Full Report

The Evolution of the Korean Life Market

An Overview of Korean Life Sales in 2010

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Overview

Despite the recent financial crisis, 2010 proved to be a year of recovery and regrowth in the global life insurance industry as well as in the Korean life market. Globally, premium income grew by 3.2 percent in real terms with strong growth in European countries and emerging Asian markets.

For the past 10 years, the Korean life market has doubled in premium income. Although the global financial crisis in 2008 precipitated a net profit decline to Korean Won (KRW)570 billion, which was 72.9 percent over the same period in the previous year, net profit recovered immediately and increased to KRW4,109 billion in 2010. Insurers' desire to actively pursue quality business led to a remarkable improvement in lapse rates in this period.

Recent trends can be explained by the fact that Korean life insurance companies have tried to focus on expanding premium income through the sale of savings-type insurance since the global financial crisis in 2008.
This tendency is prevalent in domestic companies. In the past decade, endowment and pure endowment sales have become a major portion of the life market, supporting the greater demand for these types of insurance. Insurers, in turn, have developed and distributed more of these products for an aging society.

Traditional structural measures of market concentration show that the Korean market has become more competitive, and in this competitive market companies try to make the best use of distribution channels. Bancassurance became a major channel in the Korean life market, accounting for 45.5 percent of newly issued policies in 2010. However, as a tied channel, the solicitor channel still holds an important position.

The solicitor channel, once dominated by women, has gone through a major organizational change, and the portion of male and highly educated solicitors has increased considerably. Also, because companies' recruiting standards target married and work-experienced people, the portion of solicitors in their 40s has become the majority.

A close relationship exists between solicitor income, solicitor retention rates, and business persistency rates. Solicitors' income has a direct effect on retention. Frequent solicitor turnover may result in the increase of orphan policies, which can negatively influence the persistency rate. Therefore, one thing companies can do to avoid unfavorable rates is to establish competitive compensation packages.

Continued growth in the Korean life market will depend on insurers' ability to maintain efficient distribution channels, and on their ability to survive increased competition.

METHODOLOGY This report presents the results of a study of life sales in the Korean market conducted by LIMRA International and Korea Insurance Development Institute. The data for this report were collected from external sources including the Financial Supervisory Service (FSS) and the Korea Life Insurance Association (KLIA). The industry data include information on all products sold in the Korean life market. The report also includes findings from informal interviews with life insurance professionals in Korea.

Recommendations

General

- As the aged population grows, Korean life insurance companies should develop a greater variety of products to meet its unique needs.
- With a remarkable improvement in lapse ratio, companies need to monitor and manage it consistently to maintain profitability.
- Insurance companies should take countermeasures to prevent newly contracted policies from incomplete sales when the contracts are sold through independent channels.
- With intensified market competition, Korean life insurance companies should consider extending their business abroad and effectively manage distribution channels to retain domestic market shares.
- As recruiting systems have made more of an effort to hire highly educated solicitors, companies will need to establish education programs for their existing solicitors to improve their sales efficiency and bring them to the same level of knowledge as new hires.
- Companies should consider making better use of their solicitor channels by increasing solicitor retention with competitive compensation packages. This will in turn help improve persistency rates and allow companies to secure more reliable sources of premium.

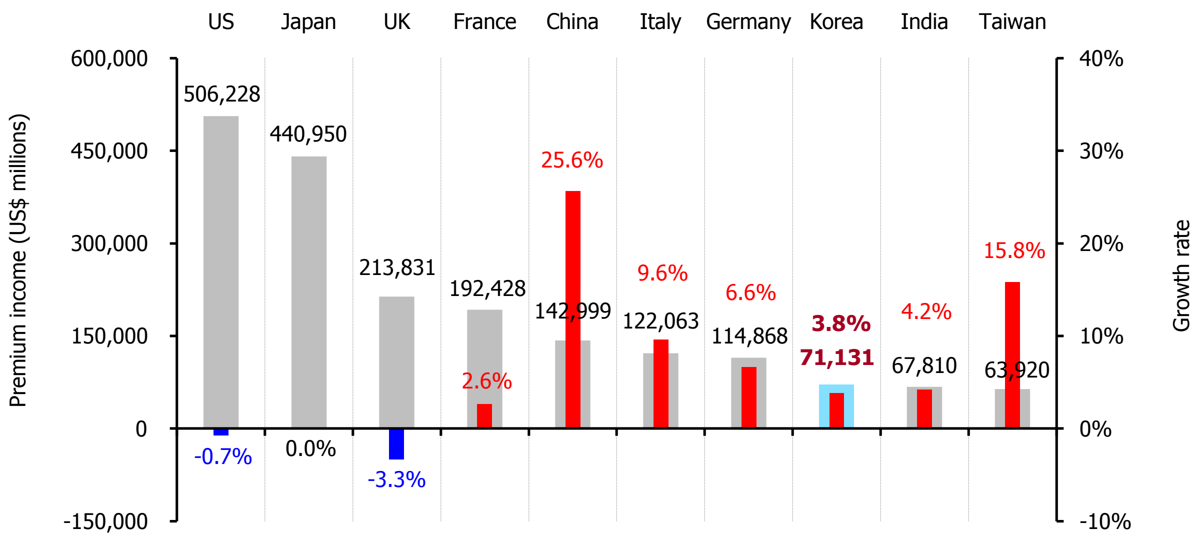
Market Trends

Global Market Trends

Globally, in 2010 the life insurance market began to show growth after two years of recession. Premium volume adjusted for inflation grew by 3.2 percent, which is higher than the previous 10-year average and just below the precrisis average. Although we saw continued decline in the U.S. and the UK and stagnation in Japan, some European countries showed strong growth, as did emerging Asian markets. This growth was driven by strong sales of unit-linked savings-type products (Figure 1).[1]

Twenty-two companies operated in the Korean life insurance market in 2010. Ranked eighth worldwide, these companies accomplished US$71.13 billion in premium income, which was a 3.8 percent increase in real terms. In the Asian market, Korea's performance was ranked third after Japan and China. The premium volume of Korean life insurance has maintained its position in the top-10 list since the 1990s.

Figure 1 —
Global Market — Premium Income and Growth Rate



Source: Swiss Re

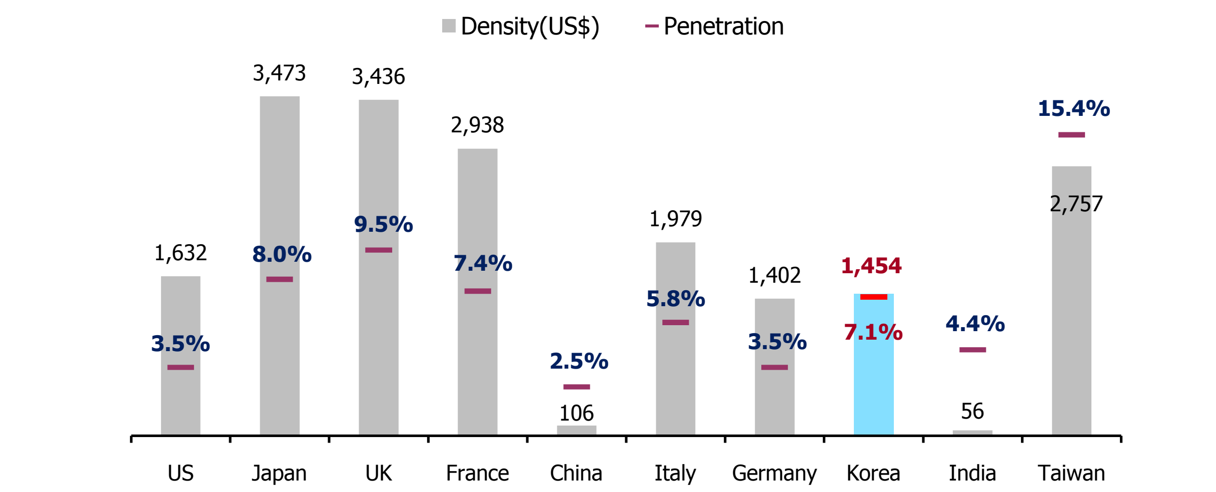
Note: Growth rates of premium income in this figure are adjusted for inflation.

[1] "World Insurance in 2010", *Swiss Re Sigma*, 2011

The rapid growth of the Chinese life market has attracted a lot of attention. Increasing by 25.6 percent in real terms, it was ranked fifth in the world, an improvement from its rank of thirteenth in 2001. However, as the Chinese life market becomes one of the top players in the world, its insurance density and penetration indicate that there is still growth potential in the Chinese life insurance industry (Figure 2).

Data from 2010 show that Korean life insurance penetration was 7.1 percent, ranking the country sixth. Density was US$1,454, putting the country twenty-third globally. Taiwan recorded the highest penetration ratio of 15.4 percent. Regarding life insurance density, Luxembourg took the top spot with US$3,698 of premiums per capita.

