



Full Report

Korean Life Insurance Market

An Overview of Sales and New Issues

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009803-0216 (50700-10-404-21511)

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Overview

Purpose

This report presents the results of a study of life sales in the Korean market. This project was a collaboration between LIMRA and the Korea Insurance Development Institute (KIDI). It focuses on trends in the Korean life insurance market for LIMRA members and also addresses new issues such as an aging society. The report will help our members to extend their collective knowledge of the Korean insurance market.

Recommendations

- Rapid aging in Korea is having an impact on the stability of the public pension system. It has become difficult for older people to prepare for a stable and secure retirement. Korean life insurance companies should develop a greater variety of products and education for retirement in order to meet the Korean population's unique needs for secure retirement.
- In a low-interest-rate environment, the market faces slow growth. For new market expansion, insurance companies should explore sources of growth including opportunities inside and outside Korea.
- Advancements in technology, such as Internet mobile, and social media may change the purchasing patterns of insurance consumers. Life insurance companies have to prepare technology budget allocation accordingly.
- Insurance companies should consider making better use of the tied agent channel by increasing agent retention with competitive compensation packages.
- Companies will need to establish education programs for their agents to improve their sales efficiency and professionalism. This will in turn help improve persistency rates and allow companies to secure more reliable sources of premium.
- Insurance companies and regulators should consider countermeasures to prevent incomplete sales of insurance products, paying particular attention to independent channels.
- In order to grow in the retirement market, insurance companies need to focus their marketing strategies, publicity and education on people who are preparing for retirement.

METHODOLOGY The data for this report were collected from external sources including the Financial Supervisory Service (FSS), Korea Insurance Research Institute (KIRI), the Korea Life Insurance Association (KLIA) and KIDI. 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.

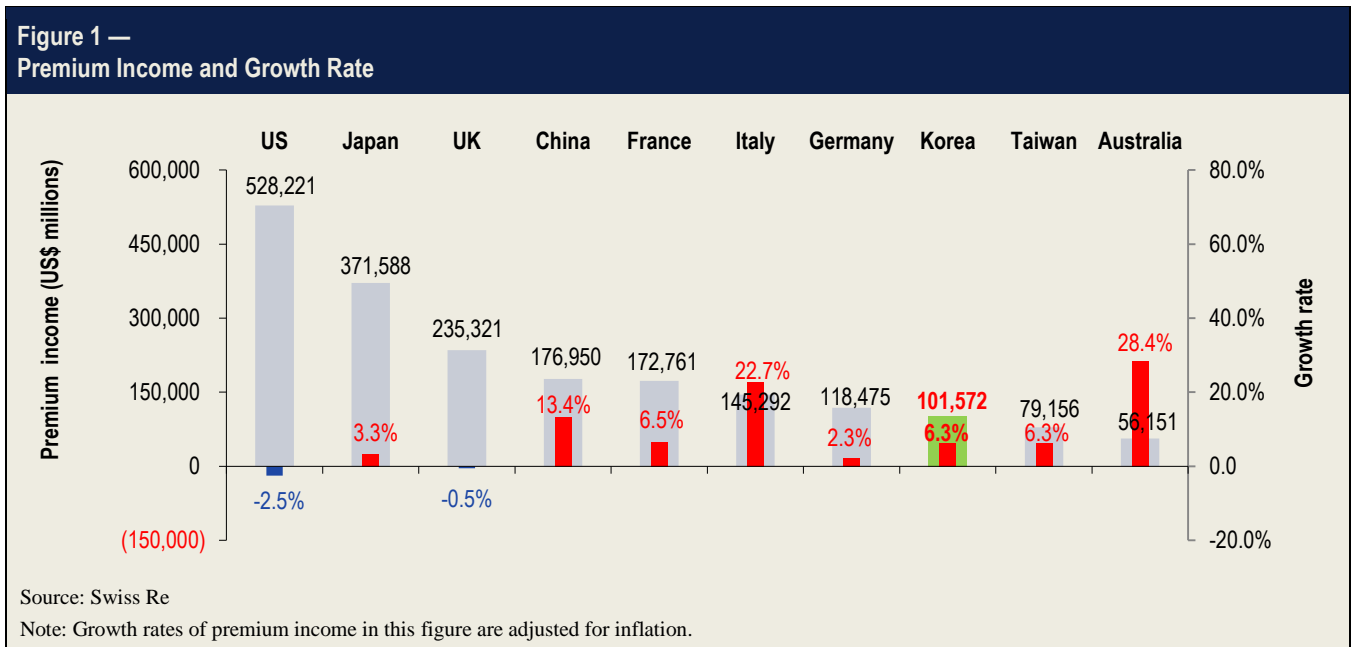
Market Trends

Global Market Trends

In 2014, the global life insurance industry continued to grow in terms of premium. The total life insurance premium was US\$2,655 billion. Premium volume, adjusted for inflation, grew by 4.3 percent, which is higher than the previous average growth. Although the U.S. and U.K. markets have declined, growth was seen in Oceania, Western Europe and Japan.

Emerging markets have seen the most growth, with life premium increasing by 6.9 percent. Since the financial crisis, the advanced markets life insurance premium numbers have stagnated. However, emerging markets have increased steadily (Figure 1).¹ The leader of this emerging market growth? China, which now ranks fourth worldwide.

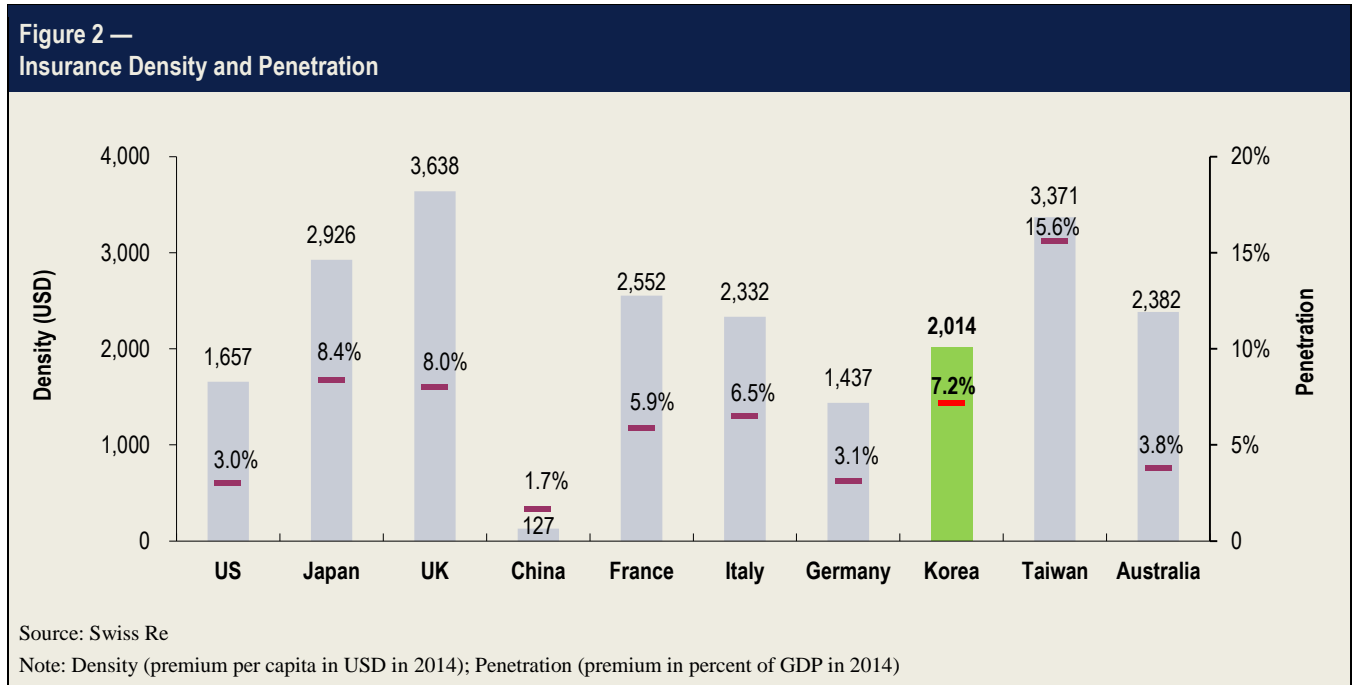
Twenty-five companies operated in the Korean life insurance market in 2015. Ranked eighth worldwide, these companies accounted for US\$101.57 billion in premium income, which is a 6.3 percent increase from 2013. However, it is important to note that the previous year was based on a 9-month (Mar. – Dec.) calculation, before the fiscal year was changed in the Korean insurance industry in 2013. In real terms (Jan. 2013 – Dec. 2013), premium income in 2014 increased 1.9 percent. In the overall Asian market, Korea’s ranks third after Japan and China. The premium volume of Korean life insurance has maintained its position in the top-10 list since the 1990s.



¹ “World Insurance in 2014”, *Swiss Re Sigma*, 2015.

The rapid growth of the Australian, Italian and Chinese life markets has attracted a lot of attention. These countries are showing 28.4 percent, 22.7 percent, and 13.4 percent increases in premium income respectively. Most noteworthy, the Chinese market ranked fourth in the world, an improvement from its rank of fifth in 2013. The Australian market ranked tenth in the world, an improvement from its rank of fourteen in 2013. While China has become a top player, its insurance density and penetration indicate that there is still growth potential.

In terms of life insurance penetration, Korea ranked fourth globally, at 7.2 percent. Korean insurance density was at US\$2,014, making it 19th in the world. Taiwan recorded the highest penetration ratio of 15.6 percent. Switzerland took the top spot for density, with US\$4,391 of premium per capita (Figure 2).



