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Press Release

June 29, 2010

AMENDMENTS TO THE INSURANCE BUSINESS ACT

Amendments to the Insurance Business Act were passed at the National Assembly June 29, 2010 to strengthen insurance consumer protection.

<Major changes>

1. Strengthening insurance consumer protection

- (1) Insurers are subject to a stricter obligation to inform consumers of their insurance products. Selling their insurance policies, insurers have to provide prior information on their policies such as contract terms and conditions in which benefit payments are denied and receive consumers' written consent. In violation of the obligation, an insurance company has to pay a fine of up to 20% of premium payments, or sales representatives and sales agencies are subject to a 20 million won or less fine.
- (2) The amended Act adopted a suitability or "Know-Your-Client" principle. Under the principle, insurers have to be well informed of consumers' income, wealth, and investment purpose and recommend appropriate products that meet consumers' needs. The principle will be applied first to universal insurance products.
- (3) In order to protect consumers from false or exaggerated advertisements, the amended Act specifies what should be included or not when advertising insurance products. Advertisements should include prior notices that recommend consumers to read brochures, contract terms and conditions, warning against possible loss of the principal. By omitting or providing insufficient information, advertisements should not mislead consumers to believe that benefit payments are fully guaranteed without any condition. Consumers should be well informed of the maximum amount of benefits, conditions to deny benefit payments, and immunity clauses.
- (4) For insurance contracts specified in the Presidential Decree (e.g. medical reimbursement insurance), it is an insurer's obligation to confirm whether a consumer already has the insurance.
- (5) Insurers have to specify in their brochures conditions in which benefit payments are denied.
- (6) Policy holders are allowed to confirm, withdraw, and cancel* their contracts by phone, mail, or on-line.



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*Cancellation via phone, mail or on-line is allowed only when it is agreed upon signing a contract.

- (7) Sales practices exploiting a creditor-debtor relationship are prohibited. Insurers should not refuse selling insurance policies to the handicapped without legitimate reasons.
- (8) Insurers should not force borrowers against their will to buy insurance policies in exchange for extending loans. Asking for collateral or cross-guarantees is also prohibited.
- (9) Insurers who violate obligations specified in basic documents by intentionally delaying or refusing benefit payments will face punitive measures such as suspension of business.
- (10) Insurers have to conduct a “readability test” to evaluate consumers’ understanding of policy contracts and disclose the results.

2. Reforming processes to develop and review insurance products

The amended Act allows insurers to invent and sell most of insurance product as they want, not subject to prior regulations so that more innovative and creative products become available. Previously, 90 % of insurance products had to be submitted for approval and the rest 10% had to be reported before being marketed. All products had to go through a three-phase review by actuaries, the Korea Insurance Development Institute (KIDI) and the Financial Supervisory Service (FSS).

With the amendments, 75%~85% of products are to be allowed to just go through an internal review process by each individual company, while 15%~25% still need to go through a three-phase review process as previously done.

3. Strengthening prerequisite qualifications for outside directors

A person who has conflict of interest with an insurance company, specified in the Presidential Decree, shall not be appointed as an outside director.



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