Figure 2 —
Global Market — Insurance Density and Penetration



Source: Swiss Re

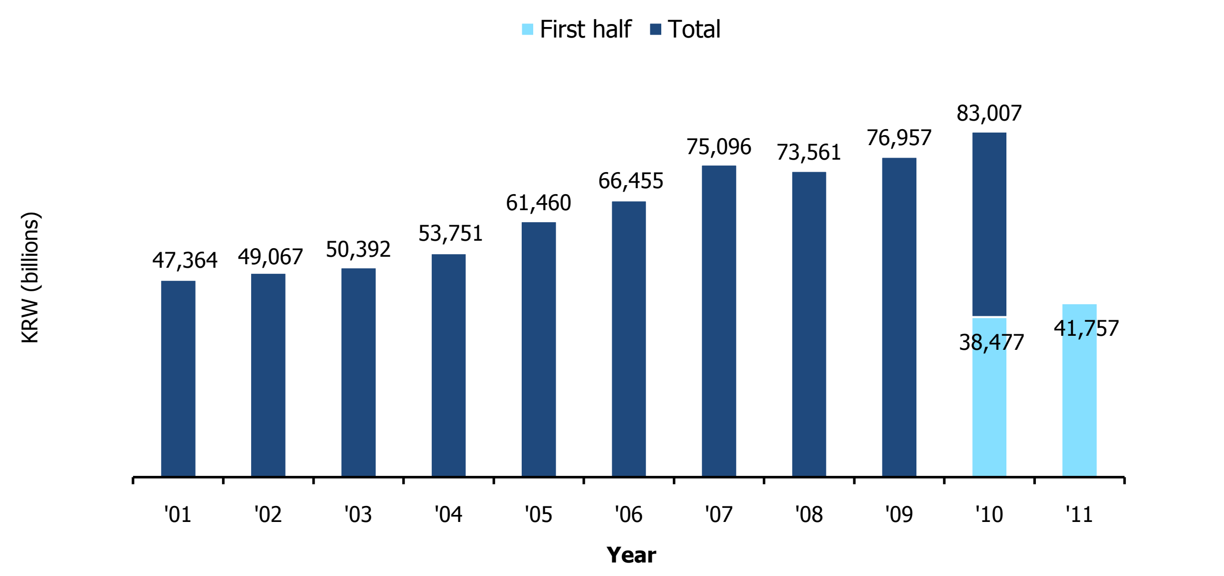
Korean Market Trends

Premium Income

In the past 10 years, the Korean life insurance industry has doubled and its premium income totaled KRW83,007 billion in 2010. Although the global financial crisis prevented the Korean life market from growing in 2008, it immediately recovered from the Recession.

Business recovered due to an increase in sales and improvement in lapse rates, which in turn increased the amount of in-force business. Premium income increased 4.6 percent in 2009 and 7.9 percent in 2010 from the previous year. Since 2008 premium income has increased, due mainly to the increase in the sale of annuity and savings-type products. During the first half of 2011, premium income increased 8.5 percent over the same period in the previous year (Figure 3).

Figure 3 —
Korean Market — Premium Income



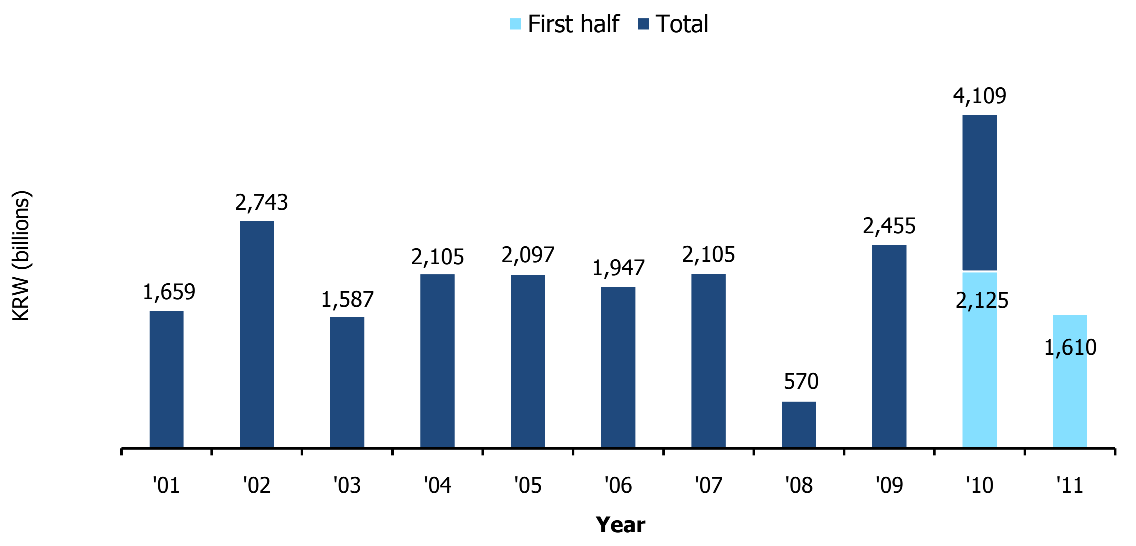
Source: FSS

Net Profit

Net profit does not show a growth pattern similar to premium income for these years. The Korean market experienced a decline in net profit as well as in premium income during the global financial crisis in 2008. Net profit for 2008 fell 72.9 percent compared with the previous year.

Between 2009 and 2010, net profit surged because of the financial market recovery and expanded gain on valuation of marketable securities. Because of its significant growth in 2010, net income from the first half of the year in 2011 could not break the record of the previous year (Figure 4).

Figure 4 —
Korean Market — Net Profit



Source: FSS

New Contract and Lapse

In the past 10 years, the new contract rate has steadily declined.[2] After the Asian economic crisis in the late 1990s, most Korean life insurance companies had to restructure their organizations, and the number of solicitors dropped sharply. In addition, a reduced national disposable income contributed to the decrease in the new contract rate (Figure 5).[3]

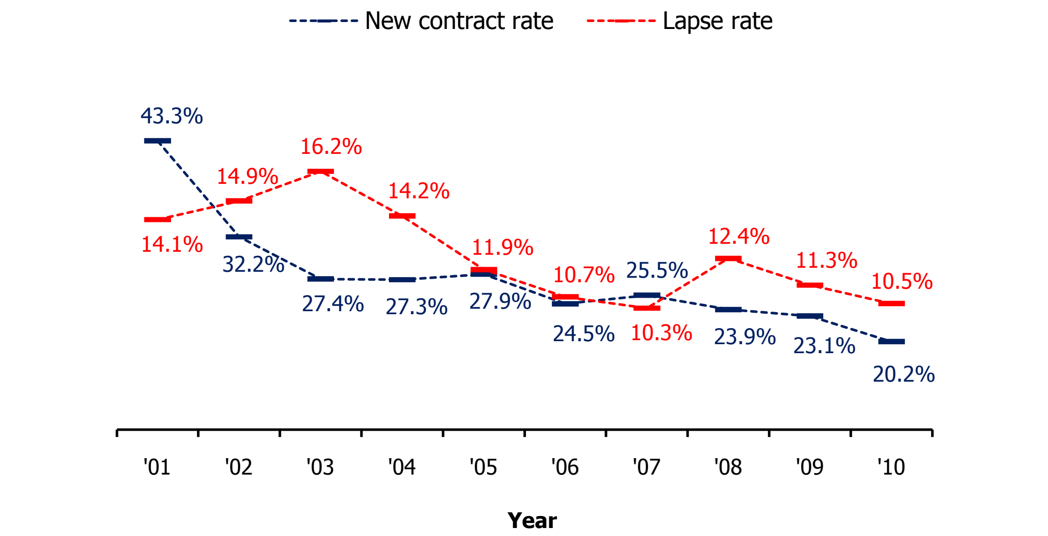
While the new contract rate gradually fell, the lapse rate began to drop as well from 2003.[4] Although there is no relationship between the new contract rate and the lapse rate, this result may be indicative of the fact that while the new contract amount declined, the financial supervisory authorities and life insurance companies aimed for better quality business, which may have led to the lower lapse rate. In other words, the Korean life insurance industry at the time pursued more qualitative growth than quantitative growth, which could be an indication that the Korean life market is on its way to being a more mature market.

