Business Profile of Taiwan’s Life Insurance Industry in the First Half Year of 2008

A. Statistic Overview

The total premium income of Taiwan’s life insurance industry in the first half year of 2008 was $1,006.1 billion dollars with growth rate of 9.22% compared to last year; within which the annual premium income of the first year was $480.7 billion representing 31.98% growth rate while the renewal premium income was $525.4 billion with 5.64% declining compared to last year (see figure 1). Although the premium income of the life insurance in the first half year had continuous growth and the growth rate of premium income of the first year insurers was much higher than the growth rate of total premium income, it was clearly declining when comparing the growth rate of first half year of 2007 to the same period in 2006 which was 20.23%. From the perspective of product type, the premium income of traditional products in the first half year of 2008 was $677.2 billion which covered 67.30% of the total premium income while the premium income of the investment-linked products was $328.9 billion, accounting for the total premium income of 32.70% (see figure 2). The structures of both premium income and products will be discussed further in the below paragraphs.

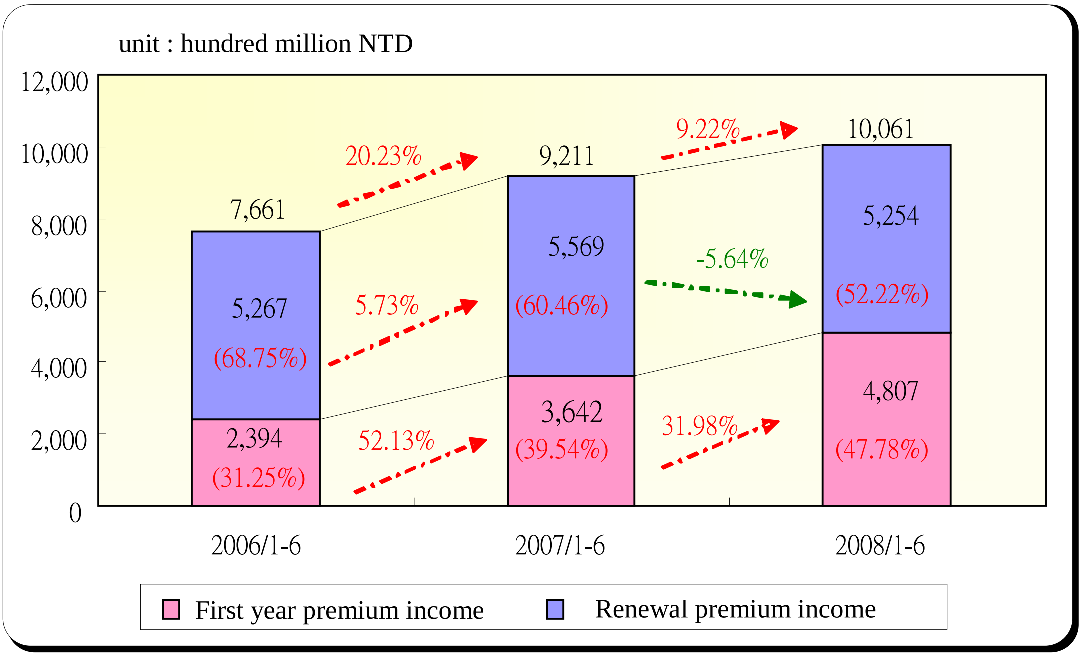

Figure 1 First year premium income and Renewal premium income and its market share (2006/1-6~2008/1-6)