Korean Market Trends

Premium Income

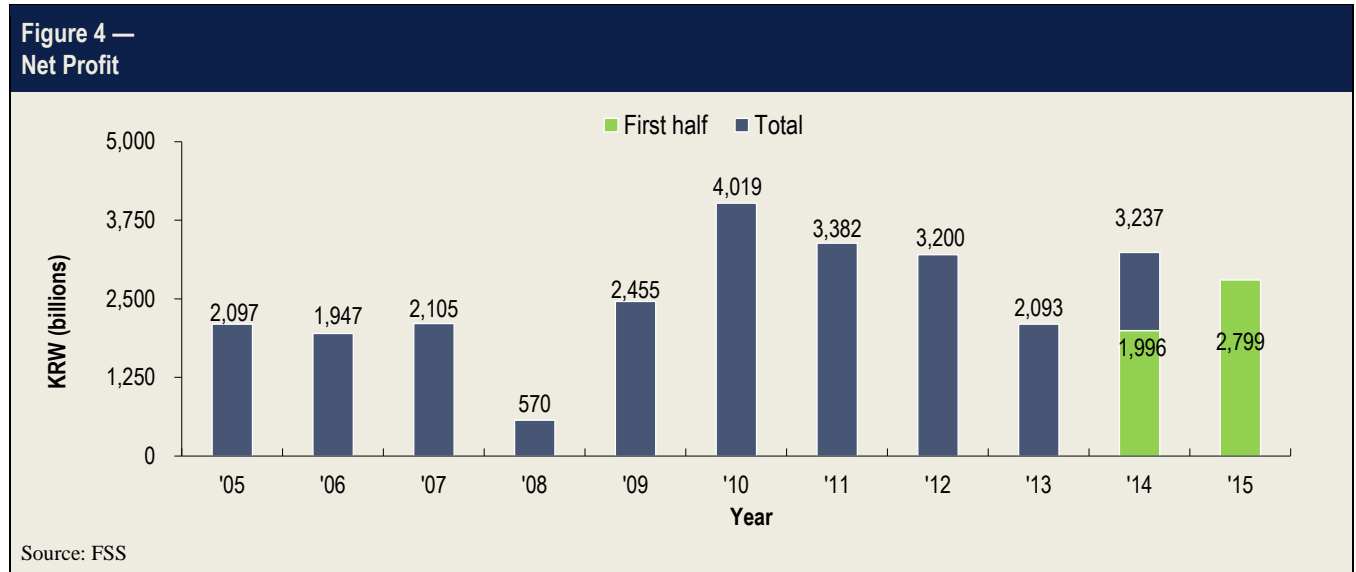
In the past 10 years, the Korean life insurance industry nearly doubled its premium income, totaling KRW110,575 billion (US\$101 billion) in 2014. Although the global financial crisis slowed the Korean life market growth in 2008, it recovered quickly from the recession, and has grown steadily since.

In 2014, savings-type insurance plans and tax benefit options decreased. The premium remained similar to the previous year due to an increase in retirement annuity, whole life and health insurance sales improvement, which increased the amount of in-force business. Since 2008 premium income has increased, due mainly to annuity and protection-type product sales. During the first half of 2015, premium income increased 5.6 percent over the same period in the previous year (Figure 3).



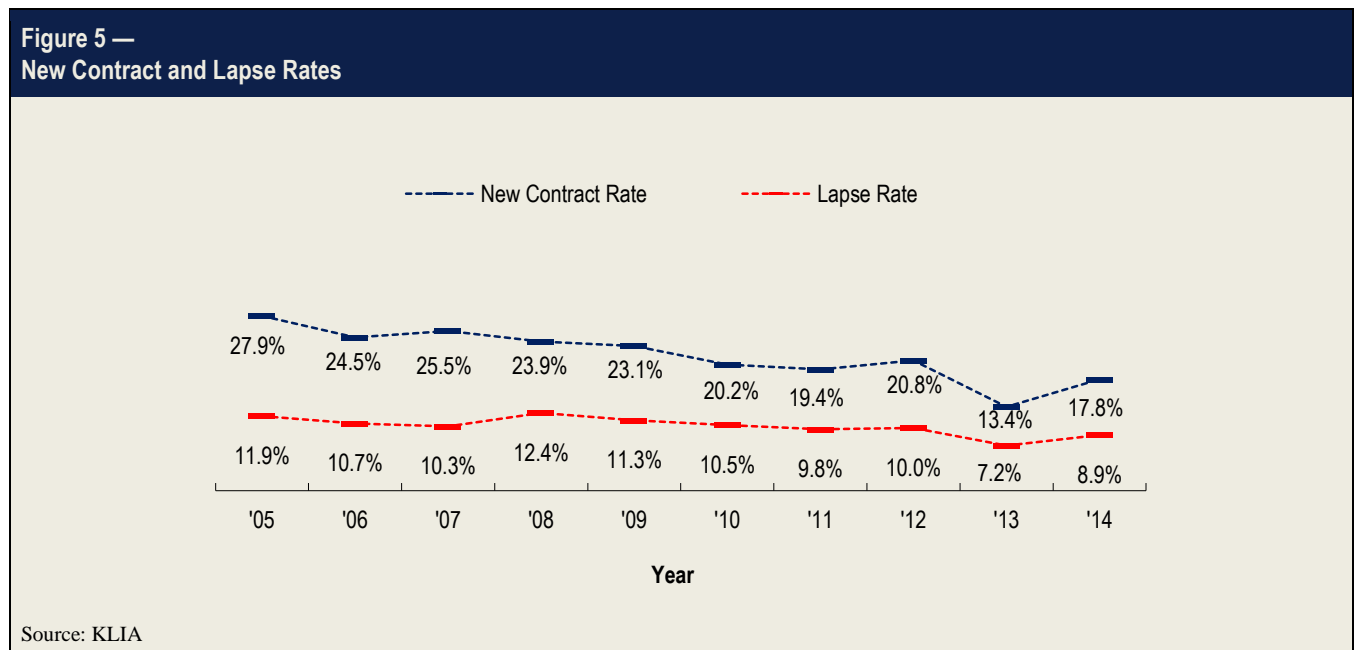
Net Profit

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 2007, but immediately recovered following the financial crisis. In 2014, net profit increased 14.8 percent due to the valuation of marketable securities (Figure 4).



New Contract and Lapse Rate

In the past 10 years, the new contract² and lapse³ rates have steadily declined. In 2014, the number of new contract policies was 1,774 million, which was a decrease of 8.3 percent compared with 2013 in real terms (Figure 5). Despite policy declines, premium per policy increased 4.6 percent.



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

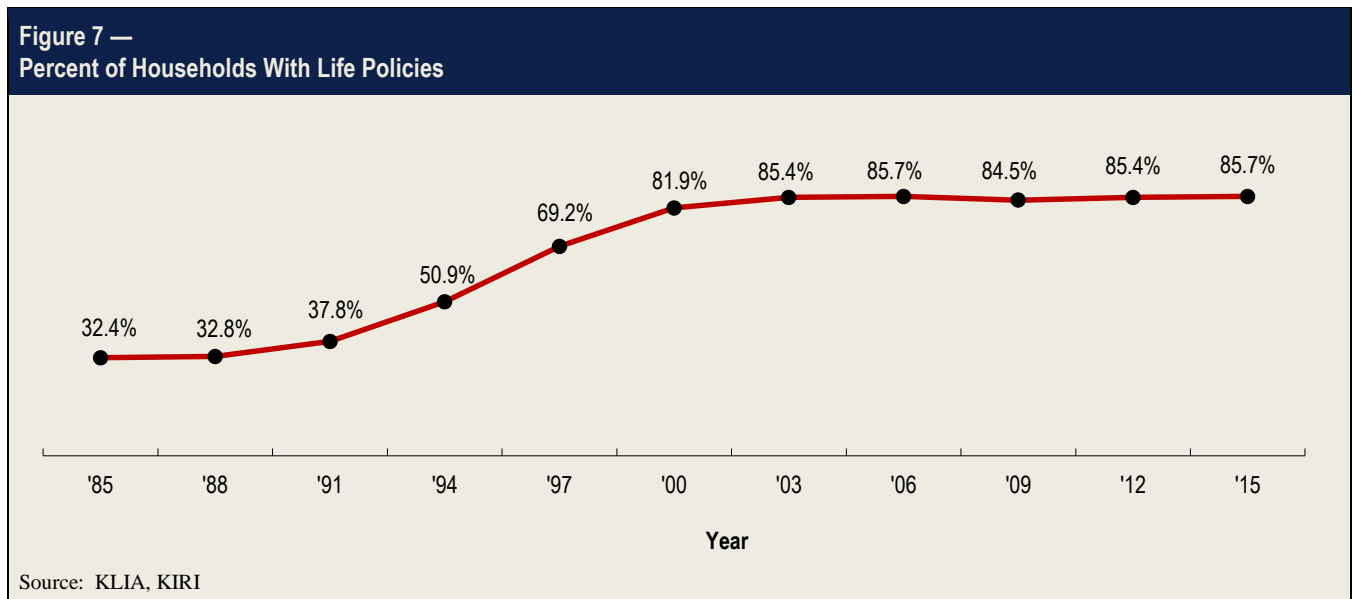
³ Lapse rate = lapsed during the year / (in force at the beginning of the year + new policy during the year), face amount basis

Other Insurance Indicators

While the Korean life market still shows growth in premium income, penetration is stagnant. Except for tax benefits and the introduction of immediate annuities in 2012, the ratio has stayed at approximately 7 percent. However, insurance density has almost doubled in the past 10 years and follows a growth pattern similar to that of premium income (Figure 6).



Since 2000, the percent of households with life policies is comparable with more mature markets. Competition is heating up among life insurance companies. In order to come out on top, insurers will have to pay particular attention to finding new products, channels and overseas markets (Figure 7).