[2] New contract rate = new policy during the year / in force at the beginning of the year, face amount basis

[3] *Insurance Issues*, KLIA, 2011

[4] Lapse rate = lapsed during the year / (in force at the beginning of the year + new policy during the year), face amount basis

Figure 5 —
Korean Market — New Contract Rate and Lapse Rate



Source: KLIA

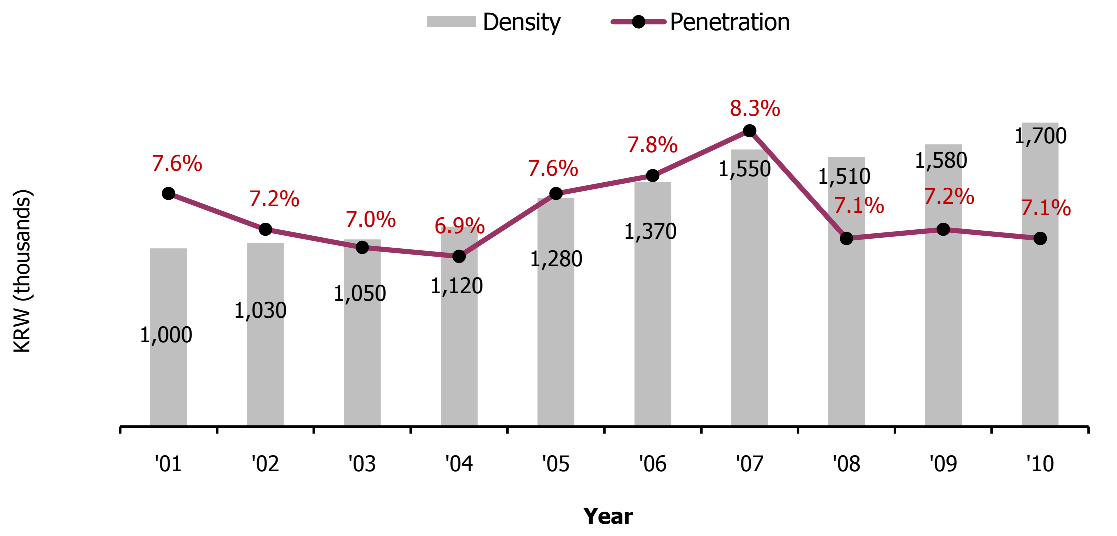
Other Insurance Indicators

Since reaching its peak of 8.3 percent in 2007, the insurance penetration ratio has stayed at approximately 7 percent, which may mean that the level of GDP growth is almost the same as premium income growth during this period. Insurance density (premium per capita) has almost doubled in the past 10 years and follows a growth pattern similar to that of premium income (Figure 6).

During the 1990s, the Korean life industry experienced faster growth than the GDP. The high demand for protection-type insurance in the late 1990s contributed to the increase in the percentage of households that owned life policies.[5] In the early part of the past decade, the percent of households with life policies was comparable to more mature markets, such as the U.S. and Japan, but has since shown minimal change through 2010 (Figure 7).

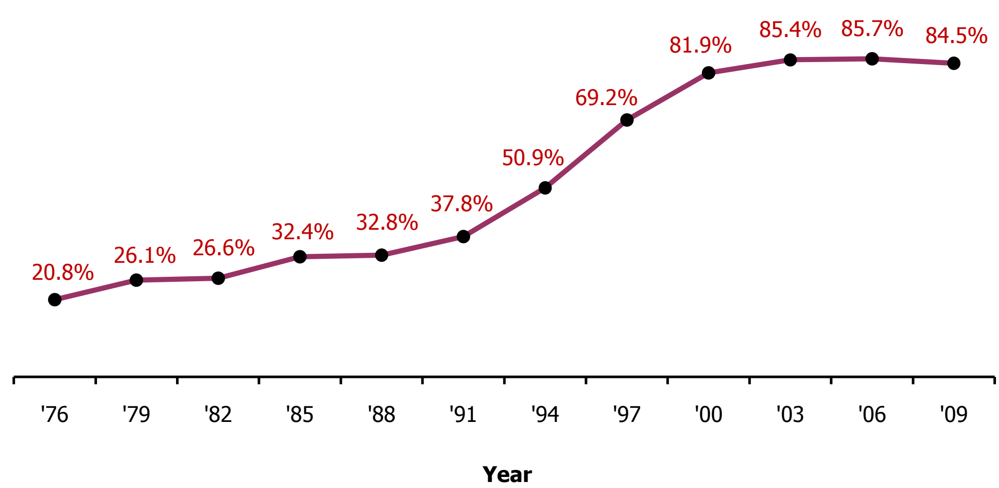
[5] *Analysis on Domestic Insurance Market and Trends over the Next 10 Years*, KIRI Research Paper, 2000.

Figure 6 —
Korean Market — Insurance Density and Penetration



Source: KLIA

Figure 7 —
Korean Market — Percent of Households With Life Policies



Source: KLIA

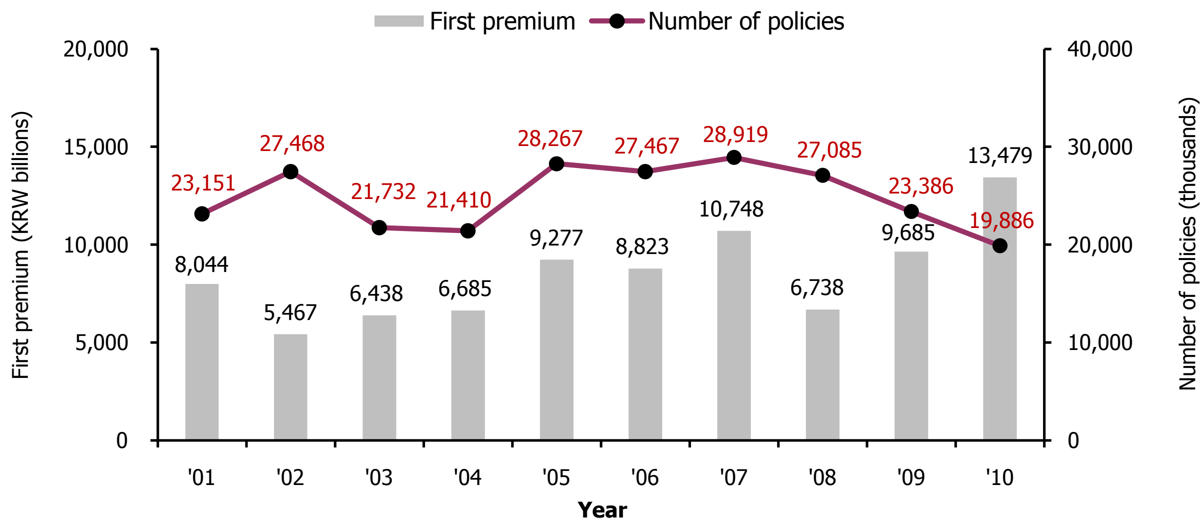
Trends in the Korean life market indicate that while this market is still showing growth in premium income, other factors indicate that recent insurance consumption has become stagnant.

New Business

Premium Income

While the number of new business policies is declining in today's Korean insurance market, first premium from new policies is increasing (Figure 8). This is because of the rise in sales of pension and savings-type insurance. Since experiencing global financial crisis in 2008, life insurance companies have tried to expand premium income through an increase of savings-type insurance sales. In 2010 the total first premium in savings-type insurance increased 48.1 percent from the previous year. Protection-type insurance, on the other hand, fell 6.2 percent from the previous year.

Figure 8 —
New Business — Premium Income and Number of Policies



Source: FSS

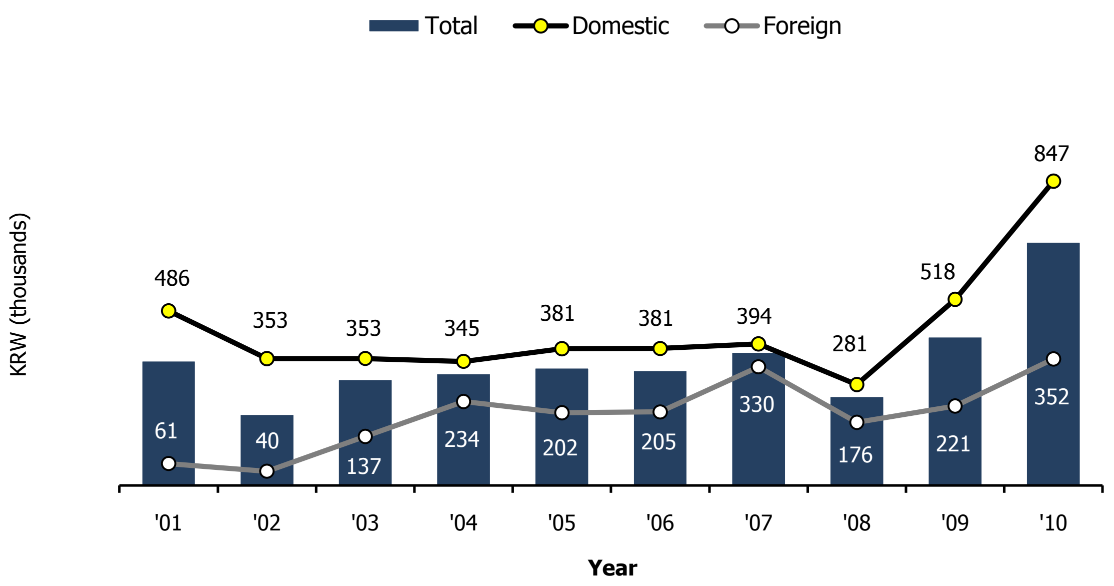
Market Participants

Domestic Versus Foreign

According to new business record cards from 2010, domestic life insurance companies accounted for 66 percent of the total number of new policies and 82 percent of total first premium.

