Market Overview

FY 2020

Korean Economy

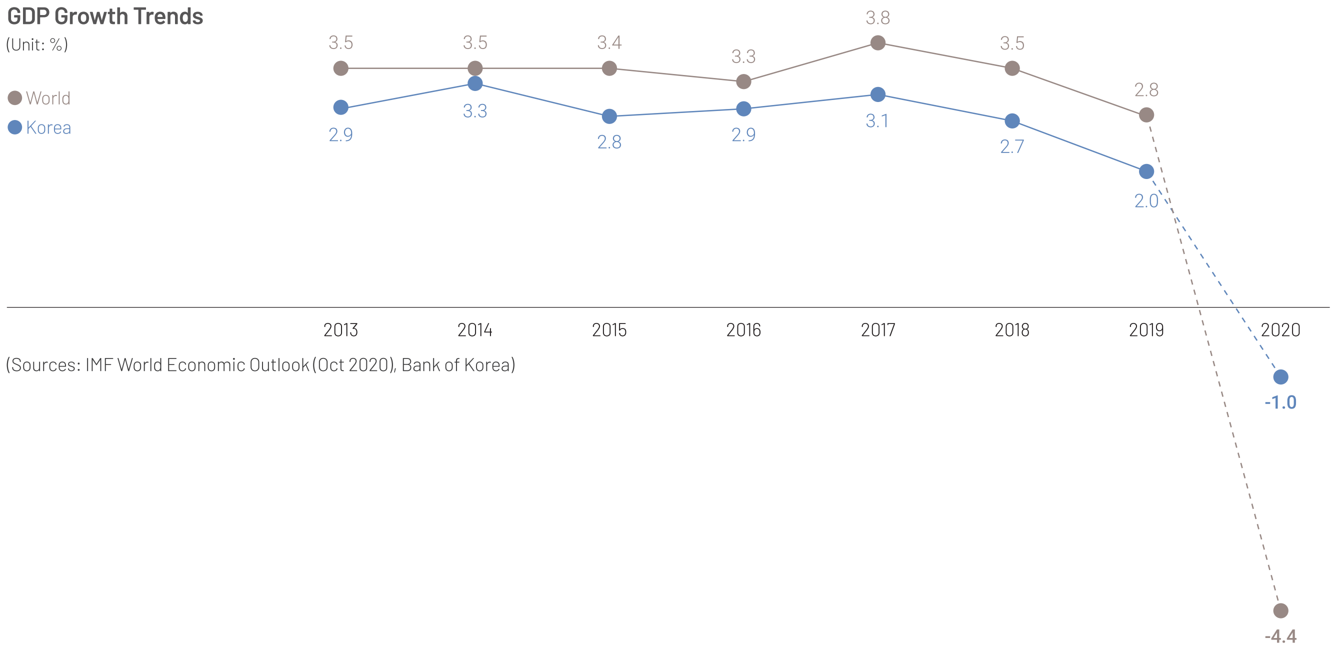
2020 in Review

GDP

The coronavirus pandemic dealt an unexpected blow to the Korean economy, and 2020 was the worst year for its GDP growth since the Asian financial crisis. As the pandemic hurt consumer spending and business investment, Korea's GDP contracted by 1% in 2020 from a year earlier. That was the first time the economy has shrunk for the year since 1998 when GDP declined by 5.1%. Still, the economy remained surprisingly resilient compared to other economies, with the global economy contracting by 4.4% amid the fallout from the pandemic. Among major economies in the world, Korea is likely to be one of the best performers in terms of GDP growth.

GDP Growth Trends

(Unit: %)



(Sources: IMF World Economic Outlook (Oct 2020), Bank of Korea)

Consumer Spending

Consumer spending bore the brunt of the pandemic's impact on the economy. Private consumption plunged by 5% in 2020 due to an extended period of social distancing restrictions and worsening job market conditions. Expenditures on services and semi-durable goods took a greater hit than others. This disproportionate impact on services spending reflected a cutback on nonessential purchases that involved going to places where the risk of contracting the virus was relatively high due to physical proximity with others. In particular, consumers shied away from movie theaters, bars, theme parks and other recreational service venues.

