

Profile of the South Korean Insurance Market

Demographics and Economics

South Korea has the third largest economy in Asia and a population of over 49 million. Seventy percent are between the ages of fifteen and sixty-four, while ten percent are sixty-five years and older. South Korea has an aging population.

The rapid migration from rural areas to the cities was driven by the country's economic expansion that began in the 1970s, and took a GDP that was comparable with some of the poorest countries of Africa to one similar to those of India and Australia today. South Korea's incredible record of economic growth together with its low unemployment rates, moderate inflation, and an export surplus make it a solid economy.

Note: some of the dollar amounts are reported in the South Korean currency called won. It is abbreviated KRW and as of July 5, 2008, 1.00 KRW = 0.000954472 USD, 1 USD = 1,047.70 KRW.

Life Insurance Penetration

In the fiscal year 2006, South Korea's twenty-two life insurers had a total premium income of \$68 billion. Currently, the Korea Insurance Development Institute (KIDI) lists the following twenty-two life insurers as member companies.

Korea Life	Allianz Life	Samsung Life	Hungkuk Life
Kyobo Life	Green Cross Life	Shinhan Life	Dongbu Life
Tongyang Life	MetLife	PCA Life	NewYork Life
WooriAviva	Kumho Life	MiraeAsset Life	ING Life
AIG/AIA	LINA	Prudential Life (PCA)	Hana Life
SH&C Life	KB Life		

In 2004, life insurance led the way with a 70.9% market share, equivalent to \$46.7 billion. Accident and health captured 7.6%. Swiss Re reports that the life insurance industry in South Korea stood at 10.3% of the country's GDP in 2005.

In 2005, the Korea Insurance Development Institute (KIDI) conducted a survey of South Korean households and found that 94.4% had at least one life insurance policy and 18% had six or more. That same year saw life insurance as the most lucrative part of the market at 71%, having total gross premiums of \$58.7 billion of the \$82.7 billion generated. In 2006, life insurance penetration for South Korea was 7.9%; its life insurance per capita (USD) was \$1480.

The life insurance market in South Korea has a high penetration rate. KIDI claims that South Korea has the world's eighth-largest insurance market, is seventh-largest in life insurance, and eleventh in non-life insurance. In terms of market penetration rate as measured by the ratio of premiums to GDP, South Korea outranks the U.S. (first in premiums) and France (fourth in premiums).

In 2006, the life insurance segment earned a total of \$69.2 billion GWP, which was 71.1% of the market's total value. The performance of the market is forecast to accelerate, despite an anticipated CAGR of 9% for the five-year period 2006-2011, expected to drive the market to a value of \$106.2 billion by the end of 2011, an increase of 53.5% since 2006.

South Korea's regional share of the life insurance market is growing, increasing from 9.8% in 2002 to 11.9% in 2006. This is expected to increase, taking South Korea's share of the Asia-Pacific life insurance market to 14.1% by 2011.

Leading Players

Key players in the life insurance sector are Samsung Life Insurance Co. Ltd., Korea Life Insurance, and Kyobo Life Insurance, collectively called "The Big Three." In 2006, the South Korean life insurance market was led by Samsung Life, which generated 32.3% of the market's value. Korea Life accounted for 15.9%, while Kyobo Life was close behind with 15.4% of the market.

Samsung Life is South Korea's largest life insurer and is 12th largest in the world. In fiscal year to March 2006, its premium income was \$22.74 billion. The conglomerate's sales force is the largest in South Korea, with its interests in the chemical industry, electronics, and financial services.

Korea Life was founded in 1946 and is the country's second-largest insurer. Considered an industry pioneer, the corporation had a premium income of over \$11 billion in fiscal year 2006.

South Korea's third-largest life insurer is Kyobo Life, which was founded in 1948. Premium income of \$10.8 billion in fiscal 2006 gave it over 15% of the market share. To enable the corporation to focus exclusively on its asset management and life insurance business, it recently sold its 75% stake of its online car insurance unit to Axa for almost \$650 million.