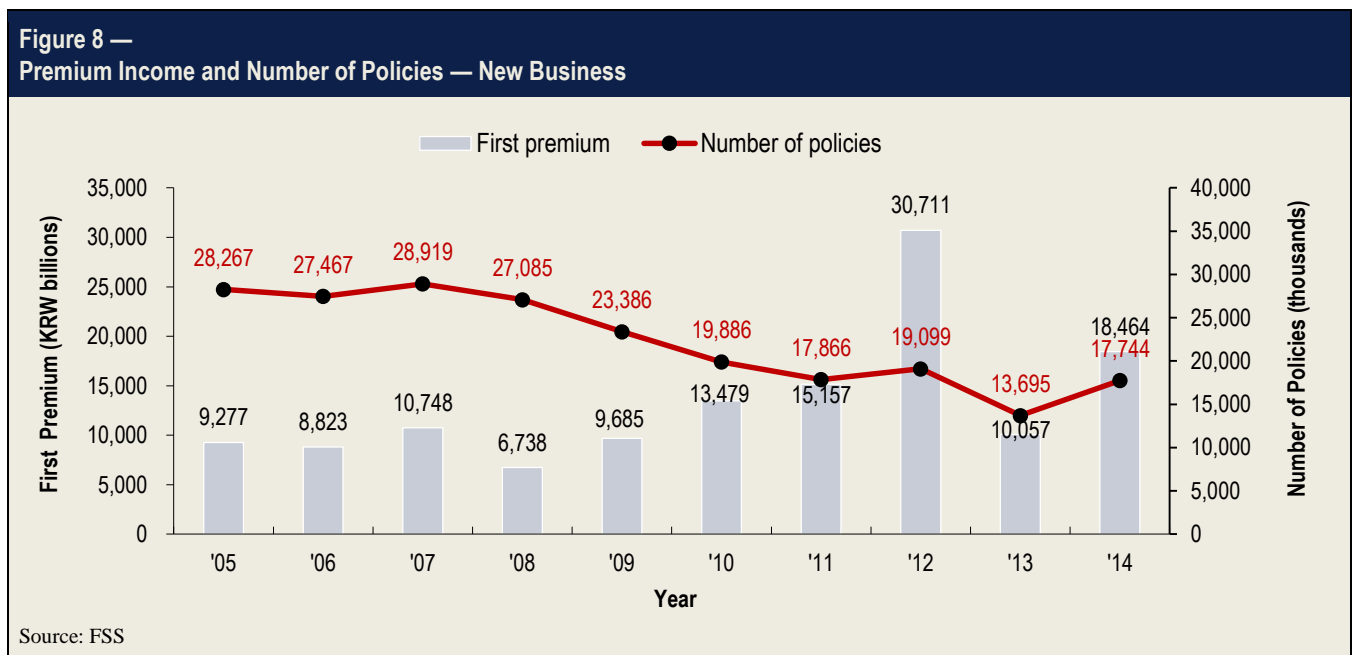
New Business

Premium Income

The latest trend in new business is a decline in the number of new policies (Figure 8). Although the number of policies has declined, premium per policy has steadily increased 4.6 percent compared with the previous year in real time. Protection-type products such as health insurance have increased as well, under the influence of tax benefit reduction and low interest policy.

These results indicate an industrywide pursuit for qualitative growth rather than quantitative growth, which could indicate that the Korean life insurance market is maturing.

It is also interesting to note that interest in health is high, but annuity sales are declining. Although individual and variable annuity sales have decreased, health insurance premium has increased 4.4 percent in real terms.



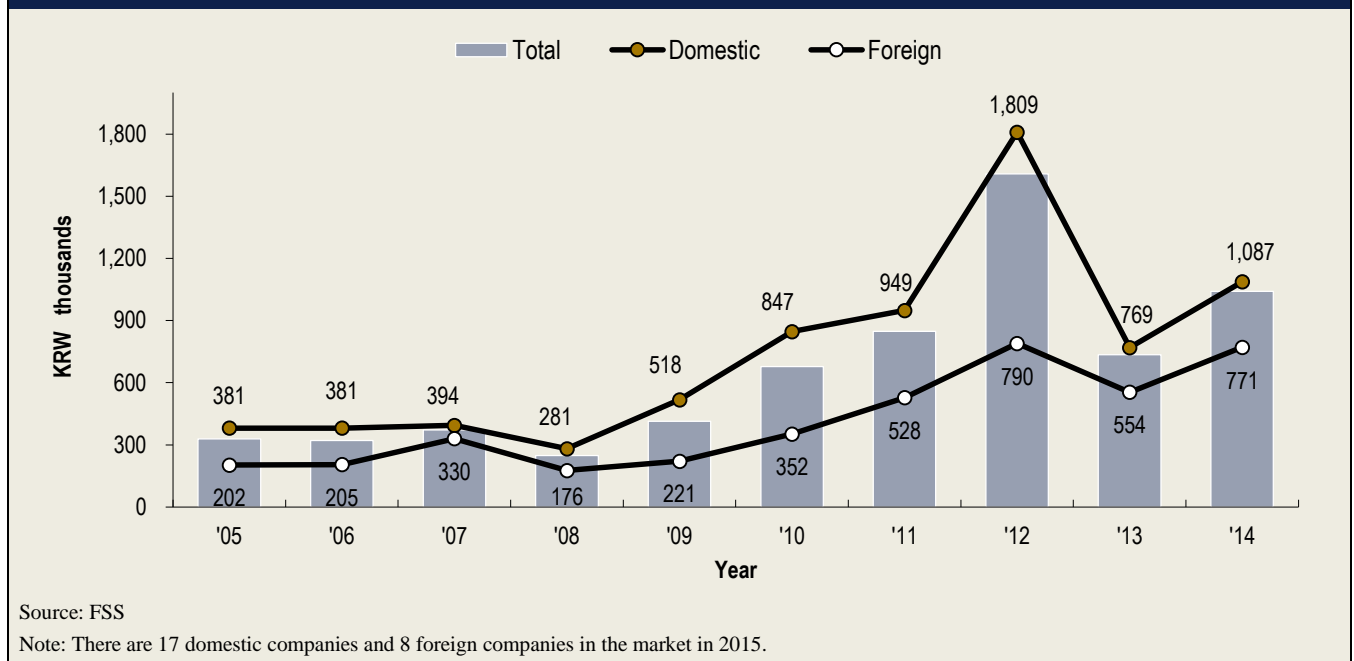
Market Participants

Domestic Versus Foreign

According to new business records from 2014, domestic life insurance companies accounted for 85 percent of the total number of new policies and 89 percent of total first premium. Compared with 2010 data, domestic companies showed an increase of 19 percent and 7 percent, respectively.

First premium per policy was KRW1,041,000 (US\$868). Average first premium of domestic companies was more than double that of foreign companies in the past 5 years. The gap between domestic and foreign companies has narrowed significantly in past years, with the exception of 2012 when domestic companies focused on selling more savings-type insurance (Figure 9).

Figure 9 —
Market Participants (Domestic vs. Foreign) — New Business

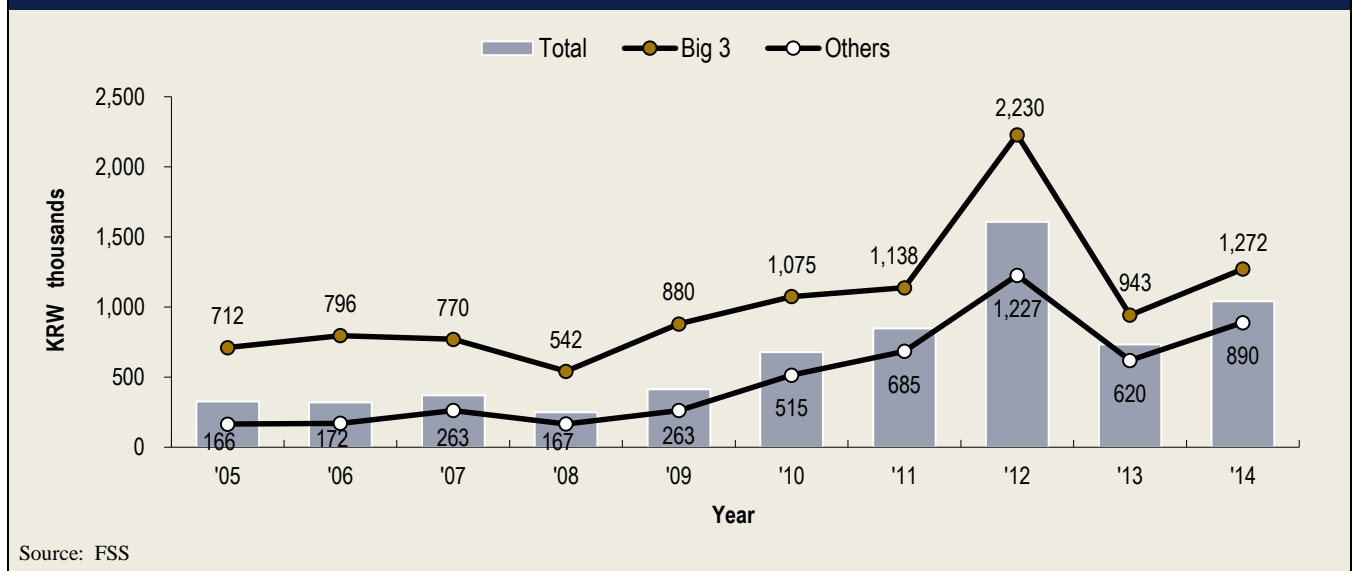


The “Big 3” Versus Other

The Korean “Big 3” — Samsung Life, Hanwha Life and Kyobo Life — account for 39 percent of the total number of new policies and 48 percent of total first premium. Compared with 2010 data, the “Big 3” show a 10 percent increase in terms of the total number of new policies and 2 percent increase in terms of total first premium. The average first premium of the “Big 3” was almost double that of other companies up until 2012, when Nonghyup Life Insurance⁴ emerged as a new major player in the insurance market. Soon after, it became the country’s fourth-largest life insurance company.

