing to the emerging distribution channels that are more efficient and productive.

The Number of Solicitors and Insurance Agents

Classification		FY'95	FY'96	FY'97	FY'98	FY'99
Solicitor	Number	91,942	115,829	102,730	87,776	83,466
	Increase Rates	26.3%	26.0%	-11.3%	-14.6%	-4.9%
Agent	Number	38,252	46,385	51,823	51,073	52,432
	Increase Rates	0.5%	21.3%	11.7%	-1.4%	2.7%