ING Life Insurance Korea ranks fourth and is the largest foreign insurer operating in South Korea, with a market share of 5.6%. Known for its strong bancassurance links to six banks, ING Life Korea recorded an increase in pre-tax profit of 400% since 2001, making it the ING Group's fastest growing business unit.

The South Korean market is made up of domestic players and foreign multinationals, who have gained entry to the market. Foreign insurers such as ING, Allianz, MetLife, AIG, and Prudential had a combined market share of 18.9% in 2006, up from 8% in 2001. New sales channels such as telemarketing, bancassurance, home shopping networks, and innovative product development are major factors in this success story.

PCA Life is one of the fastest growing foreign players in the industry. It recorded an annual 94% growth rate on average over the last five years for its South Korean sales. The company utilizes multiple sales strategies, focusing on direct marketing and bancassurance, besides its own salespeople and insurance agencies.

More than 75% of sales made by foreign insurers are actually generated through bancassurance business, and target the upper-middle and middle class markets.

Sales Channels

As in Japan, the South Korean sales force is primarily made up of women: shop owners and homemakers selling insurance part-time have historically been the distribution channel that long-established domestic South Korean insurers used to sell their products. These independent agents had little training, and as a result, the industry was marred by complaints of non-professionalism, mis-selling and low customer retention. Upon entry to the market, foreign insurers insisted upon a professional sales force and have done a lot to professionalize the industry. ING Life Korea is noted as a pioneer in this area, and has a network of professional, self-employed full-time tied agents. This model has brought about fundamental changes in the insurance market landscape.

The Financial Supervisory Service (FSS), South Korea's insurance regulatory body, reports that insurance salespeople are becoming more professional and are making more money. What has traditionally been a female-dominated field is now attracting men to the profession. Male life insurance planners totalled 26,396 as of March 2007, accounting for 20% of the total number of people selling life insurance. The ratio of men has more than doubled since 2002 when it was a mere 9.1%.

The number of insurance salespeople peaked at 440,000 in March 1997, but restructuring of the financial services industry due to the currency crisis, and the introduction of new sales channels, such as bancassurance and home shopping, have more than cut those numbers in half. The FSS expects the numbers to rise again as more insurers enter the market and established companies aggressively try to expand their sales forces to stay competitive. As of March 2007 there were 205,000 insurance salespeople in South Korea, 132,000 selling life insurance and 73,000 employed in the non-life sector, which was 9,000 more than a year ago.

Tied agents dominate insurance distribution in South Korea as prospective customers continue to expect face-to-face interactions when purchasing insurance, but their share of the market is under attack and decreasing because of a restructuring of the distribution channels and the rise of new sales avenues, such as bancassurance. Another factor is the lack of qualified agents, which is identified as a trend to watch in the Asian market. Although agents continue to dominate

the market, their numbers are decreasing. Insurers will need to focus on developing a qualified team of insurance professionals, investing the resources necessary to recruit, train, and mentor new team members. Recognition, proper compensation, and rewards will go a long way in retaining staff.

A second trend to watch and one that goes hand in hand with a lack of trained agents is an expansion of distribution channels. In an attempt to remain competitive and to hold onto market share, insurers are developing broader channels to distribute their products, especially those that do not require agents. Direct mail, telephone sales, infomercials, and bancassurance are a few.

New channels introduced to the industry have created severe competition in the market. In 2004, bancassurance took more than one-third of the life insurance market in terms of first premium. Although the career agency system has been very popular in South Korea, it is bancassurance that is making the greatest strides in the market. Smaller companies and new players have successfully used it to gain market share and take it away from the industry leaders.

Bancassurance

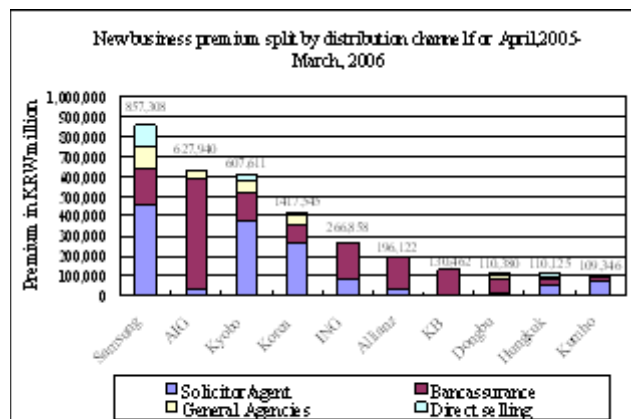
Alternative distribution channels such as bancassurance are generating significant sales volumes in South Korea. The explosive growth can be attributed in part to familiarity with savings-type products in the life insurance market.

