Korean Life Insurance Industry –
A Comparative Historical Perspective

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The development of the Korean life insurance industry during the latter part of the twentieth century is one of the exceptional phenomena. Between 1970 and 2000, the annual growth rate of premium volume was 46.2 percent while the annual growth rate of insurance asset was 34.4 percent. This study argues that this rapid expansion of the Korean life insurance industry was possible due to three major factors: the Korean government's interest rate policy in favor of life insurance industry, the unique life insurance sales method based on personal relationship and the growth-oriented business strategy on the part of the Korean life insurers.

Introduction

The development of the Korean life insurance industry during the latter part of the twentieth century is one of the exceptional phenomena. Between 1970 and 2000, the annual growth rate of premium volume was 46.2 percent while the annual growth rate of insurance asset was 34.4 percent.[1] This rapid expansion of life insurance industry made Korea one of the largest life insurance markets in the world, ranking seventh in terms of total premium volume as of 2003.[2]

Although Korea's share in the world life insurance market is still as low as 2.03 if we divide premium income with GNI, the rate of life insurance premium income in Korea is higher than that of most countries in a similar level of economic development.

The aim of this study is to explore the life insurance market in Korea from a comparative historical perspective in order to get a better understanding on how the Korean insurance market could have developed in such a large scale within a short period of a half-decade.

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Introduction of modern life insurance to Korea

British insurers introduced the modern form of life insurance to Korea in the late nineteenth century. In 1905 when Japan gained a complete control of Korea it succeeded the role played by the British insurers.[3] Korean's own involvement in modern life insurance business took place in 1921 when the Joseon Life Insurance Company was established.[4] The majority of insurance sales during the colonial period were forcedly made in order to mobilize financial resources for engaging the wars with the allied forces.[5] There are two unfavorable legacies from the colonial period on the development of the life insurance industry in Korea. One is the creation of the negative attitudes toward life insurance industry among the ordinary Koreans and the other is the lack of insurance specialists in both theoretical and practical fields.

Life insurance in a stage of embryo (from 1945 to the early 1960s)

The independence of Korea from Japan in August 1945 provided the Korean life insurance industry with a new momentum as life insurance companies with Korea's own capital and manpower earnestly began to be established. Besides Joseon Life Insurance Company Korea saw the opening of eight new life insurance companies for a short period of 8 years from August 1945 to July 1953, totaling nine life insurance companies. The limited market size of the Korean life insurance industry at that time led to a fierce competition among these companies.[6] Two of the victims from this high competition among them were Jeil Life Insurance and Hyeopdong Life Insurance that were forced to close down due to the problem of insolvency. In contrast with these two cases there is also a success story, i.e. the case of Daehan Kyoyuk Insurance. This insurance company introduced a new type of life insurance product, so called education insurance. The sale of this life insurance product was successful both in drawing the attention from the ordinary Koreans on the life insurance and in mobilizing the national capital for the industrial development of Korea.[7] It also played an important role in the expansion of the Korean life insurance market from the 1960s onwards. During this early period of life insurance development in Korea a high portion of life insurance asset was invested in immovable property such as land and buildings due to the underdevelopment of the Korean capital market.[8] Therefore the majority of life insurance companies often suffered from a lack of flexibility.

Life insurance in a stage of building a stable base (1962-1976)

During this period the Korean life insurance industry made a stable base for the development that lasted well into the mid-1980s. This was mainly possible thank to the favorable regulations and various inspection policies implemented by the Korean government.[9] Especially in 1969, the government issued a regulation concerning the management of insurance assets. By these measures, the insurance companies were encouraged to lend money to the other companies and to purchase bonds and stocks in Korea's growing capital market.

Besides the systemization of regulatory provisions on life insurance business, the Korean government also undertook measures that were intended to improve the financial condition of life insurance companies. In the course of time the license of two life insurance companies was revoked while four life insurance companies were merged into two companies. By these measure, a period of oligopoly system of six life insurance companies was established, which lasted until the mid-1980s.

Life insurance in a period of modernization (1977-1984)

Thank to the success of the economic development plans as well as the increase in per capita GNP, the life insurance business in Korea made a rapid growth since the early 1960s. In 1976 the total asset of life insurance companies recorded 145.2 billion Korean Won while annual premium income was 85.7 billion Korean Won. This is the 23rd and 24th times' increase in comparison with the corresponding figures in 10 years ago.[10] In spite of this quantitative growth of life insurance industry, the life insurance industry faced with a series of problems. Three major problems were a disorganization of insurance sales, a low rate of insurance contract maintenance, a high operating expense. All these led to a continuing financial difficulty of life insurance companies. Therefore the government put into a series of reform policies to modernize life insurance industry in 1977.

