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CEO Brief

Outlook update for the Korean insurance premiums in 2019

ABSTRACT

As the economic slowdown is deepening, consumers' ability to buy insurance is dimi nishing. Besides, the pressure to lower the assumed interest rate and the minimum guaranteed interest rate is increasing due to a fall in the market interest rate.

It is challenging for life insurers to expand sales of variable insurance due to falling stock prices. Also, non-life insurers are under pressure to raise premiums rates of auto and private health insurance due to a surge in loss ratio.

In spite of the deteriorating business environment, the premium growth rate is exp ected to be -0.7%, similar to the previous forecast (-0.8%), reflecting the recent performance of insurance companies.

Premium income of life insurance in 2019 is expected to decline 3.4% year on year (hereafter YoY) due to a slowdown in the growth of protection-type insurance and a decline in new sales of savings-type insurance. Direct premiums written by non-life insurers are expected to grow only by 2.6% YoY due to the sluggish sales in long-term savings-type insurance and pensions despite a slight recovery in auto insurance sales.

1. Business environment

The prolonged U.S.-China trade disputes and Japan's retaliatory export curbs are increasing uncertainties in the real economy and the financial market. Due to a slowdown in economic growth and weakened inflationary pressure, the Bank of Korea lowered the benchmark interest rate from 1.75% to 1.5% on July 18. Also, there is still a high possibility of further cuts within this year.

Korea's economic growth rate for 2019 is likely to be lower than the 2.2~2.4% previously predicted by major institutions, due to sluggish investment and exports caused by

increased external uncertainties. The market interest rate decline and exchange rate hikes are expected to continue in the second half of 2019, and the stock price is expected to fluctuate at a lower level in the second half than in the first half.

Significant changes in the business environment since the last forecast can be summarized as ❶ deepening economic downturn, ❷ a fall in interest rates, ❸ an increase in stock price volatility, ❹ a sharp rise in loss ratios for auto and private health insurance. Since the economic slowdown is severer than the last forecast, consumers' abilities to buy insurance are expected to diminish even further. The pressure to lower the assumed interest rate and the minimum guaranteed interest rate is increasing due to a fall in the market interest rate. It is challenging for life insurers to expand sales of variable insurance due to falling stock prices. Also, non-life insurers are under pressure to raise premiums of auto and private health insurance due to a surge in loss ratio.

2. Insurance industry premiums forecast

Despite the worsening business climate, our estimate for the insurance industry's premium growth rate in 2019 is slightly adjusted to -0.7% from -0.8%, taking into account the latest performance of insurance companies. Insurance industry's total premium income is expected to pullback for three consecutive years from 2017.

Premium income of life insurance is anticipated to decline by 3.4% YoY in 2019 due to slow growth in protection-type insurance and a decline in new sales of savings-type insurance. Despite the expansion of sales of new products such as dementia insurance and simplified issue insurance, protection-type insurance premiums are expected to rise only by 1.9% due to increased termination by the economic downturn, and the stagnant whole life insurance market. Savings-type insurance is expected to decrease by 10.7% due to lower disclosed interest rates, increased capital burden resulting from the scheduled introduction of IFRS 17 and K-ICS, and reduced sales of variable insurance due to increased volatility in stock prices. Meanwhile, retirement pensions are anticipated to increase by 5.0% due to the increase in DB plan funding ratio and wage growth.

Despite a slight recovery in auto insurance, direct premiums written by the non-life insurance industry are expected to rise just by 2.6% YoY due to sluggish long-term savings-type insurance and pensions. Auto insurance premiums are expected to grow by 1.5% due to the increase in insurance premium rate caused by increased maintenance fees, higher loss ratios, and revision of the standard terms and conditions. Long-term non-life insurance is expected to grow only by 2.7% due to sluggish long-term savings insurance caused by low disclosed interest rates, and slow growth in long-term injury and illness insurance. The pension sector is expected to grow by 2.0% as a contraction in personal pensions expands, and retirement pensions slow down. General insurance is expected to grow by 4.9%, mainly on credit insurance and liability insurance, but the growth rate is expected to slow down from 6.3% in the previous year.

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