
Market Overview

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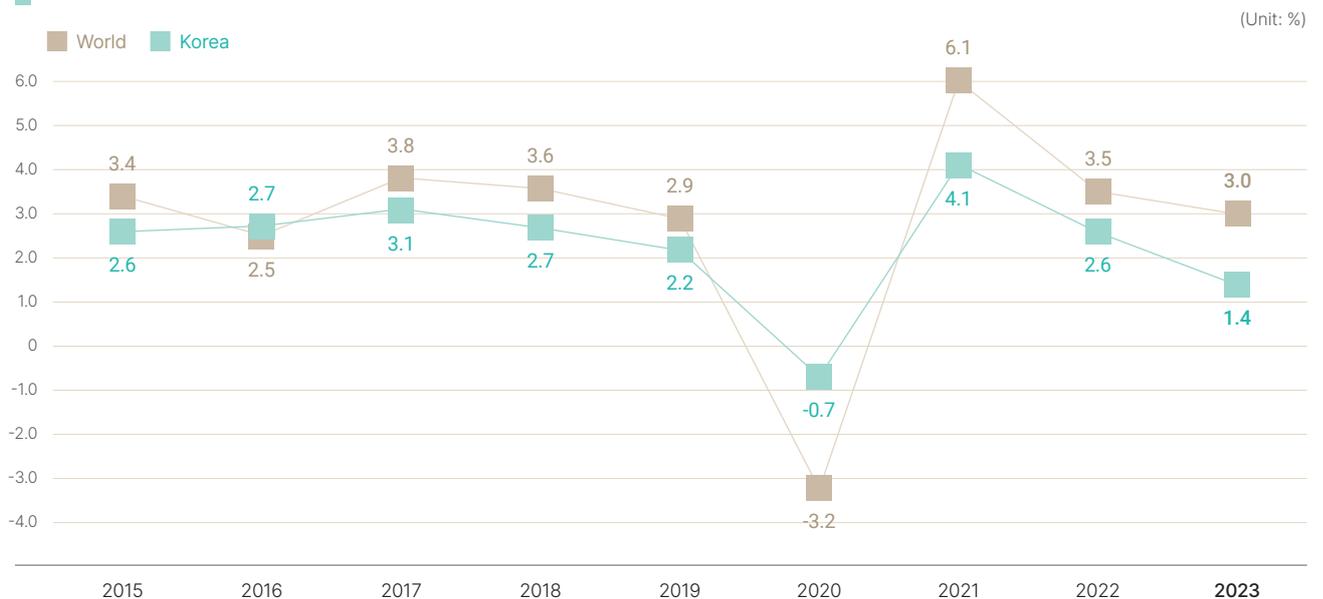
Korean Economy

2023 in Review

Economic growth in Korea slowed down from 2.6% in 2022 to 1.4% in 2023. The economy recorded its lowest level of growth in the three years since COVID-19 due to the global economic slowdown, the impact of rising interest rates, and sluggish domestic demand. Private consumption increased by only 1.8%, the lowest rate in a decade,

while investment in intellectual property products grew by 1.6%, the lowest since 1998 amidst the Asian financial crisis. Fortunately, a recovery in exports, particularly in the information technology (IT) sector, mitigated a further decline in growth rate.

GDP Growth Trends



(Sources: IMF World Economic Outlook (Oct. 2023), Bank of Korea (Feb. 2024))

Since the latter half of 2022, Korea's exports have struggled due to downturns in the IT sector and slower growth in major economies like China. Although export figures have gradually risen since the second quarter of 2023, the pace of growth appears slower compared to previous recovery periods. Notably, the automotive and machinery sectors have shown resilience, with semiconductors leading the improvement. Korea's exports to the U.S. remained strong, with signs of improvement also seen in exports to the ASEAN 5 region.

Private consumption growth declined from 4.1% in 2022 to 1.8% in 2023 as a result of ongoing deterioration in consumer sentiment and weakened purchasing power of households amid high inflation and interest rates. The employment landscape demonstrated a clear polarization, marked by a downturn in the manufacturing and construction sectors, particularly among younger and prime-age demographics. Conversely, there was a notable uptick in service industry employment, alongside an increase in job opportunities for older age groups.

