

# Market Overview

FY 2021

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# Korean Economy

## 2021 in Review

The Korean economy finished 2021 in strong shape, with its gross domestic product (GDP) growing by an estimated 4% despite growing concerns about the rapid spread of Omicron. That is the highest economic growth rate in 11 years, suggesting that even with an unrelenting pandemic, the economy made a sharp turnaround from the previous year's contraction. The economy was on track for a strong rebound in the first quarter of the year, driven by robust growth in exports and equipment investment, but GDP growth slowed a bit through the second and third quarters due to lackluster consumer spending. In the final quarter, the economy regained its recovery momentum on the back of an uptick in consumer spending, export gains, and fiscal support.

Private consumption growth improved to 3.6% in 2021, representing a strong recovery from the previous year's 5% contraction, while there was a growth of 5.5% in government spending, backed by a rise in health care expenditures. Consumer spending improved due in no small measure to eased social distancing rules, which led to an increase in consumption in the hospitality, dining, and transportation sectors.

Exports bounced back from a contraction in 2020 and jumped by 9.7% in 2021, the fastest annual pace in 11 years, and this robust export performance was led by semiconductors and petroleum products. Imports also surged by 8.4% in 2021 compared to a 3.3% drop in 2020 due to increased inbound shipments of crude oil and chemical products.

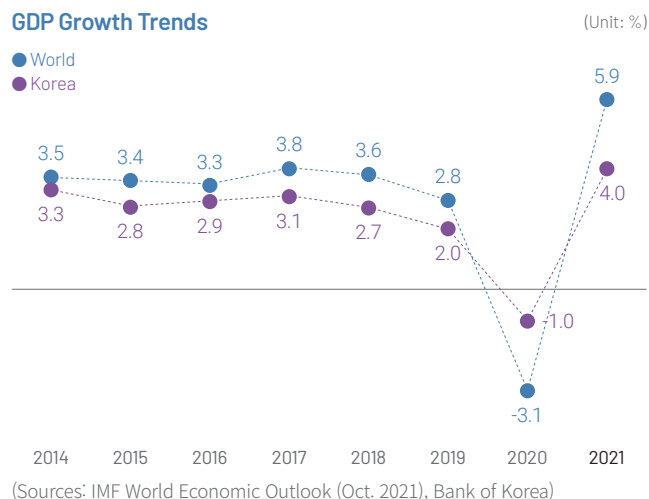
## Prospects for 2022

In 2022, the Korean economy is expected to have another strong year of recovery from the pandemic-induced contraction of 2020, supported by consumer spending growth, export recovery, and an improving business investment. However, rising inflation, supply chain disruptions, and the build-up of household debt cast a cloud over the growth outlook for 2022.

### GDP

The Korean economy is on track to deliver a GDP growth of 3% amid improving economic activities both at home and abroad. While COVID-19 remains a threat to the economy, it appears to be having a far less negative impact on economic output. Effective vaccines

### GDP Growth Trends



Another important driver of GDP growth was equipment investment, which increased by 8.3% in 2021 versus 7.1% in 2020. The acceleration in equipment spending growth was supported by an increase in machinery investment. On the other hand, construction investment declined by 1.5% amid higher office vacancy rates and reduced hotel occupancy. Commercial real estate construction was among the hardest-hit segments of the economy in the wake of the pandemic outbreak because remote work became more common than before, and a greater fraction of businesses relied on virtual platforms, resulting in lower demand for construction.

have allowed most economies to move away from lockdowns and focus on how to live with the virus. Rising consumer spending coupled with global demand recovery will likely continue to help the Korean economy maintain its strength in the year ahead.

However, there are growing concerns about potential threats to economic recovery, such as the emergence of new coronavirus variants, rising inflation, a supply chain crunch, and the surge in household debt. A political crisis surrounding Russia's invasion of Ukraine is also casting a pall over the growth outlook for 2022 because several spillover effects from the invasion, including rising energy and food prices, could create macro uncertainty for the world economy.

# Korean Economy

## Consumer Spending

Consumer spending is expected to grow by 3.5% in 2022, with consumer confidence gaining strength from growing household income and improving job market conditions. Spending on services will recover since the government is lifting many of the restrictions designed to curb the spread of COVID-19. In particular, pent-up demand is likely to cause a strong rebound in consumer expenditure on hotels, leisure, recreation, and transport. Consumption of goods is also being boosted by increasing online transactions. Furthermore, consumer spending growth will be driven by excess household savings, which have increased during the COVID-19 pandemic amid rising uncertainty regarding future income and employment prospects. Government support programs for small business owners and low-income families will also help shore up the growth of private consumption across the board.

