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Press Release

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Introduction of "Third Insurance" with Cash Value and Bancassurance Supervision

Bancassurance was first introduced in August, 2003, to help consumers purchase insurance at a lower cost and improve market efficiency. In light of the potential impact of bancassurance on the insurance market, a phase-in approach was adopted. Under this approach, sale of savings-type insurance began in August, 2003. This was followed by the sale of exclusively protection-type "third insurance" providing coverage against illnesses and injuries as well as post-illness and post-injury risks in April, 2005. In October, the sale of third insurance with cash value at maturity (TICV) is set to begin.

Sales of Bancassurance Products

During the second phase of bancassurance (April, 2005, to June, 2006), sales totaled KRW7.3 trillion–KRW6.2 trillion for life and KRW1.1 trillion non-life insurance products–on earned premium basis. With earned premium rising more than 30% in FY2005, the growth outlook on the bancassurance market looks positive. Nearly all of the bancassurance sales (98.9%) were made through banks. Kookmin Bank and Shinhan Bank held 28.8% and 19.4%, respectively, of the sales.

Sales of Bancassurance

(In KRW, billions)

	First Phase*	Second Phase				Change (Percent Change)	
	FY2004	Q1, FY2005	FY2005	Q1, FY2006	Total	FY04-05	Q1-Q1
Life	3,736.4	973.5	4,860.3	1,343.2	6,203.5	1,123.9 (30.1%)	369.7 (38.0%)
Non-Life	453.8	180.1	837.0	267.9	1,104.9	383.2 (84.4%)	87.8 (48.8%)
Total	4,190.2	1,153.6	5,697.3	1,611.1	7,308.4	1,507.1 (36.0%)	457.5 (39.7%)

Note: Figures for the first phase (August, 2003-March, 2005) are from April, 2004, to March, 2005. All the figures are computed on an earned premium basis.

Market for TICV

The market for TICV, which is set to begin in October, is estimated at KRW12.7 trillion–KRW7.9 trillion for life and KRW4.8 trillion for non-life insurance products–a year, approximately 14% of the insurance market.

When the third-phase bancassurance commences, insurance products that can be sold through banks and other financial institutions are expected to account for 51.5% of life insurance products and 36.1% of non-life insurance products.

Market Size of Bancassurance
(Based on FY2005)

	Products Sold	Life		Non-Life	
		Market Share	Cumulative	Market Share	Cumulative
1st Phase (Aug. 2003)	Savings-type, credit products, others	38.0%	38.0	15.4%	15.4
2nd Phase (Apr. 2005)	Exclusively protection-type, third insurance	0.6%	38.6	2.2%	17.6
3rd Phase (Oct. 2006)	**TICV**	**12.9%**	**51.5**	**18.5%**	**36.1**
4th Phase (Apr. 2008)	Auto, other protection-type	30.9%	82.4	40.2%	76.3
Non-approved	Group insurance, others	17.6%	100	23.7%	100

Tax Benefits of TICV

Consumers are expected to benefit from, among others, tax deductions and longer-term policies with TICV, a protection-type insurance that allows up to KRW1 million in deductions from the policyholder's taxable income. The policy term for savings-type insurance is limited to 15 years (non-life), but no such term restriction is applicable to TICV as it is a protection-type insurance.

Upsides of TICV

Consumers will also benefit from wider choices in insurance products with the addition of TICV to the savings-type and exclusively protection-type products already available to them. Because of strong consumer preference for TICV, there were indications that the sale of exclusively protection-type third insurance products that began in April, 2005, has been limited. As with other bancassurance products, consumers will be able to purchase TICV at a comparatively lower price than the price of non-bancassurance products.

With the so-called "25% rule" that took effect in April, 2005, the market shares of the smaller insurance providers, particularly those with tie-up arrangements with banks, are expected to grow further with the introduction of TICV. Under the 25% rule, the sale of insurance products from a single insurance provider is limited to 25% of the total sales of a bank branch and other such outlets. The introduction of TICV will also mean more diverse product line-up and sales revenue for bancassurance sellers.

Potential Downsides of TICV

Because of TICV's comparatively low prices, there is a concern that consumers may be pressured into purchasing TICV as a tie-in product for bank loans. This may be particularly true for TICV products with low redemption amount. In addition, because the standard expense guidelines for new policies provide for higher expense limit for TICV than for savings-type products, consumers may in effect pay higher premium for TICV products when the redemption rate and benefits are similar.

For insurance providers, TICV may pose greater underwriting risks than others because of the long-term nature of the illness and injury coverage offered. When selling TICV products with policy term longer than twenty years and fixed interest rate structure, insurance providers will need to deal with added interest rate risk.

Bancassurance Supervision

Supervision of bancassurance will focus on a number of areas to protect consumers and enforce sound bancassurance sales practices. They include the following:

- Encourage products with simple, straightforward protection provisions

  Insurance providers will be encouraged to develop products with simple and straightforward protection provisions to make it easier for bancassurance sellers to fully inform and advise consumers of the products they sell.

- Encourage products with variable interest rate and adjustable premium

  More insurance products with variable interest rate and adjustable premium will be encouraged as a way to reduce interest rate risk and to better hedge against the underlying risk profiles of policyholders.

- Discourage products with features disadvantageous to consumers

  Products that provide a level of protection similar to that of savings-type products but charge higher premiums to consumers (and thus enable banks and other bancassurance sellers to generate higher sales commissions) will be strongly discouraged.

- Conduct sales training and monitoring

Bancassurance sellers will be expected to conduct effective and thorough training of the sales staff and maintain monitoring systems in order to prevent mis-selling of insurance products.

The policyholder certification that will take effect later this year is also expected to significantly reduce instances of mis-selling. Under the new mandatory policyholder certification, bancassurance sellers must explain the key provisions as well as frequent consumer complaints of policies they sell to customers and receive a certification of the performance of their duties from their customers.

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