First premium per policy was KRW678,000. Average first premium of domestic companies was more than double that of foreign companies. The gap between domestic and foreign companies narrowed significantly throughout the middle of the past decade. Later it became much wider, which may be because many more domestic companies focused on selling savings-type insurance compared with foreign companies during this time (Figure 9).

Figure 9 —
New Business — Market Participants (Domestic Versus Foreign)



Source: FSS

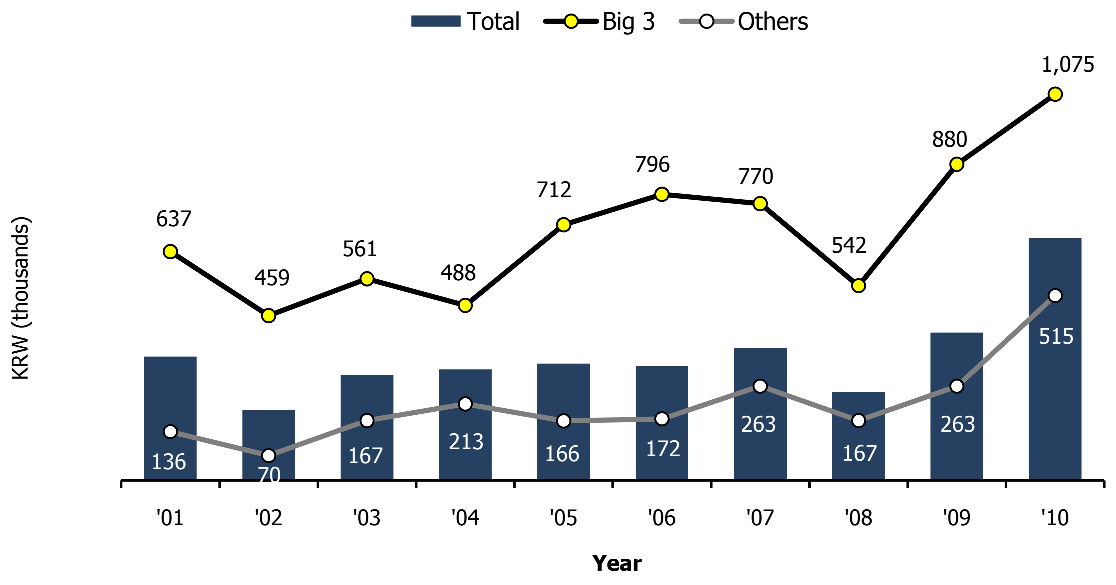
Note: In 2010, there were 14 domestic companies and 8 foreign companies in the market.

The Big 3 Versus Others

The Korean "Big 3" — Samsung Life, Kyobo Life, and Korea Life — account for 29 percent of the total number of new policies and 46 percent of total first premium.

Average first premium of the Big 3 is almost double that of Others. In the past 10 years, there has been a consistent gap in average first premium between the Big 3 and Others, which may be an indication that people prefer buying high-premium or single premium policies from larger companies. In the past two years, both the Big 3 sales and Others sales of savings-type insurance have increased (Figure 10).

Figure 10 —
New Business — Market Participants (Big 3 Versus Others)

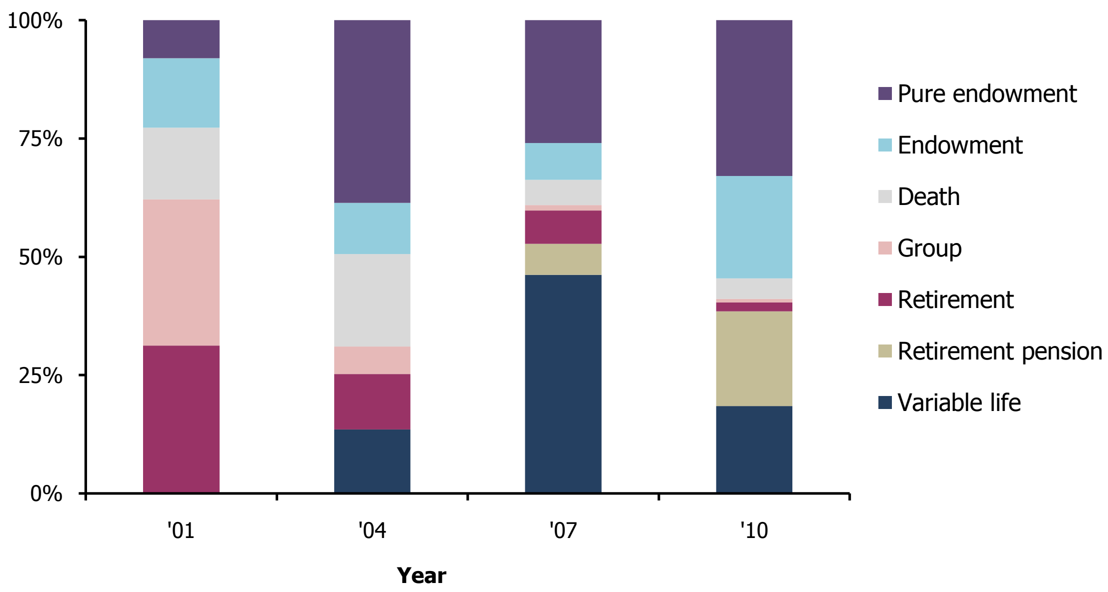


Source: FSS

Product Type

In the past decade, new business in endowment and pure endowment has accounted for a higher portion of first premium (Figure 11). This trend could be showing that there has been more demand for these types of products in the Korean life market as people prepare for retirement or plan for their later years. New business in death benefit and group policies sharply declined during this same time period. After peaking at 46.2 percent before the global financial crisis in 2008, the portion of variable life insurance in new business dropped to 18.5 percent in 2010.

Figure 11 —
New Business — Product Type



Source: FSS

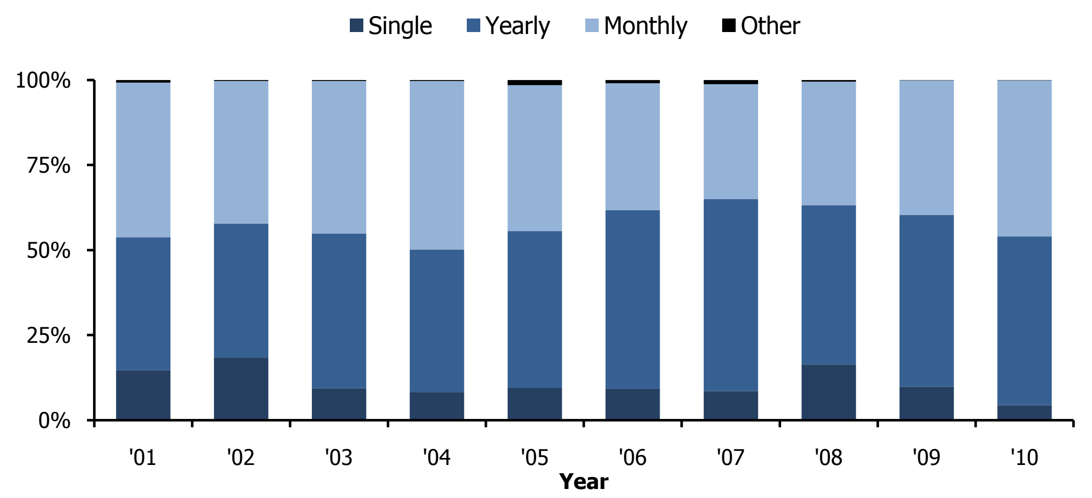
The Employee Retirement Benefit Security Act (ERBSA) was passed in December 2004 and came into effect on December 1, 2005. ERBSA created a new company pension market in Korea. Prior to this Act, the provision by companies was mainly limited to severance pay, usually as lump sums. There were no external pension funds. ERBSA introduced a system of externally funded retirement savings based on annuities. In 2010 the scheme was extended to all companies. As a result of the implementation of ERBSA, the market share of retirement products has fallen in the years since its implementation. While benefits could be provided by either Defined Benefit (DB) or Defined Contribution (DC) plans, the real innovation was the latter, which were new to the Korean market.[6]

