



CEO Brief

2021.05. No.2021-10

CEO Brief is a report highlighting key current issues the insurance industry faces.

Legal Issues in Establishing and Operating Subsidiary GAs

ABSTRACT

It is under active discussion to establish and operate general agencies (GAs) as subsidiaries of insurance companies. An insurance company that intends to hold a subsidiary GA must file a prior report with the Financial Supervisory Service (FSS). A parent insurance company should be cautious not to engage in unfair support for its subsidiary GA in doing business with the GA. Also, adequate prior legal review is recommended on other areas, including payment of maintenance fees to the insurance solicitors who moved from an insurance company to a subsidiary GA, compliance with privacy laws about using customer information, etc.

1. Regulatory Report

To hold a subsidiary GA, an insurance company must file a prior report with the FSS by submitting an ownership report to the FSS with a copy of the board of directors' meeting minutes concerning the subsidiary ownership, etc. The insurance company has to meet several criteria based on RBC ratio, liquidity ratio, and RAAS rating. After holding a subsidiary GA, the parent insurance company has to submit documents – including articles of incorporation, the current shareholder roll, the balance sheet, and business reports – of the subsidiary GA to the FSS within 15 days after the subsidiary ownership.

A subsidiary GA has to register as an insurance agency with the insurance associations: the Korea Life Insurance Association and the General Insurance Association of Korea. To register as a GA, it should have one or more qualified



CEO Brief

solicitors. If the subsidiary has 100 or more employees, over 10% of its employees should be registered insurance solicitors. Also, the subsidiary has to deposit business bonds – the insurance company and the subsidiary determine its amount within 300 million KRW. The insurance associations are in charge of insurance agency registration. Insurance companies need to check the registration application schedule and review period to avoid business gaps.

If the parent insurance company moves its insurance solicitors, employees, or physical facilities to its subsidiary GA, it needs to review whether it constitutes a business transfer.

2. The Operation of Subsidiary GAs

Subsidiary GAs should consider the following when they appoint executive officers. First, under the Insurance Business Supervisory Regulation (IBSR), an insurance agency cannot employ employees or officers of financial institutions as its employees, officers, or solicitors. Therefore, in principle, an executive officer is prohibited from working for both the parent insurance company and the subsidiary GA. Second, subsidiary GAs with over 500 solicitors must appoint a compliance officer.

Parent insurance companies should be cautious not to engage in unfair support for their subsidiary GAs, which is prohibited by the Insurance Business Law (IBL) and the Monopoly Regulation and Fair Trade Law (FTL). The IBL does not permit an insurance company to gratuitously transfer any assets to its subsidiary, trade or exchange any assets, grant credit, or conclude reinsurance contracts on clearly disadvantageous terms to the insurance company considering the conventional terms of transactions. The FTL does not permit a company to provide advanced payments, loans, human resources, real estates, securities, goods, services, or intangible property rights to its affiliate company; or to transact with the affiliate under substantially advantageous terms. The IBSR also prohibits insurance agencies with over 100 solicitors from unfairly requesting or receiving support from insurance



CEO Brief

companies. Therefore, a parent insurance company needs to be careful when selling its equipment to its subsidiary GA, providing exclusive insurance products, promotions, or services to the GA, or sharing offices or IT systems.

Also, other areas need a legal review, including payment of maintenance fees to the insurance solicitors who moved from an insurance company to a subsidiary GA, compliance with privacy laws about using customer information, and compliance with the Electronic Financial Transactions Law concerning utilizing computer systems.

Younghwa Paik, Research Fellow
pyh@kiri.or.kr