



Policyholder Protection Scheme

KOREA DEPOSIT INSURANCE CORPORATION

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Contents

- I. Who Is Protected
- II. KDIC-Insured Companies
- III. KDIC-Insured Products
- IV. Coverage Limit
- V. Deposit Insurance Fund
- VI. Case Study of Insurance Company Resolution

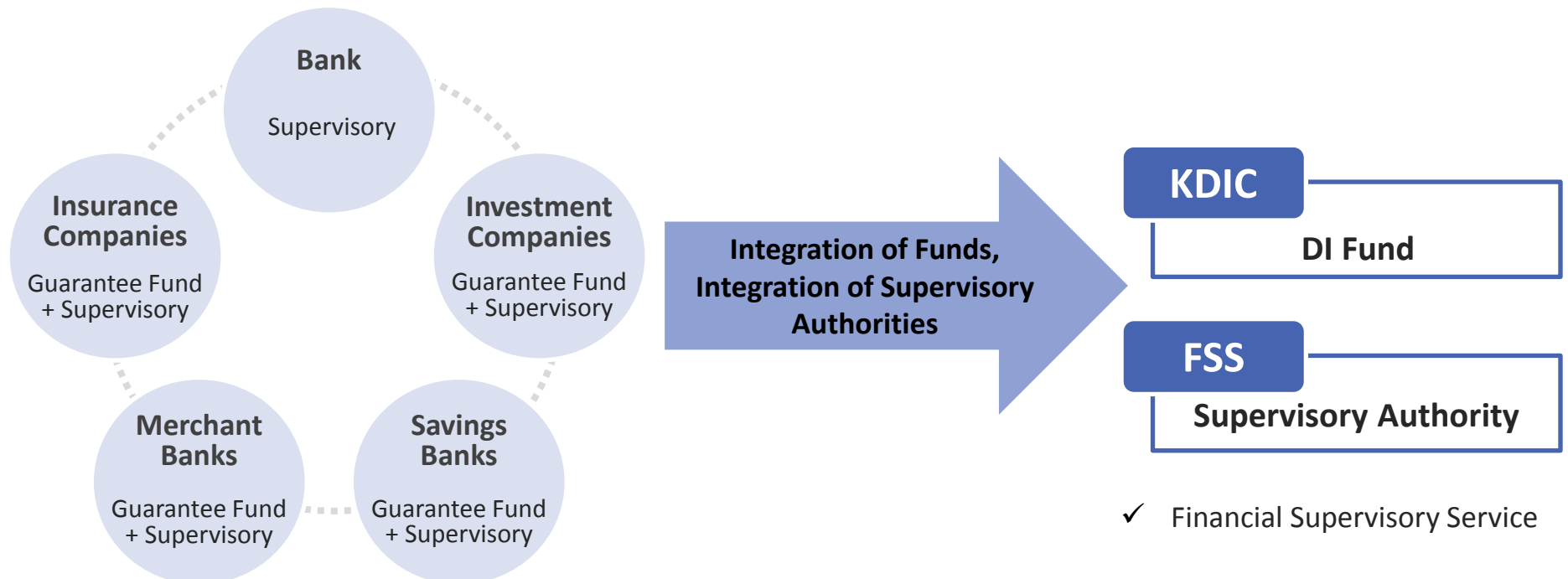
I. Who is Protected

A. Before the Integration of Protection Schemes

- Until March 1998, protection was provided from the Insurance Guarantee Fund of the Insurance Supervisory Board

B. After the Integration of Protection Schemes

- In April 1998, different sector funds were merged into the Deposit Insurance Fund



II. KDIC-Insured Companies

Insurance Companies Licensed under the Insurance Business Act

- Compulsory membership in the DI scheme for life and non-life insurance companies

KDIC-insured FIs

(Unit : No. of companies, KRW trillion)

Section	Banks	Financial Investment Firms	Insurance Companies		Merchant Banks	Savings Banks
			Life	Non-life		
Number (as of end of Dec. 2015)	58	114	25	23	1	80
Total Assets (as of end of Sep. 2015)	2,368	371	707	202	1.3	41.3
Insurable Deposits (as of end of Sep. 2015)	1,034	25	476 USD 406.8 Mil. TWD 13.3 Tril.	133 USD 113.7 Mil. TWD 3.7 Tril.	0.8	35

* Policy reserves for life and non-life insurance companies

III. KDIC-Insured Products

Financial Products Eligible for Protection

Insured	Uninsured
<ul style="list-style-type: none">. Policies purchased by individuals [e.g.]- life insurance : life insurance, annuity, retirement insurance- non-life insurance : fire, marine, car insurance- 3rd party insurance : accident insurance, sickness insurance, long-term care insurance	<ul style="list-style-type: none">. Policies purchased and paid by corporate entities- Reinsurance policiesVariable insurance policies (main contract), etc.