Prospects for 2024

Korea's real GDP growth is forecast at 2.1% in 2024, higher than the growth rate of 1.4% in 2023 thanks to the recovery of global trade and the semiconductor industry, according to the Bank of Korea's latest economic outlook report. However, private consumption is expected to be constrained owing to prolonged high inflation and interest rate hikes, while construction investment is anticipated to decline.

The growth projection for 2024 by other organizations has also been readjusted upward. The Ministry of Economy and Finance projects Korea's GDP growth for 2024 at 2.2%, which is similar to the Bank of Korea's forecast. According to the OECD's outlook, the Korean economy is expected to grow by 2.2% in 2024, which compares to the IMF's projection of 2.3% and Fitch's 2.1%.

Looking at the growth trend, domestic demand had a negative impact on economic growth in the last quarter of 2023, but exports exceeded expectations. Moving forward, a moderate improvement in the economy is anticipated, driven by favorable export growth and increased investment in infrastructure, while overall domestic demand will show a slow recovery.

There exists a considerable degree of uncertainty concerning growth and inflation trends, alongside the monetary policy stances adopted by major economies. Additionally, the potential repercussions of the restructuring process concerning domestic real estate project financing (PF) add to this uncertainty.

Private consumption is expected to gradually recover as household real income increases due to rising wages and moderating prices. However, the burden of household loan repayments will slow down the pace of improvement in purchasing power. Consequently, the growth rate of private consumption is forecast to decrease from 1.8% in 2023 to 1.6% in 2024.

Equipment investment is expected to regain strength in 2024. There will be an increase in investment spending driven by semiconductor companies' investments as well as major non-IT companies' expansion of investments to address environmentally friendly demand. Accordingly, it is anticipated to rebound from last year's growth rate of 0.5% to 4.2%.

Construction investment will contract by 2.6% in 2024. There has been a decrease in new construction starts in the midst of a slowing real estate market. In 2024, civil engineering construction will likely increase, mainly driven by large-scale plant projects like semiconductor clusters, while the construction of residential buildings is expected to remain subdued.

A steady upward trend will continue for intellectual property investment, which is forecast to grow by 2.2% in 2024. R&D investment is expected to be on the rise thanks to improving corporate revenues in the private sector. Growing demand for software applications for online platforms and services will also help boost investment activities in other intellectual property sectors.

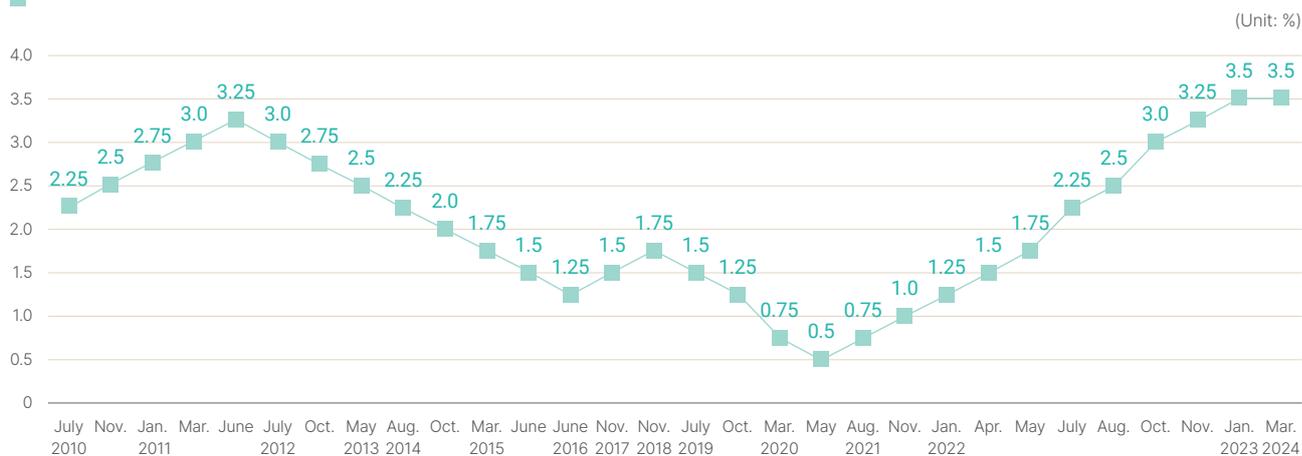
Korea's merchandise exports are anticipated to increase by 4.5% in 2024, maintaining a favorable trend amid expanding global demand for AI services and surpassing growth forecasts in the United States.

