IFIGS
Success Stories

Featured Insolvency

- ***Company*** **Korea Life Insurance (KLI)**
  (Currently Hanwha Life Insurance)
- ***Insurance*** **Life Insurance**
- ***Country*** **South Korea**
- ***IGS*** ***Korea Deposit Insurance Corporation (KDIC)***

About Korea Life Insurance

Korea Life Insurance (KLI) was founded as South Korea's first life insurance company in 1946, and was one of the top life insurers in the country in late 1990s. As of end of fiscal year 1998, KLI accounted for 17.7% of gross written premium in the life insurance market (3rd among 27 players), and had a massive sales force of over 48 thousand insurance agents.

However, in the aftermath of the 1997 Asian Financial Crisis, an assessment conducted by the financial supervisory authority at the year-end 1998 revealed KLI's liabilities far exceeded its assets, as summarized below:

- Total Assets: KRW 11.5 tril. (USD 8.04 bil.)
- Total Liabilities: KRW 14.4 tril. (USD 10.06 bil.)
- Net equity (Total Assets – Total Liabilities): KRW -2.9 tril. (USD -2.03 bil.)

The KLI was declared insolvent on September 23, 1999, marking the largest life insurer insolvency in Korea's history.

Causes of the KLI Failure

Key contributing factors to the failure of KLI included:

- *Aggressive business expansion and imprudent affiliated lending* – The company expanded beyond its core insurance business into 21 affiliated companies (including construction, hotels, salt refining, pharmaceuticals, deep-sea fishing, and gas stations). Loans were extended without proper assessment of repayment capacity or adequate collateral arrangements, resulting in losses of KRW 2.27 tril. (USD 1.58 bil.).
- *Equity investments in distressed banks* – The acquisition and holding of shares in several distressed domestic banks, including Kyonggi Bank, Seoul Bank, Cheil Bank, and Chohung Bank, resulted in losses of KRW 0.29 tril. (USD 203 mil.).
- *Non-performing loans to large conglomerates* – Lending to major conglomerates such as Daewoo Group, Kia Motors, and Jinro resulted in losses of KRW 0.28 tril. (USD 192 mil.).
- *Misappropriation of company funds* – Unauthorized use of company funds, including embezzlement by former Chairman of KLI resulted in losses of KRW 0.27 tril. (USD 191 mil.).
- *Imprudent overseas investments* – Investments in overseas derivative financial products resulted in losses of KRW 0.20 tril. (USD 139 mil.).

KDIC's Key Roles in the Resolution of Korea Life Insurance

Immediately after the declaration of KLI's insolvency in 1999, KDIC proceeded with the resolution measures as follows:

1. ***Financial Assistance*** – The KDIC made equity investments totaling KRW 3.55 tril. (USD 2.47 bil.) in KLI financed by public funds. In October 1999, KRW 50 bil. (USD 35 mil.) was initially injected to maintain the minimum capital requirement. Subsequently, in November 1999, KRW 2 tril. (USD 1.39 bil.) – equivalent to approximately 60% of KLI's net asset shortage – was injected, taking into account the results of due diligence and the issuance limit of the public fund bonds. In September 2001, an additional KRW 1.5 tril. (USD 1.05 bil.) was injected to facilitate the sale of KLI.

*2.****Business Normalization*** – In order to expedite the recovery of corporate value and injected public funds, the KDIC entered into MOU on business normalization with KLI in April 2000. Quarterly targets for KLI were imposed and progress was monitored. In addition to financial targets, such as the solvency ratio and net income, the monitoring items included performance in restructuring of affiliated companies and the recovery of non-performing loans to affiliates – both of which had been major sources of KLI's financial distress. As a result of these efforts, KLI's net income improved significantly over just three years, turning from a loss of KRW 814.4 bil. (USD 568 mil.) at the end of FY1999 to a profit of KRW 979.4 bil. (USD 683 mil.) at the end of FY2002.

3. ***Sale of Controlling Stake*** – Progress in business normalization set the stage for the sale of KLI. In August 2001, the KDIC sent a teaser letter to 64 financial institutions worldwide, inviting expressions of interest in the acquisition of KLI. After several rounds of negotiations over a nine-month period, a sale agreement was signed in October 2002 with the Hanwha consortium for KRW 1.615 tril. (USD 1.13 bil.), for a 51% equity stake with an option to acquire an additional 16% stake. In addition, the KDIC secured key governance rights, including the right to appoint directors and veto power. The agreement also included a five-year lock-up period on the acquired shares and a commitment to restrict new financial support to affiliates for three years.

KDIC's Recovery Efforts

Following the sale of its controlling stake, the KDIC recovered its capital injection through the IPO of Hanwha Life Insurance (formerly KLI) and subsequent block sales and dividends between 2010 and 2024. As of the end of April 2026, the KDIC has recovered KRW 2.52 tril. (USD 1.76 bil.), representing 71% of the principal investment.

Note: USD equivalents are calculated at KRW 1,434.90/USD, based on the BOK's 2025 year-end rate.

About KDIC

The Korea Deposit Insurance Corporation (KDIC) is the integrated deposit insurer, covering broad financial sectors including insurance (life and non-life) companies, banks, investment traders, brokers, insurance companies and mutual savings banks in Korea. KDIC was established in 1996, after the legislation of the Depositor Protection Act (DPA) in 1995. Thereafter, Korea has been acting as a pillar of support that safeguards the financial markets, depositors and policyholders in Korea, as evidenced by its successful restructuring of financial institutions in the course of overcoming 1997 Asian Financial Crisis and the savings bank crisis in 2011. Since the establishment, KDIC has participated in the resolution of 545 financial institutions, including 15 life insurers and 6 non-life insurers.