Financial Services Commission

# Press Release

October 19, 2015

Creative Finance
Financial Inclusion
Solid Financial System

# FSC ROADMAP TO STRENGTHEN COMPETITIVENESS OF INSURANCE BUSINESS

## BACKGROUND

Korea's insurance industry has rapidly grown since 2000 to become the world's eighth largest market with its total assets worth KRW 862 trillion, representing 19.8% of the Korean financial industry's total assets, and 440,000 employees which account for 55.1% of the financial industry's workforce.

However, excessive *ex-ante* regulations on insurance policies and premiums stifled competition and innovation in insurance business, weakening the industry's growth momentum.

The FSC, therefore, outlined its plan to overhaul the regulatory framework on insurance business, which will be a remarkable reform initiative in 22 years since the insurance liberalization of 1993. Under the roadmap, the FSC will shift its regulatory focus from ex-ante regulations to ex-post supervision to promote price and service competition in insurance business, while strengthening the protection of policyholders and the financial soundness of insurance companies.

## MAJOR REFORMS

### 1. GIVE INSURERS MORE AUTONOMY IN DEVELOPING INSURANCE PRODUCTS

In principle, insurance companies will be no longer required to report their new products to the financial authorities prior to the sale, except for mandatory insurance and insurance products with new types of risk coverage. *(Scheduled to be implemented in April 2016 after relevant regulations are amended)*

Standard insurance policies established by the financial authorities will be abolished to encourage insurers to develop more diverse insurance products. Necessary provisions such as protection of policy holders will be set out in relevant regulations. For indemnity and car insurance policies that need standardization, the industry association will be required to establish standard policies to report to the FSS. *(Scheduled to be implemented in the second half of 2016 after consultations with the industry and amendments to relevant regulations)*

## 2. Reform Pricing Regulations

The liberalization of insurance premiums in 1993 allowed insurance companies to decide premiums for their insurance policies on their own. In practice, there still remain many regulations that restrict insurers from pricing their insurance premiums, leaving consumers with limited options to choose.

The current ±25% ceilings on risk rate adjustments will be removed to let insurance companies timely reflect increasing or diminishing risk factors into pricing their insurance premiums. (*Scheduled to be implemented in April 2016 after relevant regulations are amended)*

※ *For medical indemnity insurance policies, the risk adjustment ceilings will be gradually expanded to prevent surge in insurance premiums upon the abolition of the ceilings.*

* *±25% (2015) → ±30% (2016) → ±35% (2017) → abolition to be considered (2018)*

Insurance companies will be given more room to set interest rates (or discount rates) applied to premiums and payments of insurance claims for their insurance policies. The current system of calculating standard interest rates will be abolished from next year to allow insurers to decide their expected interest rates on their own. The ceilings on insurers′ interest rate adjustments, applied to settlement of claims of interest-sensitive policies, will be gradually expanded.

* *±20% (2015) → ±30% (2016) → to be abolished (2017)*

## 3. Strengthen *Ex-Post* Supervision for Protection of Policy holders & Financial Soundness of Insurers

Insurance companies will be held more accountable with stricter monetary penalty for misconduct in developing and selling their insurance policies.

*(A revision bill to the Insurance Business Act to strengthen monetary penalty for insurers′ misconduct will be submitted to the National Assembly in 2016)*

For consumers′ convenience, online insurance market will be open in November, where consumers can easily search, compare and buy various insurance products.

To ensure insurance companies hold sufficient policy reserve, the FSC will continue to improve regulations in regard with liability adequacy test (LAT), insolvency and risk-based capital (RBC) in accordance with international standards.

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