FSC Releases Revised Insurance Supervision Regulations to Introduce Coinsurance for Insurance Companies

On January 30, 2020, the Financial Services Commission (the "FSC") released the Coinsurance Introduction Plan, being the first phase of its insurance liability restructuring plan.

Background:

In response to the planned implementation of the International Financial Reporting Standards 17 (IFRS17) and the new Korean Insurance Capital Standards (K-ICS) for the insurance industry in 2022, insurance companies have been making efforts to secure capital by, among others, issuing subordinated bonds and increasing its investment in long-term government bonds. However, securing capital has been rather limited. In this regard, the FSC's Plan has been released to allow insurance companies to utilize coinsurance to reduce insurance liabilities.

Reinsurance is known as a type of insurance for insurers, whereby insurers transfer part of their risk portfolios to other parties by some form of agreement to lessen the likelihood of paying a large obligation resulting from an insurance claim. It is classified into two types: (i) general coinsurance, which cedes both managed asset and liability reserve to reinsurance companies; and (ii) modified coinsurance, which owns and manages asset while ceding liability reserves (debt) to reinsurance companies.

Details of Regulations for Implementation of the Plan:

On February 6, 2020, the FSC released the revised regulation for insurance supervision, which mandates that: (i) any interest risk ceded through reinsurance be reflected in the Insurance Capital Standards, (ii) only proportional reinsurance – not all types of reinsurance – be allowed, (iii) a reporting of any reinsurance policy that is executed or amended be completed within one month of execution or amendment, and (iv) that all reinsurance companies meet certain eligibility requirements (i.e., financial soundness and investment requirements). Further, if a reinsurance company loses its status, such insurance company must submit a response plan to the Head of the Financial Supervisory Service within one month of losing such status.

Next Steps:

According to the FSC's press release, in response to IFRS 17 and K-ICS, the adoption of other insurance liability restructuring plans (including repurchase of insurance liabilities, transfer of agreements) is to be reviewed, indicating that other insurance liability restructuring plans may be implemented, which could provide further relief to insurance companies.

About Shin & Kim's Insurance Practice:

Our Insurance practice is comprised of professionals with in-depth knowledge and broad experience, both domestically and internationally. Among our industry experts are former high-ranking government officials, including financial regulatory authorities, as well as Korean and foreign-licensed lawyers with financial sector expertise, who collaborate to provide our clients with customized solutions. We are particularly known for our financial regulatory expertise and experience. We regularly advise top domestic and foreign-based insurance companies (including insurance agents, brokers, reinsurers, among others).

Should you have any questions or comments about the contents of this newsletter, please do not hesitate to contact us.

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