Equipment Investment

Equipment investment sharply rebounded in 2020, growing by 6.8%. The growth was mostly driven by the semiconductor industry. There was explosive pandemic-induced demand for semiconductors and chips that power everything from personal computers and consumer electronics to communications and IT infrastructure such as data centers. On the other hand, investment spending on transportation equipment, particularly in the aviation industry, dipped due to travel restrictions being placed in many countries around the world.

Construction Investment

Construction investment decreased by 0.1% in 2020, showing some signs of recovery in construction activity. Although there seemed to be a limited direct impact of the pandemic on construction investment, most sectors of the construction industry appeared to suffer some setbacks due to the financial toll that was inflicted on businesses. Public spending on infrastructure increased, however, as the government expanded its investment in support of economic recovery. Infrastructure development has been one of the key focus areas of policymakers as a means to boost employment and economic output.

Employment

It was a painful year for the labor market in 2020 as many people were pushed out of work unexpectedly during the pandemic. The number of employed people fell by 218,000, the largest decline since the Asian financial crisis in 1998. Workers at retailers, restaurants, hotels and other accommodation services were the hardest hit as the government imposed strict social distancing measures, such as a ban on indoor restaurant dining after 9 pm. Jobs in manufacturing also took a hit as external trade conditions worsened, causing export growth to slow down.

Inflation

Consumer price inflation remained mostly subdued at 0.5% in 2020, far below the target rate of 2%. Demand-side inflationary pressure weakened after the onset of COVID-19, and plummeting international oil prices added to downward pressures. On the other hand, there was some upside momentum such as a rise in fresh food prices. In particular, the record-long rainy season in the summer drove up the prices of agricultural produce. The core inflation rate, which excludes volatile food and energy prices, dropped to 0.4% in 2020 from 0.7% in 2019.

Current Account Surplus

Korea's current account surplus rose by 26% to USD 75.3 billion as merchandise imports decreased more sharply than merchandise exports amid falling import prices of commodities, including crude oil. The nation's outbound shipments were significantly hit by the fallout from the pandemic outbreak, but picked up gradually toward the end of the year as major economies started to ease lockdowns and resume business activities.

Interest Rate

Since May 2020, the Bank of Korea has kept the benchmark interest rate at its record low of 0.5% as the coronavirus pandemic continued to weigh on economic activity, inflation, and employment. The central bank maintained its stance that it would be necessary to help foster accommodative financial conditions in a bid to support the flow of credit to households and businesses. The average three-year treasury yield fell to 1.0% in 2020 from 1.5% in 2019. The government bond market took investors on a bumpy ride in 2020, with yields plunging to historic lows early in the year before making some recovery in the second half when there were growing expectations of economic rebound and COVID-19 vaccine development.