In the 1960s and the 1970s the education insurance played an important role in the development of the Korean life insurance industry. When the effect of education insurance was on the wane in the early 1980s, the Korean life insurance market saw the introduction of a new life insurance product, i.e. cancer insurance.

Up to this period a line's share of insurance sales was done through the female insurance salespersons, so-called "insurance aunties" in her 30s and 40s who made a door-to-door visit to the presumptive customers. The Koreans had purchased life insurance products more with short-term savings in mind less with dealing the risks.[11]

Life insurance in a period of a global challenge (1985-1996)

Since 1986-1987 the Korean life insurance industry faced with the challenges from both within and outside the country. Those challenges are often epitomized as the terms such as liberalization, openness and globalization.

Under the influence of liberalization, six new life insurance companies with a nationwide network and nine life insurance companies with the limited business territory to the specified provincial area were opened in the late 1980s. The deregulation of life insurance industry also took place in the areas such as the development of insurance products, the method of premium rate setting and the strengthened consumer sovereignty.[12]

With the external changes such as the implementation of Uruguay Round and the launching of WTO[13] and Korea's accession to the OECD in 1995, the Korean life insurance market was widely opened to foreign insurers.[14]

In the short time span of five to six years from the late 1980s to the early 1990s seven foreign-Korean joint life insurance companies, three local subsidiaries of three foreign life insurance companies and four branches of foreign life insurance companies entered into the Korean life insurance market.

The liberalization of insurance business within Korea and the openness of insurance business to foreign life insurance companies signaled the end of the oligopoly of six domestic life insurance companies and the beginning of the fierce competition of 33 life insurance companies in Korea.[15]

A number of reform measures that were intended to further liberalize the life insurance market were also put into effect during this period. Important changes include the abolition of economic consideration when establishing life insurance companies, the allowance of cross-border among life insurance companies, and the introduction of professional insurance agent system.[16] All these reform measures imply that the marketing activity by life insurance companies grew its importance due to the environmental change of the financial market.

All these changes went in parallel with the improvement of the conditions for the development of life insurance market. They are such factors as a drastic increase in the life risks for citizens as a result of the diversification of economy and a disintegration of traditional extended family system, a heightened interest in healthy life among individuals followed by the rise of income level. The changed conditions for the development of life insurance industry imply the change in the preference for different kinds of life insurance products. The persistent interest in term life insurance with focus on the protection of survived family members gradually went over to an increasing interest in the whole life insurance and annuity with focus on the protection of life in old age.[17]

Life insurance in a period of restructuring (1997 to 2003)

The life insurance industry is one of the most severely hit industries among all industries during the 1997-1998 Asian financial crisis. There are three reasons for this. The first and the most important reason was a drastic increase in the life insurance companies that had faced either with the problem of liquidity or insolvency. As mentioned earlier, there was a high involvement of life insurance industry by the *chaebols*. At the time of the financial crisis, the top five *chaebols* (Hyundai, Samsung, LG, Daewoo, and SK) owned the different life insurance companies. And approximately 18.9% of loans by the life insurance companies went to the companies that were part of the *chaebols*. Many of these companies had invested the borrowings from the financial institutions into long-term projects whose investment effect can come slowly. The second reason is that a considerable portion of insurance was invested in the other companies that could not repay their loan due to the financial difficulties. The third reason is that since 1987 a high portion of insurance operating asset was invested in stocks and bonds in step with the expansion of the capital market.

A variety of reform measures were undertaken in order to overcome the financial crisis as well as to strengthen the competitiveness of life insurance business. In the late 1997, these new insurance supervisory authorities (FSC/FSS) went into restructuring of the insurance industry in order to regain the confidence of the financial market. Under the influence of the financial crisis, a far-reaching reform of financial industry was conducted. Since the restructuring of the life insurance industry began in 1998, the business rights of four life insurance companies have been withdrawn, and six companies were sold off owing to poor performance. One of the better results of the restructuring of life insurance industry in the aftermath of the financial crisis is that Korean life insurers evolved into a highly concentrated industry. This has proven by the changing market share of the three dominant life insurance companies, Samsung Life Insurance Co., Kyobo Life Insurance Co., and Korea Life Insurance Co. The market share of these large domestic insurance companies has increased from 67.2 percent in 1997 to 75.0 percent in 1999. The market concentration increased even more, owing to M&A activity, resulting in a peak market share of 80.9 percent in 2000. Since then, the market share of the three major domestic companies has declined to 78.0 percent in 2001 and down to 51.7 % in 2004.[18] The major cause of the decline is the growth of foreign life insurance companies that entered the Korean life insurance market starting from the late 1980s.

