SESSION 6

KDIC's Risk Monitoring for Insurance Sector

Discussion Material for IFIGS Workshop

Presented by
Korea Deposit Insurance Corporation (KDIC)

Vancouver, Canada | 25 October 2023

KDIC Korea Deposit Insurance Corporation

1. KDIC's Risk Monitoring Framework

- Overview of the Framework
- Off-site Monitoring
- Risk Assessment Models / RE Model / Outcomes
- On-site Monitoring
- Control Measures / Feedback

1. Overview of the Framework

Off-site Monitoring

On-site Monitoring

Risk Detection

- Collecting various information

Risk Assessment

- Determining the level of risks

Target Review

- On-site Examinations

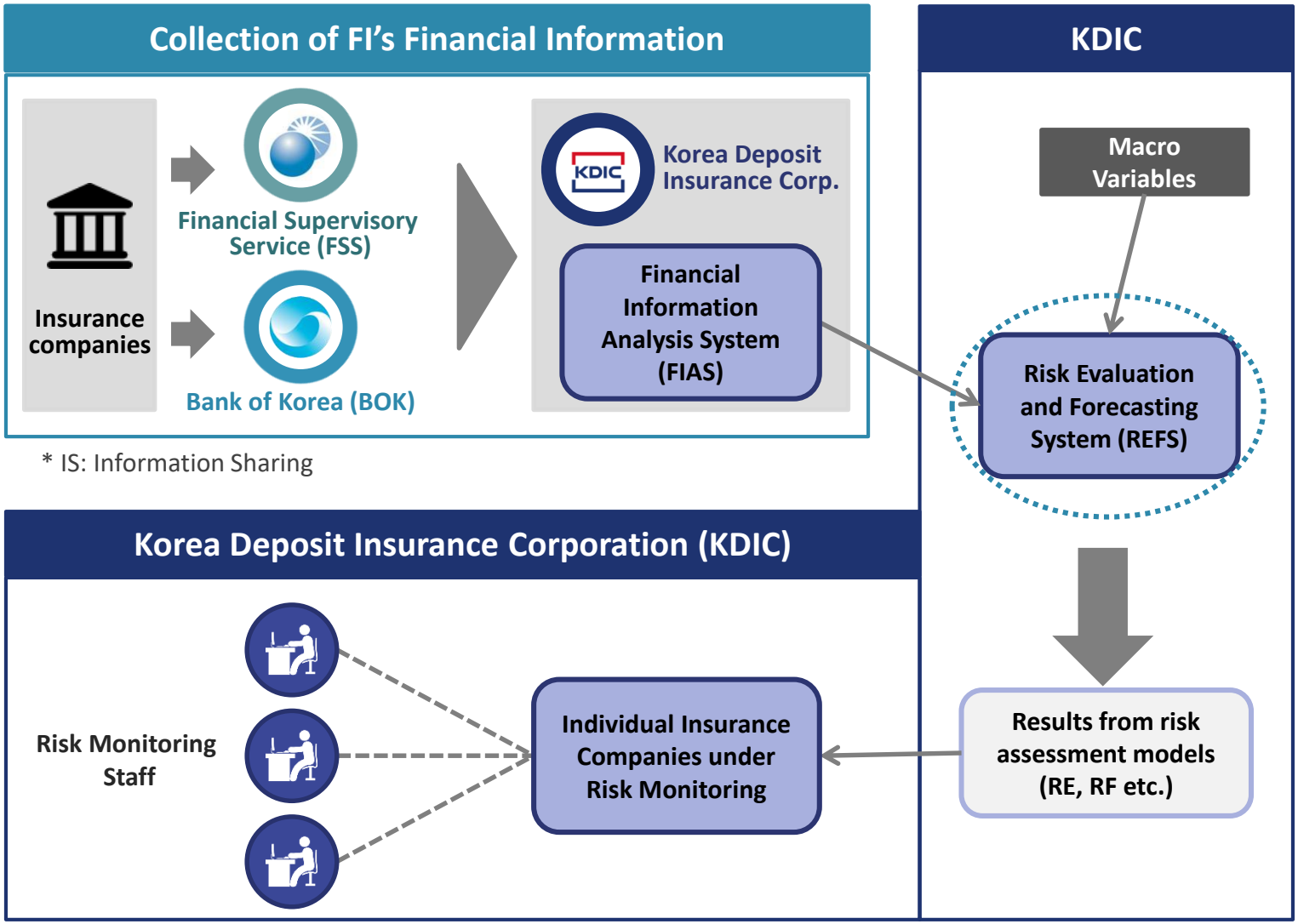
Risk Management

- Control Measures
- Feedback

Early Detection

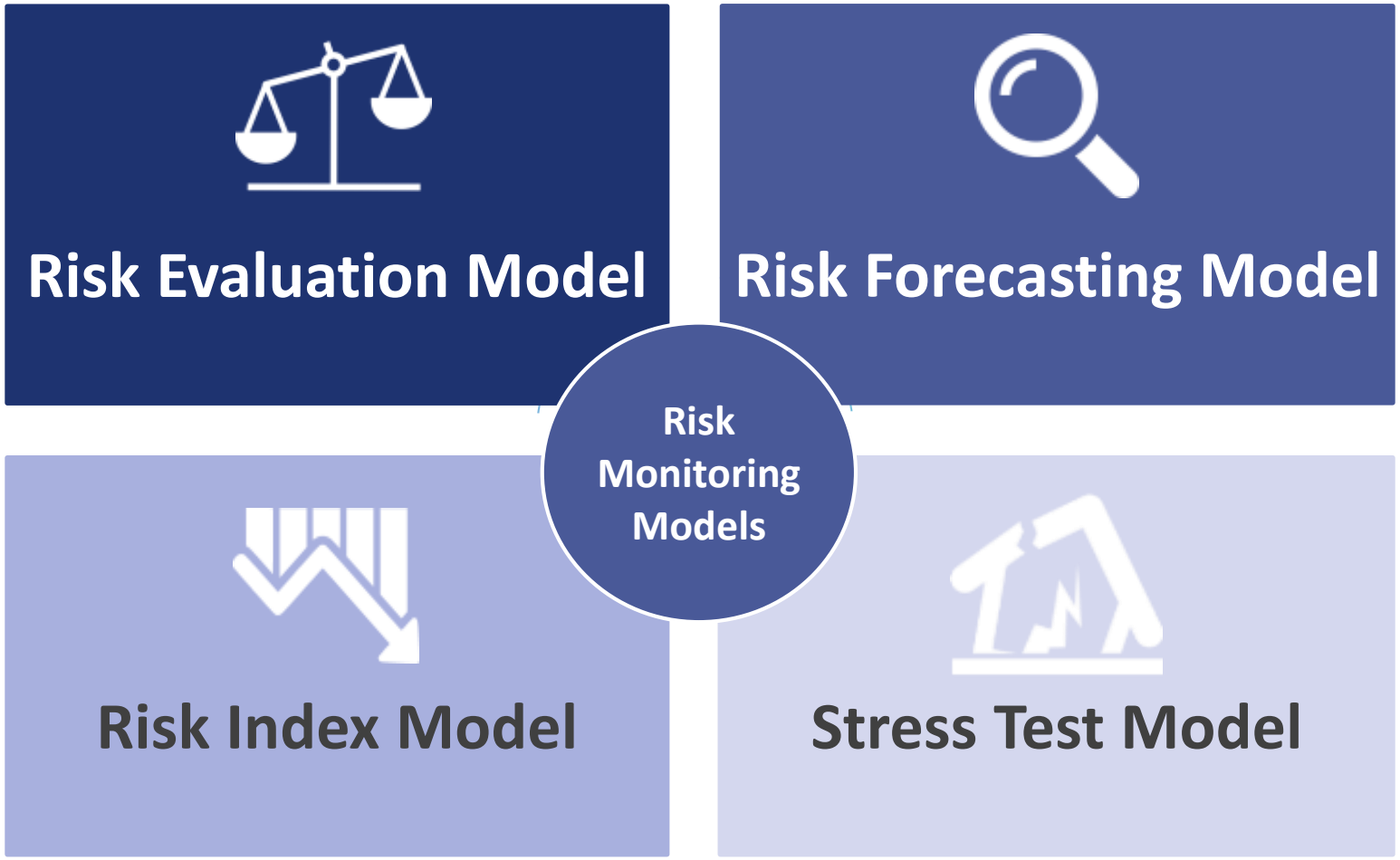
Timely Intervention

2. Off-site Monitoring



* IS: Information Sharing

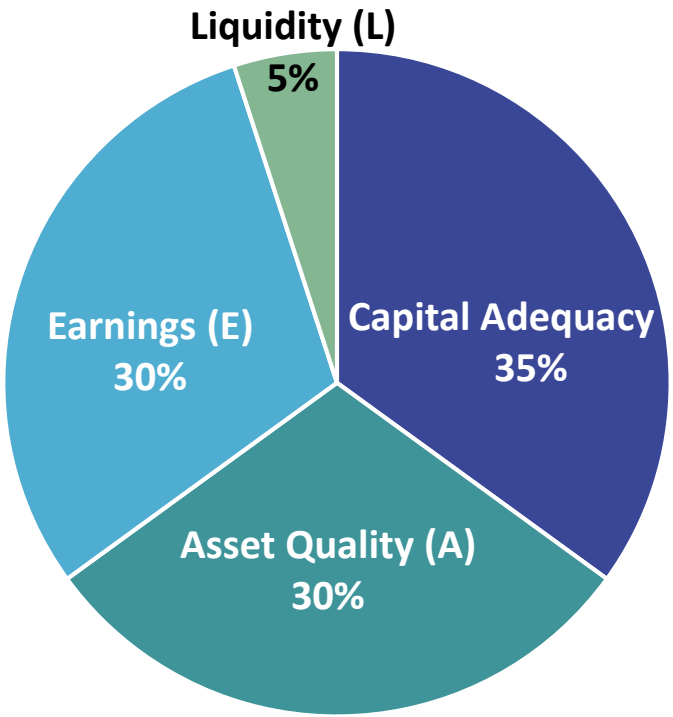
2-a. Risk Assessment Models



2-b. Risk Evaluation (RE) Model

- Assess CURRENT levels of risk
- Graded: from A to E
- Uses Quantitative data Only

Component Variables



3. Risk Assessment Outcomes

Assessment Overview

- Risk assessment are carried out on a quarterly basis
- As result, insurance companies are categorised into one of three risk monitoring levels