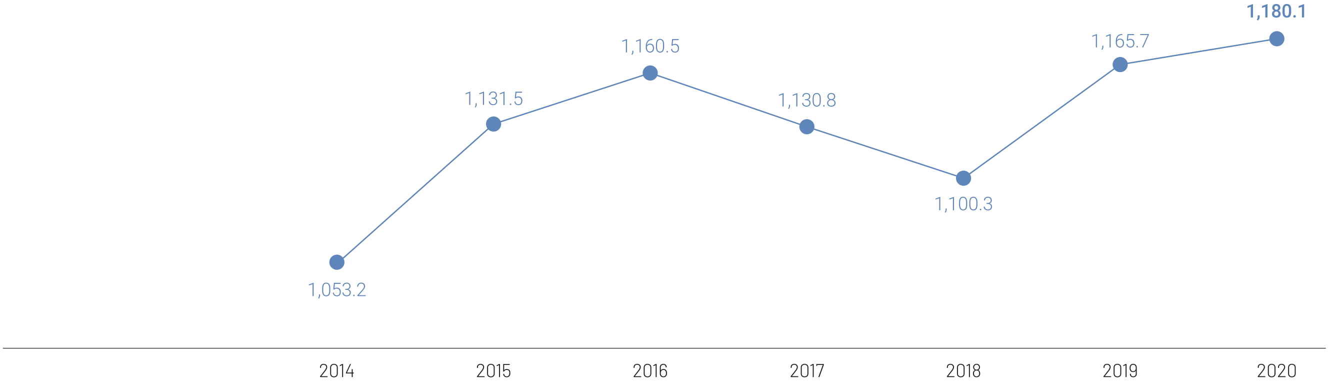
Foreign Exchange Rate

The yearly average exchange rate of the Korean won against the U.S. dollar increased to KRW 1,180.1 in 2020 compared to KRW 1,165.7 in 2019. Following the outbreak of COVID-19, the exchange rate soared in March when the U.S. dollar rallied to a new high for the year amid anxiety-driven capital flight to safe assets, and then fell steeply on expectations of improvement in economic indicators and China's recovery. Economic stimulus measures in the U.S. and the resulting increase in the supply of the greenback led the U.S. dollar to slide against major currencies, providing a boost to a strengthening Korean won. News of progress in coronavirus vaccine development and Joe Biden's victory in the U.S. presidential election drove a windfall for equity markets and other riskier asset classes, causing the greenback to further weaken.

Korean Economy

KRW/USD Exchange Rate Trend

(Unit: KRW)



(Source: Bank of Korea)

Prospects for 2021

GDP

The Korean economy has proven relatively resilient even as the COVID-19 pandemic drags on. After the pandemic-induced shock in 2020, economic growth is expected to normalize in 2021. The economy is on track to deliver a 3% growth in 2021 following a contraction of 1% in 2020, according to a forecast released by the Bank of Korea in February 2021. It will gradually recover from a recession triggered by the outbreak of coronavirus infections, and the recovery will be characterized by three factors: global economic improvement, export rebound, and investment spending growth.

Consumer Spending

Consumer spending will return to growth in 2021, rising by 2%, after a pandemic-led reduction in 2020, but the pace of recovery may not be as fast as hoped for. The slower recovery may be attributed to delayed improvement in household income and the continued implementation of social distancing measures. Household savings have increased as the COVID-19 pandemic caused uncertainty regarding future income and employment prospects. These increased savings may turn into a driver of consumption growth once the pandemic is kept in check, but any resurgence of COVID-19 may further drive up household savings, putting pressure on consumption growth. Growing household debt amid an ultralow interest rate environment may also hold back the recovery of consumer spending. There are some other positive factors that boost consumption, such as the extension of the government's expansionary policy and measures to support job creation.

Equipment Investment

Equipment investment is expected to rise by 5.3%, driven by solid investment spending in the IT sector and a recovery in non-IT investment. COVID-19 has led to an exceptional surge in technology investment across the globe, and those investments are mostly focused on accelerating the rollout of 5G networks and building more data centers. In the non-IT sector, a growing amount of investment will be made in eco-friendly technologies involving electric vehicles and other mobility services. The inland transportation sector will also see a rise in equipment investment amid the growth of e-commerce, which is backed by growing demand for online purchases.

Construction Investment

Construction investment will rebound with a 0.8% growth being forecast for 2021. The civil engineering construction sector will continue to fare well thanks to the government's increased investment in infrastructure, while the severe contraction in residential construction is set to slow down. Leading indicators of building activity, such as new housing starts or construction orders, show some improvement in conditions for the housing construction sector. In particular, there will be an expansion in public-sector housing construction, driven by the government's policy measures to increase housing supply. On the other hand, investment in private-sector housing construction is expected to pick up slowly due to strengthened regulations in the housing market.

Employment

The job market has been severely disrupted by the COVID-19 pandemic, with the number of new jobs declining sharply. Sluggish labor market conditions are set to continue into early 2021 considering another massive outbreaks of coronavirus infections in late 2020. Once the surge in new cases is contained, a modest recovery is expected in the most impacted sectors, such as hospitality, brick-and-mortar retailers, restaurants, entertainment and recreation. Job reduction in the manufacturing industries will also slow down, backed by demand recovery at home and abroad. The unemployment rate is projected to be steady at 4.0% in 2021.