According to the Korea Life Insurance Association bancassurance market share from September 2003 to March 2004 was 51.6%. As of October 2005, 19 of the 22 life insurers had set up bancassurance channels. Measured by initial premiums, an indicator of new contract sales, bancassurance has consistently performed well. Fiscal year 2004 reported a 46.7% market share, while the first nine months of 2005 saw almost a 50% share of the market. The market share was even larger when the focus was put on sales of individual savings-type insurance. The bancassurance market share from September 2003 to November 2004 (initial premiums basis) comprised 44% of all insurance products, and 66.2% of individual savings-type products.

Bancassurance accounted for 46.6% of the total new unweighted life insurance premium income for the period April 2005 to March 2006, with individual agents (also called solicitors) and direct marketing channels contributing 39.1% and 4.7% respectively. The remaining 9.6% was generated by independent agencies.

Bancassurance generated US\$1.62 billion of new business premiums from April 2006 to January 2007, accounting for 46.0% of gross new business premium income. Individual agents, direct marketing channels and independent agencies contributed 42.4%, 2.5% and 9.1% to the distribution mix respectively.

New business sales for the top ten insurers, split by distribution channel, are shown below.



Source: Korea Life Insurance Association

Although opposition was fierce, bancassurance was legalized in August 2003. FSS imposed a three-phase rollout in order to guard against companies going bankrupt and to protect the insurance industry. It decided to gradually increase the range of

insurance products and services in three phases through to April 2007. Only the sale of credit life insurance and individual savings life insurance (usually taking the form of single-premium fixed-interest products and interest-sensitive annuity products) could be sold in the first phase, which was scheduled to end in April 2005. Accident, critical illness, and long-term care health insurance were deregulated and added to banks' product portfolios in 2005, as a part of the expanded bancassurance model.

In light of additional concerns, the FSS recently decided to adjust its timetable. Insurers are opposed to the rolling out of phase three products, particularly whole life and auto insurance (something that was supposed to occur in April 2008), since these products are far more complicated and require professionally trained financial planners to distribute them properly. A report released by the Korea Insurance Development Institute states that if banks lowered insurance premiums by 10 to 15%, job losses in the insurance industry could reach almost 100,000 in financial planning alone. No completion date has been set for full deregulation.

Some of the most important restrictions that are in place include the following: large banks must have distribution agreements with a minimum of three insurance companies, none of which can write more than 50% of the insurance business for the bank. Every participating branch of the bank is allowed a maximum of two bank staff dedicated to selling insurance, one for life products, the other for non-life products. Insurance sales are permitted only at branch offices of financial institutions, with the insurance sales counter kept separate from the banking counter. Direct marketing is not permissible and that includes any use of call centers. Outbound marketing is also prohibited. Door-to-door sales are also banned; however, internet marketing is acceptable.

The largest insurance companies were particularly against the expansion into bancassurance channels. For small and medium-sized insurers, bancassurance has been a boon, helping many to become profitable and even expand into overseas markets with the model. Many foreign insurers also owe their success to it. Overall, bancassurance has proven beneficial to the market, and in surveys, consumers often cite it as the most satisfactory way to buy life insurance products.

AIG Life is one of the main players when it comes to bancassurance, with almost 30,000 bancassurance customers. It is affiliated with fifteen banks, eight securities companies, and a savings bank. AIG, ING, Tongyang, Shinhan, Kyobo, Samsung, and PCA are the leading life insurers using bank distribution. As far as banks, Kookmin Bank and Shinhan Bank are leaders in the field.