## Equipment Investment

Equipment investment is projected to grow by 2.2%, driven by solid investment spending in the information and technology (IT) sector and a recovery in non-IT investment. Demand for IT and communications equipment will remain strong, with COVID-19 spurring an exceptional surge in technology investment across the globe. Investments in IT 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 automobile and transportation. The inland transportation sector, in particular, will see a rise in equipment investment amid the growth of e-commerce, which is backed by growing demand for online purchases. Disruptions in automobile production will likely ease, and there will be a continued increase in investments in electric vehicles and batteries.

## Construction Investment

Construction investment will rebound to positive growth, but the pace of recovery is likely to be moderate due to rising commodity prices. Backed by both building construction and civil works, construction investment is expected to increase by 2.4% in 2022. The civil engineering construction sector will bounce back thanks to the government's increased investment in infrastructure. Leading indicators of building activity, such as new housing starts and construction orders, suggest a steady improvement in conditions

for the housing construction sector. Investment in commercial building construction is on track to solid growth, while the industrial building construction sector is not likely to see a notable increase in investment spending due to the high base in 2021 when there was a big jump in investments with regard to the construction of semiconductor factories and warehouses.

## Employment

Labor market conditions are expected to improve, with the number of employees increasing by 280,000 and the unemployment rate declining modestly to 3.6% in 2022. Much of the job growth will come from face-to-face service sectors that were severely affected by COVID-19, such as restaurants, hotels, entertainment, and passenger transportation. These industries will be supported by improving consumer confidence and a rise in the government budget for job creation. The manufacturing industries will also see a modest increase in job growth, backed by growing investment in the IT sectors. Automobile production disruptions are also likely to ease off, supporting job growth in the manufacturing sector. As long as another big wave from COVID-19 can be staved off, the job market seems primed for continued growth, but a decrease in the number of economically active people could potentially pose a challenge to job market recovery, as that makes it difficult for businesses to keep up with labor demand growth.

## Inflation

Inflationary pressure has been building amid rising energy and commodity prices coupled with supply chain bottlenecks. Consumer price inflation is forecast to increase to 3.1% in 2022 from 2.5% in 2021. Prices for energy, food, and goods have risen sharply as factories struggle to keep pace with strong consumer demand. Eased social distancing measures are helping boost consumer confidence and release pent-up demand. The current situation has been compounded by global supply chains for everything from mobile phones to cars, which is being fueled by the relative shortage of semiconductors across the world. Semiconductor chips are essential to many consumer goods from smart phones and laptops to desktop computers and automobiles, and demand for semiconductors soared during the pandemic due to the increased use of electronic communications equipment. However, a delay in economic recovery, the risk of new COVID-19 variants, and oil price retreats may put some downward pressure on inflation.

## Current Account Surplus

Korea's current account surplus is expected to fall to USD 70 billion in 2022 from USD 88.3 billion in 2021 due mostly to growing imports amid rising commodity prices and consumer demand recovery. The ratio of the country's current account surplus relative to its GDP is projected to drop to around 4% in 2022 from 5% in 2021. The nation's merchandise account surplus keeps narrowing in spite of increasing exports because higher energy prices and domestic demand growth are set to push up the value of imported goods. Although Korea will see an expansion in its transport account surplus in tandem with increasing global trade volume, there will likely be a rise in its service account deficit because the number of outbound tourists is bound to increase again due to the end of travel restrictions.

## Interest Rate

The average three-year treasury yield in Korea is anticipated to rise to 1.8% in 2022 from 1.4% in 2021. The Bank of Korea (BOK) has been under pressure for interest rate hikes amid growing concerns over rising inflation and household debt. The central bank raised its benchmark interest rate by 25 basis points to 1.25% in mid-January 2022, which was the third interest rate hike during the COVID-19 pandemic following its previous rate hikes in August and November 2021. Previous to that, the rate had been kept at a record low of 0.5% since May 2020. The latest rate increase has brought the policy rate

back to the pre-pandemic level. Throughout the year 2022, more rate increases are likely to come as the BOK Governor hinted at the possibility of further rate hikes via an online press briefing on January 14. Whether the central bank will further raise the base rate depends on economic conditions including the pace of GDP growth and tapering in the U.S. as well as inflationary pressure. However, the government is expected to reduce its treasury issuance in 2022 compared to the previous year, and this may help curb the rise in the treasury yield.