In order to meet the global challenges to the life insurance industry two important steps toward financial convergences were taken.[19] One is the revision of the Insurance Business Law and its enforcement regulations in 2000. By this revision all types of financial institutions were allowed to form alliances to move into the so-called "non-core business" of other financial institutions. The other was the introduction of bancassurance.[20] By these measures the insurance market was open to all financial institutions in Korea such as conventional banks, security firms and investment firms, mutual saving companies, post offices, various co-operations.[21]

Noteworthy is that the size of foreign life insurance companies are mostly much smaller than that of domestic life insurance companies. Despite their small size, foreign life insurance companies recorded better performance than their domestic competitors with respect to profitability and financial stability. It is apparent that domestic insurance companies lag behind global rivals in the development of sophisticated insurance products and services and sales techniques.[22] Especially, in the bancassurance business, six foreign life insurers joined and attained 33.3 percent of bancassurance market on the premium basis in 2003. The market share of foreign life insurance companies is continuously increasing, recording 26.1 percent in the early 2005.[23] One good effect of high competition among domestic and foreign life insurer and the diversification of life insurance sales channel is that the Korean public have gained a much better possibility to choose different life insurance products than ever. Another conspicuous change in the Korean life insurance industry that occurred in recent years is the change in the personal structure of the life insurance salespersons. Instead of "insurance aunties" who have dominated in the area of insurance sales in the earlier period, the number of "insurance uncles" is gradually increasing. In 2001, the proportion of male insurance salespersons was only 8.3 percent and this figure went up to 14.7 percent in 2004 and further up to 15.6 percent in May 2005.[24]

Some factors behind the rapid expansion of the Korean life insurance industry

There are at least five reasons for that. First, it depends on the interest rate system that the Korean government adopted. In the 1960s the Korean government promoted industrial development. To this end the Korean government made bank interest rate as low as possible in order to lend capital with as low interest rate as possible to the industries that the Korean government had specifically in mind. In this process a shortage in capital arose. In order to deal with this lack of capital for industrial development in the 1970s the Korean government encouraged the development of the second financial businesses such as short-term financing companies and insurance companies. In order to maximize the mobilization of financial capital to these financial institutions, the Korean government encouraged the insurance companies to make insurance products with a strong characteristic of savings rather than only a characteristic of dealing with risks. At that time there was also a high tendency among Koreans to buy insurance policy more for the purpose of saving than a pure of insurance.

The second reason for the extraordinary size of the Korean insurance market has to do with the insurance sales method on the basis of personal relationship. Contrary to the insurance salesmen in the Western countries who utilize an advanced sales method in selling the insurance policies the Korean insurance salespersons have long utilized the personal relationship.

The third reason that the Korean insurance business expanded so quickly has to do with the growth-oriented attitude of insurance businessmen. In the semi-monopolistic market the insurance businessmen have often considered an extra profit will be possible only though a rapid expansion of sales volume.

They have also thought that if their business is big they will have a better position in negotiating with the government.

The fourth reason for the rapid development of Korea's life insurance has to do with the ownership of the life insurance industries. Unlike many Western countries where there is some kind of division between the financial capitalists and the industrial capitalists, in Korea there exist a close relationship between the life insurance companies and the industrial capitalists, *chaebols*. This is the reason that many Koreans are suspicious about the operation of the life insurance companies. In any case the growth of life insurance industry went hand in hand with the expansion of *chaebols*.

The fifth reason is the inadequate development of the social insurance system in Korea. In comparison with other industrialized countries, the introduction of social insurance to Korea was made much later than those countries. The policy-makers in the Korean government in the 1970s were very much industrial development-oriented while paying less attention to the social development. These policies could be sustained in the 1970s during which the democratic political system was not fully developed. But in the 1980s when the democratization of the Korean society began there was a much open discussion on how to distribute the fruits of economic development to the Korean population at large.

