Korea Deposit
Insurance Corporation

Insurance Guarantee Scheme in Korea and its Challenges

KOREA DEPOSIT
INSURANCE CORPORATION

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Firefighters for the Financial Industry!!

I. Overview of the KDIC

- **(A Unique Feature)** Integrated protection scheme for 6 financial sectors*

  * banks, investment companies, life & non-life insurers, merchant banks, mutual savings banks (MSBs)

- **(Risk Minimizer*)** with broad mandate and powers

  * A protection scheme which has comprehensive risk minimization functions that include risk assessment/ management, a full suite of early intervention and resolution powers, and in some cases prudential oversight responsibilities

- **(Coverage)** KRW 50 million (≈ USD 42,500) * USD 1 ≈ KRW 1,175

- **(Ex-ante Funding)** w/ Target Fund System & back-up funding arrangements

II. The Korean Deposit Insurance Scheme

- **303 member institutions in total**
- **Members' total assets: USD 3.5 tn, DI Fund Size: USD 3 bn**

(As of the end of June 2019, Unit: KRW trillion)

Sectors	No. of FIs	Total Assets	Insurable Deposits[1)]	Premium Rates[2)] (assessment base)	DI Fund Size (as % of 1))	Target Fund Size (as % of 1))
Banks	55	2,554	1,281	0.08% (insurable deposits)	9.2 (0.7%)	10.6-14.1 (0.825%-1.100%)
Investment Companies	123	490	29	0.15% (cash balance in customer's account)	0.3 (1.1%)	0.2-0.3 (0.825%-1.100%)
MSBs	80	71	57	0.40% (insurable deposits)	-1.7 (-3.0%)	0.9-1.1 (1.650%-1.925%)
Merchant Banks	1	3	1	0.15% (insurable deposits)	0.03 (2.3%)	-

1) (as for banks, MSBs, merchant banks) insurable deposits, (as for investment companies) cash balance in customer's account, (as for insurers) policy reserves
2) Standard rates. The rates are adjusted for each institution based on the results of risk-based assessment (-7% - +7%)

II. The Korean Insurance Guarantee Scheme

- **44 member insurers**
- **Insurers' total assets: USD 1 tn, Size of DI Fund for insurers: USD 5 bn**

(As of the end of June 2019, Unit: KRW trillion)

Sectors	No. of FIs	Total Assets	Insurable Deposits[1)]	Premium Rates[2)] (assessment base)	DI Fund Size (as % of 1))	Target Fund Size (as % of 1))
Life Insurers	24	890	594	0.15% [(policy reserves+ premium income)/2]	5.0 (0.8%)	3.9-5.6 (0.660%-0.935%)
Non-life Insurers	20	291	193	0.15% [(policy reserves+ premium income)/2]	1.4 (0.7%)	1.6-2.1 (0.825%-1.100%)

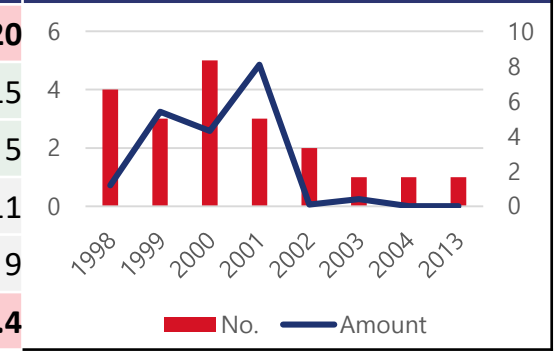
1) (as for banks, MSBs, merchant banks) insurable deposits, (as for investment companies) cash balance in customer's account, (as for insurers) policy reserves
2) Standard rates. The rates are adjusted for each institution based on the results of risk-based assessment (-7% - +7%)

III. Failed Insurer Resolution since 1998

- **In past 20 failure resolutions, all the policyholders of the failed insurers received full protection.**

(As of the end of June 2019, Unit: KRW trillion)

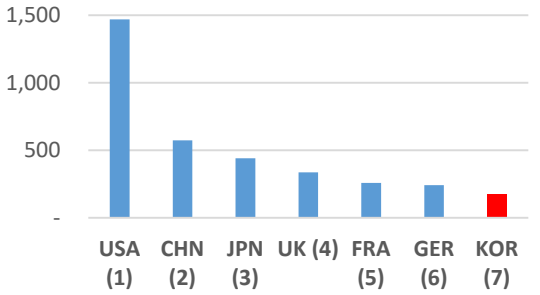
Categories		1998	1999	2000	2001	2002	2003	2004	2013	Total
No. of Failures		**4**	**3**	**5**	**3**	**2**	**1**	**1**	**1**	**20**
Type	Life	4	2	5	2	-	1	1	-	15
	Non-life	-	1	-	1	2	-	-	1	5
Method	P&A	4	1	-	2	1	1	1	1	11
	OBA	-	2	5	1	1	-	-	-	9
Fin. Assistance		**1.1**	**5.4**	**4.3**	**8.1**	**0.1**	**0.4**	**-**	**-**	**19.4**