Korea's current account surplus is projected to rebound to USD 52 billion in 2024. The growth will be driven by the ongoing recovery in the semiconductor sector, robust economic performance in the United States, and gradual moderation in domestic demand. On the other hand, the services account is expected to experience a widening deficit, primarily due to the lower-than-expected number of foreign tourists.

Consumer price inflation is expected to be 2.6% in 2024, influenced by rising uncertainty in oil prices and higher exchange rates. At the same time, there remains a high degree of uncertainty regarding the future path of inflation due to factors such as geopolitical risks, economic growth at home and abroad, and the impact of accumulated cost pressures. Core inflation is projected to fall to 2.2% in 2024 from 3.4% in 2023.

The Bank of Korea (BOK) froze the benchmark interest rate at 3.5% for the ninth consecutive time. Since August 2021, the BOK has made ten interest rate hikes, bringing the rate to 3.5% as of January 2023 - the highest level since 2008. There is now increasing anticipation for larger interest rate cuts in the latter half of this year. The decision will weigh considerations such as price stability and the timing of U.S. base interest rate adjustments.

BOK Benchmark Interest Rate (2010-2024)



(Source: Bank of Korea (Mar. 2024))

The number of employed is forecast to increase by 250,000 this year in line with the previous forecast. The employment slump in the manufacturing sector is expected to ease, and the increased labor participation from women and older workers is likely to continue. However, overall growth is expected to be more gradual, mainly in the service sector due to weakening recovery momentum in domestic demand. The unemployment rate is predicted to rise slightly from 2.7% last year to 2.9% this year.

While economic recovery is anticipated to gain momentum from export growth in 2024, the ramifications of sustained high inflation and interest rate hikes may dampen domestic

consumption and adversely affect the livelihoods of the public. Moreover, potential risks still persist in vulnerable areas with regard to real estate project financing (PF), household debt, and marginal companies. Under these circumstances, prudent management of potential risk factors is crucial for the public and private sectors, with the government focusing on the economic recovery that can be felt by the general public. In addition, it is essential for policymakers to make efforts to enhance the resilience of the Korean economy and strengthen measures to address future challenges.

Key Economic Indicators

(Unit: %)

	2022	2023	2024(F)		
			First Half	Second Half	Annual
Real GDP	2.6	1.4	2.2	2.0	2.1
Consumer Spending	4.1	1.8	1.1	2.0	1.6
Equipment Investment	-0.9	0.5	2.6	5.7	4.2
Construction Investment	-2.8	1.4	-2.4	-2.9	-2.6
Unemployment Rate	2.9	2.7	3.1	2.7	2.9
Current Account Surplus (USD billion)	25.8	35.5	19.8	32.2	52.0
Exports	3.6	2.9	-4.0	5.0	0.5
Imports	4.3	-0.6	-0.4	-0.1	-0.2
Consumer Price Inflation	5.1	3.6	2.9	2.3	2.6
Average Three-Year Treasury Yield	3.2	3.6	3.6	3.4	3.5
KRW/USD Exchange Rate (KRW per USD 1)	1,292	1,311	1,312	1,283	1,297

(Sources: Bank of Korea (Feb. 2024), Korea Institute of Finance (Dec. 2023))

Korean Insurance Market

2023 in Review

In 2023, the Korean insurance market experienced a slight decline compared to the previous year, primarily attributable to reduced premium income from savings insurance policies of life insurance companies. According to preliminary results released by the Financial Supervisory Service in March 2024, the life insurance sector witnessed a notable year-on-year downturn, driven by a significant reduction in premium income for savings-type insurance. The downturn also reflects a sales strategy prioritizing protection-type insurance and stock market contraction. Meanwhile, the non-life insurance sector demonstrated robust growth, as all lines of business generated solid growth.