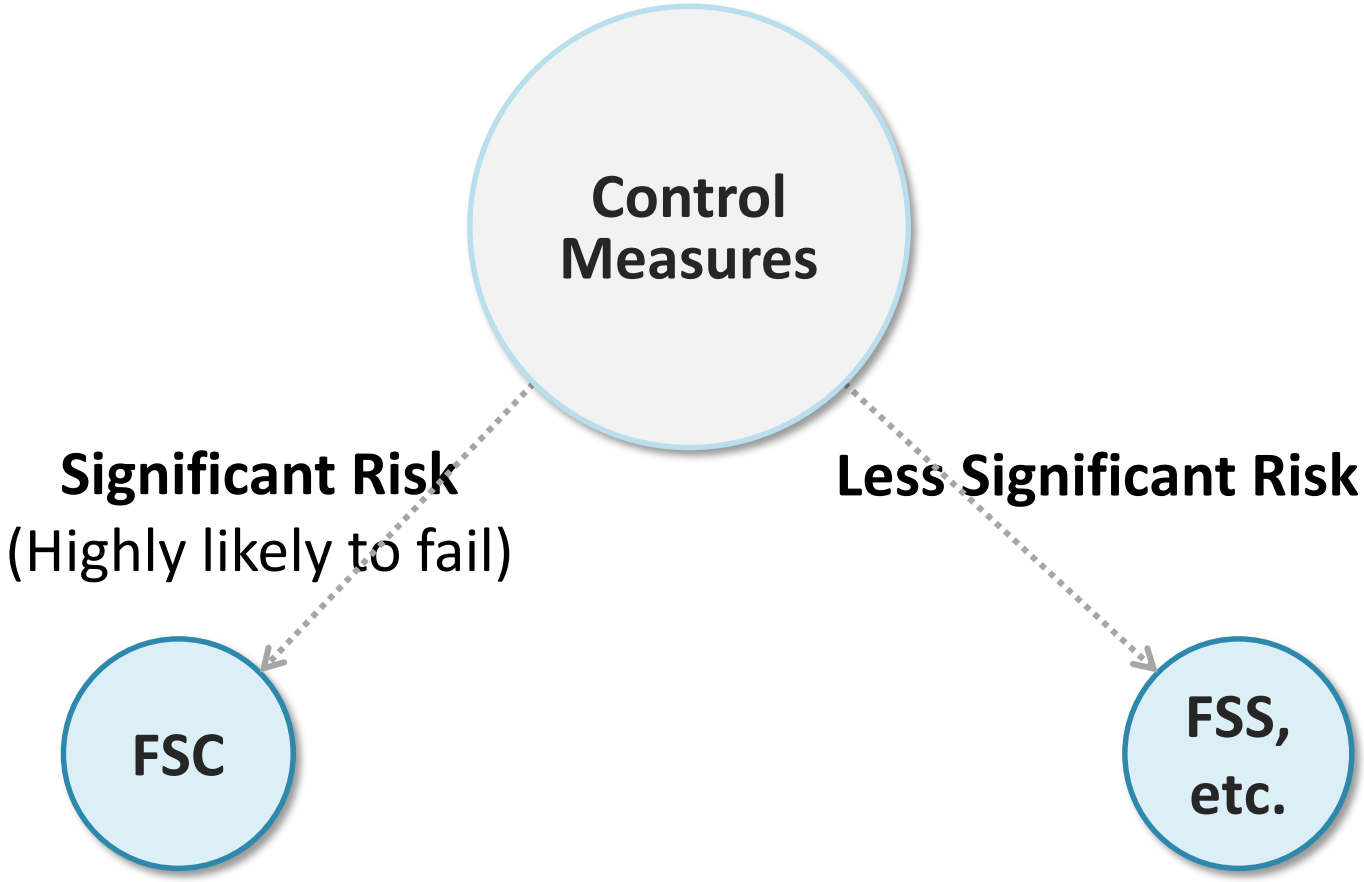
Different Risk Monitoring Levels

General	Watch	Priority Watch

4. On-site Monitoring

- Identifying target institutions
- Joint examination with supervisor
- On-site inspection by KDIC
- Interview/meeting with the Management or with the working level staff

