2020 South Korea Insurance Outlook

Trends and imperatives shaping the life and non-life markets

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Despite being the seventh-largest market globally, South Korea has continued to grow at a rate healthier than what most other developed markets have seen in recent years. At the same time, thanks to heightened regulatory focus, industry capitalization is expected to further improve.

However, slowing economic growth and sustained low interest rates are likely to affect the sector's growth in the coming years. On the other hand, a rapidly aging population is putting considerable pressure on the welfare system and is emerging as a major opportunity for insurers.

Compound annual growth rate, gross written premium, South Korea, 2013-2018

In KRW		In USD
4.6%	Total	4.2%
1.8%	Life	1.4%
8.7%	Non-life	8.3%

Source: Swiss Re Sigma

South Korean insurers face challenging market conditions, ranging from trade tensions and a stagnant economy to the prospect of new regulations and the threat of technology-driven disruption. As a result, insurers must make strategic choices about markets, customers, products and channels, as well as be prepared to make changes to their business and operating models.

They must also accelerate their investments in digital transformation. Nearly all insurers are keen to adopt new technologies (e.g., blockchain and artificial intelligence) and create new services via collaborations with InsurTechs. However, most initiatives remain in initial or pilot phases. Expanding these efforts is critical, given the likelihood of increased competition from internet-only insurers and banks.

A series of accounting scandals has led to drastic, government-driven audit reforms that are designed to fundamentally enhance accounting transparency. For the coming three years, approximately 660 companies are subject to mandatory auditor designations, with the biggest impact felt by top-tier life and non-life insurers and insurance affiliates of major financial groups.

GDP growth

3.1% 2017

1.9% 2019 (estimated)

Percentage of population over age 65

10.0% 2008

33.0% 2040 (forecast)

Source: Oxford Economics

South Korean insurers must accelerate their investments in digital transformation.

Key trends

Life

Life premiums totaled USD104 billion in 2018, with a market penetration of 7.4% and per-capita premiums of USD2,050. The domestic life business is very concentrated, with the top player having a 23% market share. Life insurers seek to adjust their product portfolios and growth strategies while navigating competitive and regulatory challenges.

$104 billion

Gross written premium, life, USD, 2018

7.4%

Market penetration, life, 2018

23%

Share held by market leader, life, 2018

Source: Korea Insurance Research Institute, Swiss Re Sigma, EY analysis

Recovering share from foreign insurers

South Korea's life insurance market has expanded through endowment, which foreign insurers did not cover. Therefore, foreign insurers' market share has been limited at around 15%. However, due to increased demand for term insurance, foreign insurers gained market share from 2015 to 2017, improving from 17.5% to 19.7%.

Protection products driving growth

Savings policy sales have traditionally made up half of total new sales volume. However, life insurers are now likely to shift their focus to protection products. For example, new dental products and cheaper health insurance policies are being launched to reduce interest risk exposure.

Low or negative growth

As product-mix strategies evolve ahead of the introduction of IFRS 17, life insurers are expected to record lower or negative new business growth in 2018.

The need for capital soundness

South Korean life insurers are increasingly challenged to maintain capital soundness as they struggle with regulatory capital reforms, as well as IFRS 17 implementation. Several companies have turned to issuing debt, while others are exploring M&A options to broaden their capital base.

Key trends

Non-life

Non-life premiums totaled USD66.7 billion in 2018, with a market penetration of 4.7% and per-capita premiums of USD1,312. The domestic non-life business is very concentrated, with the top player having a 24% market share. Slowing economic growth and subpar automotive underwriting results are challenging insurers. On a more positive note, proposed deregulation measures and improved operational efficiency may boost future performance in non-life lines.

$66.7 billion

Gross written premium, non-life, USD, 2018

4.7%

Market penetration, non-life, 2018

24%

Share held by market leader, non-life, 2018

Source: Korea Insurance Research Institute, Swiss Re Sigma, EY analysis

Slowing growth from an economic slowdown

Premium growth has weakened for several years, from 4.9% in 2015 to 3.7% in 2016 to 2.6% in 2017. The drop is primarily due to the slowdown in overall economic activity.

Deteriorating underwriting results

Non-life insurers have posted consecutive underwriting losses since 2008. In the first quarter of 2018, key non-life insurers reported a net decline in profitability. In the first half of 2019, profitability remained under pressure. This was likely due to a softening of the underwriting cycle; to tackle this challenge and secure profitability, insurers are planning to expand their long-term business.

Planned deregulation to stimulate growth

The Financial Services Commission (FSC) is considering new deregulation measures to stimulate the stagnant insurance market. The proposals include a relaxation of reporting requirements for new products. The FSC also plans to lower the barriers to entry for international reinsurers.

Improvements in operational efficiency

The South Korean non-life sector saw an improvement in operational efficiency as cost-savings strategies — including technology investments, job cuts and expense management initiatives — began to deliver results.

Imperatives for insurers

1

Adapt to changes: The short-term focus is on the delivery of strategy and transformation plans to meet financial and operational targets. For the long term, insurers must strive for broader transformation, largely through digitization of core processes and functions, to position for future success.

2

Improve transparency: Regulators are demanding fundamental enhancements to accounting transparency. Insurers must take the necessary steps to meet the amended audit law's specifications around auditor opinions of internal control over financial reporting (ICoFR), increased audit hours and the empowerment of audit committees.

3

Embrace IFRS 17: Top-tier insurers are working toward IFRS 17 implementation by upgrading their financial reporting, actuarial and risk infrastructure. The core objectives include stabilizing the system and developing managerial insights from IFRS 17 financial outputs. To deliver against new regulations, insurers will need to secure new talent and resources focused on business management, risk transformation and K-ICS (Korean Insurance Capital Standard) competencies.

4

Drive digital transformation: Digitization is no longer a strategic option for insurers, but rather an imperative. Insurers must prepare for the emergence of new markets for FinTechs, now that regulators have lowered barriers to entry. In addition, insurers must embrace blockchain, cloud and other advanced technologies in the face of rising competition from internet-oriented insurers and internet-only banks that are expanding into insurance.

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