Financial Services Commission

Press Release

November 21, 2022

FSC PLANS REGULATORY REFORMS IN INSURANCE SECTOR TO PROMOTE DIGITAL TRANSFORMATION

The FSC announced a plan to reform regulations on insurance businesses to help the insurance sector more effectively respond to emerging demands for new services and to facilitate the entry of specific business models expected by the market. The plan has been screened by the financial regulatory innovation committee at its 4th meeting held on November 14. Authorities will prepare revision bills to amend relevant laws with a goal of submitting and passing them at the current 21st term of National Assembly.

BACKGROUND

The FSC has listened to opinions on the areas that require regulatory reforms through discussions within a taskforce[1] on insurance sector (from February) and the survey of demands (June-July) conducted across all financial industry groups. Among 234 regulatory reform items raised by eight financial industry groups, the demand for regulatory reform in the insurance sector was particularly high (77 items).

According to the taskforce and the survey, the insurance industry faces hindrance in effectively adapting to disruptive changes of business environment due to outdated and stringent regulations. First, even with a spread of digital economy based on network- and platform-based services, the level of digital transformation in the insurance market is still at a nascent stage, requiring an urgent industrial restructuring. Second, compared to insurance markets in other countries and other domestic financial markets, insurance businesses face excessive regulations for product development and asset management, which restrict insurance companies from supplying diverse types of financial products and weaken their global competitiveness.[2] Third, there are cases where the rigor of penalizing practices and supervisory administration led to excessive restriction on the sales activities of insurance companies. For the consumer service of the supervisory authorities to deal with civil complaints, which cannot be served promptly due to the limited number of staff members and their capacity, the need for insurance industry groups to take up some part of that service emerges. Therefore, authorities will actively improve outdated regulations on insurance businesses in order to promote innovation and growth of the insurance industry amid changing industrial environment such as digitalization.

[1] A taskforce comprised of members from the FSC, the FSS, specialists, financial industries and related institutions thoroughly reviewed which areas of current regulations on the Insurance Business Act need to be reformed.

[2] There is currently no domestic insurance company that meets the global insurance capital standard of the Internationally Active Insurance Group (IAIG).

Key Details of Regulatory Reforms for Insurance Businesses

I. Promoting Reorganization of Industrial Structure in Line with Digitalization

a) Ease the licensing policy that permits only one life insurer and one non-life insurer to operate within a same insurance business group to facilitate the entry of more specialized insurance companies that can lead competition and innovation suitable for the digital era

Authorities will allow insurance business groups to operate product-specific insurance companies (for example, an insurance company specialized in pet insurance) even when there already exist insurance business entities within them. Authorities will ease regulations on captive agents to promote new entry of product-specific insurance companies. Also, for insurance companies that had previously encountered restrictions on online sales practices for policy reasons, authorities will allow their use of mobile and online marketing channels to promote digital sales operation.

b) Overhaul the current insurance solicitation system to promote digital and contactless sales and subscription channels

Authorities will allow insurance solicitors additional methods of solicitation like video call or combination of telephone call and computer communication. Meanwhile, authorities will also prepare procedural mechanisms to prevent incomplete sales.

II. Enhancing the Management Autonomy of Insurance Companies

a) Allow insurance companies to develop diverse types of products without restrictions

Insurance companies will be allowed to provide products or services that can help reduce the chance of the occurrences of accidents covered by insurance, such as gas leak detectors for home fire insurance policies and pet dewormers for pet insurance policies. Currently, offering products and services to reduce accidents is restricted due to the prohibition against provision of special benefits. However, when the effectiveness of them in lowering the chance of insurance accidents has been objectively and statistically proven, and thus those products and services are beneficial to customers, authorities will ease the application of this regulation on special benefits.[3]

Also, authorities will ease the regulation on early cancellation refund rate, which is currently focused on protecting early cancellers, to facilitate the development of pension insurance policies that are designed to promote long-term maintenance of policy subscription and increase the amount of pension payments. The amount of refunds for early policy cancellation will be reduced, but instead, that of pension payments for long-term policy subscribers will be increased.

b) Ease asset management regulations to enable more efficient portfolio management

To help insurers to manage interest rate risks more stably with derivatives products,

[3] Maximum permissible amount of special benefits to be increased from KRW30,000 currently to KRW200,000.

authorities will abolish the current restriction that limits an insurer's transactions of derivatives products to maximum 6 percent of total assets.[4] Also, authorities will ease the maximum amount of issuable bonds[5] to help prevent the occurrence of temporary over-issuance in the process of bond refinancing.

III. IMPROVING SUPERVISORY ADMINISTRATION PRACTICES AND EXPANDING PRIVATE SECTOR INFRASTRUCTURE FOR CONSUMER SUPPORT

a) Overhaul rigid penalizing practices that place excessive restriction on sales activities

Authorities will overhaul the penalty surcharge standard for violations of basic paperwork (insurance terms, etc.), which currently imposes uniform penalty surcharges even when there is no damage incurred to consumers. Authorities will also make reasonable adjustments to the standard for imposing fines on minor violations that have negligible impact on consumer protection or soundness of insurance companies. For insurance solicitors, authorities will introduce a legal ground for imposing minor penalties, such as issuing a caution or a warning, on minor violations. Under the current legal framework, authorities can only resort to either a suspension of business operation or a revocation of business registration.

b) Establish a legal ground to allow private sector industry groups to provide simple customer services

Authorities will allow insurance industry associations to handle simple customer inquiries and complaints with little likelihood of dispute to facilitate prompt customer service delivery.[6] However, civil petitions for dispute such as complaints regarding insurance proceeds, where conflict between an insurer and its policyholder's interests happens, will continue to be handled and processed by the Financial Supervisory Service (FSS).

FURTHER PLAN

Authorities will quickly prepare revisions of relevant laws containing aforementioned regulatory reform measures with an aim of submitting and passing them at the current 21st National Assembly term. In addition, authorities will review other areas where regulatory reforms are necessary in the insurance sector. In particular, for regulatory reform items commonly undertaken across all financial sectors in the areas including regulations on the separation of financial and industrial capital and the entrustment of services, the FSC will announce them in early 2023.

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[4] Introduction of new K-ICS in 2023 will help strengthen ex post facto risk management.
[5] (Currently) 100 percent of equity capital without exception → (To be changed) Previously issued bonds expected to be paid back through refinancing will be excluded from the total amount of issuable bonds.
[6] When desired by the customer, his or her inquiry or complaint can still be handled and processed by the FSS.