[6] AXCO Insurance reports, 2012

Frequency of Premium Payment

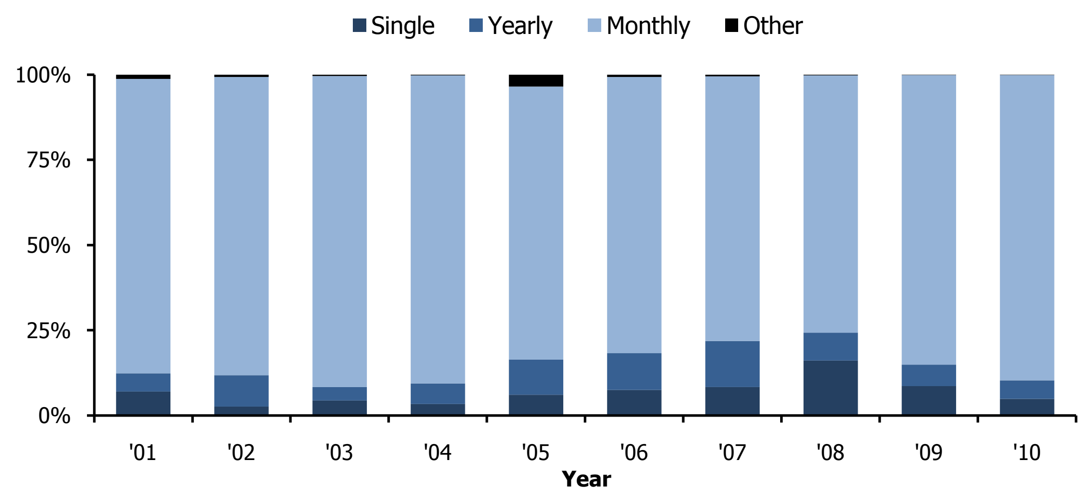
Most newly contracted policies consist of a monthly or annual payment (Figure 12). In 2010 these two payment types accounted for more than 95 percent of all new policies. The portion of single premium policies has recently fallen and accounted for only 4.4 percent of all new business in 2010. On a first premium basis, monthly payment comprised 89.6 percent. This could be an indication that most annual payments are for policies with small premiums (Figure 13).

Figure 12 —
New Business — Frequency of Premium Payments (Number of Policies Basis)



Source: KLIA

Figure 13 —
New Business — Frequency of Premium Payments (First Premium Basis)



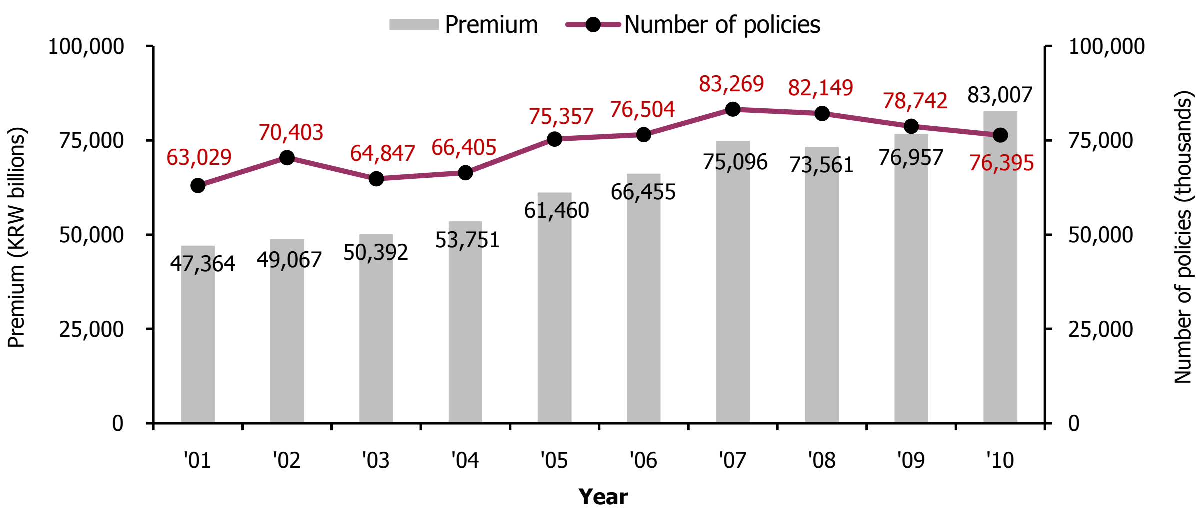
Source: KLIA

In-Force Business

Premium Income

Although the lapse rate has improved, the recent number of in-force policies has declined because of the slide in the number of new policies. On the other hand, the premium income from in-force business grew steadily because of an increase in sales of savings-type insurance (Figure 14). Lapsation usually occurs in lower-income groups for economic reasons — groups with on average smaller policies.[7] Therefore, the lapse rate does not reflect reduced premium income as much as it reflects the reduced number of policies in force. Premium income of in-force business has been increasing overall, except during the global financial crisis beginning in 2008.

Figure 14 —
In-Force Business — Premium Income and Number of Policies



Source: FSS

[7] The 12th Life Insurance Consumer Survey in 2009 by KILA shows that the first reason for lapsation is difficulty in payment of premium.

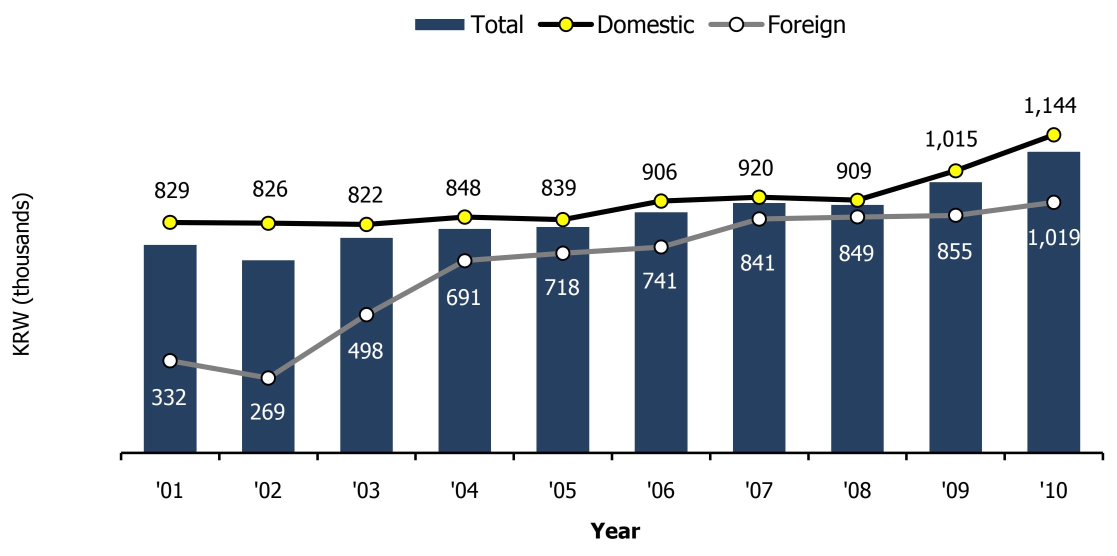
Market Participants

Domestic Versus Foreign

Domestic life insurance companies accounted for 76 percent of the total number of in-force policies and 80 percent of the total premium.

Premium per policy in 2010 was KRW1,087,000 and the average premium of domestic companies was 1.3 times higher than that of foreign companies. Premium per policy of foreign companies increased to 93.4 percent of premium per policy of domestic companies in 2008. After that, however, first premium per policy in new business widened the gap between foreign and domestic in-force business (Figure 15).

Figure 15 —
In-Force Business — Market Participants (Domestic Versus Foreign)



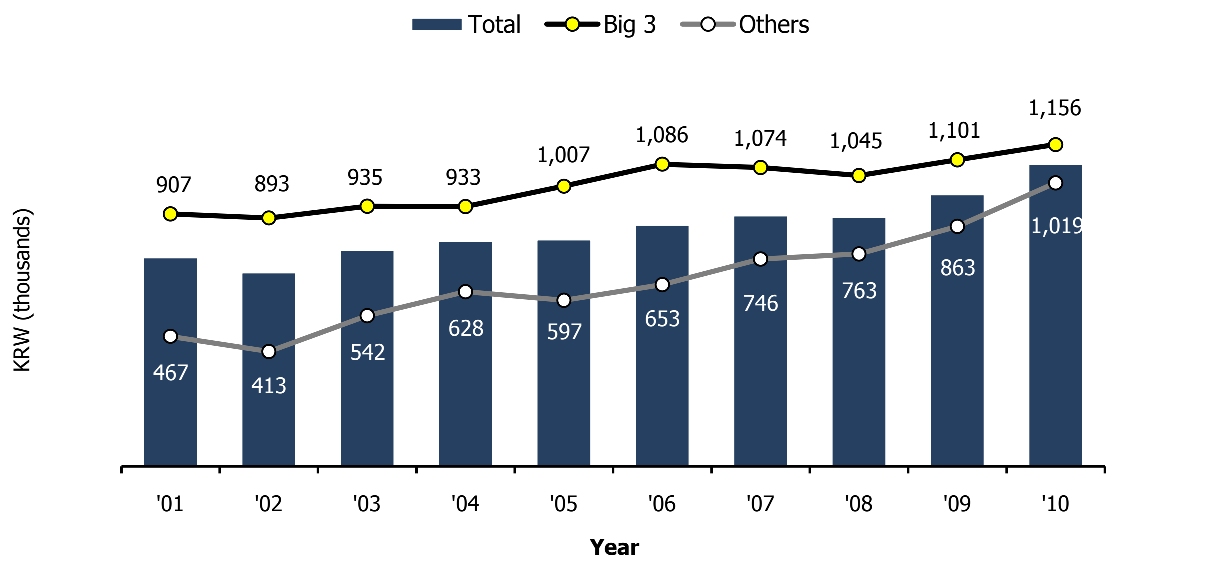
Source: FSS

The Big 3 Versus Others

The Big 3's market share accounted for 49 percent of the total number of in-force policies and 52 percent of the total premium.