Insurance companies in Korea reported remarkable bottom-line results in 2023, with their net income surging by 45.5% to KRW 13,357 billion. The improvement was driven mostly by insurance service results, which increased sharply in the wake of the transition to new accounting

standards (IFRS 17 and IFRS 9). The implementation of IFRS 17 and IFRS 9 has turned out to give a one-off boost to the performance of insurers in Korea in 2023, with their net income increasing noticeably. Under the new accounting regime, insurance liabilities are measured at market value rather than cost, while gains and losses are recognized over the entire duration of a contract rather than just based on cash flow. These changes are likely to work in favor of insurers who have a higher proportion of short-term protection policies, which tend to generate lower liabilities and can positively impact their earnings.

The profitability ratios of the insurance industry increased in 2023 compared to the prior year. Its return on assets (ROA) ratio rose by 0.40%p to 1.09%, and its return on equity (ROE) ratio decreased by 0.20%p to 8.02%. Non-life insurers reported higher ratios than life insurers as follows:

ROA and ROE

(Unit: %)

		2022	2023	Change (%p)
ROA	Life Insurers	0.38	0.58	0.20
	Non-Life Insurers	1.48	2.40	0.92
	Total	0.69	1.09	0.40
ROE	Life Insurers	5.39	4.93	-0.46
	Non-Life Insurers	12.74	13.07	0.33
	Total	8.22	8.02	-0.20

(Source: Financial Supervisory Service (Mar. 2024))

As of the end of December 2023, insurers reported a decrease in assets compared to a year earlier. Their total assets declined by 6.5% to KRW 1,224.6 trillion, which is broken down into KRW 880.9 trillion for life insurance and KRW 343.7 trillion for non-life insurance. Life insurers continued to dominate insurance industry assets, accounting for 72% of the total, but their assets diminished by 6.1%.

The insurance industry saw its total shareholders' equity jump by 87.4% to KRW 166.6 trillion as of late 2023. Although assets decreased because of transition effects and a reduction in unrealized gains on the value of securities they hold as investments amid higher interest rates, the value of liabilities contracted more sharply due to the valuation of insurance liabilities at market value.

Prospects for 2024

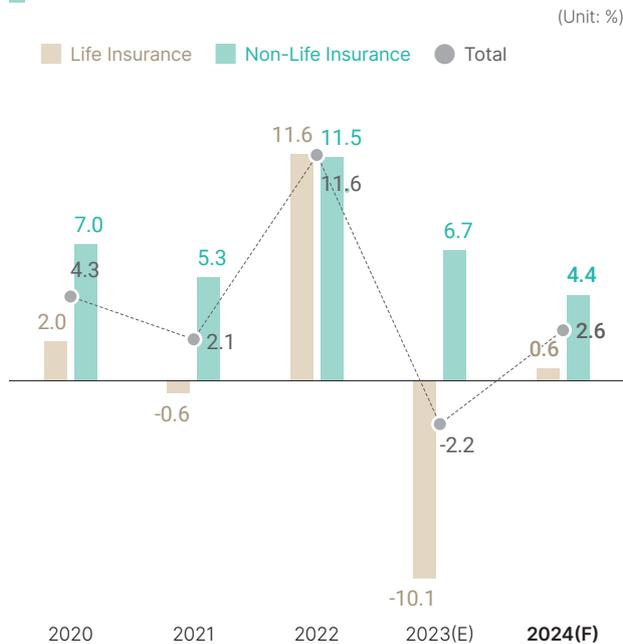
The insurance market in Korea is anticipated to rebound in 2024, with an expected growth rate of 2.6%, following a period of negative growth in 2023. According to an outlook report released by the Korea Insurance Research Institute in October 2023, total premiums are forecast to reach KRW 253.8 trillion. The life insurance market is expected to return to positive growth in 2024 after experiencing a sharp contraction in 2023. The non-life insurance market is likely to surpass the life insurance sector in terms of premium volume, as the market is projected to continue growing in 2024, albeit at a more moderate pace compared to the previous year.

