

Korean Insurance Market

2021 in Review

In 2021, the Korean insurance market struggled with slowing growth due to a decrease in new business volume and heightened economic uncertainty in the aftermath of the COVID-19 outbreak. Although the life insurance market maintained its positive growth trajectory on the back of variable and protection insurance and retirement annuities, premium income growth slowed more sharply than expected, according to preliminary results released by the Financial Supervisory Service in March 2022. The non-life market showed a bit stronger growth, driven by long-term and general P&C insurance. Still, its growth momentum largely weakened compared to the previous year.

Despite this downward pressure on growth, insurers unexpectedly benefited from the COVID-19 pandemic, showing a robust improvement in profitability. Life insurers delivered better net income results in 2021 compared to the previous year thanks to a sharp increase in investment income amid rising interest rates. Their investment income growth was also driven by an increase in dividend income. Samsung Life Insurance, the largest shareholder of Samsung Electronics, received a large sum of special dividends from the electronics company, which helped increase its net income strongly.

Likewise, non-life insurance companies saw their net income surge amid narrowing underwriting losses. The improvement in underwriting results reflected a drop in motor loss ratio and a reduction in expense ratio of long-term insurance. Fewer claims arising from a decrease in road traffic and non-urgent hospital visits during the pandemic helped non-life insurers improve their loss ratios. Favorable investment performance also boosted their overall net income results.

Prospects for 2022

Insurance market growth in Korea is expected to slow down to 3.2% in 2022, with the life insurance market slowing more sharply. The growth rate will get back on par with the nation's nominal economic growth rate after recording higher growth in 2020 and 2019. Total premiums are expected to reach KRW 240 trillion in 2022, according to an outlook released by the Korea Insurance Research Institute in October 2021.

Insurance companies saw their profitability ratios improve as a result of strong net income growth. The return on assets (ROA) ratio of the industry rose by 0.15%p to 0.62%, while the return on equity (ROE) ratio increased by 1.51%p to 5.95%. Non-life insurers reported higher ratios than life insurers, with an ROE of 9.22% for the former and 4.28% for the latter.

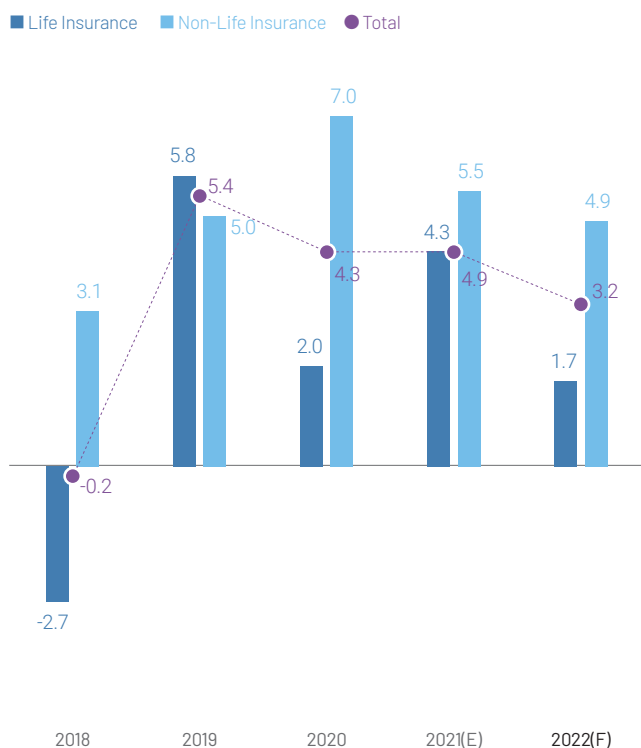
Backed by premium income growth, insurers reported a modest increase in assets. As of the end of 2021, their total assets grew by 2.8% year on year to KRW 1,358.7 trillion, which is broken down into KRW 992.4 trillion for life insurance and KRW 366.3 trillion for non-life insurance. Non-life insurers posted a higher asset growth rate compared to life insurers, but the latter continued to dominate insurance industry assets, accounting for 73% of the total.

Despite strong net income growth, the insurance industry saw its total shareholders' equity diminish by 6.1% to KRW 134.6 trillion as higher interest rates caused insurers to suffer a decline in unrealized gains on the value of securities they hold as investments. The upward movement of interest rates may help insurers improve their profitability in the long term, but it has a downside in the short term. When rates go up, the value of insurers' bond portfolios goes down, as existing bonds become less attractive than new bonds that offer relatively higher rates. Although this decrease in value does not affect net income because it is recognized as unrealized gains or losses, it reduces insurers' book value or net worth.

As the economy is recovering robustly from the COVID-19 crisis, economic growth momentum will fuel insurance demand, and this will be more prominent in the non-life insurance market, which is expected to see solid premium growth. However, uncertainty still lingers around whether a rising vaccination rate will be sufficient to get the pandemic under control as new and more transmissible COVID-19 variants emerge. Growing household debt also presents another key risk to insurance market growth since it may undermine consumer confidence when interest rates rise.