Recent premium per policy shows that the Big 3 is just slightly higher than Others. This average premium gap between the Big 3 and Others has been narrowing constantly and premium per policy of Others increased to 88.1 percent of premium per policy of the Big 3 in 2010 (Figure 16).

Figure 16 —
In-Force Business — Market Participants (Big 3 Versus Others)

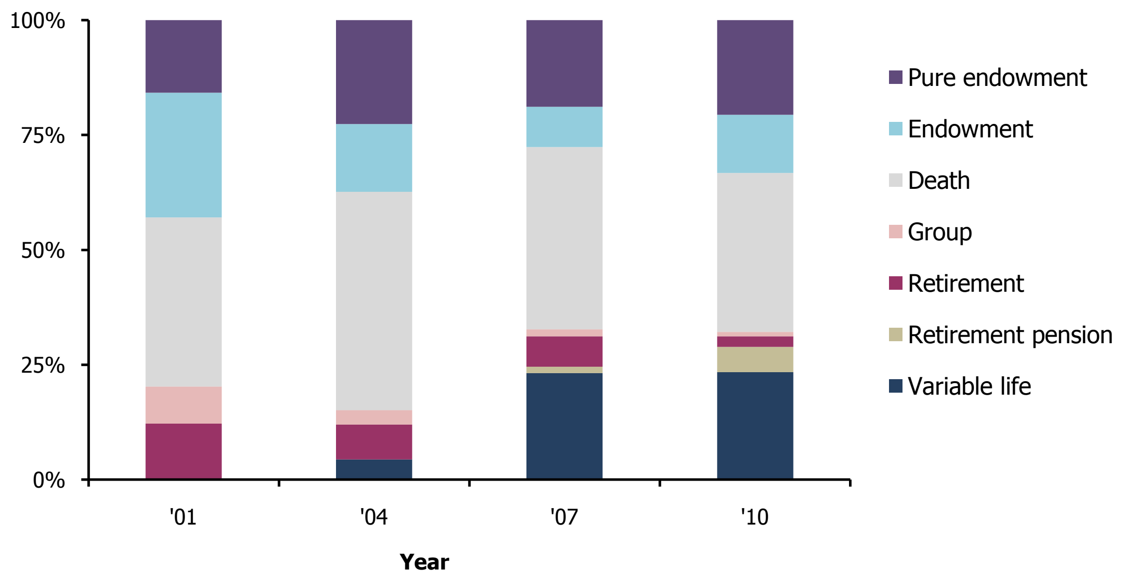


Source: FSS

Product Type

A breakdown of in-force business by product type shows that death benefit has accounted for the highest portion of product type during the past decade. Although a decrease in new business caused a decline in in-force business, death benefit products still accounted for 34.6 percent in 2010. The proportion of endowments had dropped in the middle of the decade, but became higher later through the recent increase of sales of this type of insurance. Accounting for almost a quarter of all products since mid-decade, variable life insurance became the main product type in the Korean life market. At around 1 percent of all in-force business, group policies accounted for only a small part of the Korean life market in 2010 (Figure 17).

Figure 17 —
In-Force Business — Product Type



Source: FSS

Market Competition and Distribution Channels

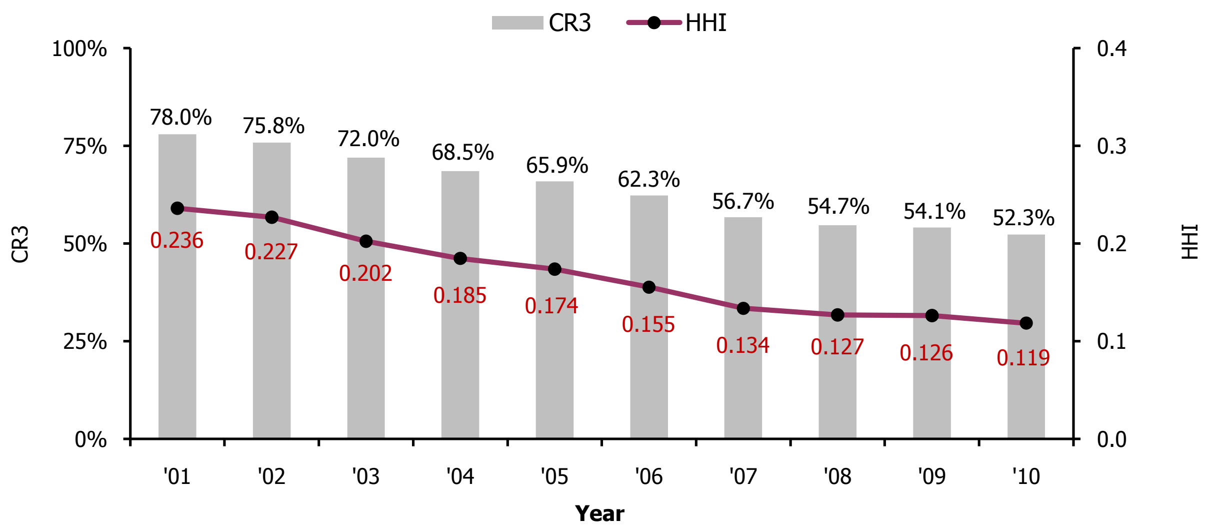
Market Concentration

Both new business and in-force business data from the Korean life insurance market show that the industry is maintaining consistent growth. The insurance consumption indices, on the other hand, like penetration ratio or percent of households with life policies, show that recent consumption of life insurance has become stagnant.

Developing new markets and new products can provide another opportunity for Korean life insurance companies to harness additional growth. However, as most companies would like to take advantage of this opportunity, they cannot avoid intensified competition in the domestic market.

There are two traditional structural measures of market concentration based on market shares called CR(k)[8] and HHI[9] (Herfindahl–Hirschman Index). Both CR3 and HHI have decreased for the past 10 years. This indicates that internal competition in the Korean life market has intensified (Figure 18).

Figure 18 —
Market Concentration



Source: KLIA

With a saturated domestic market and intensified competition, it is time for Korean insurers to seek a solution to overcome the internal limits to growth. Externally, Korean life insurance companies need to achieve additional growth by extending their business abroad. Internally, it is important to manage distribution channels properly to maintain and increase their market shares.

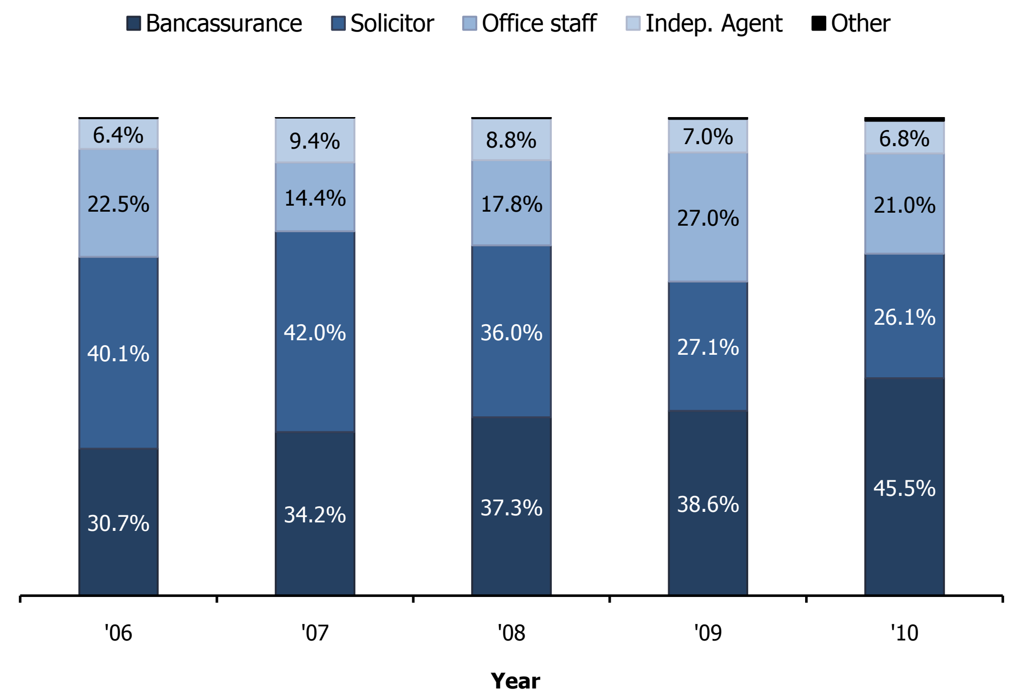
[8] CR(k): a measure of the total output produced in an industry by a given top-“k” number of firms in the industry

[9] HHI: a measure of the size of firms in relation to the industry and an indicator of the amount of competition among them

Distribution Channels

Figure 19 shows the distribution channels used for contracting new policies for the past five years. In 2010 bancassurance, which accounted for 45.5 percent of newly issued policies, became a major distribution channel within the Korean life market. The portion of insurance contracted through solicitors was reduced from 40.1 percent in 2006 to 26.1 percent in 2010. This resulted from many small to mid-sized companies using independent distribution channels that are easier to use and maintain, as opposed to tied channels.