The contractual service margin (CSM) in the insurance industry is expected to maintain its growth trajectory for both life and non-life insurance in 2024. The CSM for life insurance is estimated to increase to KRW 69.9 trillion in 2024 from KRW 61.9 trillion in 2023. Similarly, the approximate CSM size for non-life insurance is projected

to be KRW 64.6 trillion in 2023 and KRW 67.9 trillion in 2024, based on estimates for 11 domestic general non-life insurance companies.

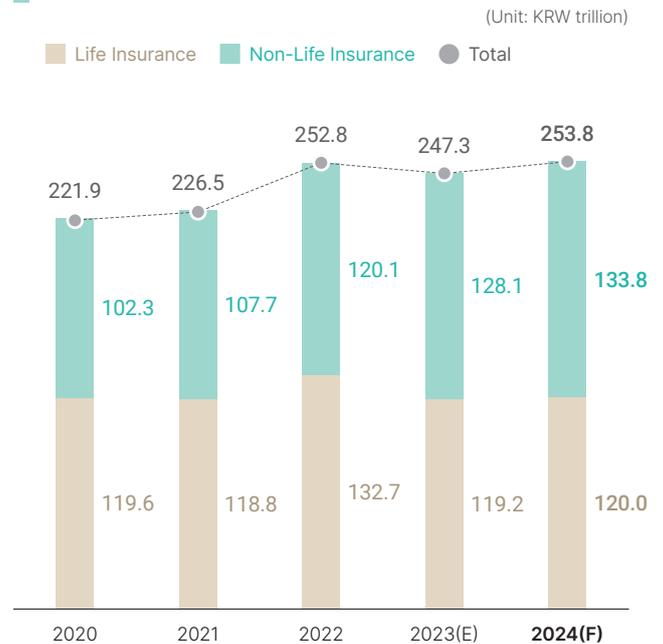
The robust growth of the CSM suggests a potential increase in profits for insurers. However, there is an expectation of considerable volatility in investment income. Since the implementation of a stringent monetary policy in 2022, profitability deviations among insurers have widened, and this trend may persist into 2024 due to the prolonged period of high interest rates. With the anticipated high volatility in financial markets, an insurer's profit size may fluctuate, contingent upon its capabilities in managing investment income.

Korean Insurance Market Growth Rates



(Source: Korea Insurance Research Institute (Oct. 2023))

Trends of Premium Income



(Source: Korea Insurance Research Institute (Oct. 2023))

Life Insurance

The life insurance market is expected to recover in 2024 after declining steeply in 2023, with premium income forecast to grow by 0.6% to KRW 120 trillion in 2024. Premiums from protection-type insurance are projected to grow by 2.0% because sales of health insurance remain robust. The COVID-19 pandemic has become a driving force behind rising risk awareness and demand for health insurance coverage. This will provide a greater boost to insurers' marketing initiatives to increase protection-type products under the new regulatory frameworks of IFRS 17 and K-ICS. However, a limited economic recovery may have a negative impact on insurance sales growth as fewer consumers will have extra money to spend on insurance.

Savings life insurance premiums are projected to fall by 6.6% as life insurers will continue to focus on selling protection

products. The demand for savings insurance is expected to decrease, with rising interest rates on bank deposit products making savings insurance look relatively less attractive. Variable life savings insurance is also faced with some headwinds due to a lackluster stock market, but a growing interest in investment products may push up the demand for variable savings insurance.

On the other hand, sales of life annuity premiums will remain solid because increasing life expectancy is fueling the growth of the demand for annuity plans, and rising crediting rates may lead to a renewed interest in annuities with an increasing number of baby boomers reaching retirement age.

