

Korean Insurance Market

2022 in Review

In 2022, the Korean insurance market remained stronger than expected thanks to a surge in retirement annuity premiums. According to preliminary results released by the Financial Supervisory Service in March 2023, the life insurance market gained growth momentum on the back of savings insurance as well as retirement annuities. The non-life market also grew robustly, as all lines of business generated solid growth. The growth was fueled particularly by retirement annuities and general P&C insurance.

Insurance companies in Korea also reported excellent bottom-line results in 2022, with their net income surging by 11.1% to KRW 9,180.1 billion. The industry delivered sharply divided results: the life insurance sector suffered a decline in net income, while non-life insurers continued to perform strongly, recording a bottom-line growth of 26.6%. The robust performance of the non-life sector

was backed by improvements in both underwriting and investment results. Non-life insurers' underwriting losses narrowed thanks to a drop in long-term insurance loss ratios amid a relatively benign claim environment and an increase in new long-term business. Life insurers saw their net income decrease by 6.0% year on year as their investment gains shrank due to a reduction in both gains on disposition of financial assets and mark-to-market gains. Their underwriting performance, however, improved amid a decline in guaranteed reserves following interest rate rises.

The profitability ratios of the insurance industry increased in 2022 compared to the prior year. Its return on assets (ROA) ratio rose by 0.07%p to 0.69%, and its return on equity (ROE) ratio jumped by 2.27%p to 8.22%. Non-life insurers reported higher ratios than life insurers as follows:

ROA and ROE

		2022	2021	Change(%p)
ROA	Life Insurers	0.38	0.40	-0.02
	Non-Life Insurers	1.48	1.22	0.26
	Total	0.69	0.62	0.07
ROE	Life Insurers	5.39	4.28	1.11
	Non-Life Insurers	12.74	9.22	3.52
	Total	8.22	5.95	2.27

(Source: Financial Supervisory Service (Mar. 2023))

As of the end of December 2022, insurers reported a decrease in assets compared to a year earlier. Their total assets declined by 3.6% to KRW 1,310.1 trillion, which is broken down into KRW 938.3 trillion for life insurance and KRW 371.8 trillion for non-life insurance. Life insurers continued to dominate insurance industry assets, accounting for around 72% of the total, but their assets diminished by 5.5%, while non-life assets increased by 1.5%.

The insurance industry saw its total shareholders' equity dip by 34.0% to KRW 88.9 trillion as of late 2022 because rising interest

rates caused insurers to suffer a reduction in unrealized gains on the value of securities they hold as investments. The coupon rate on the ten-year Treasury bond shot up to 3.73% at the end of 2022 from 2.25% at the end of 2021.

In the long term, the gradual upward movement of interest rates may help insurers improve their profitability because their investment portfolio yields increase in step with interest rate rises. However, insurers may experience setbacks from rate hikes in the short term. When rates go up, the value of their 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. Over time, insurers can benefit from higher interest rates, as they will have the opportunity to invest at higher rates and improve their overall profitability.

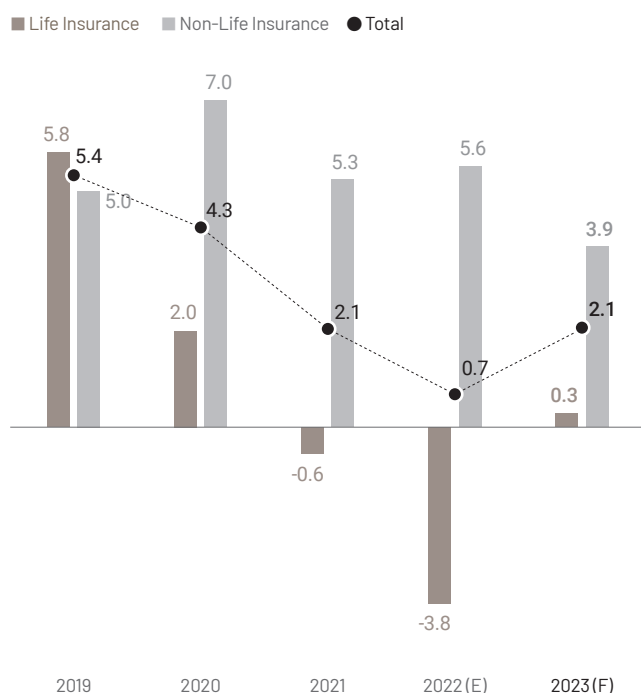
Prospects for 2023

The insurance market in Korea is expected to grow by 2.1% in 2023, with total premiums projected at over KRW 232 trillion, according to an outlook report released by the Korea Insurance Research Institute in October 2022. The non-life insurance market will continue on its growth path, but its growth will be tempered amid weakening economic growth prospects. Since Russia's invasion of Ukraine in February 2022, the Korean economy has been losing

recovery momentum. On top of this, consumer spending is likely to be affected by rising inflationary pressure. As economic strength will have a direct impact on insurance market growth, insurance companies will need to keep a weather eye on economic conditions, such as inflation, GDP growth, household indebtedness, and global supply chain issues.