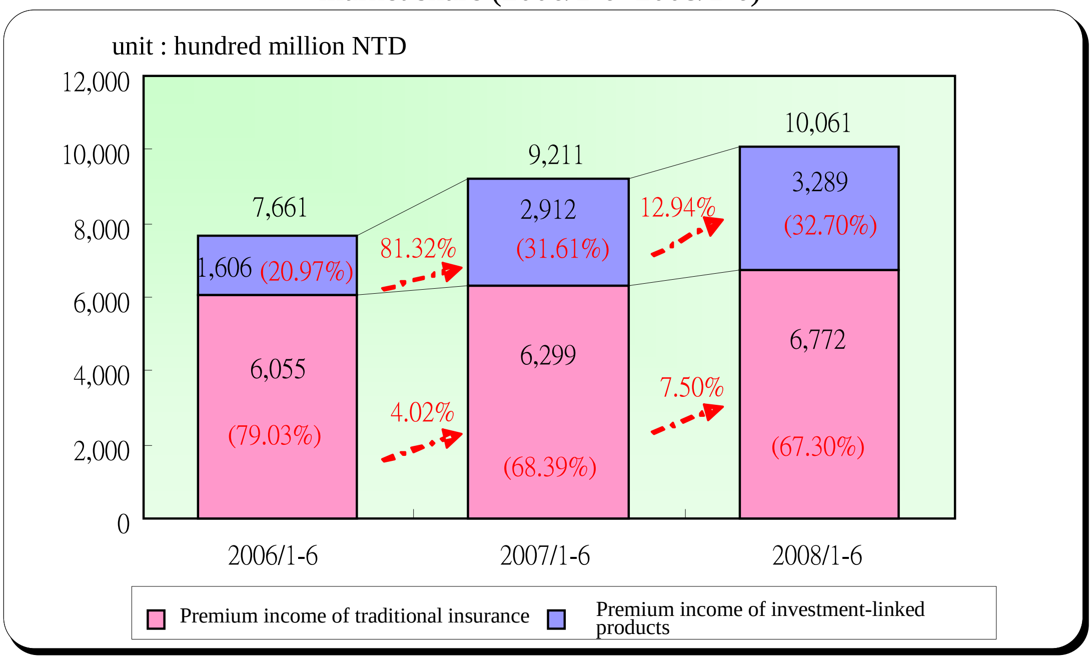

Figure 2 The share of traditional products and investment-linked products premium income (2006/1-6~2008/1-6)

(1) Structure of Premium Income

As for the structure of the premium income, the rate of the first year premium income within the total premium income had increased from 39.54% of the first half year in 2007 to 47.79% of the first half year of 2008 and within which the single premium accounted for had increased from 48.64% to 68.63% compared to the previous year of the same period. On the other hand, the renewal premium income accounted for of the first half year of 2007 had declined from 60.46% to 52.21% in the first half year of 2008(see figure 3). As for the product type, the first year premium income of the traditional products in the first half year of 2008 was $217.9 billion which accounted for 45.32% of the total premium income while the premium income of the first year investment-linked products was $262.9 billion with 54.68% coverage rate; within which the first year premium year of the variable annuity had a significant growth of $30.5 billion to $109.7 billion (see figure 4).