In the past years, there has been a consistent gap in the average first premium between the “Big 3” and other companies, which may indicate that people prefer buying high-premium or single premium policies from larger companies. Recently, the gap between the “Big 3” and other companies narrowed significantly (Figure 10).

**Figure 10 —
Market Participants (Big 3 vs. Others) — New Business**

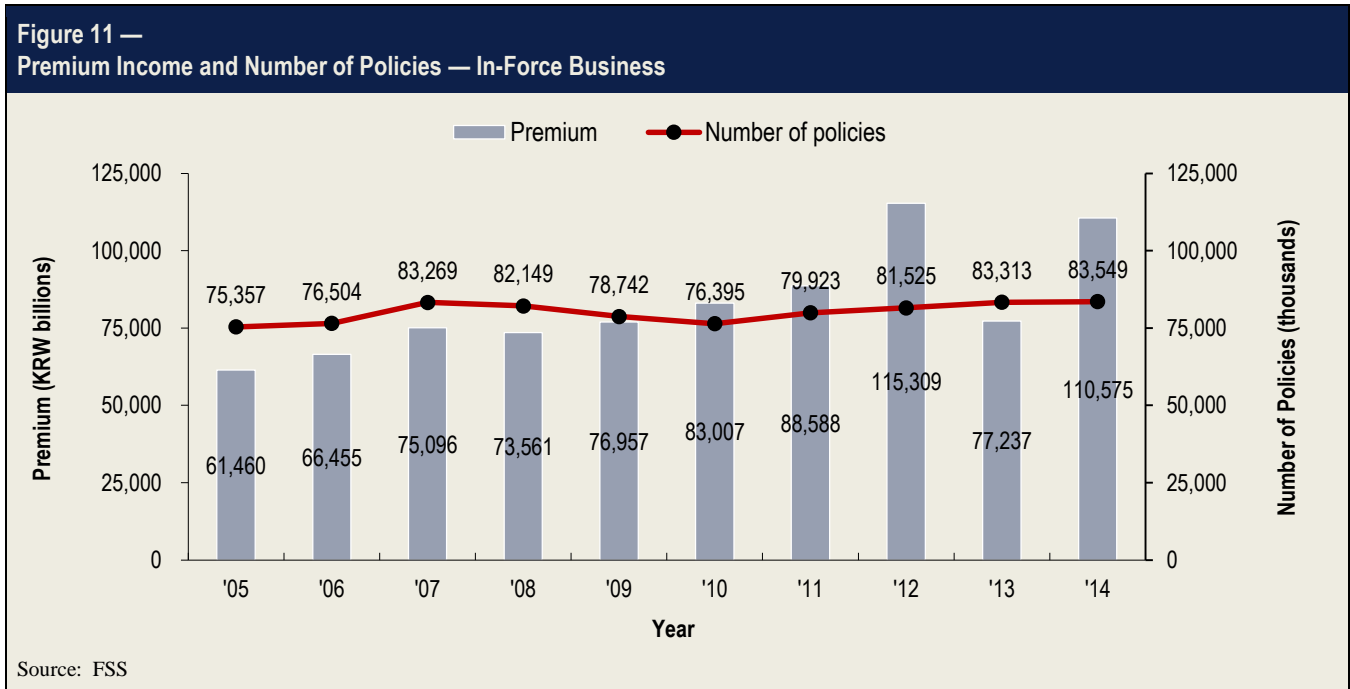


⁴ Nonghyup Life Insurance, which was the agricultural cooperative National Agricultural Cooperative Federation until 2011.

In-Force Business

Premium Income

Although the number of new policies has decreased, the recent number of in-force policies increased slightly and the premium income from in-force business grew steadily (Figure 11).

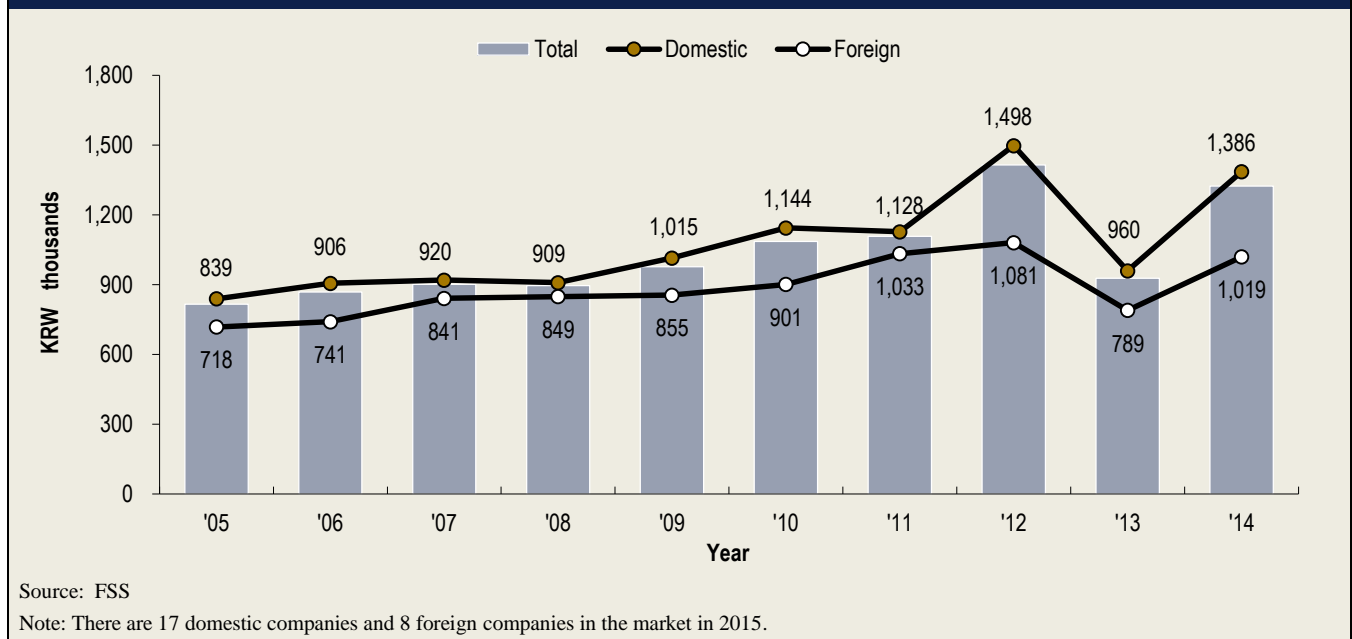


Market Participants

Domestic Versus Foreign

- Domestic life insurance companies accounted for 83 percent of the total number of in-force policies and 87 percent of the total premium.
- The total number of policies increased 3 percent and the total premium increased 6 percent compared with 2011 (Nonghyup Life Insurance entered the market in 2012).
- The premium per policy in 2014 was KRW1,323,000 (US\$1,103).
- The average premium of domestic companies was 1.4 times higher than that of foreign companies.
- The premium per policy of foreign companies increased to 91.6 percent of premium per policy of domestic companies in 2011. After 2011, however, first premium per policy in new business widened the gap between foreign and domestic in-force business (Figure 12).

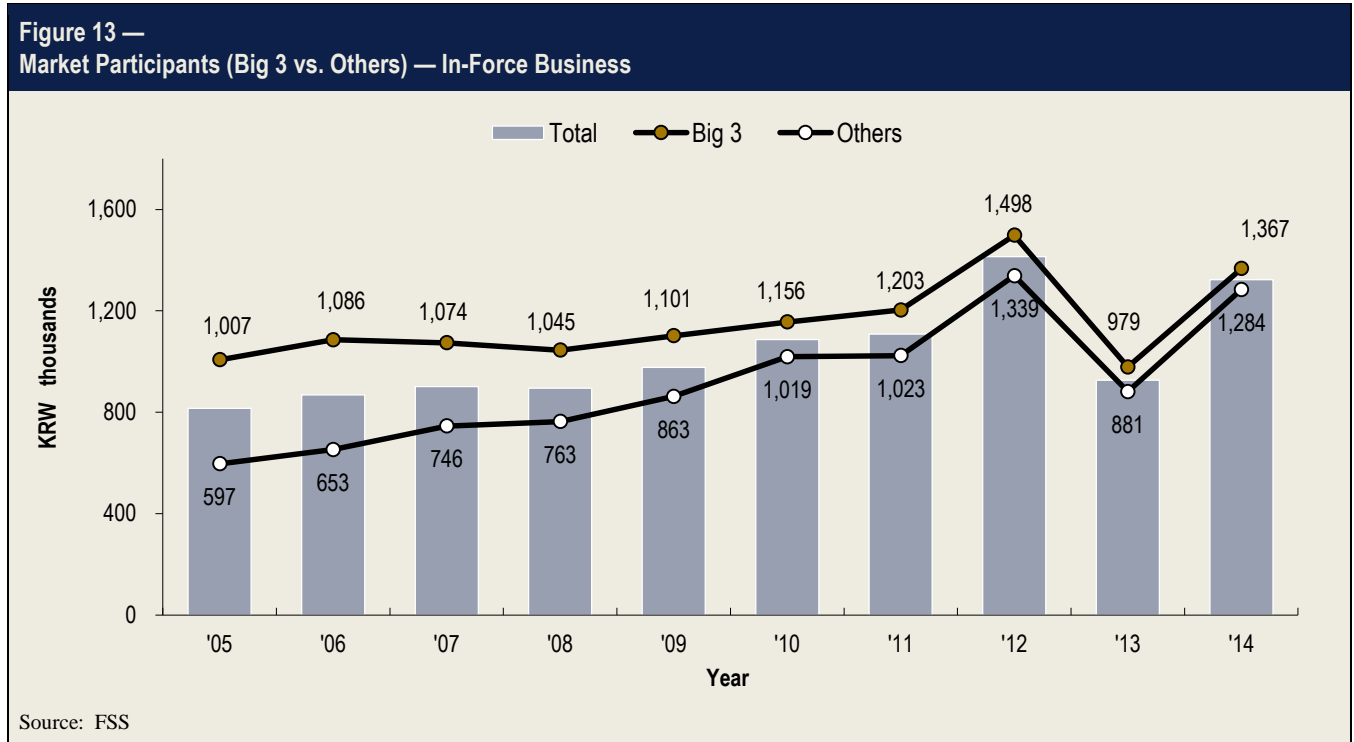
Figure 12 —
Market Participants (Domestic vs. Foreign) — In-Force Business



The “Big 3” Versus Other

The Big 3’s market share accounts for 47 percent of the total number of in-force policies and 49 percent of the total premium.