- From June 2016, GMDB of variable policies, etc. will be newly insured by KDIC
 - ✓ Guaranteed Minimum Death Benefit

IV. Coverage Limit

A. How the Coverage Limit Is Determined

- In consideration of per-capita GDP, the size of insured deposits and other factors
- The same coverage limit **KRW 50Mil.**(USD 4.3 K, TWD 1.39 Mil.) for all types of FIs

B. Coverage Limit for Policyholders

- Up to KRW 50 million of the policyholder's "net claims" to the insurance company
 - Claims minus liabilities

IV. Coverage Limit

C. Current Coverage Limit

- When blanket coverage was removed in January 2001, the coverage limit was set at KRW 50 million for all financial sector institutions
 - To prevent a market panic, the coverage limit was raised from the old limit of KRW 20 million that was in place before the introduction of blanket coverage
 - In 2001, KRW 50 million was five times the per-capita GDP of Korea
- In 2015, the 50-million won coverage limit accounted for 1.6 times per-capita GDP

V. Deposit Insurance Fund

A. Premium Payments

$$\text{Assessment Base} \times \text{Premium Rate} = \text{Annual Premium}$$

- As of 2015, life insurers paid **KRW 296.9 billion** (USD 250 Mil, TWD 8.3 Bil.) and non-life insurers paid **KRW 129.6 billion** (USD 110 Mil., TWD 3.6 Bil.) in DI premiums

B. Assessment Base

Assessment Base	Note
(Premium Income + Policy Reserves)/2	Only premium income and policy reserves related to insured products are included in the equation

V. Deposit Insurance Fund

C. DI Premium Rates

Period	Banks	Financial Investment Firms	Life & Non-life Insurers	Merchant Banks	Savings Banks
Before Nov. 1997	0.02 %	0.10 %	0.10 %	0.08 %	0.15 %
Nov. 1997~ Jul. 1998	0.03 %	0.10 %	0.15 %	0.12 %	0.15 %
Jul.1998~ Jul. 2000	0.05 %	0.10 %	0.15 %	0.15 %	0.15 %
Aug.2000~ Jun.2009	0.10 %	0.20 %	0.30 %	0.30 %	0.30 %
Jun.2009~ Jun.2011	0.08 %	0.15 %	0.15 %	0.15 %	0.35 %
Jul.2011~Present	0.08 %	0.15 %	0.15 %	0.15 %	0.40 %

V. Deposit Insurance Fund

D. Target Funding System

- A target fund size is determined first and when the fund size reaches the target level, member institutions get a discount on premiums
- The target funding system was implemented in January 2009 for all types of financial institutions

(As of end-Dec.2014, Unit: %)

Section	Banks	Financial Investment Firms	Life Insurers	Non-life Insurers	Savings Banks
Ceiling of the Target Range	1.100	1.100	0.935	1.100	1.925
Floor of the Target Range	0.825	0.825	0.660	0.825	1.650
Reserve Ratio	0.688	1.714	0.858	0.775	△5.464

- ✓ As of 2015, the amount of reserves in the DI Fund is **KRW 3.82 trillion** (USD 3.3 Bil., TWD 106.5 Bil.) for life insurers and **KRW 928.4 billion** (USD 0.8 Bil., TWD 25.9 Bil.) for non-life insurers

V. Deposit Insurance Fund

E. Risk-based Premium System

- Under a risk-based premium system, insurers are charged different premiums based on their financial and management conditions
- There are three premium categories. Depending on their premium category, individual insurers get a discount or surcharge of up to 10% of the standard rate
- From 2014, KDIC has charged premiums based on the risk profile of financial institutions

Grade	2014~2015	2016	2017~2018	2019~2020	2021~
Group 1	△5%	△5%	△5%	△7%	△10%
Group 2	0%	0%	0%	0%	0%
Group 3	+1%	+2.5%	+5%	+7%	+10%

- ✓ To reduce the impact of the risk-based premium system, the level of differentiation between premium categories will be increased in gradual steps

VI. Case Study of Insurance Company Resolution

A. Principles for Resolution

Least Cost Principle

- In paying deposit insurance or providing financial assistance to a member institution, KDIC must choose the method that would minimize losses to the DI Fund

Commonly Used Methods for Resolving Failed Insurance Companies

Public Sale and P&A

1) Share Sale (M&A)

- Sale of KDIC's stake (received in exchange for financial support) by competitive bidding after wiping out shareholders
- Daehan Fire & Marine Insurance, Kukje Fire & Marine Insurance, etc.