Direct Marketing

One of the most innovative ways to sell insurance in South Korea is by using home-shopping networks. For the last few years, both South Korean subsidiaries of foreign insurers and domestic companies have pitched insurance products directly to consumers using television, a concept coined Homesurance, which started in September 2003. Prudential, ING Groep NV, and AIG are three of the leading companies employing this distribution channel. All report an improvement in brand recognition and an increase in sales. MetLife has similar campaigns running in Taiwan and mainland China.

Tongyang Life sold KRW14 billion in new contracts in the first six months on the CJ Home Shopping network, one of six participating shopping channels. Hyundai Home Shopping and LG Home Shopping are two others. Other active participants include leading life insurers such as Samsung Life and Korea Life, along with MetLife, Hungkuk Life, Kumho Life and Tongyang Life, all prominent users of the networks.

Insurance products designed for Homesurance are as much as 10% off regular prices and focus on women, children and babies. The Financial Supervisory Service (FSS) reported that in the second quarter of 2004, fourteen life insurance companies sold 178,000 new contracts on television.

An important aspect of the Homesurance channel is that it has provided foreign insurers with an opportunity to gain a foothold into a market long dominated by the Big Three, which collectively hold a 70% share of a KRW72 billion insurance market. Home-shopping channels are also becoming part of the marketing strategies employed by domestic South Korean

companies. This cable channel sales strategy has also given small-and medium-sized insurance companies an outlet for their products, since the cost is minimal and only a small amount of paper work is required.

Term-life and accident policies are very popular in this medium, as are those for health and cancer, which accounted for 86% of the total sales for life insurers. The most unpopular insurance policies sold on television were variable life plans and savings-type insurance packages.

Home shopping companies estimate that sales of insurance products contribute 30-50% of their total revenue. In the third quarter of 2005, one of the home shopping companies recorded 32 billion won (US\$31 million) in insurance sales out of its total sales of 120.4 billion won (US\$116.7 million), while another company registered 29 billion won (US\$28.1 million) against its total sales of 57.2 billion won (US\$55.4 million).

The FSS reported that insurance products sold on television had sales of over \$860 million won for the year ending March 31, 2007, an increase of 43% from the previous year. Currently, home shopping sales for insurance products account for a mere 1.2% of the total but are expected to increase.

Between July 2006 and March 2007, insurance products sold via home shopping channels, direct mail, telemarketing, and the Internet rose over 40% to 3.3 trillion won. During the same period, sales made through branches and salespeople saw little growth and increased by only 7% to 63 million won.

Telephone retailing appears to have a bright future in the South Korean insurance market. Watson Wyatt reports that direct marketing using telephones is currently the third largest alternative channel. Recorded acceptances are recognized in the country. LINA, AIG, Shinhan, MetLife, PCA, and Tongyang Life are the leading life insurers using telemarketing.

Discount chains, convenience stores, and online portals are increasingly used by South Korean insurers as more competition forces them to explore new sales opportunities. Hungkuk Life recently announced a partnership with Daum Communications, the country's second-largest internet portal operator. Daum will sell the insurer's online products at a discount of 10 to 15%.

Cell phone usage in the country is high. Consumers regularly receive marketing pitches in less conventional ways, such as text-message ads on their cell phones. The mobile marketing and advertising industry is expected to take in \$700 million in South Korea by 2012, and could prove to be a lucrative direct marketing channel for selling insurance products.

Health

The health insurance market in South Korea is showing a northward trend. Given South Korea's aging population, growth is expected to remain steady. The proportion of the South Korean population aged 65 years and above currently stands at 10%, a level that is expected to increase to 37% by 2050. This will drive increased demand for health insurance, since coverage from public health care is relatively low, covering only half of total medical expenses. The accident and health segment wrote total gross premiums of \$6.4 billion in 2005.

In 2010, the South Korean non-life insurance market (including accident and health) is forecast to have a value of \$37.5 billion, an increase of 56% since 2005. The compound annual growth rate of the market in the period 2005-2010 is predicted to be 9.3%.

According to KIDI, the demand for private health insurance products is increasing as the society in South Korea ages. A recent survey conducted by KIDI had 33% of respondents saying they would be interested in buying such insurance products.