Figure 19 — Distribution Channels



Source: KLIA

Note: 'Other' accounts for less than 1 percent.

Independent distribution channels, including bancassurance, are largely out of the insurance companies' control. Therefore, expanding through these channels increases the possibility of incomplete sales and would potentially have negative consequences in business stability and financial soundness. Because of this, financial supervisory authorities try to tighten off-site surveillance to prevent unsound business sales and excessive competition.

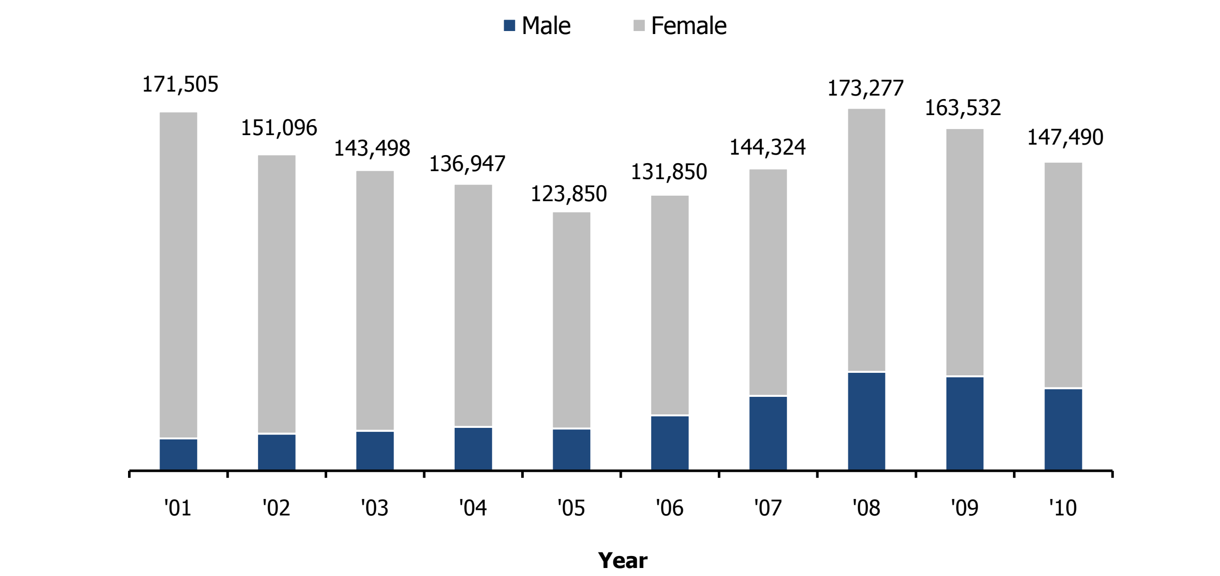
In spite of a recent decrease in sales compared with other channels, the solicitor channel, as a tied channel, is still the most important distribution channel in the Korean life insurance industry. In most countries with mature insurance markets, the larger companies typically concentrate their sales in tied distribution channels.
This provides them with tighter control with which they can both successfully manage loyal customers and gain stable growth and profit base. For Korean companies, it is worth taking a closer and more in-depth look into the solicitor channel to make the best use of it.

Solicitor Analysis

Trend

Throughout the Asian economic crisis of the late 1990s, Korean life insurance companies underwent business restructuring. While overcoming the economic crisis, some new distribution channels revved up, but at the same time the number of solicitors declined consistently until 2005. After that, the number of solicitors increased for the next couple of years as companies established aggressive sales strategies to expand market share.
Cross selling was also introduced to secure solicitors' earnings.[10] But against all expectations, the number of life insurance solicitors is falling yet again, further reducing the incentive for cross selling. Because both life and nonlife insurance companies are focusing on selling pension or savings-type products in personal lines, there is little incentive to sell other companies' products through this system (Figure 20).

Figure 20 —
Solicitor Trends



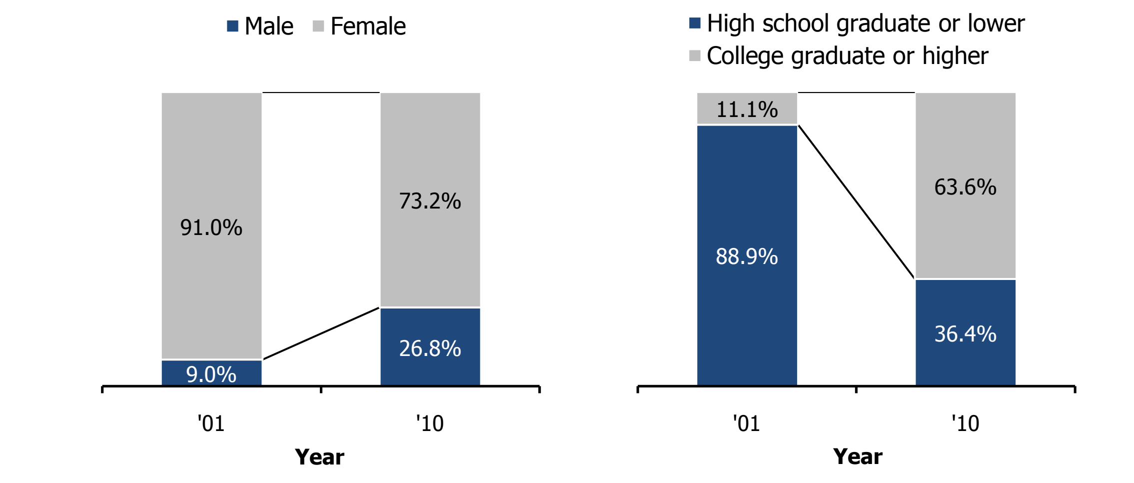
Source: KLIA

[10] In August 2008, life and nonlife solicitors were permitted for the first time to sell one another's products. Registration was necessary to do so.

Traditionally in the 1970s and 1980s, solicitor workforces were mainly made up of married females selling to family or friends. At that time, because the recruiting system did not hire based on applicants' experience or level of education, it was fairly easy to work as a solicitor. With a rapid expansion of the Korean life market in the 1990s, the number of solicitors increased and played an important role in the growth of the Korean life market. However, this quantitative growth in both the number of solicitors and the size of the life market did not accompany qualitative growth. Lapse rates higher than 25 percent demonstrate the inefficiency of the solicitors in the Korean life market at that time.

The past 10 years saw a major change in the structure of the solicitor organization. The proportion of male solicitors has increased from 9 percent to 26.8 percent and the representation of solicitors with college diplomas or higher has dramatically increased from 11.1 percent to 63.6 percent (Figure 21).