Inflation

Consumer price inflation will likely trend up from 0.5% in 2020 to 1.3% in 2021 due to base effects of low levels of inflation over the previous two years. Upward pressures may gather some strength in line with economic recovery. Slowly rising prices of oil and commodities and a hike in housing rental costs will also become factors that push inflation up. Other upside factors include improving consumer confidence amid expectations of the fast rollout of COVID-19 vaccines. At the same time, there will be weaker downward pressures coming from government policy measures, such as government subsidies for high school education and mobile phone bills. However, an extended delay in economic recovery and muted import prices in the midst of a weakening U.S. dollar against major currencies may put further downward pressure on inflation. Core inflation, which leaves out food and energy prices, is also forecast at 1% in 2021, up from 0.4% in 2020.

Current Account Surplus

Korea's current account surplus is projected to go down to USD 64 billion in 2021 from USD 75.3 billion in 2020 mostly due to growing imports amid rising international oil prices. The ratio of the country's current account surplus relative to its GDP is expected to decrease to the mid-3% range in 2021 from mid-4% in 2020. The nation's merchandise account surplus is likely to narrow in spite of increasing exports as higher oil prices are also set to push up the prices of imported goods. Korea is expected to see a decrease in its service account deficit on the back of a growing transport account surplus in tandem with rising global trade volume. Since the onset of the COVID-19 pandemic, many countries have imposed travel restrictions, and the resulting plunge in international travel has led to a decline in service account deficit. When the spread of the coronavirus is subdued, the amount of deficit may widen again.

Korean Economy

Interest Rate

The average three-year treasury yield is projected to rise slightly to 1.1% in 2021. The current low-yield environment is expected to persist due to concerns over the impact of the pandemic on the economy. The Bank of Korea is expected to keep the benchmark rate at a historically low level to support economic recovery, which will keep a lid on the yields of treasury notes. Pandemic-related news will likely dominate investor sentiment and projections for interest rates in the financial market during the first half of the year. A surge in treasury issuance may push up the yield, and it is thus worth watching when and how much the Bank of Korea will purchase treasury notes.

Foreign Exchange Rate

In 2021, the value of the Korean won will strengthen even further against the U.S. dollar, bringing the yearly average exchange rate of USD/KRW down to KRW 1,125.0 per dollar. The supply of dollars is likely to continue to increase in step with the expansionary fiscal and monetary policies maintained by the U.S. government. The new Biden administration is set to take a wide range of pump-priming measures. However, the exchange rate is not likely to tumble sharply, as the Korean government will remain on high alert and take some actions to curb any drastic decline in the exchange rate. There are some external risks that may drive the exchange rate to soar, such as escalating trade tensions between the U.S. and China, another resurgence of COVID-19, and a flight to safe and risk-free assets.

Key Economic Indicators

(Unit: %)

	2019	2020	2021(E)		
			First Half	Second Half	Annual
Real GDP	2.0	-1.0	2.6	3.4	3.0
Consumer Spending	1.9	-5.0	0.2	3.8	2.0
Equipment Investment	-7.7	6.8	6.9	3.8	5.3
Construction Investment	-3.1	-0.1	-1.2	2.6	0.8
Unemployment Rate	3.8	4.0	4.5	3.6	4.0
Current Account Surplus (USD Billion)	60.0	75.3	33.0	31.0	64.0
Exports	0.4	-0.5	13.0	2.0	7.1
Imports	-1.0	0.0	7.6	5.3	6.4
Consumer Price Inflation	0.4	0.5	1.2	1.4	1.3
Three-year Treasury Yield	1.5	1.0	1.0	1.1	1.1
USD/KRW Exchange Rate (KRW)	1,166	1,180	1,132	1,118	1,125

(Sources: Bank of Korea (Feb 2021), Korea Institute of Finance)

Korean Insurance Market

2020 in Review

In 2020, insurance market growth in Korea was faster than expected as government stimulus measures following the outbreak of COVID-19 provided a temporary boost to the market. However, this growth momentum is unlikely to last, with the impact of increased liquidity being limited to boosting savings demand in the short-term rather than creating broader insurance demand in the long-term.

The insurance market saw a 4.3% increase in premium income to KRW 221.9 trillion in 2020, according to preliminary figures released by the Financial Supervisory Service. Life insurance premiums increased by 2% to KRW 119.6 trillion on the back of savings insurance. Non-life insurance premiums expanded by 7% to KRW 102.3 trillion, backed by growth in all lines of business.