5. Control Measures



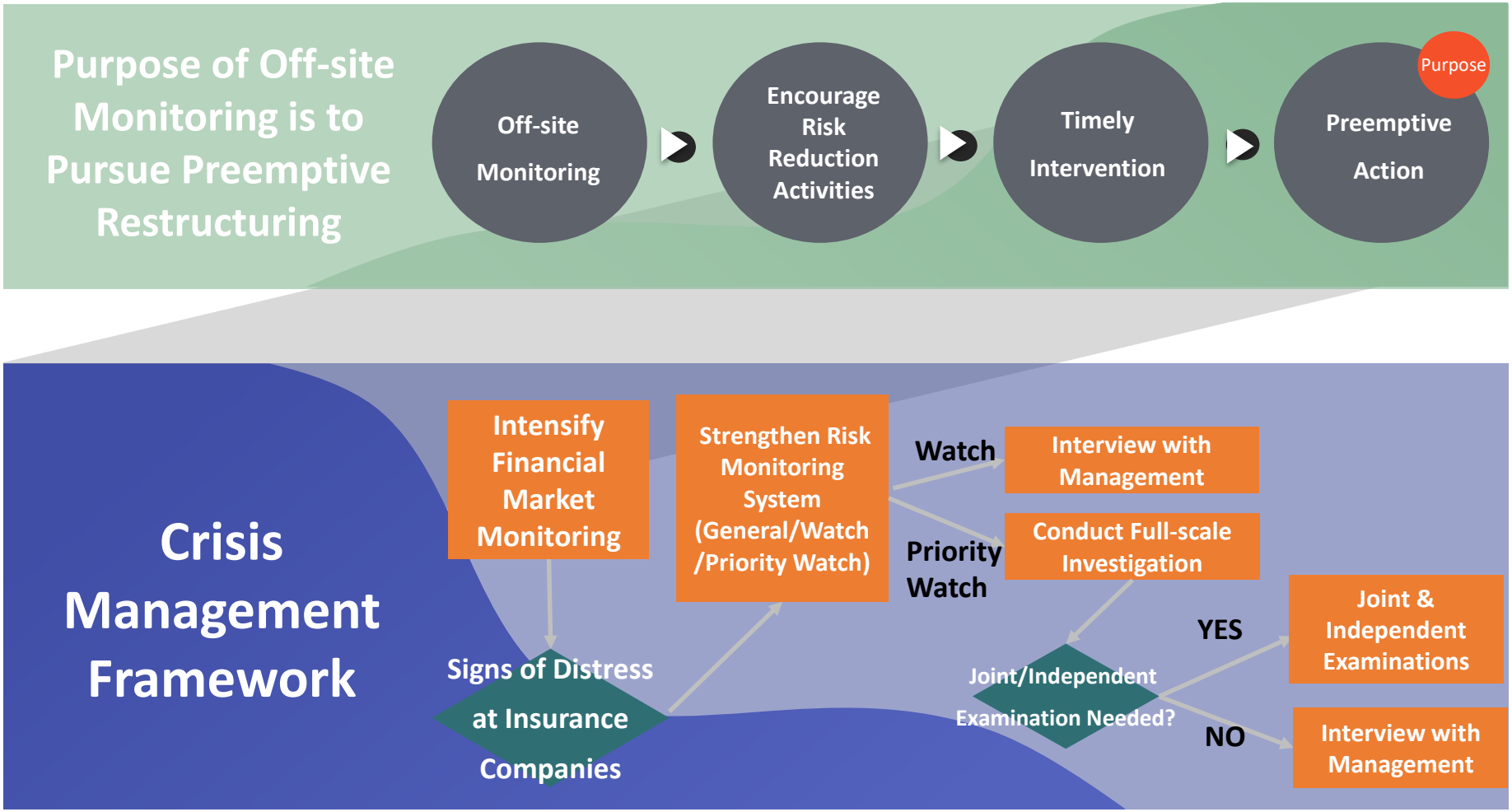
6. Feedback

Insurance Company
Policymakers
Financial Markets
Risk-based Premium Assessment

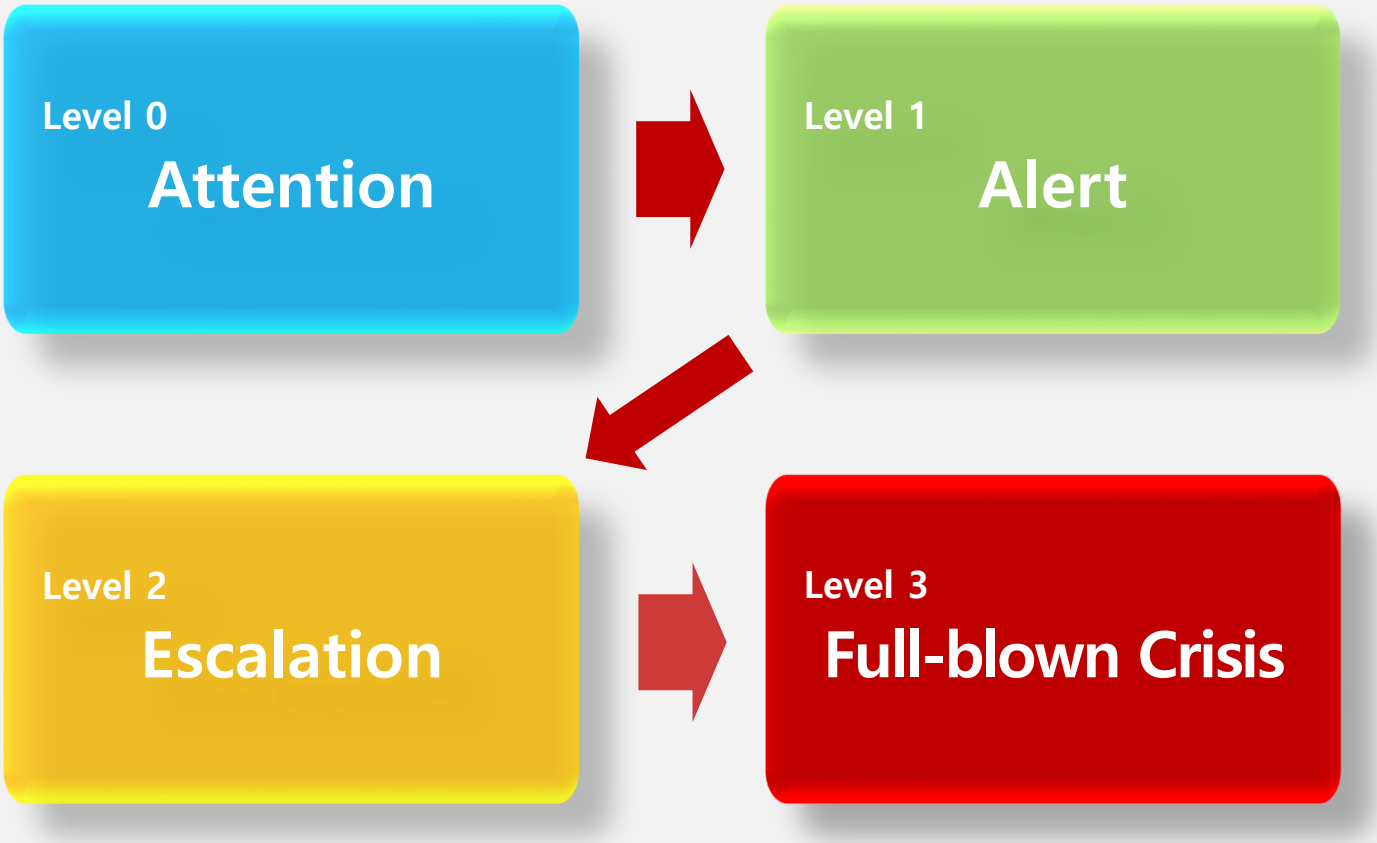
2. Preparing for Crises

- Crisis Management Framework
- KDIC's Crisis Diagnosis Level
- Emergency Risk Monitoring Committee
- Intensified Monitoring on Financial Markets
- Intensified Risk Monitoring Levels
- On-site Examinations
- Appointment of Conservators
- Responsibilities of Conservators
- Prevention of Insurance Runs
- Preparing for Insurance-Runs

1. Crisis Management Framework



2. KDIC's Crisis Diagnosis Level



3. Emergency Risk Monitoring Committee

Oversees the monitoring of financial markets in the event of crisis

4. Intensified Monitoring on Financial Markets

- Domestic Financial Markets
- Real Economy
- Overseas Markets
- Deposit Insurers from Overseas
- Regulators
- Insured Financial Institutions

Stress the importance of
RISK REDUCTION !

