

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.

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.

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.

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.

(Unit: %)

ROA and ROE		FY 2020	FY 2019	Change (%p)
		ROA	Life Insurers	0.36
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)

(Unit: KRW trillion)

Total Assets and Shareholders' Equity		FY 2020	FY 2019	Change (%)
		Total Assets	Life Insurers	977.28
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)

(Unit: %)

Insurance Penetration Rate		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 slowdown²⁾. 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 2021³⁾. 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.