Premium Income

(Unit: KRW trillion)

	FY 2020	FY 2019	Change (%)
Life Insurers	119.58	117.26	2.0
Non-Life Insurers	102.32	95.59	7.0
Total	**221.90**	**212.85**	**4.3**

(Source: Financial Supervisory Service)

Insurance industry profitability also slightly improved due to increased net income results. Insurers' net income jumped by 13.9% to KRW 6,080.6 billion. Despite a decline in investment profit amid low interest rates, life insurers reported a 10.9% increase in net income, which totaled KRW 3,454.4 billion. Their underwriting losses narrowed amid decreased reserving for guaranteed businesses, such as guaranteed minimum death benefits and annuity payouts, and improved business results from savings insurance.

Non-life insurers also delivered strong results, with net income soaring by 18.1% to KRW 2,626.2 billion. This improvement was largely driven by reduced loss ratios of motor and long-term insurance lines.

One of the many knock-on effects of the COVID-19 pandemic has been a decrease in motor claims due to a reduced use of vehicles amid social distancing. There has also been a drop in outpatient visits to hospitals for non-urgent and elective medical treatments, which temporarily brought down the loss ratios of accident and health insurance.

Net Income

(Unit: KRW billion)

	FY 2020	FY 2019	Change (%)
Life Insurers	3,454.4	3,114.0	10.9
Non-Life Insurers	2,626.2	2,223.8	18.1
Total	**6,080.6**	**5,337.8**	**13.9**

(Source: Financial Supervisory Service)

In tandem with net income growth, the profitability indicators of the insurance industry also showed modest improvement in 2020. The return on assets (ROA) ratio of insurers inched up to 0.48%, while the return on equity (ROE) ratio increased to 4.45%. As of the end of 2020, total assets of the insurance industry rose by 6.6% year on year, to KRW 1,321.2 trillion. Total shareholders' equity of the insurance industry expanded by 10.1 % to KRW 143.1 trillion, driven by an increase in retained earnings and mark-to-market gains on available-for-sale securities in a persistently low interest rate environment. Meanwhile, Korea's insurance penetration rate fell slightly to 10.78% in 2020, and its ranking was one notch down to 6th place in the world.

ROA and ROE

(Unit: %)

		FY 2020	FY 2019	Change (%p)
ROA	Life Insurers	0.36	0.35	0.01
	Non-Life Insurers	0.79	0.72	0.07
	Total	**0.48**	**0.45**	**0.03**
ROE	Life Insurers	3.76	3.87	-0.11
	Non-Life Insurers	5.87	5.48	0.39
	Total	**4.45**	**4.41**	**0.04**

(Source: Financial Supervisory Service)

Total Assets and Shareholders' Equity

(Unit: KRW trillion)

		FY 2020	FY 2019	Change (%)
Total Assets	Life Insurers	977.28	918.16	6.4
	Non-Life Insurers	343.87	320.74	7.2
	Total	**1,321.15**	**1,238.91**	**6.6**
Shareholders' Equity	Life Insurers	96.58	87.05	11.0
	Non-Life Insurers	46.51	42.95	8.3
	Total	**143.09**	**129.99**	**10.1**

* Individual figures may not add up to the total shown due to rounding.

(Source: Financial Supervisory Service)

Insurance Penetration Rate

(Unit: %)

	FY 2020	FY 2019	Change (%p)
Insurance Penetration Rate	10.78	11.16	-0.38

(Source: Korea Insurance Research Institute)

Prospects for 2021

The insurance market in Korea will likely be depressed in 2021 after recording one-off robust growth in 2020 amid implications of the COVID-19 outbreak. Insurers are expected to experience slower growth as premium income is related to economic activity, and the current pandemic-driven economic situation is bound to hinder GDP growth. A sharp slowdown in economic output may hamper premium growth, putting further pressure on an insurance market that is already struggling with weakening domestic demand.