Life Insurance Market Outlook by Line of Business

(Unit: KRW trillion)

	2021		2022		2023 (E)		2024 (F)	
	Premium	Growth Rate (%)	Premium	Growth Rate (%)	Premium	Growth Rate (%)	Premium	Growth Rate (%)
Total (including retirement annuity)	118.8	-0.6	132.7	11.6	119.2	-10.1	120.0	0.6
Protection	45.8	-0.7	47.9	4.5	49.4	3.2	50.4	2.0
Savings	48.4	-3.5	56.5	16.7	37.2	-34.1	34.7	-6.6
Others*	0.8	1.1	0.8	0.7	0.8	-0.4	0.8	0.3
Retirement annuity	23.9	5.8	27.5	15.5	31.8	15.6	34.1	7.1
Total (excluding retirement annuity)	95.0	-2.1	105.1	10.7	87.4	-16.9	85.9	-1.7

* Others include group life insurance. Individual figures may not add up to the total shown due to rounding.
(Source: Korea Insurance Research Institute (Oct. 2023))

Non-Life Insurance

The non-life insurance market has been demonstrating greater resilience over the last few years compared to the life sector, and its premium volume is expected to grow by 4.4% to KRW 133.8 trillion in 2024. The growth will be supported by long-term personal accident and health insurance, general property and casualty (P&C) insurance, and retirement annuities.

Long-term insurance is projected to grow by 4.3% in 2024, driven by personal accident, health insurance and driver insurance. The motor insurance market is projected to slow down, growing by 1.8%, under the assumption that there is no premium rate adjustment. The rise of usage-based

insurance and online distribution channels, which usually offer lower prices, is also putting downward pressure on premium income growth per policy.

General P&C insurance will remain a strong driver of growth, although it still accounts for a small portion of the entire non-life market. Its premiums are expected to grow by 5.2% in 2024, and firm growth momentum will come from the casualty lines of business, backed by liability insurance amid an increased awareness of the importance of liability protection for companies and the expansion of compulsory insurance.

Non-Life Insurance Market Outlook by Line of Business

(Unit: KRW trillion)

	2021		2022		2023 (E)		2024 (F)	
	Premium	Growth Rate (%)	Premium	Growth Rate (%)	Premium	Growth Rate (%)	Premium	Growth Rate (%)
Total (including retirement annuity)	107.7	5.3	120.1	11.5	128.1	6.7	133.8	4.4
Long-Term	58.8	5.2	61.8	5.0	64.5	4.4	67.3	4.3
Individual annuity	2.6	-13.3	2.2	-15.9	1.9	-10.8	1.8	-7.9
Motor	20.3	3.7	20.8	2.4	21.3	2.0	21.6	1.8
General P&C	11.6	8.8	12.8	10.0	13.8	8.3	14.5	5.2
Retirement annuity	14.3	9.1	22.5	57.4	26.6	18.1	28.6	7.4
Total (excluding retirement annuity)	93.4	4.7	97.6	4.5	101.5	4.0	105.2	3.6

* Individual figures may not add up to the total shown due to rounding.
(Source: Korea Insurance Research Institute (Oct. 2023))

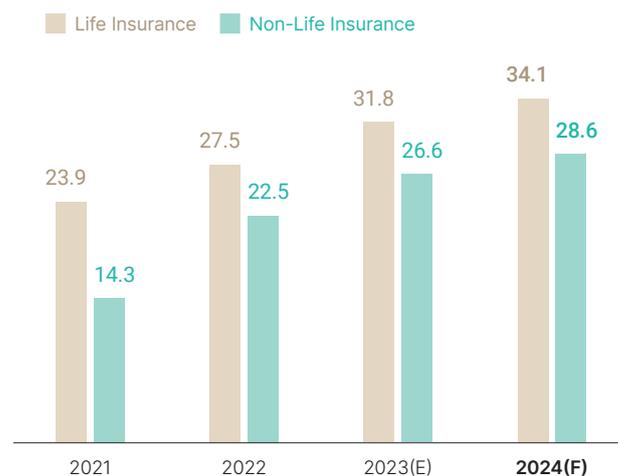
Retirement Annuity

The retirement annuity market in Korea is on track to keep growing due to increased interest in retirement income, expansion of the Individual Retirement Pension (IRP) market, and strategic sales promotions aimed at curtailing the outflow of retirement annuity reserves. Life insurers are anticipated to see a 7.1% growth in retirement annuity in 2024, while retirement annuity premiums of non-life insurers are expected to grow by 7.4%.

On the other hand, there are some downside factors, such as intensifying competition against other financial sectors and capital requirements for annuity reserves.

Retirement Annuity Premiums

(Unit: KRW trillion)



(Source: Korea Insurance Research Institute (Oct. 2023))