In concluding the liberalization, globalization and openness of the Korean economy would certainly have less explanatory power in the expansion of insurance market in Korea. The possible reasons are as follows. The gap in interest rate among different financial institutions is on the way out. The relationship between people are transforming from a traditional-bound to a more functional-bound due to the urbanization and the decrease in the size of family in the contemporary Korean society. Moreover recently there are also expansions in the social insurance system although the coverage is still limited in comparison with the social insurance system in the advanced countries. Especially the national health insurance system in Korea is still characterized by very low benefit coverage, with high out-of-pocket payment. This high out-of-pocket payment by patients creates the necessity to fill out the gap by private life insurance companies. This can imply that there is still much room for the expansion of life insurance industry in Korea.

Notes

1 The Korean Association of Life Insurance (2000) *Fifty Years History of the Association of Life Insurance,* pp. 937-938.

2 Korea Insurance Development Institute (2005) *Korean Insurance Industry 2004*, p. 23¸ *Sigma*, No 3/2004, Swiss Re.

3 Han, Woo-keun (1981) *The History of Korea,* Seoul: The Eul-Yoo Publishing Company, pp.396-402; Black, Kenneth, jr. and Harold D. Skipper, jr. (1994) *Life Insurance,* Prentice-Hall, Jeong, Hongju (2005) *Risk and Insurance in Korea.* Seoul: Munyoungsa..

4 Korean Association of Life Insurance (2000) *Fifty Years History of the Association of Life Insurance,* pp.198-199.

5 Ibid., p. 206.

6 Roe, Young-Kyung (1991) *A Study on the Reform Measure for the Life Insurance Sale System in Our Country,* master dissertation, Taegu University.

7 Kyobo Life Insurance (1998) *30th Anniversary of Kyobo Life Insurance,* Seoul.

8 Korea National Statistical Office (1995) Korea's *footsteps in a statistical perspective.* Seoul, p. 289.

9 Kang, yongsu and Gong deokam (2001) "A Details State & Pending Problems in Life Insurance Industries in Korea and Their Implications" *Review of Business & Economics* Vol. 14, No. 4, p. 4.

10 Korean Association of Life Insurance (2000) *Fifty Years History of the Association of Life Insurance,* p. 938.

[11] Kim, Eok-heon (2002) *Insurance theory and practice,* Seoul: Samyeongsa, pp. 237-238.

[12] Yoon, Dae-Soo (1999) *A Study on the Improvement of Marketing Strategy of the Life Insurance Industry in Korea,* master dissertation, Kon-Kuk University.

[13] The seeds of the Uruguay Round were sown in November 1982 at a ministerial meeting of GATT members in Geneva. It took seven and a half years from 1986 to the end of 1994, almost twice the original schedule. One of the main issues related to the developing countries was the opening of service market, especially opening of financial market and deregulation. The negotiation started in the Uruguay Round was continued under the context of WTO that began operation in January 1995.

[14] As a matter of fact, there were seven American life companies that were operating in Korea up to the mid-1980s. Their business was limited in the sense that their life insurance products were only sold to the American military personnel and their families and other foreigners in Korea (Korean Association of Life Insurance, 2000, *Fifty Years History of the Association of Life Insurance,* p.308). Kang, Yong-Su and Gong, Deok-Am (2001) "A Details State & Pending Problems in Life Insurance Industries in Korea and Their Implications" *Review of Business & Economics* Vol. 14, No. 4, p. 3.

[15] Kim, Chul-kyo (1995) "Financial Environment & Life Insurance," *Social Science Research,* Vol. 12, pp. 95-103.

[16] Korean Association of Life Insurance (2000) *Fifty Years History of the Association of Life Insurance,* p. 311.

[17] Kim, Chul-Kyo (1995) "Financial Environment & Life Insurance" in *Social Science Studies* Vol. 12.

[18] *Donga Daily,* "Foreign companies are strong in life insurance industry, taking 17.4% of market share,"2005-01-12,p. 35; *Maeil Economy Daily*, "The market share of foreign life insurance companies is increasing," 2005-07-21.

[19] Ibid, pp. 35-36.

[20] Bancassurance, a coined French word of Assurance (insurance) and Banque (bank), refers to the sale of both insurance and bank products through business alliance or joint venture between banks and insurers.

[21] Jeong, Hongju (2005) *Risk and Insurance in Korea.* Seoul: Munyoungsa.

[22] Kim, Jae-Bong (1996) "A Study on the Managerial Factors Influencing the Economics of Scale of Korean Life Insurance Industry" in *The Journal of Social Science Study,* Vol. 3.

[23] *Jeil Economic Daily*, "Small-and medium-sized foreign life insurance companies are strong in bankassurance business," 2006-02-27.

[24] *Maeil Economic Daily*, "Insurance uncles are active," 2005-08-18.