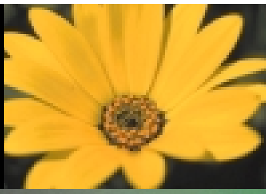
The digital revolution is expected to profoundly impact the **non-life insurance** sector with the emergence of new insurers capitalizing on IT infrastructure.

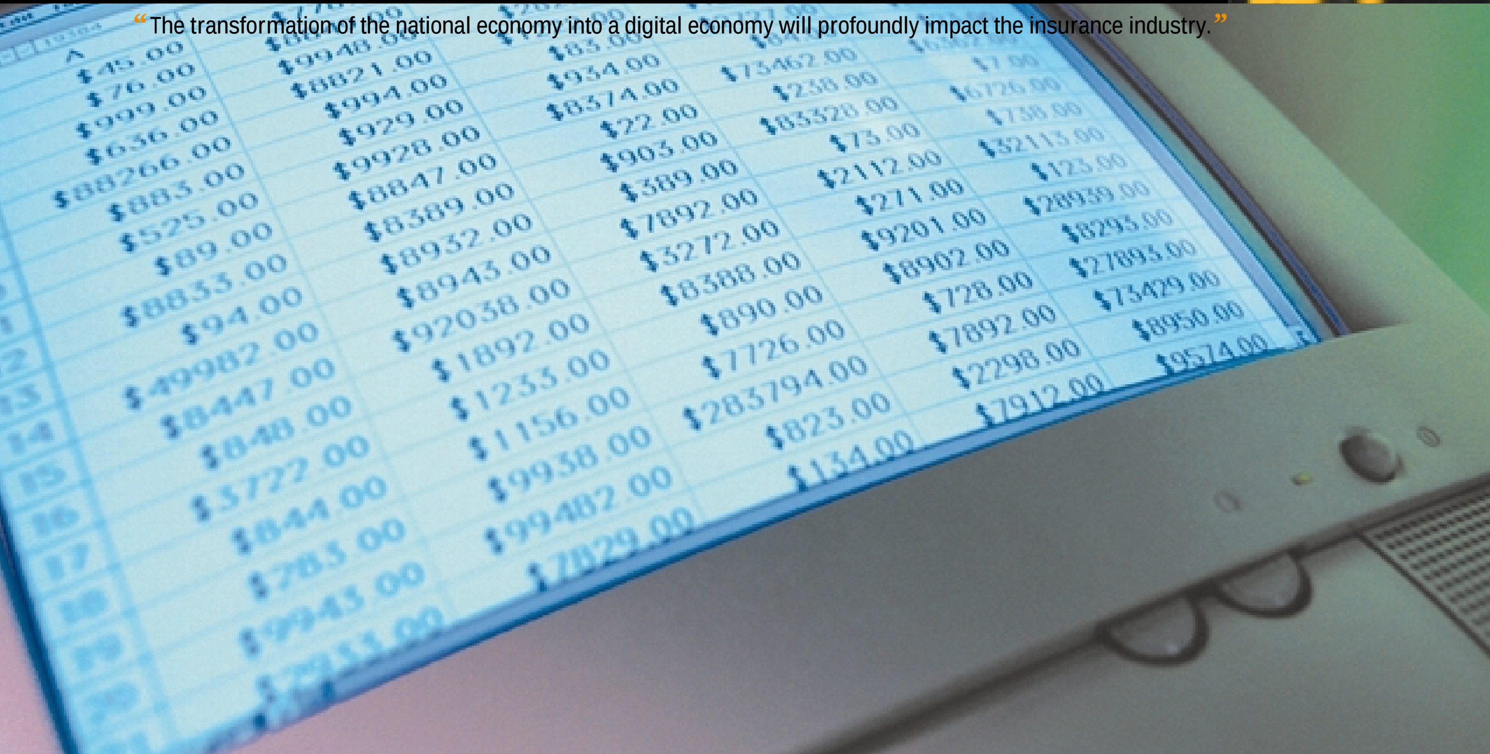
The financial crisis, which struck Korea in late 1997, has provided substantial momentum for reform of the domestic financial sector. In fact, reforms in the financial industry, which encompassed deregulation and freer competition, among other things, has been already well under way in many countries around the world since the 1980s. Although Korea had begun revamping the regulations and practices of its financial sector since the early 1990s in preparation for its entry into the OECD, the IMF regime, which imposed drastic measures to overcome the financial crisis, has proved a watershed in Korea's financial sector reform.