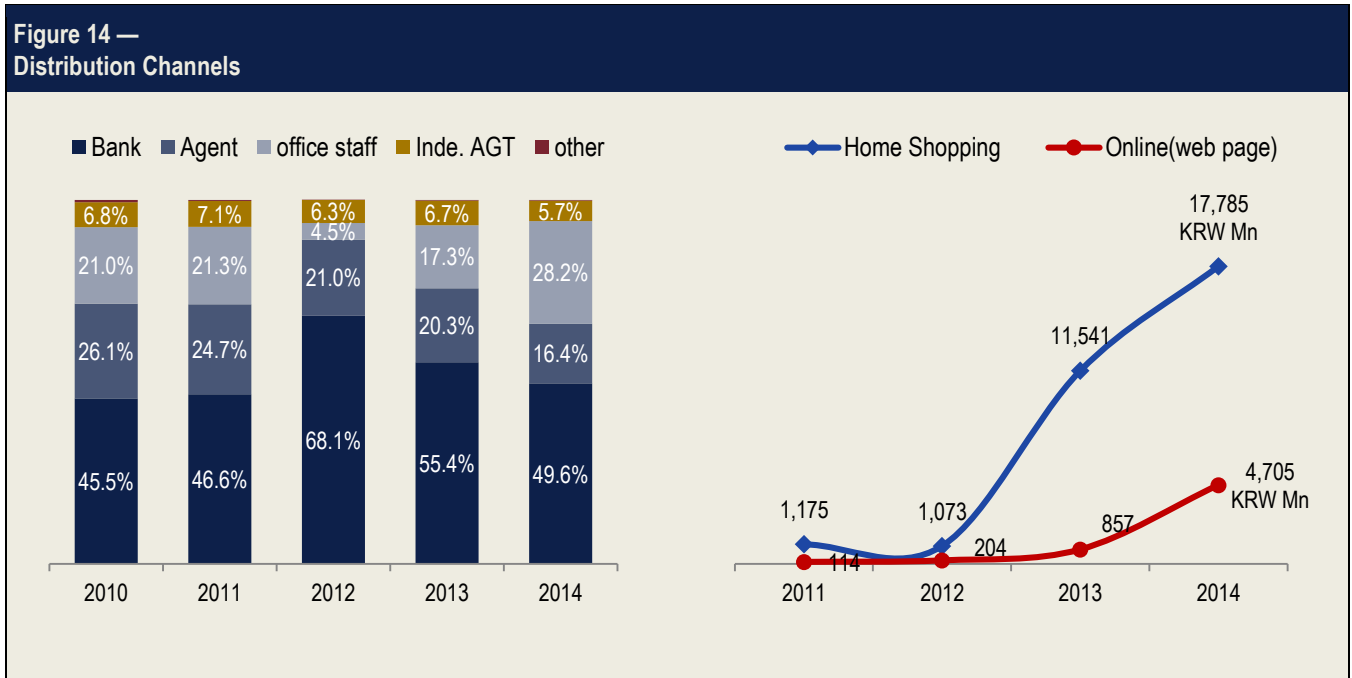
Recent premium per policy shows that the “Big 3” are just slightly higher than other companies. This average premium gap between the “Big 3” and others has been narrowing constantly. Premium per policy of the other companies increased to 93.9 percent of premium per policy of the “Big 3” in 2014 (Figure 13).



Distribution Channels and Agent Trends

Distribution Channels

Bancassurance, which accounted for 49.5 percent of newly issued policies, became a major distribution channel within the Korean life market in 2014 (Figure 14). The portion of insurance contracted through tied agents decreased from 26.4 percent in 2010 to 16.4 percent in 2014. This situation occurred because many midsize companies started using independent distribution channels that are easier to maintain.



Although bancassurance and agent channels continue to dominate the Korean insurance market, this may change as technology advances and online shopping continues to increase. The online channel is currently a small portion of the market in terms of life insurance premiums. Nevertheless, insurers must respond to technological trends for insurance dissemination. The evolution of technology is challenging the traditional insurance distribution process.

Independent distribution channels, including bancassurance and independent agency, are largely out of the insurance companies' control. Expanding through these channels increases the possibility of incomplete sales of insurance products, which can have potentially negative consequences on business stability and financial soundness. Because of this, financial supervisory is tightening off-site surveillance to prevent unsound business sales and excessive competition.

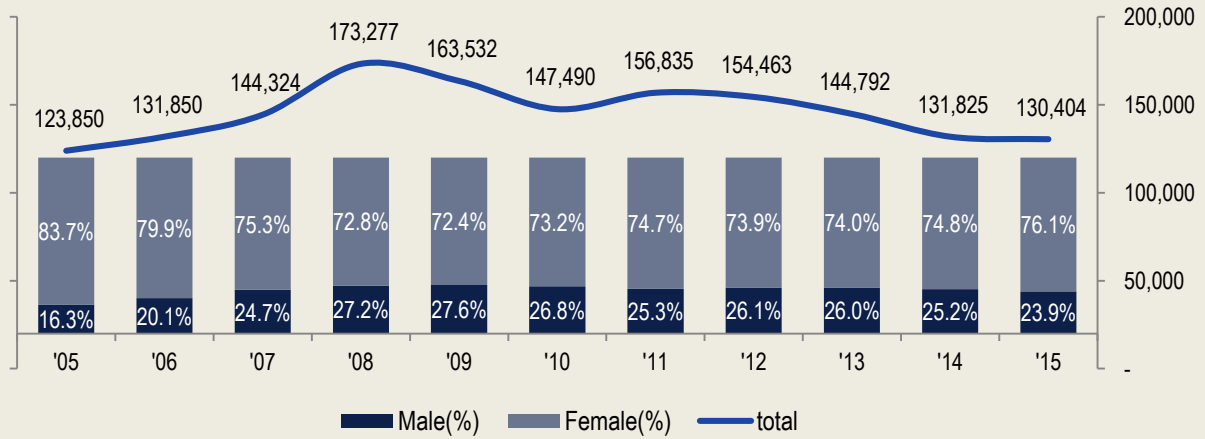
In addition to home shopping and online channels, Insurance Online Supermarket and mobile channels launched as new channels in 2015. Online Supermarket is an online platform that a consumer can use to compare prices and select for insurance products.

Tied Agent Analysis

Trend

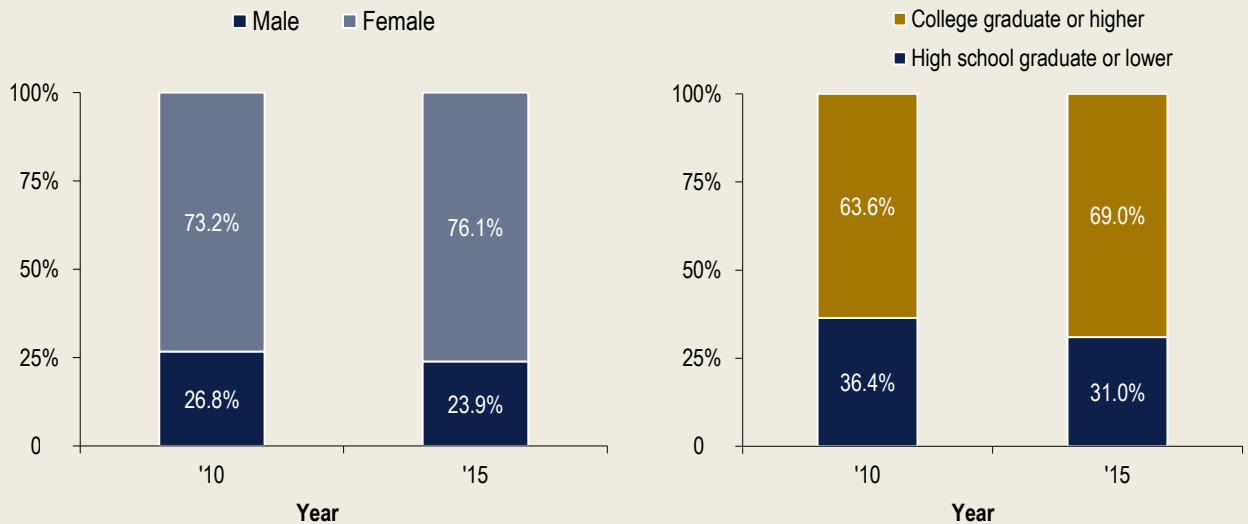
Due to the global financial crisis in 2008, the advantage of cross selling⁵ and diversity of distribution channels, the number of tied agents are still decreasing (Figure 15). Female agents are still in the majority. The proportion of female agents has increased from 73.2 percent to 76.1 percent and the representation of agents with college diplomas or higher has significantly increased from 63.6 percent to 69.0 percent compare with 2010. (Figure 16).

