FY 2018

Market Overview

Korean Economy

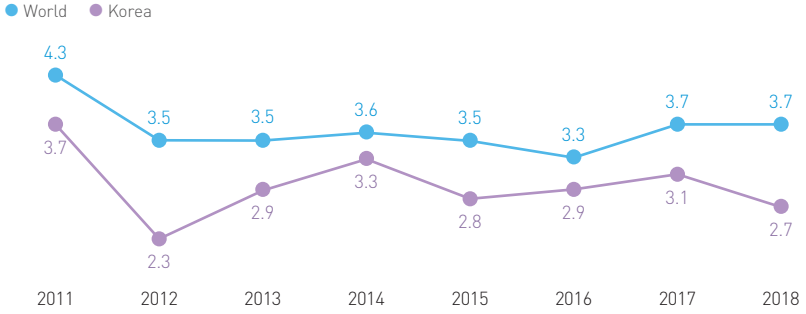
2018 in Review

GDP

In 2018, the Korean economy grew at the slowest pace in six years amid declining corporate investment. The nation's real gross domestic product (GDP) expanded by 2.7 percent in 2018, slowing down from 3.1 percent in 2017. A contraction in construction and equipment investment was the main drag on economic growth while private consumption, fiscal spending and exports helped shore up the economy. The growth rate remained below the pace of global economic growth. Meanwhile, Korea's per capita income reached USD 31,349, surpassing the USD 30,000 mark for the first time in 2018.

GDP Growth Trends

(Unit: %)



(Sources: IMF World Economic Outlook (October 2018), Bank of Korea)

Consumer Spending

The recovery of consumer spending growth remained robust, recording a seven-year high of 2.8 percent in 2018. The increase in private consumption was led by rising expenditure on services such as entertainment, medical and health care services. In the last quarter of the year, consumer spending picked up, with the level of growth in durables and semi-durables remaining strong.

Equipment Investment

In 2018, equipment investment declined by 1.6 percent, the lowest in nine years, as demand for business investment cooled in the midst of growing uncertainty surrounding macroeconomic conditions. In particular, weaker global demand for semiconductors discouraged chip-makers from investing in the expansion of their factory facilities. Investment in transportation equipment increased, but business spending on machinery dropped sharply.

Construction Investment

The construction industry fell into a slump, putting an end to several years of growth. Construction investment contracted by 4 percent, recording the biggest drop since the Asian financial crisis in 1998. Investment in building construction slipped into negative territory due in part to the government's measure to cool down the overheated housing market, while investment in civil works remained sluggish.

Korean Economy

Employment

The job market sharply contracted in 2018 as some industry sectors such as automobile manufacturers and shipbuilders remained in bad shape or went through restructuring. Social structural issues such as demographic changes also seemed to have an effect on labor market growth. The service sector experienced a slowdown in the growth of workforce, but the government's job creation policy helped add new service jobs in health and welfare services.

Inflation

Inflationary pressure remained weak in 2018, with the annualized inflation rate falling to 1.5 percent from 1.9 percent in the previous year. Due to bad weather conditions, the prices of agricultural products rose significantly, but an increase in livestock supply drove down prices. Industrial goods prices went up just modestly amid falling international oil prices. Utility prices continued to decline in the wake of a cut in home heating energy prices at the end of 2017.

Current Account Balance

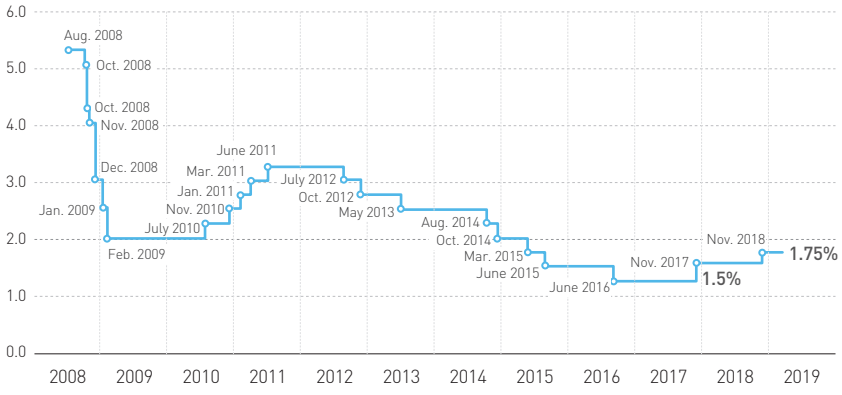
Korea's current account surplus slightly decreased to USD 76.4 billion in 2018. Merchandise account surplus shrank compared to the previous year, but service account deficit also reduced as the number of Chinese and Japanese tourists visiting Korea increased, helping to boost the total current account surplus. Primary income account surplus declined as domestic companies increased their dividend payout.