As for the current status of the non-life insurance sector, insurers are facing ever-increasing competition as a result of the relaxation of market entry restrictions, rate deregulation and growing demand for financial transparency of insurers (from both the authorities and consumers) as safeguards to ensure their managements soundness. The transformation process into a digital economy is also a key factor behind the ongoing reform efforts.

Non-life insurers are required to ensure transparency



"The transformation of the national economy into a digital economy will profoundly impact the insurance industry."



More stringent requirements for ensuring financial soundness

Relaxation of controls on the non-life insurance sector has been implemented in several regards. For example, various restrictions on entry into the non-life insurance sector have been lifted. In addition, required minimum capital for specific lines of business is now in effect, paving the way for the establishment of insurers that specialized in a line and online insurance firms. Furthermore, across-the-board rate liberalization is on the horizon, while insurers are now free to market new products based on self-appraised risk premiums.

As such, deregulation and freer competition are certain to intensify competition among insurers. Of note, wider opening of the financial market has exposed insurers to greater risks in terms of their business operations. In this vein, the financial authorities have introduced numerous safeguards to better ensure the transparency of non-life insurers and protect against the possibility of their insolvency arising from such heightened risks and competition. Examples of these measures include the following measures:

- February 1998 – The policyholder's surplus management scheme was replaced by a solvency system.
- December 1998 – New accounting regulations for insurers were adopted which required that current market values be used for the valuation of assets, in particular securities holdings. CAMELS system to assess the management soundness of non-life insurers, which the banking sector adopted effective October 1996, was introduced.
- September 2000 – Forward-Looking Criteria (FLC) was adopted

As compared to the previous asset classification criteria, the more stringent FLC is designed to closely monitor the asset quality of financial institutions so that signs of insolvency can be detected at an early stage and appropriate measures taken on a timely basis. In particular, the FLC calls for comprehensive evaluation of the overall credit risks of borrowers, including their business prospects and repayment ability.

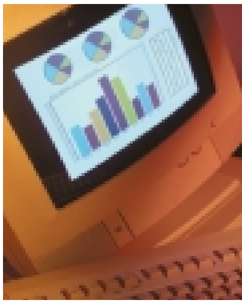
The transparency of financial institutions has become a critical factor for consumers who have witnessed the collapse of banks and other financial organizations. Thus, non-life insurers are also required to strengthen their financial health and efforts to ensure transparency.

Premium rate liberalization

Premium rates have been partially liberalized through 1999, with differentiated rates being applied for certain gross premiums, under the so-called limited pricing scheme. In general, domestic insurers have simply adopted the standard rates prepared by the Korea Insurance Development Institute, without computing their own rates. As a result, there had been little variation in premium rates adopted by insurers.

However, there has been a significant change to this situation as of April 1, 2000. Non-life insurers are now allowed to independently compute their load factors, thus enabling individual companies to reflect their management efficiency in their rates. At the same time, measures have been taken to lift controls on the assumptions for interest rates and risk rates used to compute net premiums for long-term lines and pension insurance. This enabled Dongbu to market a new type of automobile insurance to ensure the differentiation of its auto insurance products and services for its clients and to expand its market share in the early stages of insurance industry deregulation.

Meanwhile, pricing deregulation is most likely to witness the introduction of various marketing channels led by low-cost sales networks. Experience in advanced countries shows that full-fledged competition originating from premium rate liberalization will likely pave the way for new entrants which prefer direct marketing through low-cost phone calls and the Internet. Although intensified competition between new marketing channels and existing ones seems to be inevitable, existing sales channels are expected to coexist along with various direct marketing channels using the Internet, technical manuals and direct mail, instead of the collapse of existing personalized sales networks.



To keep pace with this trend of diversified marketing channels, the Company has put a mobile computing system in place, while pursuing gains in the efficiency and productivity for its existing sales channels. Dongbu has also strengthened its marketing alliances with commercial banks and Internet service providers.

e-Business for non-life insurance companies

The major tasks facing non-life insurers in the current volatile business environment can be summarized as follows:

- Increase financial soundness by maximizing profitability
- Fully utilize information technology to upgrade the overall management of non-life insurers
- Reengineer existing sales channels while developing a slew of new marketing channels

The digital revolution, which is centered on network economy, is expected to profoundly impact the non-life insurance sector. Today, Internet banking is on the rapid rise and online stock trading accounts for 70 to 80% of leading brokerage houses in Korea. Due to the complexity and technicality of non-life insurance products and the burden of self-autographing by policyholders, the impact of the Internet power on the insurance segment is not tangible at present. However, the emergence of new insurers capitalizing on IT infrastructure may change all this.

As a consequence, how to apply e-Business to which fields has now become an important task for non-life insurers that are earnestly pursuing for management efficiency and new business opportunities.