Figure 15 —
Tied Agent Trends



Source: KLIA

Figure 16 —
Agent Gender and Level of Education

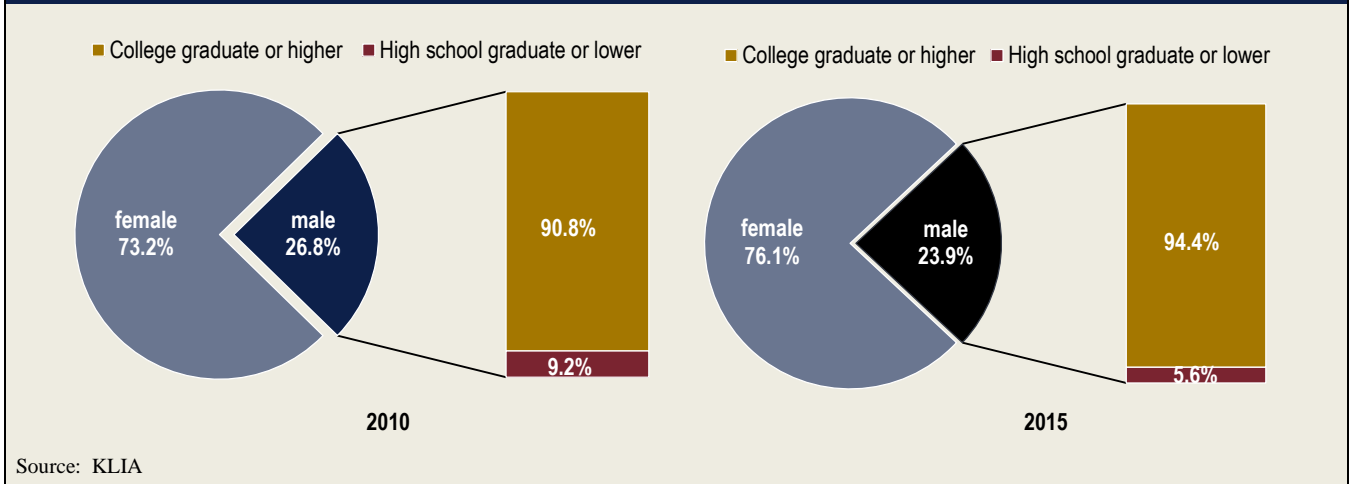


Source: KLIA

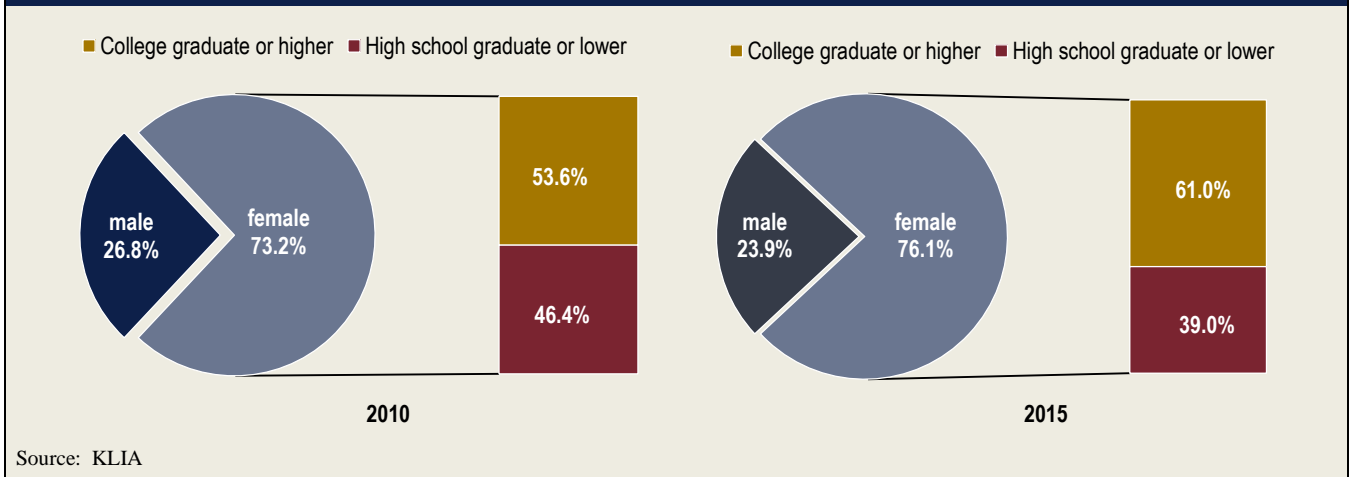
⁵ In August 2008, life and nonlife agents were permitted, if registered, to sell one another's products (*Insurance Business Law*).

Strategically hiring highly educated males with IT and consultancy skills to target the high-income market is a growing trend. Domestic companies have also started to hire highly educated male agents, which has led to the change in the demographics of agents in Korea (Figures 17 and 18).

**Figure 17 —
Male Agent Trends — By Level of Education**

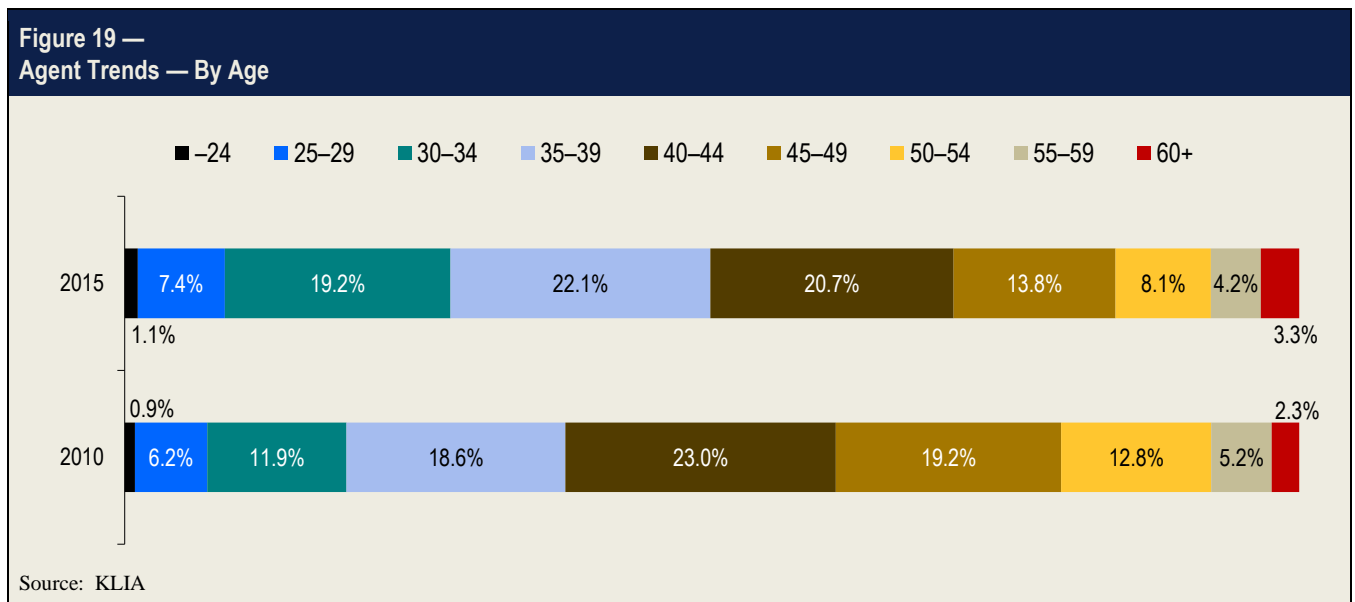


**Figure 18 —
Female Agent Trends — By Level of Education**



Age distribution of agents shows that agents aged 30 to 39 increased from 30.5 percent in 2010 to 41.3 percent in 2015. Most noteworthy is that at this time the portion of agents in their 30s increased 10.8 percentage points (Figure 19). Agents aged 40 to 49 were the highest percentage in 2010, but agents aged 30 to 39 are the highest percentage in 2015.

In the past, the major reason for the high proportion of people in their 40s was insurance company recruiting standards, which focused on hiring people who are married and have greater personal networking capabilities because of work experience. Insurance company recruiting standards have since changed and they seem to prefer younger agents that are highly educated and have special talent for professional field marketing. Persistency declined from 77.3 percent in 2010 to 67.8 percent in 2015. The major reasons for the decline in persistency rates seems to be the diversification of distribution channels, growing competition, and inadequate competitive compensation.