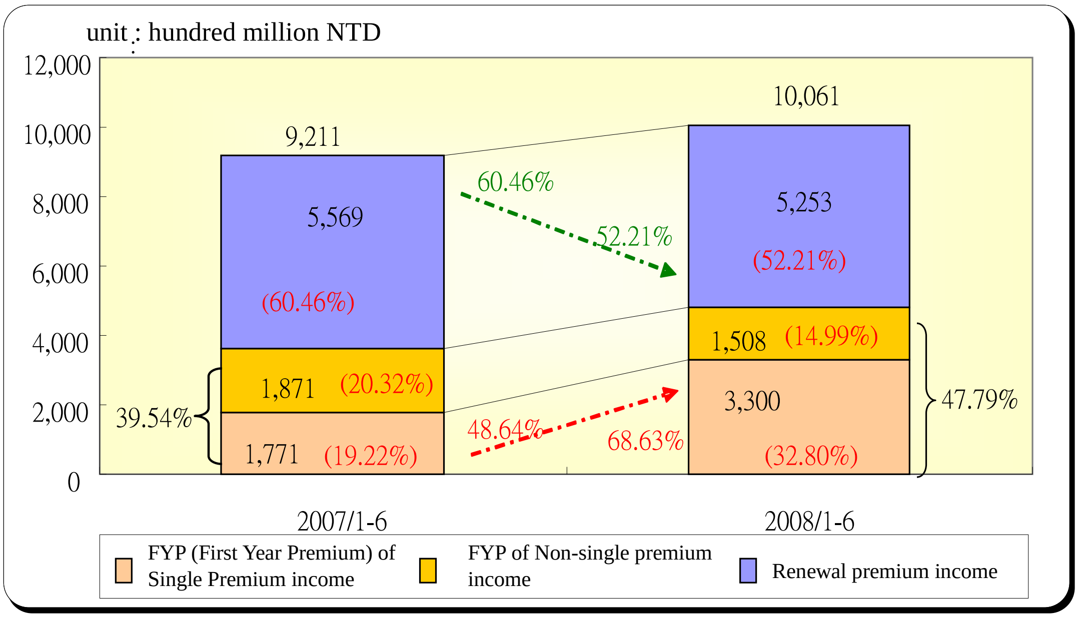

Figure 3 Structures of Premium Insurance (2007/1-6~2008/1-6)

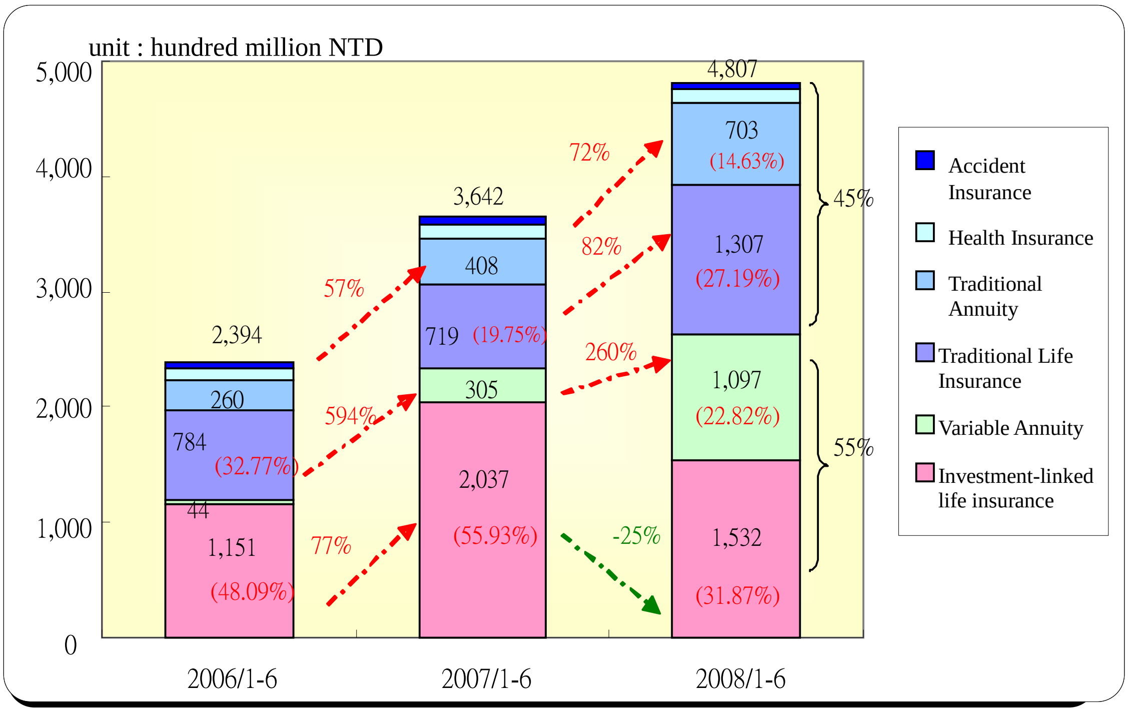

Figure 4 The Market Share of FYP of each Insurance (2006/1-6~2008/1-6)