Korean Insurance Market Growth Rates

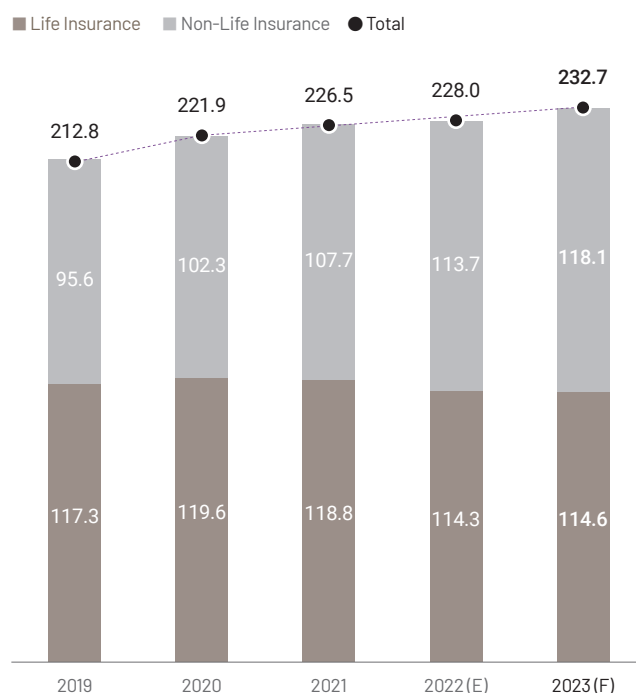
(Unit: %)



(Source: Korea Insurance Research Institute (Oct. 2022))

Trends of Premium Income

(Unit: KRW trillion)



(Source: Korea Insurance Research Institute (Oct. 2022))

Life Insurance

The life insurance market is expected to grow by 0.3% in 2023, with its premiums amounting to KRW 114.6 trillion. When retirement annuity premiums are excluded, however, the expected growth rate is down to minus 0.3%. Savings life insurance premiums are projected to fall by 3.4%, as life insurers will continue to focus on

selling protection products. Although rising interest rates on bank deposit products have made savings insurance look relatively less attractive, some life insurers will likely pivot toward high-guaranteed rate savings products to take advantage of interest rate hikes so that they can boost their revenues and assets.

Variable life savings insurance is also faced with some headwinds. As the stock market is slumping amid concerns over an economic downturn, sales of variable insurance have tumbled, and the surrender rate has increased, with premium income expected to decline by 6.9% in 2023. Despite a growing interest in investment products, the demand for variable savings insurance is likely to decline due to higher financial market volatility.

On the other hand, premiums from protection-type insurance are forecast to grow by 2.3% because sales of health insurance remain robust. The COVID-19 pandemic has become 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. However, economic weakness will have a negative impact on insurance sales growth, as fewer consumers will have extra money to spend on insurance.

The growth of life annuity premiums is likely to slow as life insurers are struggling with the challenges of longevity risk management and stronger capital requirements under new accounting standards. Still, increasing life expectancy is the primary driver that increases the demand for annuity plans, and rising crediting rates may lead to a renewed interest in annuities, with an increasing number of baby boomers hitting retirement age.