The coronavirus pandemic may continue to hold back economic growth, and the extent of its impact on the economy and the insurance industry may not be fully understood until 2021. Restricted face-to-face marketing activities and depressed consumer confidence may dampen insurance market growth. When the pandemic is kept under control, loss ratios may go up again, putting a strain on underwriting profitability. On the investment front, insurers are faced with challenges, such as impairment risks related to alternative investment assets and declining interest income, a major source of their investment income.

Insurance Market Growth Trends

(Unit: %)

	FY 2018	FY 2019	FY 2020	FY 2021(F)*
Life	-2.7	5.8	2.0	-0.4
Non-Life	3.1	4.9	7.0	4.0
Total	**-0.2**	**5.4**	**4.3**	1.6
Real Economic Growth	2.7	2.0	-1.0	3.0

* This growth projection for 2021 does not include retirement annuity.
(Sources: Financial Supervisory Service, Korea Insurance Research Institute, Bank of Korea)

Non-Life Insurance

In 2021, non-life premium growth is projected to slow to 4% in the midst of a pandemic-driven economic slowdown[2]. Premium growth will be supported by long-term accident and health insurance as well as general property and casualty(P&C) insurance and driver's coverage.

By line of business, the long-term accident and health insurance market is expected to keep expanding, albeit at a slower pace, on the back of continued inflows of in-force premiums. Long-term savings insurance premiums are set to decline further as insurers remain focused on protection products. General P&C insurance will likely continue to maintain growth momentum thanks to the expansion of the casualty sector, which is driven by liability, crop and mobile phone insurance. The marine insurance market will suffer some setbacks amid reduced trade flows and shipbuilding orders.

A sharp slowdown is expected for the motor insurance market due to the fading effect of price hikes and a decrease in the number of car registrations following the end of a temporary tax cut on purchases of passenger cars. The rise of online distribution channels that usually offer lower prices is also putting downward pressure on premium income growth.

[2] This growth projection does not include retirement annuity, and when retirement annuity is included, the non-life insurance market is expected to grow by 4.5% in 2021.

Korean Insurance Market

Non-Life Insurance Market Growth Trends

(Unit: %)

	FY 2019	FY 2020	FY 2021(F)
Long-term	5.0	5.3	4.7
Motor	5.1	11.6	2.9
General P&C	3.9	8.3	5.1
Fire	-1.2	-1.0	-0.8
Marine	0.8	17.7	-2.3
Guarantee	-1.0	1.7	1.2
Casualty	5.9	8.0	6.9
Annuity	**5.6**	**6.9**	**1.9**
Total	**4.9**	**7.0**	**4.5**

(Sources: Financial Supervisory Service, Korea Insurance Research Institute)

Life Insurance

The life insurance market is expected to contract by 0.4% in 2021[3]. Sales of death covers will likely slow down due to declining demand and stronger supervision of mis-selling practices. As the COVID-19 crisis evolves, depressed economic activity is reducing new business in the whole life segment, which has already been under strain from increasing market maturity. Strict social distancing measures are causing setbacks for face-to-face distribution channels where a large portion of new life business is generated.

General savings insurance is projected to decline as downside factors such as persistently low interest rates continue to weigh on premium growth. Although longer life expectancy is the primary driver that boosts demand for annuity plans, an increase in life annuity supply is likely to be limited due to the challenges of longevity risk management and stronger capital requirements under new accounting standards. Insurers expect to see some rise in initial premiums for variable life insurance on the back of a rebounding stock market, but the growth will be limited given the growing trend of short-term direct investment in the financial market. Bancassurance sales of variable life products will be adversely affected by the recent move by banks to strengthen their internal controls on how variable life products are sold.

Life Insurance Market Growth Trends

(Unit: %)

	FY 2019	FY 2020	FY 2021(F)
Protection	4.2	4.1	2.9
Savings	-5.7	9.8	-2.7
Variable	-0.1	-2.8	-5.5
Retirement Annuity	45.8	-8.1	17.6
Total	**5.8**	**2.0**	**3.5**

(Sources: Financial Supervisory Service, Korea Insurance Research Institute)

[3] This growth projection does not include retirement annuity, and when retirement annuity is included, the life insurance market is expected to grow by 3.5% in 2021.