IV. The Korean Insurance Industry

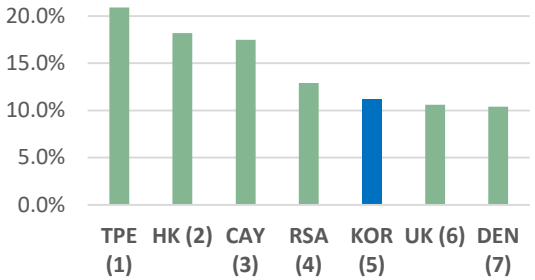
- **Insurance industry in Korea** is rapidly **maturing.**

(Unit: USD billion, Source: Swiss Re)



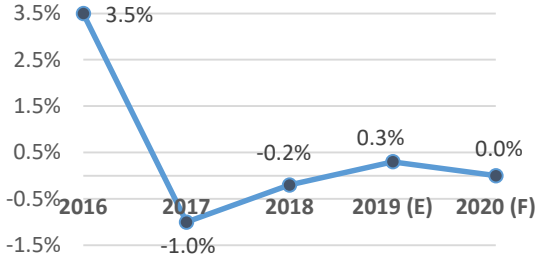
[Total Premium Volume in 2018 (Ranking)]

(Premiums as a % of GDP, Source: Swiss Re)



[Insurance Penetration in 2018 (Ranking)]

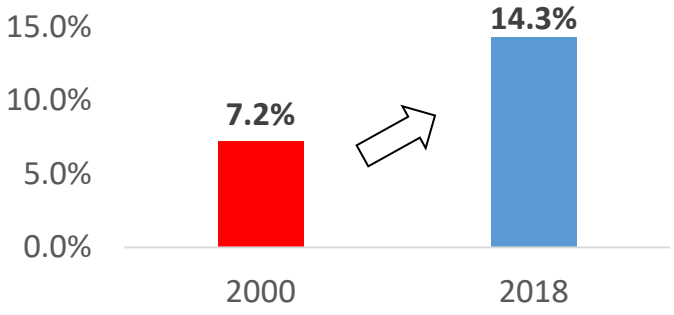
(Source: KIRI)



[Premium Income Growth Forecast]

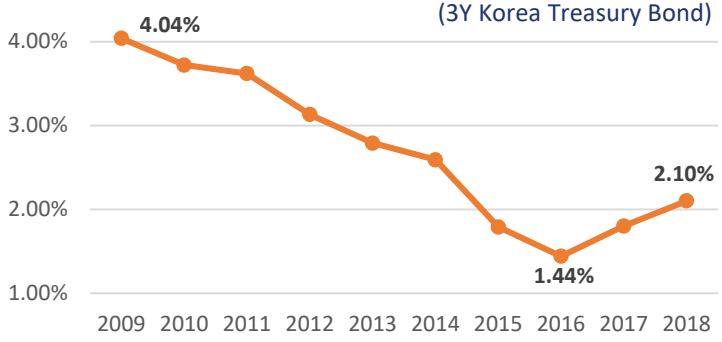
- **Structural problems** are impeding the industry.

(Portion of Aged Population, Source: KIRI)



[From Ageing to Aged Society]

(3Y Korea Treasury Bond)



[Low Interest Rates]

V. Challenges to the KDIC

1. Insurers are requesting the KDIC to lower DI Premium

Ample Size of DI Fund

Banks (KRW tn.)		LIs
2,554	Total Assets	890
9.2	DI Fund	5.0
0.08%	Pre. Rate	0.15%

Deteriorating Profits

- Low interest rates
- Adverse demographic trends

New Regulations

Implementation of IFRS 17 & K-ICS (2022)
→ Need to raise more capital!

- **The KDIC is continuing to develop reasonable measures in response to this.**

V. Challenges to the KDIC

2. KDIC is trying to improve its Risk-based Premium System.

Current Premium Level	Rationale	Future Premium Level
3 grades (-7% - +7%) - G1: 13.95bp (-7%) - G2: 15bp (standard) - G3: 16.05bp (+7%)	• Methodology sophistication • Encourage sound management	5 grades (Under construction)

Thank you for your kind attention!