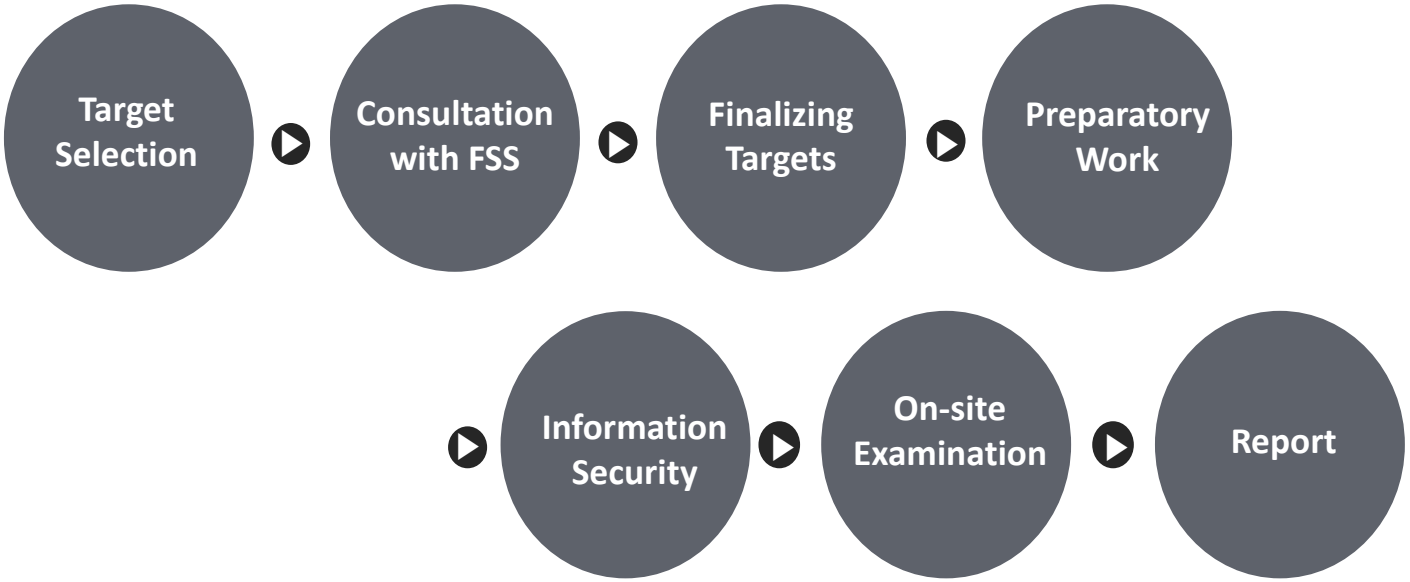
5. Intensified Risk Monitoring Levels

- Priority Watch Targets
- Special Task Force
- Revise Selection Criteria
- High Risk Watch List
- Conservator
- Non-financial Information Monitoring