Further analysis on the single premium income showed that the single premium income was $338.3 billion which increased 82.56% compared to the $185.3 billion in the first half year of 2007 and within which the single premium of investment-linked life insurance had the heaviest holding rates of 39.91% of overall premium insurance which had 20% growth scale compared to the same period of previous year. The performance of the single premium income of variable annuity was also outstanding, that it grew from $ 25.9 billion in the first half year of 2007 to $77 billion in the same period of 2008 with the growth rate reaching over 197%. Although the traditional life insurance did not accounted much in the total premium income, its growth rate was also outstanding which reached to 404% (see figure 5). From the perspective of coverage rate, the single premium income of the first half year of 2008 had taken up 70.37% of the FYP income (which being $480.7 billion) which is 20% higher compared to 50.87% of the same period of previous year (the FYP income being $364.2 billion). This showed that the products with high portion of the single premium income and the flexibility of investment-linked product premium played an important role in FYP income; thus in conclusion, life insurance market relied heavily on the growth of new business.

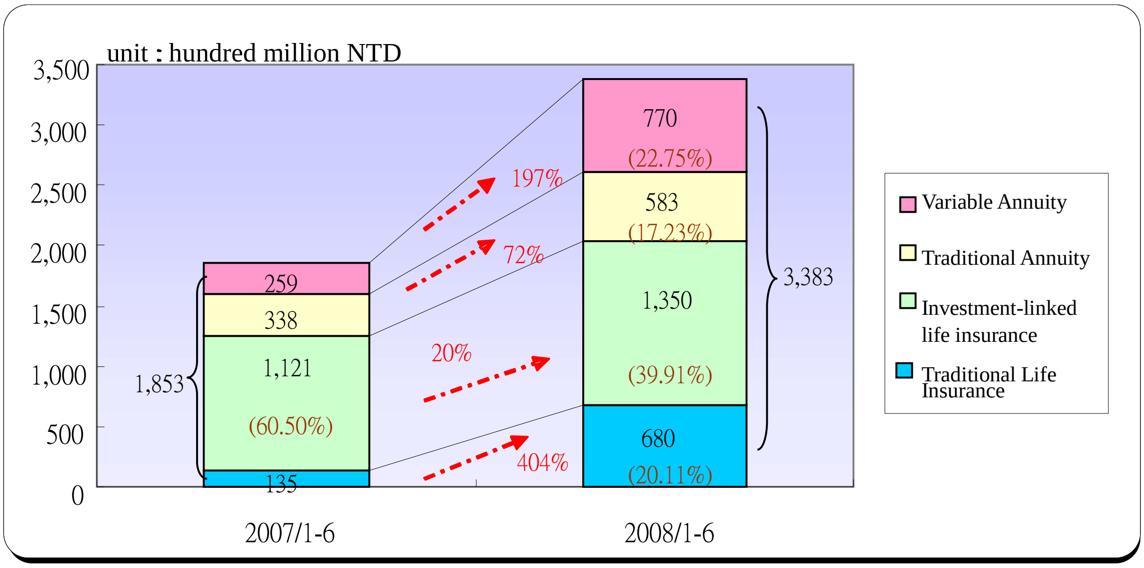

Figure 5 Overview of the Coverage Rate of Life Insurance and Annuity in the Single Premium Income （2007/1-6~2008/1-6）

（2）Changes in the Structures of Products

From the view of total premium income, investment-linked life insurance had declined 16.50% compared the $217.6 billion in the first half year of 2008 to the $260.6 billion of the same period in 2007 yet variable annuity had a growth rate as high as 263.07% comparing the $111.1 billion of the first half year 2008 to the $30.6 billion of the same period in the previous year. Furthermore, viewing the investment-linked life insurance from the point of view of FYP income coverage rate, it had declined from the 55.93% in the first half year of 2007 to 31.87%, the most direct influence to such decline may be the impacts of implementing new reformed policies of investment-linked insurance in October 2007. On the other hand, the variable annuity was not influenced by such new policies and had outstanding growth; it had grown from 8.36% in the first half year of 2007 to 22.82% while the coverage rate of traditional life insurance also increased 7% comparing the 19.75% of the first half year to the 27.19% of the same period of 2007 (see figure 4).

