



# CEO Brief

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

## The Profitability of the Korean Insurance Industry

### ABSTRACT

Insurance companies' net income in 2019 was extremely inadequate, which is only half of the required net income based on capital cost. As structural problems deteriorated the profitability in the insurance industry, insurers need to find long-term and fundamental solutions and to focus on in-force contract management in a low-growth environment. The financial authorities should create an environment for product innovation and long-term investment and guide the soft landing of the new solvency system.

### 1. The Profitability of the Insurance Industry

Korean insurers' net income in 2019 was the lowest in the last 10 years. The ROE of life insurance, 3.9%, and the ROE of non-life insurances, 5.5% respectively are one-third of the 2010 levels. Especially, as of 2019, the ROE of life insurance was less than half of the ROEs of the global life insurers: 9.8% in North America, 8.4% in Europe, and 11.4% in Asia-Pacific. Moreover, the required net income of the insurance industry – which was estimated using capital cost – was 10.1 trillion KRW, while the realized net income of the industry was 5.4 trillion KRW in 2019.

The gain on bond sale took a significant proportion of net income: 62% in life insurance and 87% in non-life insurance in 2019. While appropriate bond sales are necessary for asset-liability matching, excessive bond sales for a short-term profit increase can deteriorate insurers' long-term profitability. Especially, as structural factors, such as low economic growth and low interest rates, caused profit deterioration, insurers should implement long-term and fundamental solutions.



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The embedded values, which hold a long-term vision of profitability for insurers, indicate that Korean insurers should properly manage the in-force contract values. Since protracted low interest rates have put significant strain on Korean insurers, they need a management strategy for in-force contracts crediting high interest rates.

## 2. Suggestions for the Insurance Industry

As any short-term measures cannot fix the recent decline in the insurance industry profitability, insurers should make a long-term plan and respond systematically to the problem. To align insurers' decision-making with a long-term perspective, insurers could link their key performance index metrics for the management with long-term profitability. To pursue long-term profitability, insurers need to consider co-insurance (full-risk reinsurance), insurance portfolio transfer, or buy-back to manage in-force contracts crediting high interest rates.

The financial authorities should create an environment for product innovation and induce long-term investments. The authorities need to implement transitional measures to make insurers soft-land against interest rate risk under the K-ICS.

Geon Youp Noh, Research Fellow

gynoh@kiri.or.kr