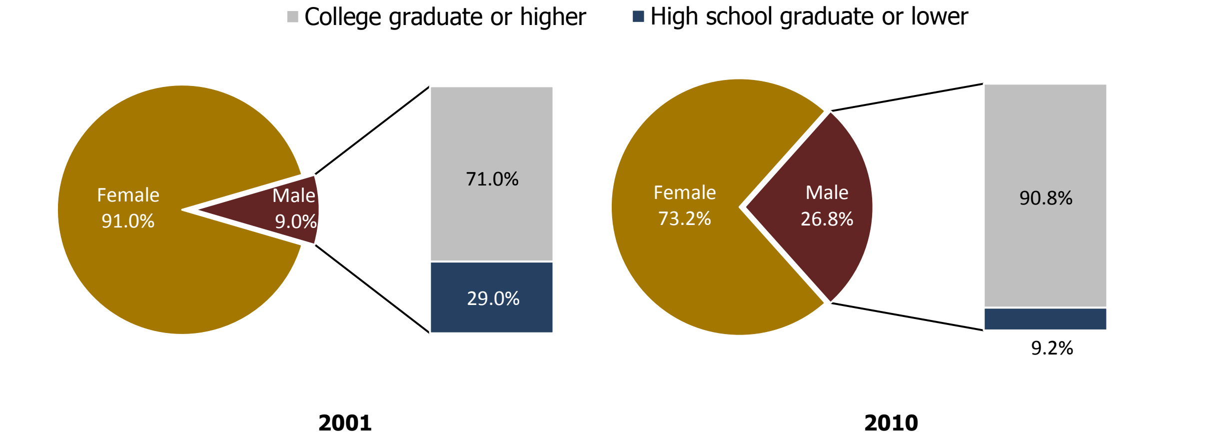
Figure 21 —
Solicitor Trends — By Gender and Level of Education



Source: KLIA

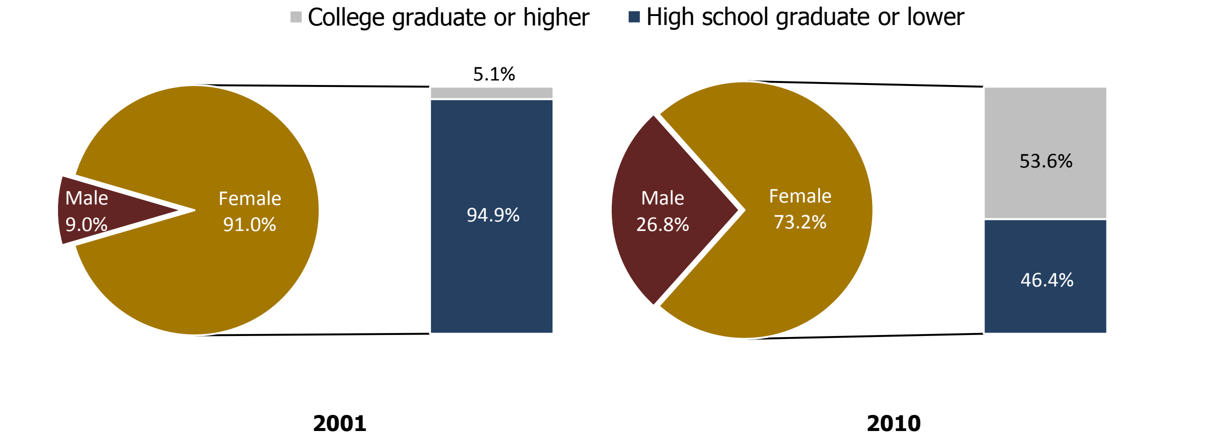
These changes in distribution of gender and level of education can be traced to foreign life insurance companies strategically hiring highly educated males with IT and consultancy skills to target the high-income market. Since then, domestic companies have also started to hire more male and better-educated solicitors, which has led to the change in the demographics of solicitors in Korea (Figure 22, Figure 23).

Figure 22 —
Male Solicitor Trends — By Level of Education



Source: KLIA

Figure 23 —
Female Solicitor Trends — By Level of Education

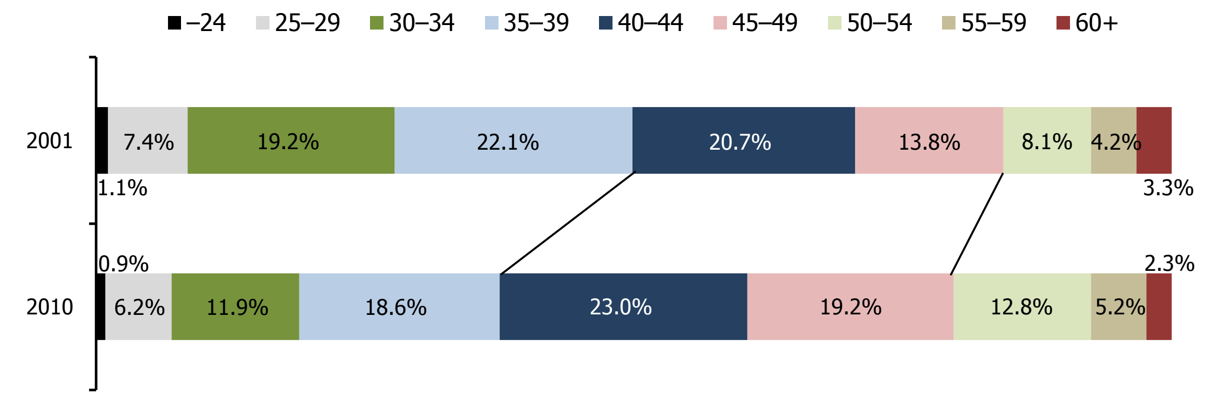


Source: KLIA

Age distribution of solicitors shows that individuals over 40 went up from 50.1 percent in 2001 to 62.5 percent in 2010. Most noteworthy is that at this time the portion of solicitors in their 40s increased 7.7 percentage points (Figure 24).

The major reason for this high proportion of people in their 40s is a change in insurance companies' recruiting standards, which more recently focus on hiring people who are married and have greater personal networking through work experience. The other reason can be found within the economic crisis. Increasing early retirement and the necessity for additional household income has contributed to the increase in the proportion of solicitors in their 40s.

Figure 24 — Solicitor Trends — By Age

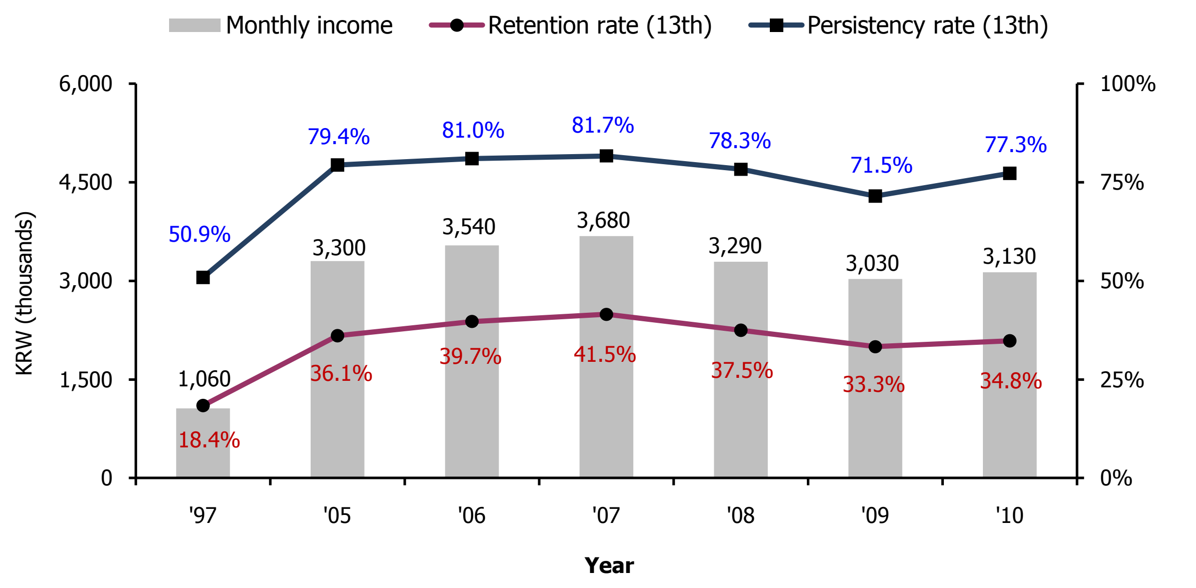


Source: KLIA

Solicitor Income and Persistency

Average solicitor income late in the past decade grew to three times the average income in the late 1990s. With increasing income, solicitor retention rates have also increased. Figure 25 shows there is a considerable relationship between solicitor income, retention rate, and persistency rate. In 2010 the solicitor retention rate went up with increasing income. In addition, consistent efforts made toward complete selling by financial supervisory authorities and life insurance companies together led to an improved persistency rate.

Figure 25 —
Solicitor Income, Retention Rate, and Persistency Rate



Source: FSS

Solicitors leave for various reasons — a manager's poor leadership, relationship conflicts within a group, and inadequate competitive compensation. According to a recent survey, financial difficulties are the major causes for leaving.[11] In other words, solicitors' income has a decisive effect on their retention. Furthermore, their retention rates influence the persistency rate. Policies orphaned following solicitor departures may be canceled. LIMRA research shows that dealing with orphan policies is one of insurance companies' biggest challenges with respect to additional resources required and cost.[12]

Life insurance companies need to try to prevent solicitors from leaving by helping them secure stable incomes. By introducing new compensation systems that improve solicitor retention, companies can in turn prevent the occurrence of orphan policies. By preventing orphan policies, companies can improve their images and secure a reliable premium income source.

To build a well-trained sales force, companies should establish competitive compensation packages to prevent solicitor turnover. Furthermore, considering the high cost of hiring and training new solicitors, it is imperative that compensation packages remain competitive, fair, and consistent to retain them.[13]

[11] *Quarterly Insurance Trends — 52nd*, KIRI, 2009

[12] *Orphan Policyholder Management*, LIMRA, 2011

[13] *Compensate to Attract and Retain*, LIMRA, 2011

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