## Foreign Exchange Rate

The value of the Korean won is expected to recover its strength against the U.S. dollar in 2022, bringing the yearly average exchange rate of USD/KRW down to KRW 1,135.0 per dollar. Still, like most other currencies, the won is not likely to make any significant gains against the greenback, as monetary tightening from the Federal Reserve will help the U.S. dollar gain enough momentum to continue its dominance in 2022. There are some external risks that may drive the exchange rate to soar, such as political instability surrounding the conflicts between Russia and Ukraine, another resurgence of COVID-19, and global inflationary pressure. Among other things, Russia's assault on Ukraine has significantly undermined the euro due mostly to Europe's high volume of trade with Russia, allowing the USD to strengthen against the euro.

## Key Economic Indicators

(Unit: %)

	2020	2021	2022 (E)		
			First Half	Second Half	Annual
Real GDP	-1.0	4.0	2.8	3.1	3.0
Consumer Spending	-5.0	3.6	3.9	3.2	3.5
Equipment Investment	6.8	8.3	-1.3	5.8	2.2
Construction Investment	-0.1	-1.5	0.6	4.0	2.4
Unemployment Rate	4.0	3.7	3.8	3.3	3.6
Current Account Surplus (USD billion)	75.3	88.3	28.0	42.0	70.0
Exports	-0.5	9.8	4.5	2.5	3.4
Imports	0.0	11.8	5.6	2.1	3.8
Consumer Price Inflation	0.5	2.5	3.5	2.7	3.1
Three-year Treasury Yield	1.0	1.4	1.8	1.7	1.8
USD/KRW Exchange Rate (KRW)	1,180	1,144	1,162	1,107	1,135

(Sources: Bank of Korea (Feb. 2022), Korea Institute of Finance (Dec. 2021))

# 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.

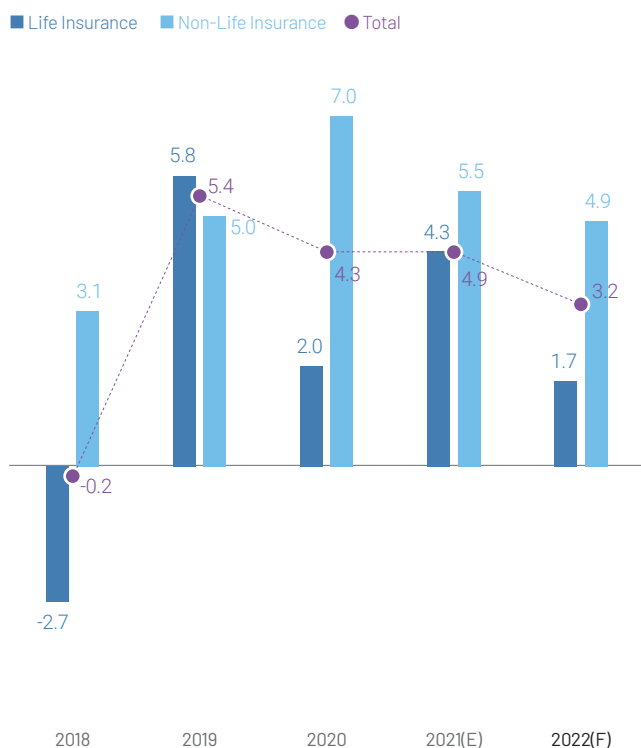
Backed by premium income growth, insurers reported a modest increase in assets. As of the end of 2021, their total assets grew by 2.8% year on year to KRW 1,358.7 trillion, which is broken down into KRW 992.4 trillion for life insurance and KRW 366.3 trillion for non-life insurance. Non-life insurers 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