Interest Rates

The average three-year treasury yield increased to 2.1 percent in 2018 compared to 1.8 percent in the prior year. The Bank of Korea raised the nation's benchmark interest rate by 25 basis points to 1.75 percent on November 30, 2018 amid growing concern about ballooning household debt. The rate hike came for the first time in a year, reflecting the need to curb financial imbalances such as rising household debt and a widening gap between Korean and U.S. interest rates. The growing interest rate gap between the two countries has been blamed for an increase in capital outflows, posing risks to financial stability in Korea.

Trend of BOK Benchmark Interest Rate

(Unit: %)

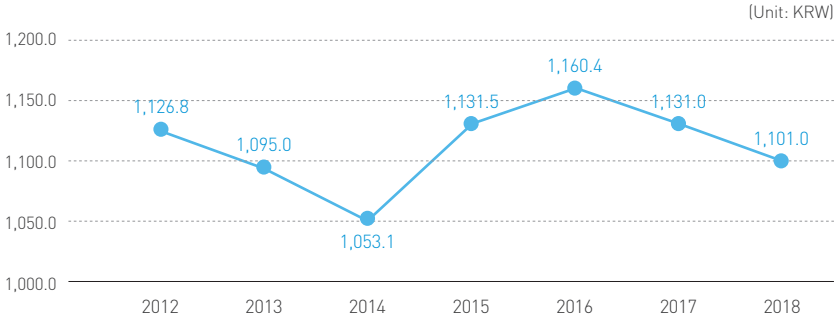


(Source: Bank of Korea)

Foreign Exchange Rate

The Korean won gained some strength against the U.S. dollar in 2018, with the yearly average exchange rate falling to KRW 1,101 per U.S. dollar. Throughout the year, the exchange rate remained relatively stable, showing range-bound movements. It shot up to over KRW 1,140 per U.S. dollar in October when investor confidence took a hit from a turmoil in the global stock markets, but fell again to around KRW 1,120 amid weakening expectations of interest rate hikes by the U.S. Fed.

KRW/USD Exchange Rate Trends



(Source: Bank of Korea)

Prospects for 2019

GDP

The Korean economy is expected to remain weak amid sluggish domestic demand and slowing equipment investment, with its GDP growth estimated at 2.5 percent for 2019. Rising government spending, private consumption and exports will continue to boost economic expansion, but the extent of exports contributing to economic growth is likely to decrease. Escalating trade tensions between major economies may affect Korea's exports adversely, and rising financial market volatility in some emerging economies is another external factor that may pose a risk to the Korean economy.

Consumer Spending

Consumer spending is expected to rise by 2.5 percent in 2019. Slower growth of wage income will pressure household income growth, with self-employment income growth also remaining weak amid sluggish business performance of the hospitality and dining industries. A hike in interest rates could pressure consumer confidence due to greater interest costs on household debt. However, government stimulus measures such as increased welfare spending and the stabilization of housing prices may help boost consumer confidence. Falling oil prices and the consequent downward pressure on consumer prices may contribute to the improvement of real purchasing power.

Equipment Investment

Equipment investment is projected to recover modestly, growing by 0.4 percent in 2019 following a sharp decline in 2018. Investment spending in the technology industry is likely to recover toward the end of the year, backed by a recovery in demand for semiconductors and other IT devices. The level of fresh investment activity in the non-IT sector will vary but will generally remain at a similar level compared to the previous year.

Construction Investment

Construction investment is expected to shrink by 3.2 percent in 2019 due to a fall in housing starts following a decline of 4 percent in 2018. The slump in the construction sector has been driven by housing oversupply, increasing household debt and the government's moves to rein in speculative investment in the housing market. The non-housing sector will also remain sluggish, but the pace of decline is likely to decelerate. However, an increase in government budget for social infrastructure in 2019 will have a positive impact on the construction market.

Employment

Job market conditions will likely improve on the back of the government's effort to subsidize income growth and create new jobs. Around 140,000 new jobs are projected to be created in 2019, up from 100,000 in the previous year. Both the jobless rate and employment rate are expected to remain similar to the prior year's at 3.8 percent and 60.7 percent, respectively. Employment in the manufacturing industry is expected to decline due to negative impacts from the automobile and IT sectors. In the service sector, new jobs will be added by the government's policy to spur job creation. A slowdown in employment cuts in the wholesale, retail, hospitality and dining industries will also help improve the service job market.