2) Purchase of Assets and Assumption of Liabilities (P&A)

- Contracts are transferred in a P&A transaction to an insurance company newly established by the acquirer selected through a competitive bidding process
- Daishin Life Insurance, Hanil Life Insurance, etc.

- ✓ Bankruptcy/liquidation after deposit payouts : No case

VI. Case Study of Insurance Company Resolution

B. Green Fire & Marine Insurance (Green) (2012~)

Overview

- Date of Issue of License : Feb. 1947
- Organization : 771 Employees, 69 branches, 998 GAs
- Financial Condition (as of FY 2011)

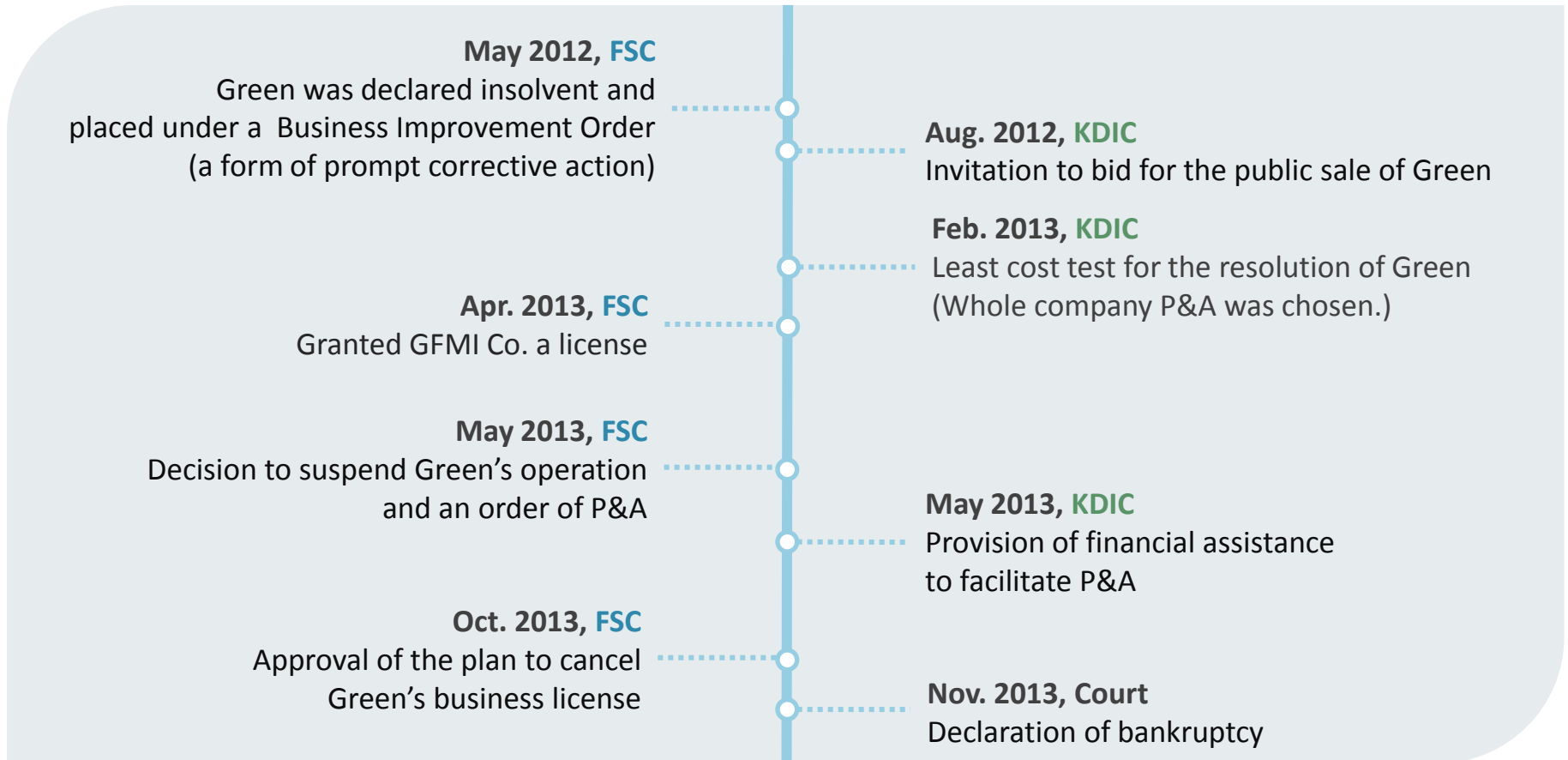
(Unit: KRW 100Mil.)