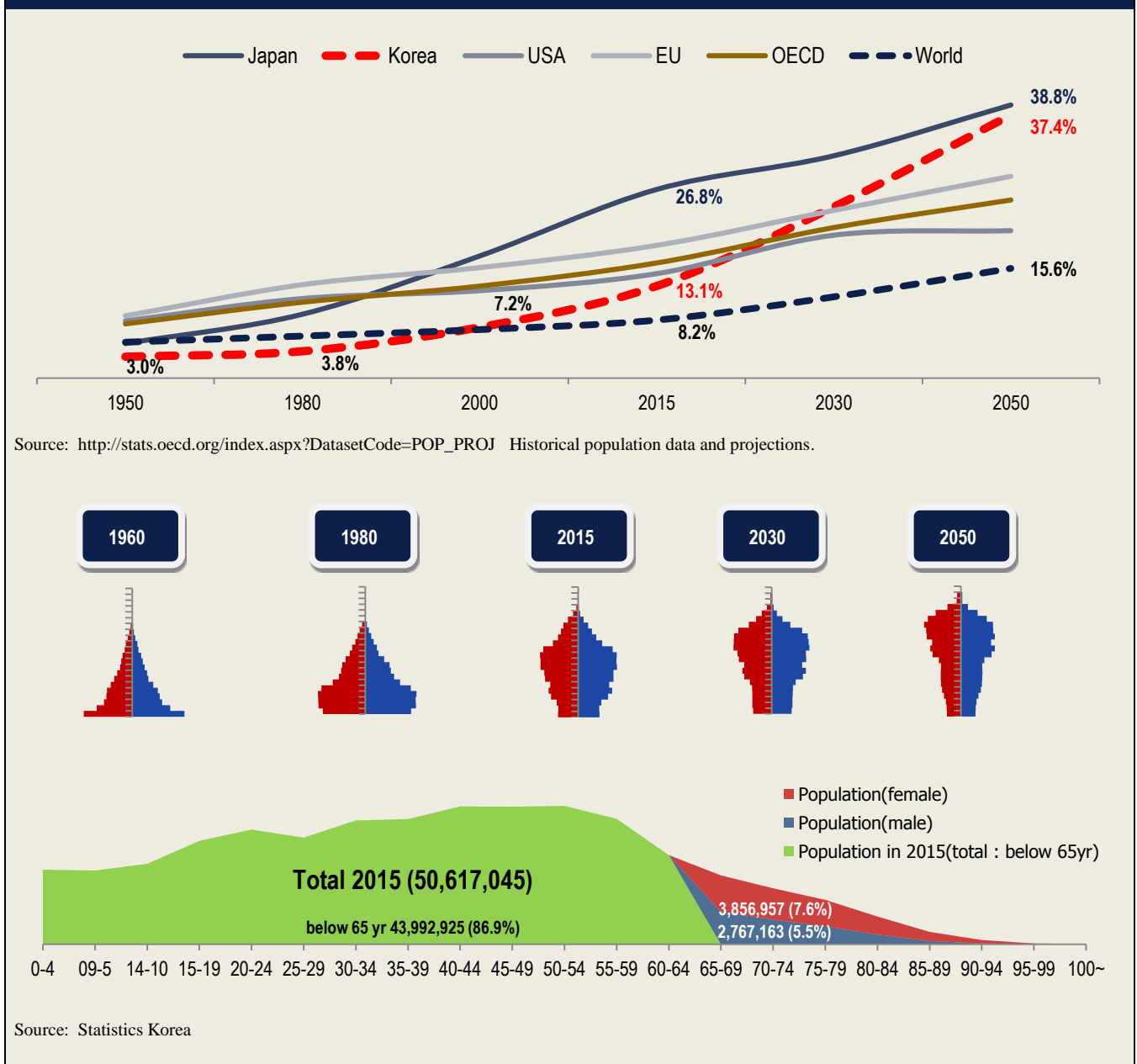


Current Issues

If demographic trends continue, Korea will be a “Super Aged Society” — with 20% of the population aged 65 or older — by 2026.

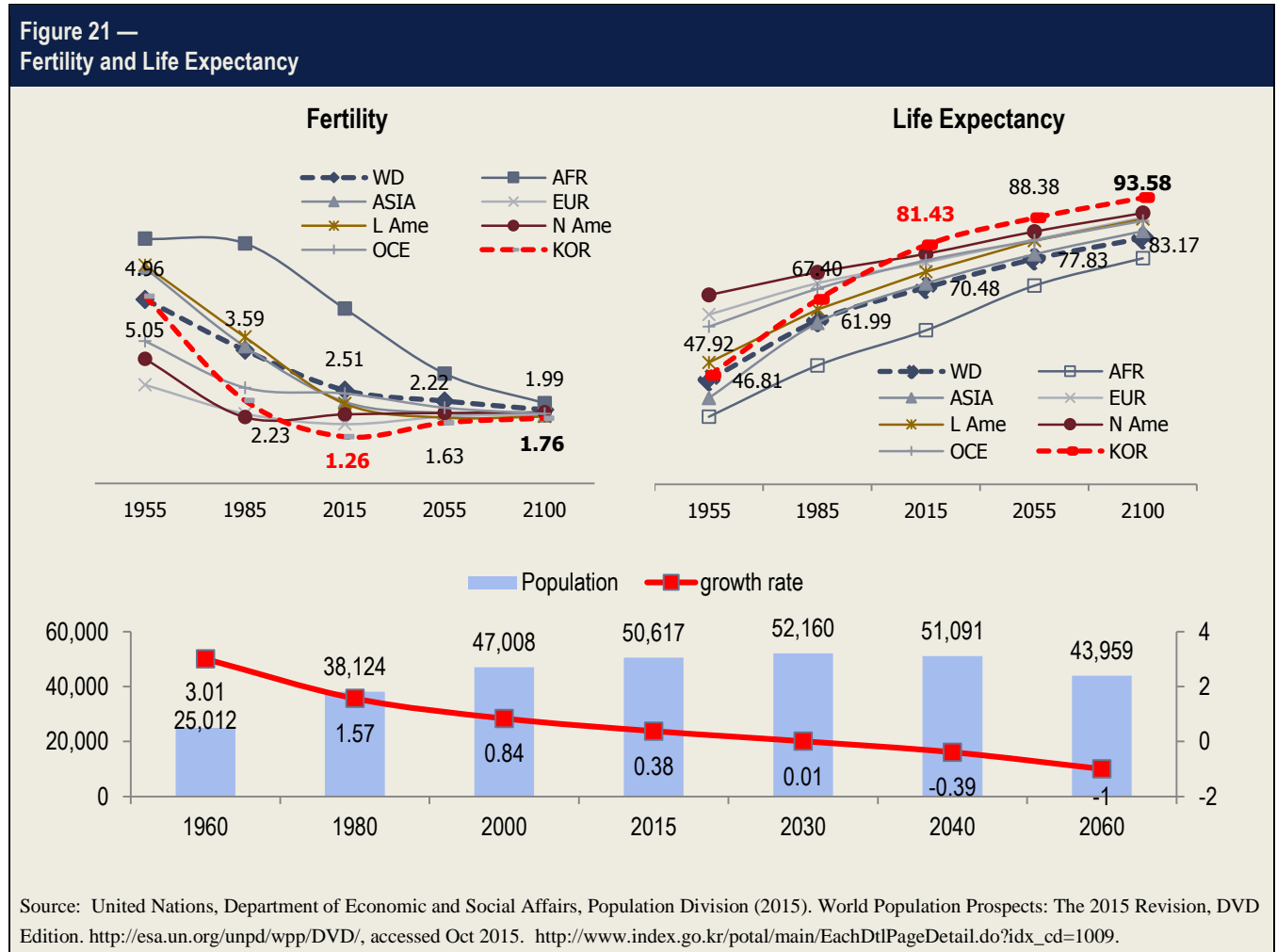
According to OECD statistics, citizens aged 65 and older make up 13.1 percent of the total population as of 2015. Although the Korean ratio of those aged 65 and over is currently lower than OECD numbers, it is growing more rapidly than anywhere else in the world. The OECD expects that Korea will become an “aged society,” with more than 14 percent aged 65 and over by 2018. The ratio will further increase to 24.3 percent in 2030, and then is expected to rise to 37.4 percent in 2050. By 2026 Korea will become a “super-aged society,” due to low fertility and the rapidly aging population (Figure 20).

Figure 20 —
Percent of Population Aged 65+ and Demographic Estimate in Korea



In addition to rapid aging, Korea struggles with low fertility rates (Figure 21).⁶ As of 2015, the fertility rate is 1.26, one of the lowest of all OECD countries. Korea also has the highest rise in life expectancy among countries in the world for this same time period.

- According to UN data, Korea’s life expectancy was recorded as 81.4 in 2015, an increase of 14 years compared to data from three decades ago.
- Korean population will likely peak at 52.16 million around 2030 and then decline to 43.96 million by 2060.
- This is the highest old-age poverty rate of all the OECD countries, and is nearly four times the OECD average.⁷



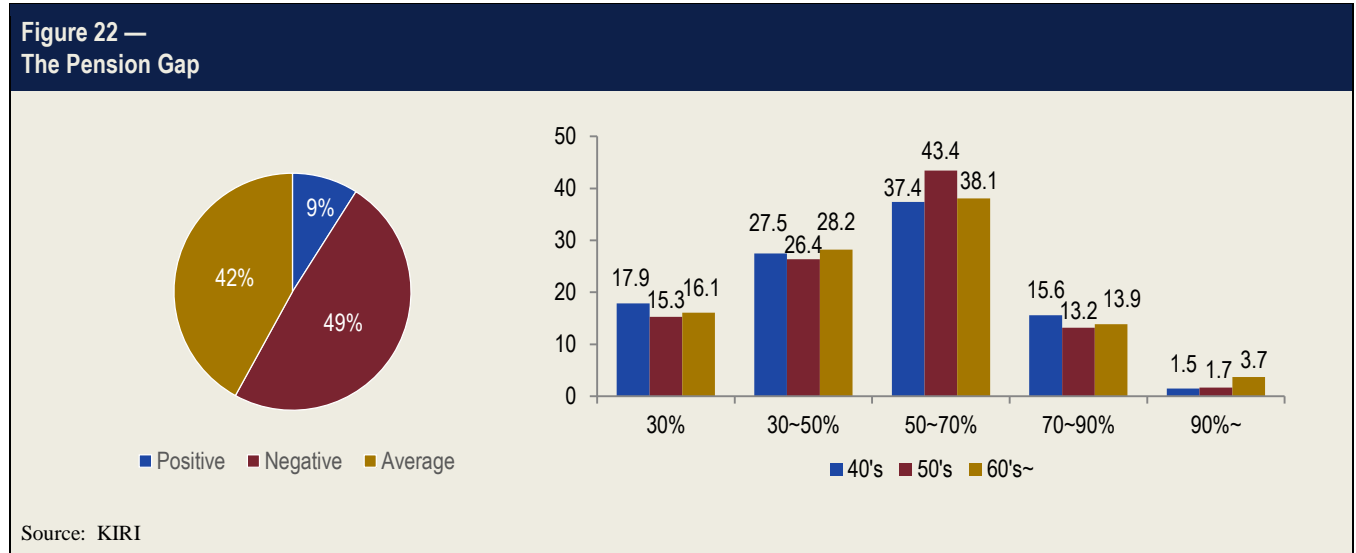
⁶ The average number of babies that a woman is projected to have during her lifetime.