Korean Insurance Market Growth Rates

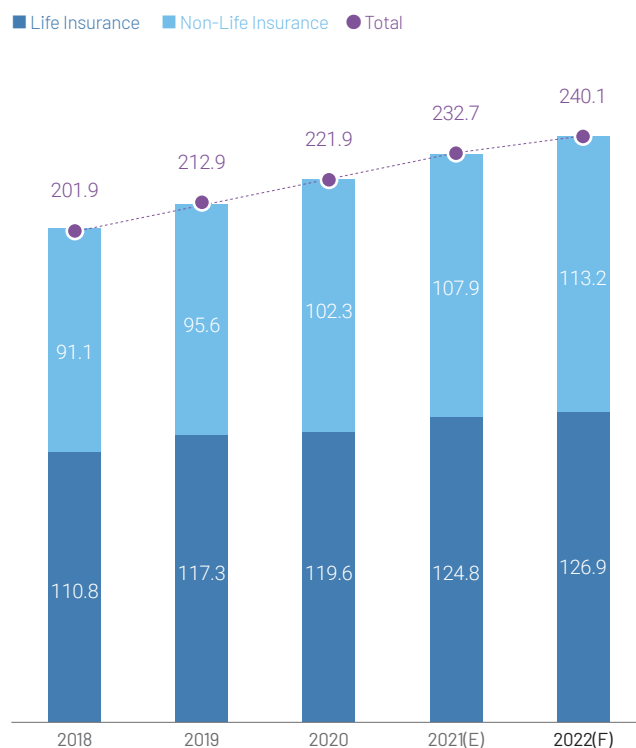
(Unit: %)



(Source: Korea Insurance Research Institute, as of Oct. 2021)

Trends of Insurance Premiums

(Unit: KRW trillion)



(Source: Korea Insurance Research Institute, as of Oct. 2021)

Life Insurance

Life insurance premiums are projected to grow by 1.7% to KRW 126.9 trillion in 2022. When retirement annuity premiums are excluded, the expected growth rate goes down further to 1.5%. Sales of whole life insurance will be weakening as insurers are less motivated to develop new products in the wake of the strengthened supervision of mis-selling practices.

Demand recovery will be led mostly by health insurance products, with the pandemic becoming a driving force behind rising risk awareness and demand for health insurance coverage. This will provide a greater boost to insurers' marketing initiatives to sell protection-type products in the run-up to the implementation of IFRS 17 and K-ICS. Reduced social distancing measures will also help improve sales from face-to-face distribution channels.

In spite of a low interest rate environment, general savings insurance is expected to grow by 2.8% as a large number of savings policies come into maturity in 2022 and some of the policyholders who receive maturity benefits are expected to buy new savings insurance. Back in 2012, there was a rush to buy general savings insurance before the tax changes that became effective in 2013, resulting in a year-on-year growth of 85% in savings insurance premiums in 2012.

Although increasing life expectancy is the primary driver that boosts demand for annuity plans, an increase in life annuity supply is likely to be restrained due to the challenges of longevity risk management and stronger capital requirements under new accounting standards. Insurers expect to see a growth in initial premiums for variable life insurance amid the rising popularity of investment products, but the growth will be limited given the increasing trend of short-term direct investment in the financial market and a growing surrender rate.

Korean Insurance Market

Life Insurance Market Outlook by Line of Business

(Unit: KRW trillion)

	2019		2020		2021(E)		2022(F)	
	Premium	Growth Rate (%)	Premium	Growth Rate (%)	Premium	Growth Rate (%)	Premium	Growth Rate (%)
Total (including retirement annuity)	117.3	5.8	119.6	2.0	124.8	4.3	126.9	1.7
Protection	44.4	3.9	46.1	3.8	47.4	2.8	48.7	2.7
Savings	47.4	-6.0	50.1	5.8	50.6	1.0	50.9	0.4
Others*	0.8	0.6	0.7	-2.1	0.8	0.7	0.8	0.4
Retirement annuity	24.6	46.0	22.6	-8.5	26.0	15.1	26.5	2.2
Total (excluding retirement annuity)	92.6	-1.4	97.0	4.8	98.8	1.8	100.4	1.5

* Others include group life insurance. Individual figures may not add up to the total shown due to rounding.

(Source: Korea Insurance Research Institute, as of Oct. 2021)

Non-Life Insurance

The non-life insurance market has been demonstrating greater resilience over the last few years, and its premium volume is expected to grow by 4.9% to KRW 113.2 trillion in 2022. This growth will be supported by long-term accident and health insurance, general property and casualty (P&C) insurance, and retirement annuities. When retirement annuities are excluded, premium growth is forecast at 4.4% in 2022, with total premiums of KRW 97.5 trillion.

By line of business, general P&C insurance is projected to grow by 7.5% in 2022, maintaining solid growth momentum thanks to the expansion of the casualty sector. Liability insurance will continue to boost the casualty market, which is expected to expand by 9.4%. Fire insurance premiums are anticipated to grow by 2.3% amid

growing demand from households, while marine insurance will likely recover from a contraction in the previous year due to increasing trade flows and shipbuilding orders.