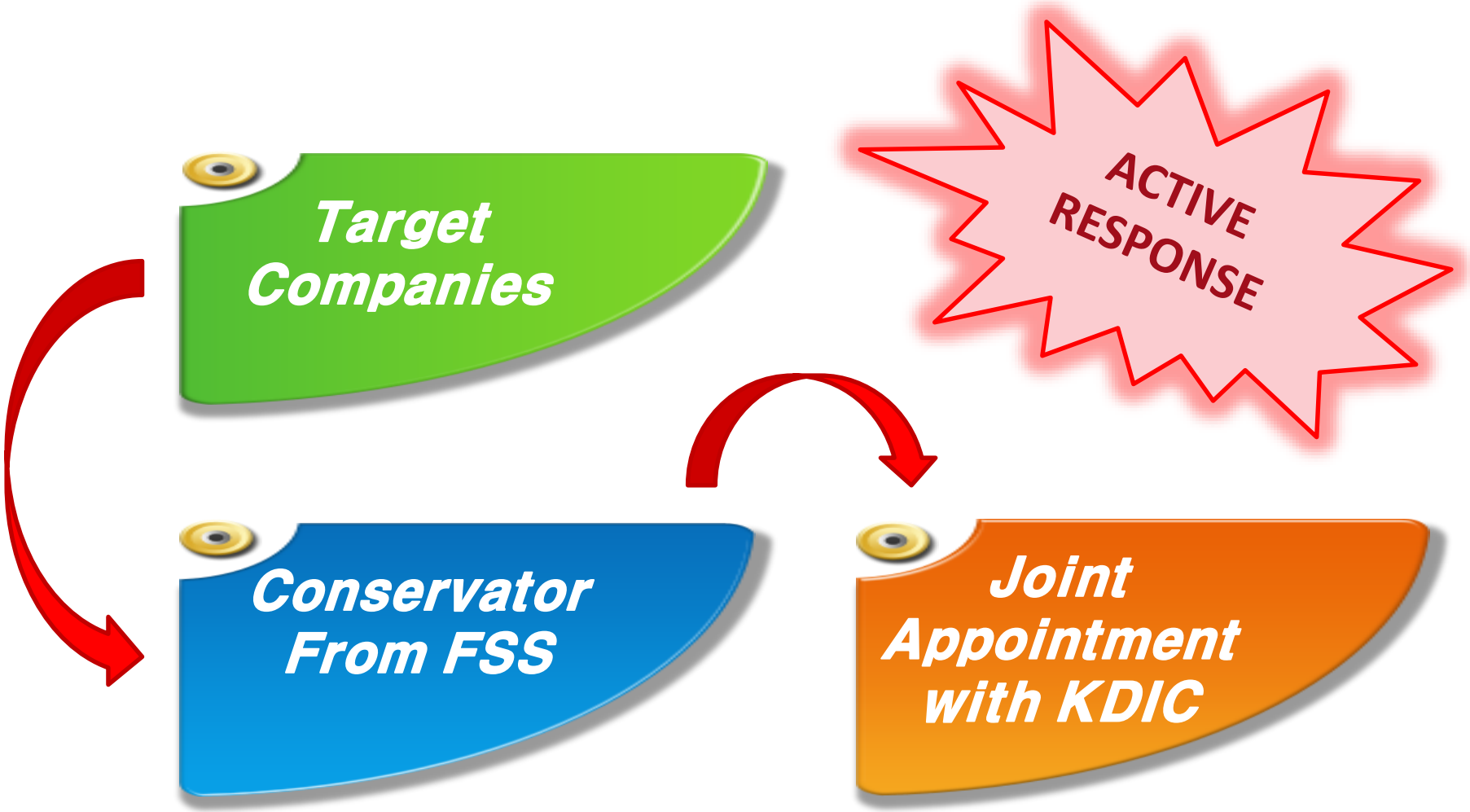
BE THOROUGH
and **ACT FAST !**

6. On-site Examinations

Scale up joint and independent examinations



7. Appointment of Conservators



8. Responsibilities of Conservators

Normal Times	Bank/Insurance Runs	Administratorship

FSS

- ✓ Re-examine Financial Reports
- ✓ Oversee Fraud & Illegal Activities
- ✓ Review conduction of Implemented Measures

KDIC

- ✓ Re-examine Financial Reports
- ✓ Prevent and prepare for possible Bank/Insurance Runs
- ✓ Plans to protect financial consumers