Inflation

Consumer price inflation is expected at 1.1 percent in 2019. The pace of price increase is likely to be moderate due to the slowing growth of housing prices and increased welfare support. Import prices will be weighed down by falling international oil prices and a weakening global economy. Agricultural prices are likely to go up only marginally due to a rise in vegetable supply in the midst of benign weather conditions. Wage increases may put upward pressure on service prices, and rising utility prices will also add to supply-side inflationary pressure. The core inflation rate, which excludes volatile food and energy prices, is forecast to be 1.4 percent in 2019, up from 1.2 percent in 2018.

Current Account Balance

Korea's current account surplus is anticipated to decrease to USD 66.5 billion in 2019, compared to USD 76.4 billion in 2018. The ratio of current account surplus to GDP is expected to be around four percent in 2019 and to further decline in 2020. This downward trend reflects shrinking merchandise account surplus, with import growth outweighing export growth amid increasing commodity prices. It is also attributable to a rise in service account deficit, with the travel and transportation sectors remaining in the red.

Interest Rates

The average three-year government bond rate is expected to increase to 2.3 percent in 2019 in line with a rising U.S. treasury bond rate. As the pace of hike in U.S. treasury bond rates is expected to pick up later in 2019, its impact on Korean government bond rates will continue into 2020. However, a less positive economic growth prospect for 2019, coupled with a lackluster job market, may lead monetary policymakers to be cautious about interest rate hikes.

Foreign Exchange Rate

The average KRW/USD exchange rate is projected at KRW 1,125 per U.S. dollar in 2019, slightly up from KRW 1,101 in 2018. The U.S. dollar is expected to continue to gain some strength amid rising interest rates in the U.S., the ongoing trade dispute between the U.S. and China, and skittish financial markets in emerging economies. The weakening domestic economy and decreasing current account surplus may also lead the Korean won to lose value against the greenback.

Key Economic indicators

(Unit: %)

	2017	2018	2019 (E)		
			First Half	Second Half	Annual
Real GDP	3.1	2.7	2.3	2.7	2.5
Consumer Spending	2.5	2.8	2.2	2.7	2.5
Equipment Investment	14.3	-1.6	-5.3	6.4	0.4
Construction Investment	7.2	-4.0	-6.4	-0.3	-3.2
Unemployment Rate	3.7	3.8	4.2	3.4	3.8
Current Account Surplus(USD billion)	78.5	76.4	24.0	42.0	66.5
Exports	3.6	4.0	1.4	3.9	2.7
Imports	7.3	1.9	-1.8	5.0	1.6
Consumer Price Inflation	1.9	1.5	0.7	1.4	1.1
Average Three-year Treasury Yield	1.8	2.1	2.2	2.4	2.3
KRW/USD Exchange Rate (KRW per USD 1)	1,131	1,101	1,130	1,121	1,125

(Sources: Bank of Korea, Korea Institute of Finance)

Korean Insurance Market

2018 in Review

The Korean insurance market continued to face some headwinds in 2018, with premium income declining by 0.3 percent compared to the previous year, as a slowdown in the domestic economy weighed on insurance market growth. The life insurance market remained in a slump due to decreasing sales of savings policies in the wake of reduced tax benefits, while the non-life insurance market managed to maintain some growth momentum backed by long-term and general property and casualty (P&C) lines of business. The overall profitability of the insurance industry came under pressure from slimmer margins, with the return on equity falling to 6.6 percent in 2018 from 7.7 percent in 2017. This represents a sharp decline from 12.7 percent in 2007.

Several social and regulatory headwinds have gathered pace to put downward pressure on both top-line and bottom-line growth, such as evolving demographics and upcoming changes in solvency regime, accounting standards, and sales commission structure. Insurers in Korea have been under strain to ensure their RBC ratios are maintained at a healthy level as the upcoming implementation of IFRS17 and a new RBC regime called K-ICS will burden their capitalization. Amid high levels of household debt, a rise in interest rates would add to mounting concerns over how people will continue to pay down their debt, discouraging them from buying new insurance. When people feel the pinch, they are more likely to surrender their insurance policies, adversely affecting the growth of the insurance market.

In 2018, life insurance premium income in Korea declined by 2.8 percent due to a 13.5 percent reduction in savings insurance premiums coupled with a slowdown in the growth of protection products. Non-life premium income grew by 3.1 percent on the back of the expansion of the long-term and general P&C insurance segments. Motor insurance premiums shrank, however, amid premium rate cuts and the growing popularity of low-cost online distribution channels.