The further analysis on FYP income showed that the total traditional life insurance was $130.7 billion which had an increase of 81.78% compared to the $71.9 billion of the same period of the previous year and the market share was from 19.75% to 27.19%. The main reason for this outstanding increase was a magnificent sell of short-term endowment. However, the investment-linked life insurance premium income was $153.2 billion which had declined 24.79% compared to $203.7 billion of the same period of the previous year and it’s market share also had a decline from 55.93% of the same period of the previous year down to 31.87% unlike the past. The annuity had a small growth rate of which the traditional annuity had grown 72.30% which may due to the products that benefit of interest rate fluctuation. Furthermore, the growth scale of variable annuity was even more outstanding. It had a growth of 259.67% compared to the same period of previous year, such growth was the results from FYP income (see figure 6).

As the data above showed that the shining star in the past two years, investment-linked life insurance, was separated into three pieces in the market share due to the impacts of business declining and the rising of both of the traditional life insurance and variable annuity.

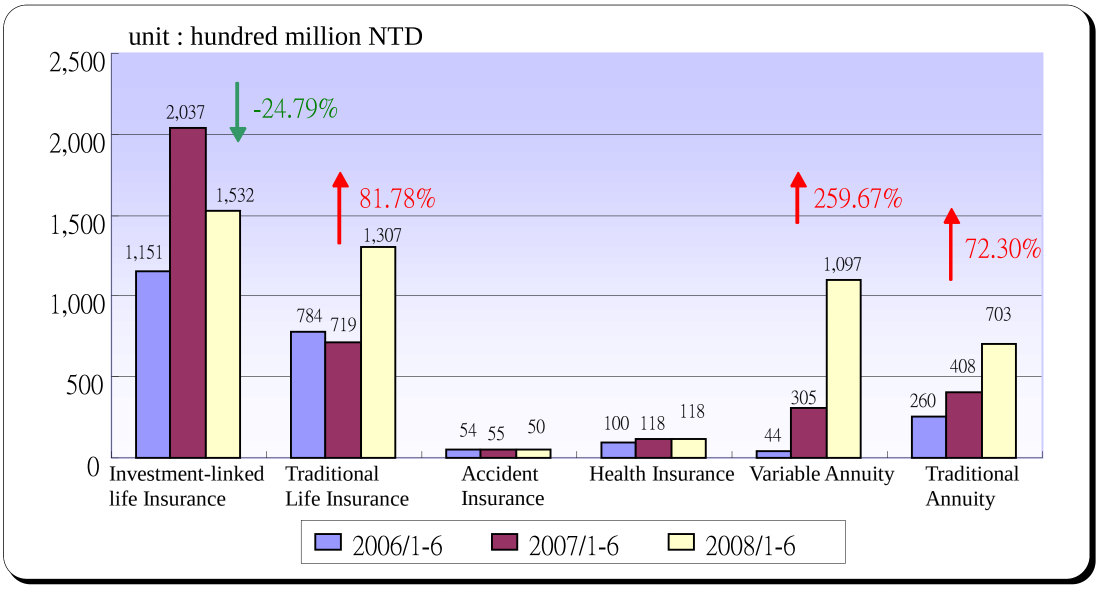

Figure 6　The market share of FYP Income of different types of insurances
（2006/1-6~2008/1-6）