⁷ OECD (2013), *Pensions at a Glance*, 2013.

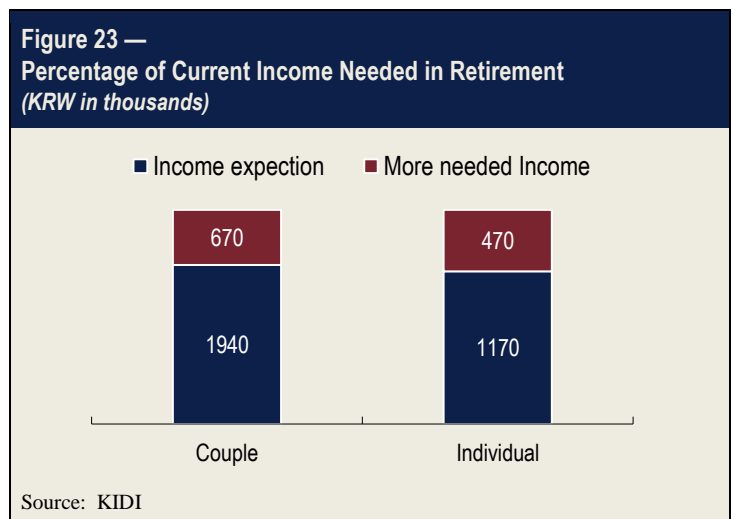
Nearly half of Korean seniors live in relative income poverty.

Rapidly moving toward an aging society is a serious problem for older people who are trying to prepare for a stable, secure retirement. According to a KIRI survey from 2015, only 9 percent of respondents feel positive preparing for retired life. Over 83 percent expect to earn below 70 percent of their current income in retirement.

- The pension replacement rate that an average wage Korea worker can expect is 39.6 percent, well below the OECD average of 54.4 percent.
- According to OECD data, the pension gap for high income earners is greater than that of low income earners (Figure 22).



There is a gap between the income pre-retirees expect to receive and the income they need to receive (Figure 23). A couple needs more than KRW670,000 (US\$558) and an individual needs more than KRW470,000(US\$392) for living expenses. In order to bridge the gap between living expenses and expected income for a stable retirement, it is necessary to purchase an annuity well in advance of retirement.

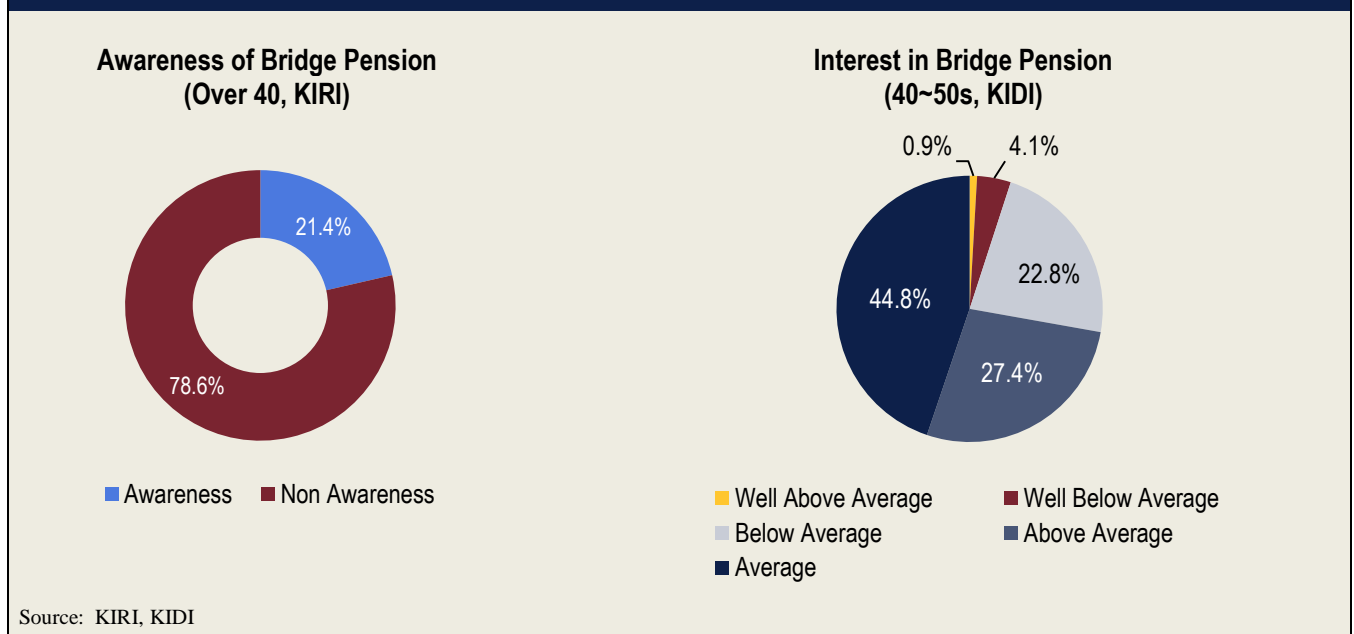


According to Statistics Korea, the average retirement age for an office worker is 53, although the official retirement age is 60. The national pension system is available to all retirees upon age 60 provided the individual has contributed for at least ten years. The official retirement age for people born after 1969 will be 65 years, delaying the onset of their pension benefits until that time. There is a gap in pension benefits of at least 5 years between the age of eligibility for a national pension and actual retirement age.

According to the Samsung Retirement Institute survey, 67.4 percent of survey respondents have no experience budgeting for retirement. Insufficient preparation often results in the need to continue to work during retirement.

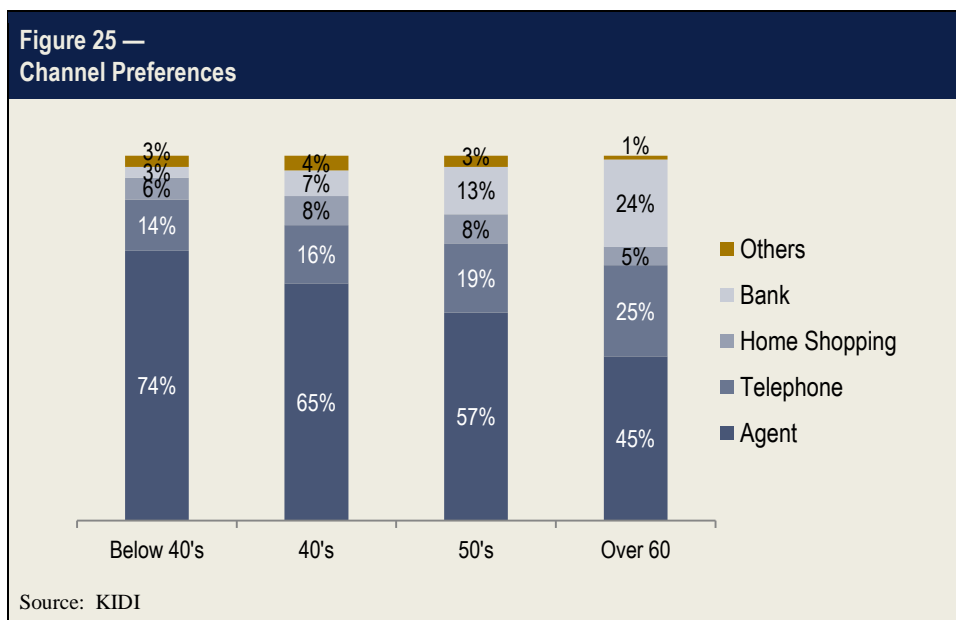
The effective retirement age for Korean men is 71.1, according to a recent OECD survey, putting the country second only to Mexico, where retirement awareness is one of the lowest of developing economies in the world. In order to maintain a stable life after retirement, people preparing for retirement should be interested in a bridge pension. According to the KIRI retirement readiness survey, while many seem to have an interest in bridge pensions, 78.6% are unaware that bridge pensions even exist. In order to expand the bridge pension market, life insurance companies need to increase publicity (Figure 24).

Figure 24 — Awareness of and Interest in Bridge Pension



The KIDI survey shows that older people may prefer telemarketing and bank channels more than the agent channel when compared with younger people. Insurance companies may want to focus on using telemarketing and bank channels to increase market share for the older market (Figure 25).

The elderly poverty rate in Korea is by far the highest in the OECD — at 47.2 percent for those aged 65 and over, compared to the OECD average of 12.8 percent. Old-age poverty has increased in Korea from about 45 percent in the mid-2000s. For workers at average earnings, the average for the OECD countries of the gross replacement rate from mandatory pensions is 54.4 percent for men, 53.7 percent for women, and 52.7 percent total. However, the gross replacement rate for Korean workers is 39.3 percent. As a result, pre-retirees have to prepare in advance with a financial plan such as an annuity. Insurance companies will need to provide information and education to help and encourage pre-retirees to join a private pension. There is also a need to benchmark product development and issues faced by countries that are already experiencing population aging.



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009803-0116 (50700-10-404-21511)