International Forum of Insurance Guarantee Schemes

IFIGS

SESSION 5

What is Happening in the Regions: Insurance Resolution in Korea

IFIGS 10th International Conference

Vancouver, Canada | 25 October 2023

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1. KDIC's Approach to Resolution

Least Cost Principle

- Lowest cost to the KDIC and/or the Government
- Due diligence by KDIC
  - ✓ in collaboration with independent accounting firms
- Issues for consideration
  - ✓ frequent use of systemic risk exception
  - ✓ regulatory forbearance

2. Resolution Toolkit

A set of toolbox available for insurance resolution

- Merger and acquisition (M&A)
- Purchase and Assumption (P&A)
- Liquidation
  - ✓ *This tool has long been controversial, though*

3. Resolution Cases

KDIC has resolved 20 insurers since its inception

- P&A: 11 cases (55%)
- M&A: 7 cases (35%)
- Financial assistance: 2 cases (10%)
- Considered systemic risk exceptions: 6 cases
  - ✓ Other types of resolution methods were adopted instead of the most cost-efficient option, “liquidation”

4. Current Progress

Public Sale of MG Non-life Insurance Company

- Designated it as a insolvent financial institution in April 2022
- The largest shareholder filed an injunction / lawsuit at the court
  - ✓ asking for the cancellation of the regulator's insolvency determination
- KDIC reinitiated M&A bidding process in August 2023 after failing to find a potential buyer
- Litigation risks still remain
  - ✓ the private equity firm is mulling over whether to file an injunction to suspend the bidding process and to appeal the ruling of the first trial

5. Challenges in Insurance Resolution

Regulatory Forbearance vs. Decisive Resolution

- A transfer of insurance contracts to other existing insurers is likely to be preferred in order not to:
  - ✓ expose a number of policyholders to massive losses
  - ✓ generate a coverage gap when the problem insurer is liquidated
  - ✓ induce another failure in small-sized insurance firms (contagion)
- Unique features of the insurance firms' liabilities
  - ✓ requires various types of assumptions such as mortality rate, lapse rate etc. in order to assess long-term liabilities adequately

6. Way Forward

Possible Improvement to the Current Regime

- Needs to eliminate the risk of coverage suspension
  - ✓ ensuring the continuity of insurance contracts in any event
- Enabling KDIC to modify the terms of policies when transferring insurance contracts to a buyer or an acquirer
  - ✓ This would alleviate the burden on the acquirer and reduce the need for financial assistance from KDIC
  - ✓ On the other hand, policyholders would share some of the losses