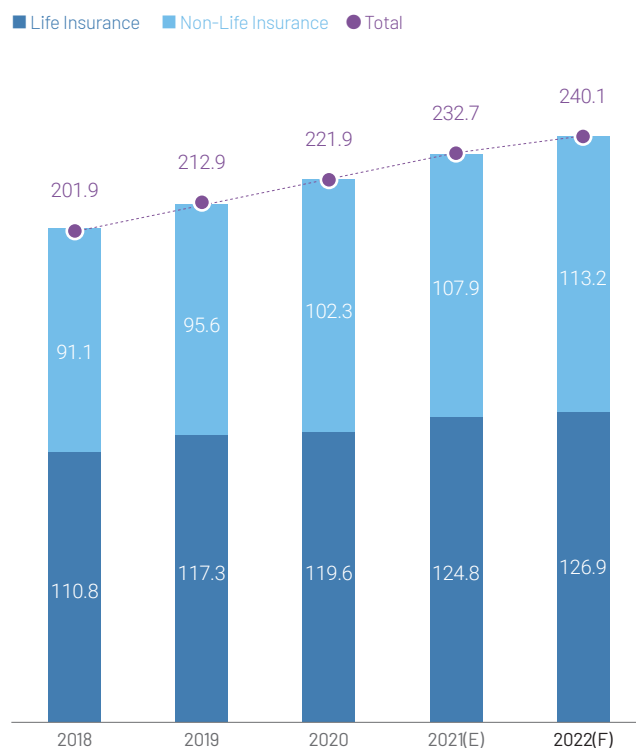
(Unit: %)



(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 (%)
<b>Total (including retirement annuity)</b>	<b>117.3</b>	<b>5.8</b>	<b>119.6</b>	<b>2.0</b>	<b>124.8</b>	<b>4.3</b>	<b>126.9</b>	<b>1.7</b>
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
<b>Total (excluding retirement annuity)</b>	<b>92.6</b>	<b>-1.4</b>	<b>97.0</b>	<b>4.8</b>	<b>98.8</b>	<b>1.8</b>	<b>100.4</b>	<b>1.5</b>

\* 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 (%)
<b>Total (including retirement annuity)</b>	<b>95.6</b>	<b>5.0</b>	<b>102.3</b>	<b>7.0</b>	<b>107.9</b>	<b>5.5</b>	<b>113.2</b>	<b>4.9</b>
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
<b>Total (excluding retirement annuity)</b>	<b>83.8</b>	<b>4.4</b>	<b>89.2</b>	<b>6.4</b>	<b>93.4</b>	<b>4.7</b>	<b>97.5</b>	<b>4.4</b>

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

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

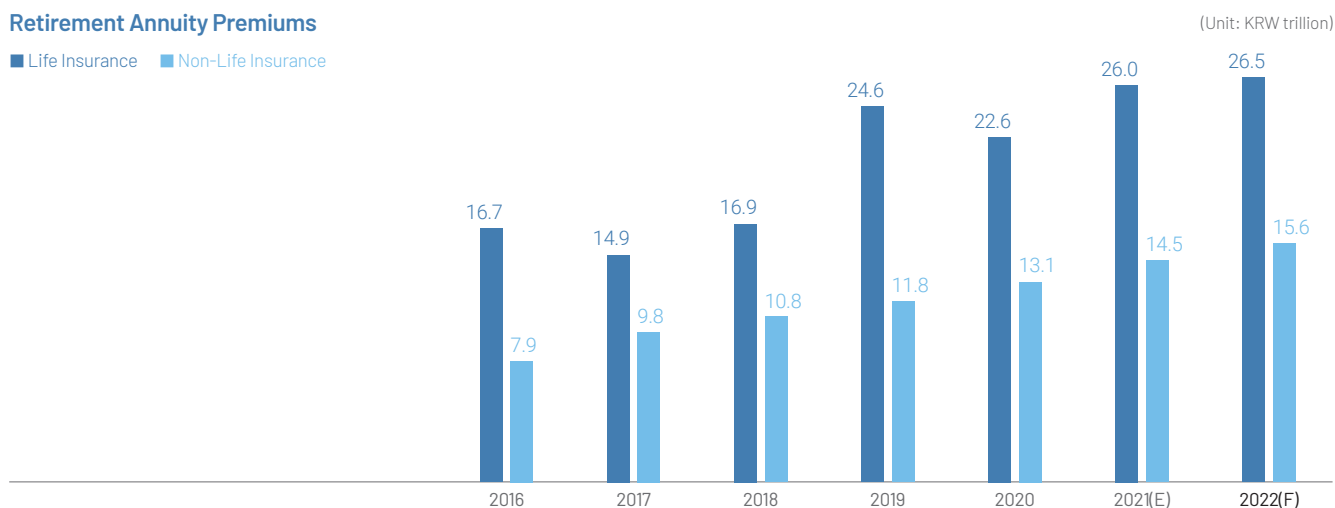
## Retirement Annuity

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.