

What Do We Need for a Better Insurance Ecosystem?

ABSTRACT

Continued low interest rates and strengthened capital regulations have exacerbated the profitability of the Korean insurance industry, and growth power has been waning due to demographic changes and economic slowdown. On the other hand, the recent decline in pension product sales and the surge in the loss ratio of indemnity health insurance make it challenging for the insurance industry to play its core roles: to secure retirement income and to cover health risks. Moreover, disputes between consumers and insurers have increased, and consumers' negative perceptions of the insurance industry have spread.

To reconstruct the disrupted insurance ecosystem, the following measures should be taken. First, the price of insurance products should be practically liberalized so that insurers can select the various business models and survive well with net underwriting gains. Second, in terms of income security and healthcare, private and public sectors should cooperate, in the areas of pension tax benefits, a differential premium system for indemnity health insurance, and more rigorous review of non-fee schedule medical expenses. Finally, to protect consumers and to recover consumers trust in the insurance industry, a new GA (General Agency) business model with heavier sales responsibilities and authorities should be established.

1. Main phenomena and causes of insurance ecosystem disruption

Since 2017, the Korean insurance industry has experienced negative growth. Prolonged low interest rates and higher capital requirements have aggravated the profitability of the insurance industry, and the demographic structure and economic slowdown are exacerbating the situation.

Also, the insurance industry is facing difficulties in carrying out its core roles regarding retirement income security and healthcare. Recently, pension product sales of insurance companies have dropped due to low interest rates, reduced tax benefits, and the new

accounting standards (IFRS 17) to be introduced in 2022. Moreover, the loss ratio of indemnity health insurance has deteriorated because non-fee schedule medical costs are not properly controlled.

The number of disputes between consumers and insurance companies has increased, and organized and elaborate insurance fraud is aggravating consumers' distrust in the insurance industry. Products developed under conditions that differ from the current regulatory environment and sales commission-driven business practices can cause problems under the current stricter consumer protection regulations. Low social awareness of insurance fraud makes it easier for fraudsters to commit more organized and bigger insurance fraud, resulting in enormous social costs and significant reputational damage to insurers.

2. Measures to rebuild the insurance ecosystem

To reform the disrupted insurance ecosystem, the following measures should be taken: ❶ to expand the range of business model selection, ❷ to establish public and private cooperation system for retirement income security and healthcare, and ❸ to realign the distribution channel system.

First, as it is difficult for insurers to make profits with the current uniform business model, an environment where insurers can select various business models should be created. Since prolonged low interest rates and global uncertainties make it challenging for insurers to make net investment gains, the price of insurance products should be practically liberalized, so that insurers can survive well with only net underwriting gains.

Moreover, public and private cooperation system for retirement income security and healthcare should be established with effective support by the government. First of all, policy support, such as tax benefits for pension holders, is necessary so that public and private pensions can accomplish their complementary roles to secure retirement income. Moreover, since moral hazard in indemnity health insurance harms the government's finances as well, a differential premium system, rigorous review of non-fee schedule medical expenses, and transparency enhancement of medical expenses are required.

Finally, the measures to improve consumer protection and to recover consumers trust in the insurance industry should be introduced. Considering adverse effects, such as overheated competition associated with mega-sized GA and increasing consumers complaints, a new GA business model with heavier sales responsibilities and authorities should be established. Also, as the recent considerable insurance disputes are closely related with the difference between the regulatory environment at the time of product development and the regulatory environment at the time of insurance claim, consumers, insurers, and regulator should make efforts to reach mutual understanding.

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