Life Insurance Market Outlook by Line of Business

(Unit: KRW trillion)

	2020		2021		2022(E)		2023(F)	
	Premium	Growth Rate (%)	Premium	Growth Rate (%)	Premium	Growth Rate (%)	Premium	Growth Rate (%)
Total (including retirement annuity)	119.6	2.0	118.8	-0.6	114.3	-3.8	114.6	0.3
Protection	46.1	3.8	45.8	-0.7	48.0	4.6	49.1	2.3
Savings	50.1	5.8	48.4	-3.5	40.8	-15.7	39.4	-3.4
Others*	0.7	-2.1	0.8	1.1	0.8	1.0	0.8	1.5
Retirement annuity	22.6	-8.5	23.9	5.8	24.8	4.0	25.4	2.4
Total (excluding retirement annuity)	97.0	4.8	95.0	-2.1	89.5	-5.8	89.2	-0.3

*Others include group life insurance. Individual figures may not add up to the total shown due to rounding.
(Source: Korea Insurance Research Institute (Oct. 2022))

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 3.9% to KRW 118.1 trillion in 2023. The growth will be supported by long-term personal accident and health insurance, general property and casualty (P&C) insurance, and retirement annuities. When retirement annuities are excluded, premium growth is forecast at 3.7% in 2023, with total premiums of KRW 100.8 trillion.

Long-term insurance is projected to grow by 4.8% in 2023, driven by personal accident and health insurance. Long-term savings insurance premiums are set to decline sharply as insurers remain focused on marketing protection products. The motor insurance market is projected to slow down further, growing by 1.1%, due

to the recent premium rate reduction. 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.

General P&C insurance will remain a strong driver of growth, although it still accounts for a small portion of the entire non-life market. Its premiums are expected to grow by 5.9% in 2023, and solid growth momentum will come from the casualty lines of business backed by liability insurance, while the growth of marine and surety insurance will slow down. Fire insurance premiums are anticipated to grow by 1.2% amid growing demand from households and factories, while positive growth will be maintained for marine insurance thanks to increasing trade flows and shipbuilding orders.

Non-Life Insurance Market Outlook by Line of Business

(Unit: KRW trillion)

	2020		2021		2022 (E)		2023 (F)	
	Premium	Growth Rate (%)	Premium	Growth Rate (%)	Premium	Growth Rate (%)	Premium	Growth Rate (%)
Total (including retirement annuity)	102.3	7.0	107.7	5.3	113.7	5.6	118.1	3.9
Long-term	55.9	5.3	58.8	5.2	61.7	4.9	64.7	4.8
Individual annuity	3.0	-9.1	2.6	-13.3	2.2	-16.3	1.9	-13.9
Motor	19.6	11.6	20.3	3.7	20.7	1.9	21.0	1.1
General P&C	10.7	8.3	11.6	8.8	12.5	7.9	13.3	5.9
Retirement annuity	13.1	11.4	14.3	9.1	16.5	15.7	17.4	5.0
Total (excluding retirement annuity)	89.2	6.4	93.4	4.7	97.2	4.0	100.8	3.7

* Individual figures may not add up to the total shown due to rounding.
(Source: Korea Insurance Research Institute (Oct. 2022))

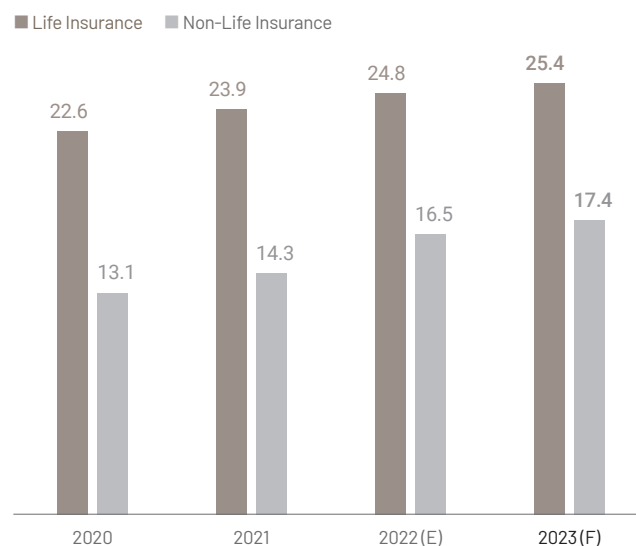
Retirement Annuity

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 likely to slow because the effect of an increase in funding requirements for defined benefit plans has come to an end. Life insurers are anticipated to see a 2.4% growth in retirement annuity in 2023, while retirement annuity premiums of non-life insurers are expected to grow by 5.0% on the back of premiums from in-force policies as well as new business drives by a few insurers.

Improving labor market conditions and the expansion of the individual retirement pension (IRP) sector are upside factors that are driving the growth of the overall retirement annuity market. On the other hand, there are some downside factors, such as intensifying competition against other financial sectors and capital requirements for annuity reserves. 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

(Unit: KRW trillion)



(Source: Korea Insurance Research Institute (Oct. 2022))

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.