Premium Income

(Unit: KRW trillion)

	FY 2018	FY 2017	Change (%)
Life Insurers	110.74	113.97	-2.8
Non-Life Insurers	91.04	88.34	3.1
Total	**201.78**	**202.31**	**-0.3**

* Individual figures may not add up to the total shown due to rounding.
(Source: Financial Supervisory Service)

Insurers in Korea collectively reported KRW 7.27 trillion in net income for 2018, down 7.4 percent from a year earlier. The contraction was driven by greater underwriting losses for the industry. Non-life insurers saw their net income plunge by 17.8 percent to KRW 3.24 trillion as increasing motor loss ratios drove up underwriting losses. Life insurers recorded a 3.1 percent growth in net income to over KRW 4.03 trillion despite weaker underwriting results as their investment gains improved.

Net Income

(Unit: KRW trillion)

	FY 2018	FY 2017	Change (%)
Life Insurers	4.03	3.91	3.1
Non-Life Insurers	3.24	3.94	-17.8
Total	**7.27**	**7.85**	**-7.4**

(Source: Financial Supervisory Service)

ROA and ROE

(Unit: %)

		FY 2018	FY 2017	Change (%p)
ROA	Life Insurers	0.48	0.48	-
	Non-Life Insurers	1.12	1.49	-0.37
	Total	**0.64**	**0.73**	**-0.09**
ROE	Life Insurers	5.54	5.71	-0.17
	Non-Life Insurers	8.80	11.64	-2.84
	Total	**6.63**	**7.67**	**-1.04**

(Source: Financial Supervisory Service)

Total Assets and Shareholders' Equity

(Unit: KRW trillion)

		FY 2018	FY 2017	Change (%)
Total Assets	Life Insurers	856.91	832.83	2.9
	Non-Life Insurers	298.70	277.20	7.8
	Total	**1,155.61**	**1,110.03**	**4.1**
Shareholders' Equity	Life Insurers	74.36	71.43	4.1
	Non-Life Insurers	38.32	35.28	8.6
	Total	**112.68**	**106.71**	**5.6**

* Individual figures may not add up to the total shown due to rounding.
(Source: Financial Supervisory Service)

In 2018, the decline in net income negatively affected profitability indicator ratios. The return on assets (ROA) ratio of the Korean insurance industry dropped slightly to 0.64 percent, while the return on equity (ROE) ratio was down 1.04 percentage points to 6.63 percent. Non-life insurers reported higher profitability than life insurers, with an ROA of 1.12 percent (versus 0.48 percent) and an ROE of 8.8 percent (versus 5.54 percent). Weak profitability posed a serious challenge to life insurance companies as they were struggling with underwriting margin compression as well as a negative growth in premium income.

At year end, insurers' total assets swelled by 4.1 percent year on year to KRW 1,155.6 trillion in 2018. Non-life insurers recorded a higher growth rate of 7.8 percent compared to life insurers, which saw their assets increase by 2.9 percent. The total assets of the industry were broken down into KRW 856.9 trillion for life insurance and KRW 298.7 trillion for non-life insurance. The total shareholders' equity of the insurance industry rose by 5.6 percent to KRW 112.7 trillion, driven by increases in capital and retained earnings.

Meanwhile, Korea's insurance penetration rate marginally fell to 11.6 percent in 2018, but its ranking remained high at 5th place in the world.

Insurance Penetration Rate

(Unit: %)

	FY 2018	FY 2017	Change (%p)
Insurance Penetration Rate	11.6	12.1	-0.5

(Source: Korea Insurance Research Institute)

Prospects for 2019

A slowing economy and increasing market maturity continue to thwart the growth of the insurance industry in Korea. Premium income is expected to diminish by 0.8 percent in 2019, following decreases of 0.3 percent in 2018 and 1.0 percent in 2017. New business premiums are likely to dip sharply in most lines of business except for variable savings life and long-term accident and health products. In particular, new business premiums from savings insurance will continue to decrease.

Insurance Market Growth Trends

(Units: KRW trillion, %)

	FY 2016		FY 2017		FY 2018		FY 2019(E)
	Premium	Growth Rate	Premium	Growth Rate	Premium	Growth Rate	Growth Rate
Life	119.79	2.2	113.97	-4.9	110.74	-2.8	-3.8
Non-Life	84.50	5.3	88.34	4.5	91.04	3.1	2.7
Total	**204.29**	**3.5**	**202.31**	**-1.0**	**201.78**	**-0.3**	**-0.8**
Real Economic Growth	2.9		3.1		2.7		2.5

(Sources: Korea Insurance Research Institute, Financial Supervisory Service)

Non-Life Insurance

Non-life premium income is anticipated to slow down to 2.7 percent in 2019, as sales of annuities and long-term savings policies remained sluggish due to increasing capital requirements. However, the market will continue to be backed by long-term accident and health insurance as well as general property and casualty (P&C) insurance.

