South Korea

Finance

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Overview

South Korea is the fourth largest economy in Asia and 12th in the world (IMF). It has a population of 50 million, and GDP per capita (PPP) of over US$31,000 and a predicted 3.8% GDP growth in 2014 (Bank of Korea). It is a G-20 major economy and a member of the OECD.

There are already 200 Korean companies with a presence in the UK, and 15 listed on the London Stock Exchange.

With the EU-Korea FTA taking effect from 1 July 2011, the market has become more attractive to foreign investors.

Korea has a highly developed and profitable financial services sector including the third largest insurance market and third largest banking market in Asia. The stability of the banking sector is underpinned by strong fundamentals and active regulation. At less than 1%, South Korea's non-performing loan ratio is low by regional standards.

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As international financial services groups look to develop their footprint in Asia, a presence in Korea is becoming desirable, perhaps essential.

Influence of the EU-Korea FTA

The European Union and Korea signed a Free Trade Agreement (FTA) resulting in the removal of 97% of all tariffs, and cutting €1.6bn of duties annually for EU exporters from July 2011.

The FTA contains provisions on services, public procurement, intellectual property and sustainable development as well as the liberalisation of goods tariffs.

However, the following issues in the financial service sector are still under negotiation with Korean government;

IT data transfer:

Restrictions on the sharing of information with offshore affiliates or head office. Some progress has been made. Korean regulators agreed that blanket consent for IT data transfer would suffice – one waiver per client would suffice for all transactions without individual consent for each transaction.

Outsourcing back-office functions:

Restrictions on the sharing of back office functions across affiliated group entities inside and outside Korea. This restriction would impose additional costs of £10-20 million for foreign firms setting-up operations locally. No signs of progress.

Real Name Act:

Need for consent of requirement of the RNA imposes a strict obligation on the industry to obtain consents from not only individual customers, but also corporate customers when transferring their financial transaction information to third parties. No signs of progress.

EU office and our economic section are working hard to solve the second and third issues with Korean authorities.

Sector Details

Banking

The Korean government is highly supportive toward domestic banking, suggesting that the government is highly likely to intervene directly and rescue failing banks. There has been track record of the government introducing various regulatory measures and providing support to the banking system in times of distress. This is because the Korean banks play a key role in providing funding to priority sectors of the economy. Due to these regulatory interventions foreign operators have struggled to lure customers from the well-established local banks.

However, some in the industry have been encouraged by hints of a change of stance from the authorities since the current President took office last year promising to spur growth in the country's service sector. The Financial Services Commission, the main regulatory body, has promised to increase the transparency of regulation and supervision, while facilitating the introduction of new financial products.

Asset management

Despite the low economy growth, Korea's asset management market is expected to grow continuously for several reasons; the capital shift from physical assets to financial assets, higher allocation to risky assets due to low interest rates, and the forming of a circle between the asset management market and institutional investors including pension funds.
Korea's asset management market is expected to grow from the current US$ 649 billion to between US$ 1,625 billion and US$1,783 billion in 2020, a more than 20% compound annual growth rate. The industry accounted for 47% of GDP in 2013, but this figure is expected to exceed 80% in 2020, which is lower than the US and the UK but higher than Japan and close to the EU average.

Presumably, the high growth will be driven by discretionary investment advising (US$ 1,123 bil in 2020) as opposed to funds. Two factors support this forecast: firstly, discretionary investment already surpassed the fund market in terms of size, and secondly, the current trend will accelerate if the rapid growth of pension funds facilitates institutionalisation in the capital markets.

Pension assets flow to the asset management market because the asset management industry is the core source of extra returns under the low-growth, low-rate environment. In Korea's ageing society, the asset management industry is expected to function as a safety net to create stable post-retirement income because it amplifies the long-term value of pension assets by providing tools for investment exit, inflation hedging, and higher returns.

South Korea's retirement pension fund has been growing at more than 100% per year, while the private pension fund has been expanding at an average of 15% per year. As of the end of 2013, the outstanding balance of retirement pension plans in Korea stood at US$ 66 billion and is likely to be US$ 371 billion by 2020. 93.4% of assets are invested in deposits, instalment savings, and insurance products that guarantee the principal.

In terms of pension plan management; banks consist of 51.0% and life insurance companies 23.8% and securities companies 17.6%. Banks and insurance companies have 93.1% and 96.5% of their pension balances invested in principal protected instruments, respectively, indicating a conservative approach in managing pension plans. Securities companies have a higher ratio of investment in dividend products than banks and insurance companies.

Personal pension are divided into pension savings plans, which are eligible for tax relief with paid premiums deducted from taxable income, and pension insurance (plans designed by life insurance companies), of which interest is tax-free for holders with effective plans of 10+ years. As of early 2013, the size of personal pension is US$212 billion and 31.9% of total pensions. The amount of aggregate funds from all pension savings product is US$ 77 billion and pension insurance products US$ 134.8 billion.

Insurance

In 2013, the total premium of the Korean insurance market was 13.32%, US$ 134.5 billion. This gave Korea a 2.8% share of the global insurance market; 8th in the world and 3rd in Asia. In terms of total assets, the Korean insurance industry grew by 21.1%, reaching US$ 618 billion in 2012. Life insurance accounted for the bulk of assets US$ 488.1 billion while non-life accounted for US$ 129 billion.

The popularity of banc assurance in distributing life insurance is expected to support segmental growth over the next five years. Following an increase in the accessibility of formal banking services for the South Korean population, banc assurance grew between 2008 and 2012. By 2013, it had become the largest distribution channel in the segment, representing 47.6% share of Korean's total life insurance new business written premium. Although there is no vertical integration between banks and insurers in South Korea, the country's leading life insurers, Samsung Life Insurance, Hanwha Life Insurance and Kyobo Life insurance, recorded increases in banc assurance revenues during

2009-2012. This channel is expected to retain its leading position over the next five years, with its market share anticipated to increase to 58.5% in 2017.

Insurance remains dominated by a small number of local players. Foreign entry in to the market has included both acquisition of existing companies and greenfield start-ups. Recent listings of life insurers may create new investment targets.
Korea's population is aging rapidly and this creates on-going demand for after-retirement protection-type products as well as health insurance products, including accident and illness, and medical expense coverage products are expected to drive this growth.

Sovereign Wealth Funds/Pension Funds

Particular opportunities for asset management and property management companies are to work alongside the likes of the National Pension Service ('NPS'). Their fund is the fourth largest pension fund in the world with assets of more than US$380 billion. They will have to outsource their increasing assets to more financial service companies, pushing up the demand for funds. They are already working with some UK asset and real estate management companies and purchased three iconic buildings in London including HSBC HQ in Canary Wharf and 12% of Gatwick Airport.

How can UKTI help?

Some companies find entering South Korea challenging. To address this, the UKTI team in South Korea has actively provided support to UK companies for many years. Some of the assistance we can offer includes:

- providing tailored overviews of the sector
- providing local contacts for your business
- identifying reliable and eligible agents/ distributors/partners
- identifying competitors
- supporting events and your visits

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