9. Prevention of Insurance Runs

Form a special task force

Post notices and utilise all communication channels

Prepare Q&A manual and complaint response system

Increase advertisement of DIS

Cooperate with other financial institutions and sectors

10. Preparing for Insurance-Runs

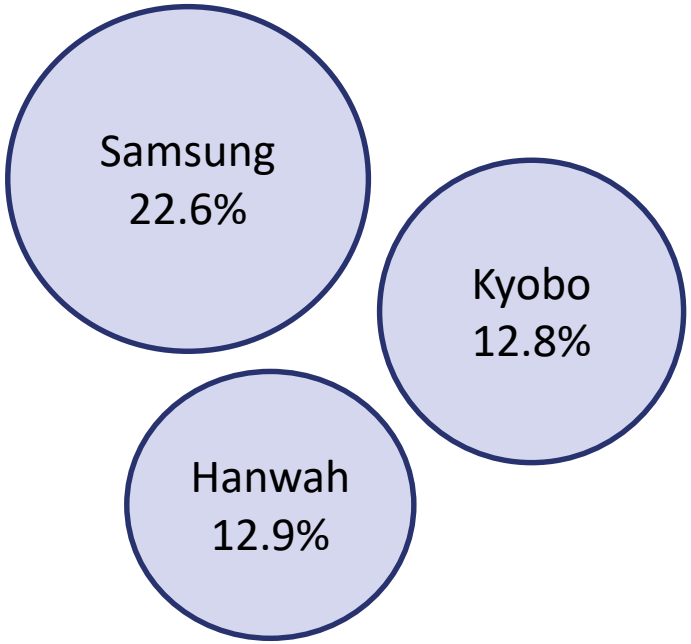
Timeline	Description
D−6	▪ Order 1st round of review to respond to insurance-run ○ Prepare separate office space, contact the media, check queuing ticket dispenser, etc. ○ Check notices affixed with wrong information on parent company ○ Identify in advance potential sources of complaint, such as mis-selling of subordinated debts
	▪ Set up contact with FSS (Discuss plans to assign personnel and divide R&R)
	▪ Determine required personnel under each scenario
	▪ Prepare (and complete) notice to depositors
	▪ Prepare to set up contact information for personnel assigned to briefing sessions
D−5 & 4	▪ Prepare training material for personnel
D−3	▪ 2nd round of review with conservator ○ Check for notice to be posted on website ○ Finalize number of customers to be handled a day at each branch
D−2	▪ Print training materials
D−1	▪ Finalize personnel to be deployed (consultation with FSS required)
	▪ Allocate personnel
	▪ Train personnel (distribute printouts)
D−day	▪ Be ready on-site 30 minutes before opening hours
D+~	▪ Hold briefing session and report to supervisor ▪ Step-by-step response to the insurance-run

3. Potential Risks and Future Outlook

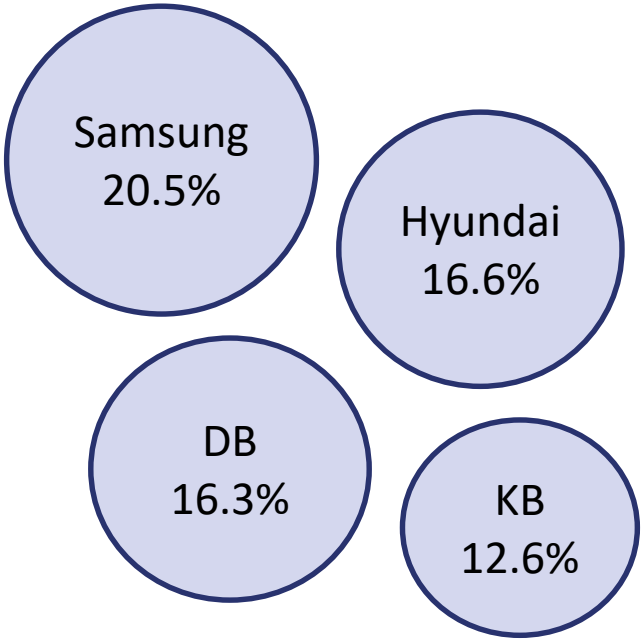
- Current Market Concentration
- Possible Courses of Failures
- Risk Factors in Each Insurance Sector
- Future Outlook

1. Current Market Concentration

The Big 3 life insurers and Big 4 non-life insurers dominate the insurance market in Korea



Market share in **life** insurance market
(as of 2022 Q3)



Market share in **non-life** insurance market
(as of 2022 Q3)

2. Possible Courses of Failures

- Economic downturn and insurance markets contraction
- Prolonged low interest rate environment
- Global-wide credit crisis
- Arise of new types of risks

Insurance Events

3. Risk Factors in Each Insurance Sector

Common Risk Factors

- ✓ Low disposable income
- ✓ Contract cancellations
- ✓ Underwriting

Life Insurance

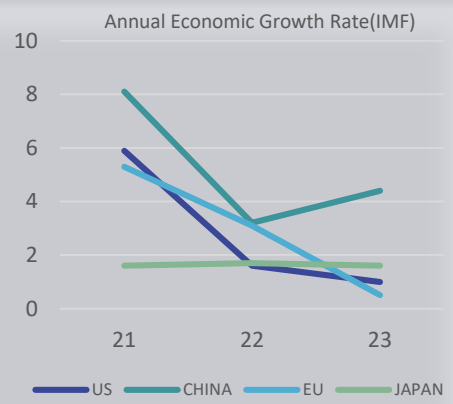
- ✓ Characteristics of life insurance
- ✓ Insurance frauds

Non-life Insurance

- ✓ Characteristics of non-life insurance
- ✓ Long-term viability

4. Future Outlook

Economic Outlook



High Inflation
High Interest Rate
Low Growth Rate

Challenges

Volatility in 2023

BUT

Risk Level

Negative Growth in Insurance Industry

Opportunities

Chance to re-price the risk

Prove the value of insurance in times of crisis

* Source : KIRI