A 5.2% growth is expected for long-term insurance, driven by long-term accident and health insurance. Long-term savings insurance premiums are set to decline further as insurers remain focused on marketing protection products. The motor insurance market is projected to slow down further, growing by 2.1%, due to a decrease in the number of car registrations following the end of a temporary tax cut on purchases of passenger cars. The rise of usage-based insurance and online distribution channels usually offering lower prices is also putting downward pressure on premium income growth per policy.

Non-Life Insurance Market Outlook by Line of Business

(Unit: KRW trillion)

	2019		2020		2021(E)		2022(F)	
	Premium	Growth Rate (%)	Premium	Growth Rate (%)	Premium	Growth Rate (%)	Premium	Growth Rate (%)
Total (including retirement annuity)	95.6	5.0	102.3	7.0	107.9	5.5	113.2	4.9
Long-term	53.1	5.0	55.9	5.3	58.9	5.3	61.9	5.2
Individual annuity	3.3	-6.4	3.0	-9.1	2.6	-11.6	2.4	-9.5
Motor	17.6	5.1	19.6	11.6	20.4	4.0	20.8	2.1
General P&C	9.9	3.9	10.7	8.3	11.5	7.9	12.4	7.5
Retirement annuity	11.8	9.3	13.1	11.4	14.5	10.4	15.6	8.0
Total (excluding retirement annuity)	83.8	4.4	89.2	6.4	93.4	4.7	97.5	4.4

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

(Source: Korea Insurance Research Institute, as of Oct. 2021)

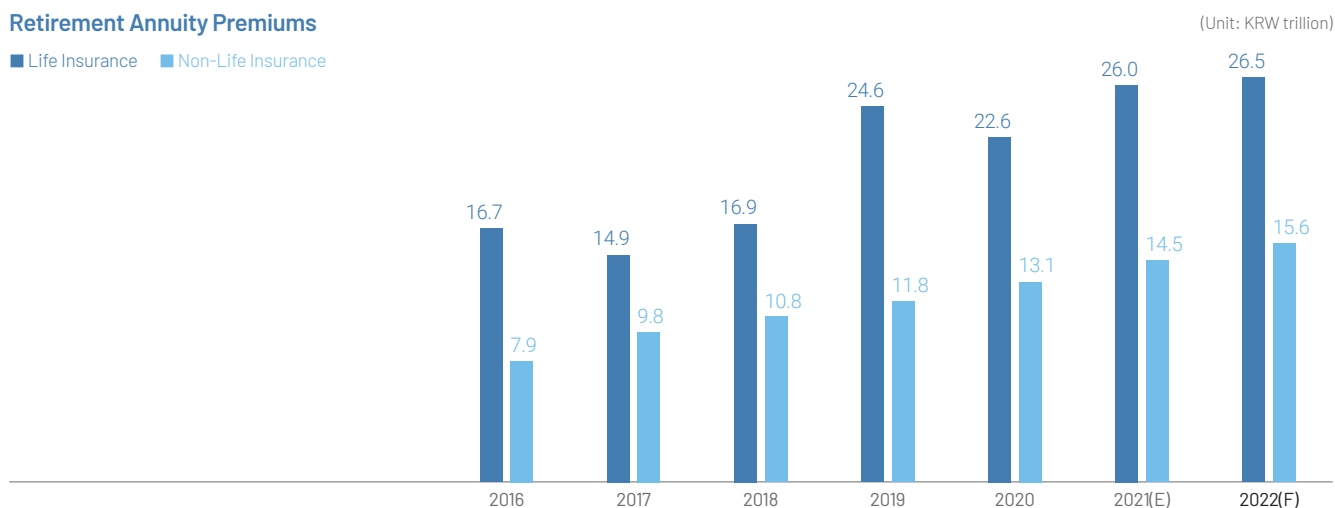
Retirement Annuity

The retirement annuity market in Korea is on track to keep growing, as the demand for annuity products is rising amid a growing population of 65 years and older. However, the pace of growth is slowing because the effect of an increase in funding requirements for defined benefit plans is coming to an end. Life insurers are anticipated to see a 2.2 percent growth in retirement annuity in 2022, while retirement annuity premiums of non-life insurers are expected to grow by 8% on the back of premiums from in-force policies.

Improving labor market conditions and the expansion of the individual retirement pension (IRP) sector are upside factors that drive the growth of the overall retirement annuity market. On the other hand, there are some downside factors for insurers, such as intensifying competition against other financial sectors. Given that a large chunk of premium contributions are made at the end of the year, there is a higher level of uncertainty as to growth projections for the retirement annuity market.

Retirement Annuity Premiums

■ Life Insurance ■ Non-Life Insurance



(Source: Korea Insurance Research Institute, as of Oct. 2021)

Disclaimer: Certain statements contained herein are forward-looking. These statements provide current expectations of future events based on certain assumptions made by organizations specified herein as sources of relevant data.