Total Assets	Total Capital	Stockholders' Equity	Net Income	RBC
16,119 (USD 1.4 Bil., TWD 44.9 Bil.)	△456	1,329	△1,368	△52.2%

- ✓ Green was in such weak financial condition that its RBC(Risk-Based Capital) fell to △52.2%
- ✓ The Financial Services Commission issued an order for business improvement including recapitalization (in March 2012)

VI. Case Study of Insurance Company Resolution

C. How the Resolution of Green was Conducted



✓ Financial Services Commission: the government's financial policy-making body

VI. Case Study of Insurance Company Resolution

C. How the Resolution of Green was Conducted (cont'd)

Reasons for Green's Insolvency

- Large losses on valuation of securities due to the recent global financial crisis and continued increase in operating losses resulting from a growing loss ratio

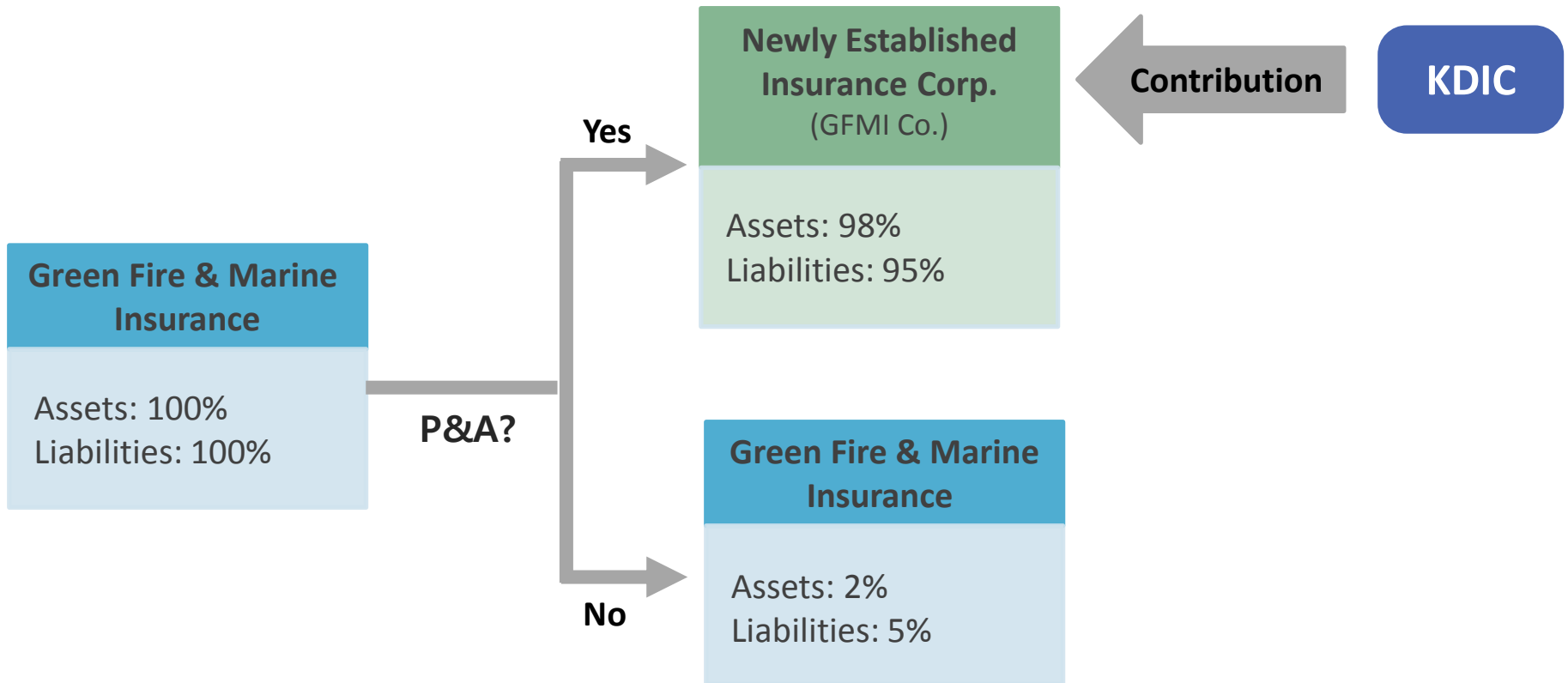
➡ As of FY 2011, the proportion of shares in the investment portfolio was 18.8% for Green, while the industry average was 7.0%

Resolution of Green

- Resolution Method : Transfer of all policies in a P&A
 - ➔ KDIC decided that a whole P&A would be less costly compared to a partial P&A
 - ➔ Financial assistance from the DI Fund: **KRW 22.6 billion** (USD 19 Mil., TWD 630 Mil.)

VI. Case Study of Insurance Company Resolution

C. How the Resolution of Green was Conducted (cont'd)



THANK YOU

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