The long-term insurance market is projected to grow by 1.9 percent amid slower growth for accident and health insurance, drivers' accident, property and convergence lines of business. The decline in long-term savings insurance premiums are set to accelerate further due to a reduction in sales commission and persistently low guaranteed interest rates.

The annuity insurance market is also slowing down, with premium income expected to grow by 4.4 percent. While the growth of retirement annuities is slowing down, individual annuities will continue to experience a decline in premiums as they are losing appeal to consumers due to a cut in tax benefits.

Motor insurance premiums are projected to grow by 0.5 percent. The increasing popularity of usage-based pricing plans and other endorsements that offer price discounts may lower the rates, dragging on the growth of the market, while a rise in repair costs and growing claims driven by abnormal weather conditions will lead to an increase in premium rates.

General P&C insurance will likely outperform the overall market with an estimated growth rate of 8.4 percent. Major drivers will be casualty lines of business, including surety insurance, rental deposit insurance, and personal finance credit insurance amid the growth of the mid-range interest rate lending business. The expansion of mandatory insurance such as disaster liability insurance is also supporting the growth of the general P&C insurance market.

Non-Life Insurance Market Growth Trends

(Units: KRW trillion, %)

	FY 2017		FY 2018		FY 2019(E)
	Premium	Growth Rate	Premium	Growth Rate	Growth Rate
Long-term	**49.09**	**2.8**	**50.58**	**3.0**	**1.9**
Annuity	**13.48**	**14.1**	**14.27**	**5.9**	**4.4**
Individual Annuity	3.70	-4.5	3.52	-4.9	-5.0
Retirement Annuity	9.78	23.1	10.75	9.9	7.5
Motor	**16.86**	**2.8**	**16.72**	**-0.8**	**0.5**
General P&C	**8.91**	**4.8**	**9.47**	**6.3**	**8.4**
Fire	0.30	-1.5	0.29	-3.3	-0.6
Marine	0.64	5.9	0.65	1.6	1.0
Guarantee	1.74	9.6	1.86	6.9	10.0
Casualty	6.23	3.7	6.67	7.1	9.0
Total	**88.34**	**4.5**	**91.04**	**3.1**	**2.7**

(Sources: Korea Insurance Research Institute, Financial Supervisory Service)

Life Insurance

The life insurance market is expected to contract by 3.8 percent in 2019. This reflects a continued fall in savings insurance premiums, driven by potential pressures on insurers' capitalization upon the adoption of IFRS17. While sales of variable savings policies are likely to grow, general savings life insurance will continue to fall out of favor among consumers due to low guaranteed interest rates, resulting in a 10.6 percent decline in overall savings insurance premiums.

Premium income from protection policies is projected to grow by 1.6 percent in 2019. The pace of growth continues to slow down from 2.1 percent in 2018 and 3.1 percent in 2017. Although life insurance companies have been focusing on selling protection products such as long-term health care and critical illness policies instead of savings products, the business of protection insurance remains under pressure due to the high degree of saturation of the whole life insurance market and a rise in policy cancellation in the midst of economic slowdown. A possible change in sales commission structure may also have an adverse impact on market growth. However, the trend of the development of various types of health insurance coupled with increasing demand for variable insurance may help boost the growth of the market.

Retirement annuity premiums are expected to increase by 3.1 percent due to the extended scope of people eligible for individual retirement pension accounts and an increase in minimum funding ratio for defined benefit plans. Rising wages are also boosting the growth of the retirement annuity market.

Life Insurance Market Growth Trends

(Units: KRW trillion, %)

	FY 2017		FY 2018		FY 2019(E)
	Premium	Growth Rate	Premium	Growth Rate	Growth Rate
Protection	40.57	3.1	41.41	2.1	1.6
Savings	38.87	-12.3	33.63	-13.5	-10.6
Retirement Annuity	34.53	-4.5	35.70	3.4	3.1
Total	**113.97**	**-4.9**	**110.74**	**-2.8**	**-3.8**

* Individual figures may not add up to the total shown due to rounding.
(Sources: Korea Insurance Research Institute, Financial Supervisory Service)