（3）Distribution Overview

The FYP income of the first half year of 2008 mainly came from the field force of life insurance companies with $277.5 billion and the $185.6 billion from the brokers and agents of banks with the share of 57.73% and 38.61% respectively and total share of 96.34%, the rest of the distribution channel with less than 4%. The FYP income from Field Force of life insurance companies was $277.5 billion which was approximate 6% less compared to the $231.9 billion of the same period of the previous year with the share rate decreased from 63.68% to 57.73%. On the other hand, the channel of brokers and agents of banks had been growing; the FYP income of the first half year in 2006 was $73.4 billion which had increased to $185.6 billion in the first half year of 2008 with 1.53 times of growth scale. Moreover, its share had also increased from 30.67% in the first half year of 2006 to 38.61% in the first half year of 2008. Therefore, the growth of recent two years was significant (see figure 7).

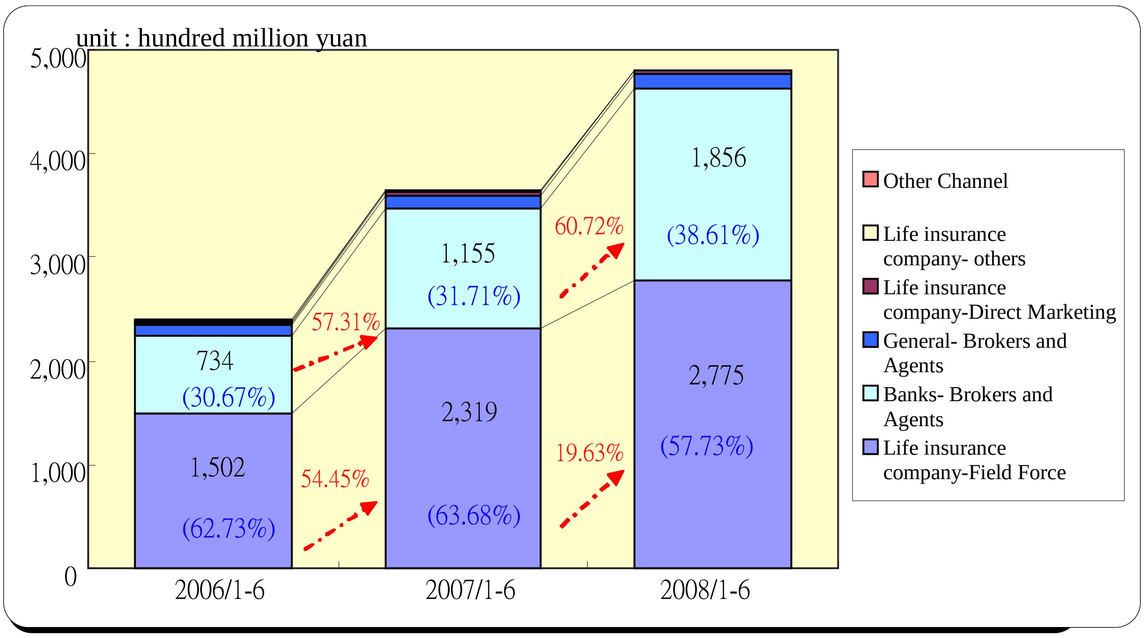

Figure 7 Overview of Distribution Channel of FYP Income　（2006/1-6~2008/1-6）

（4）The Growth of Group Insurance and Individual Insurance

The total of new business signed in the first half year of 2008 was 14.53 million policies which is 0.41% less than the 14.47 million policies compared to the same period of the previous year, within which the individual annuity had the highest growth rate (171.14%), followed by the group life insurance (9.96%) and the individual health insurance being the ones that declined the most (-13.59%) while the individual life insurance had also declined 9.01% (see figure 8). Generally speaking, individual insurance policies had declined 0.11% from 8.70 million policies down to 8.69 million policies on the contrary group insurances had grown from 5.77 million policies of the previous year to 5.84 million policies with 1.21% growth rate.

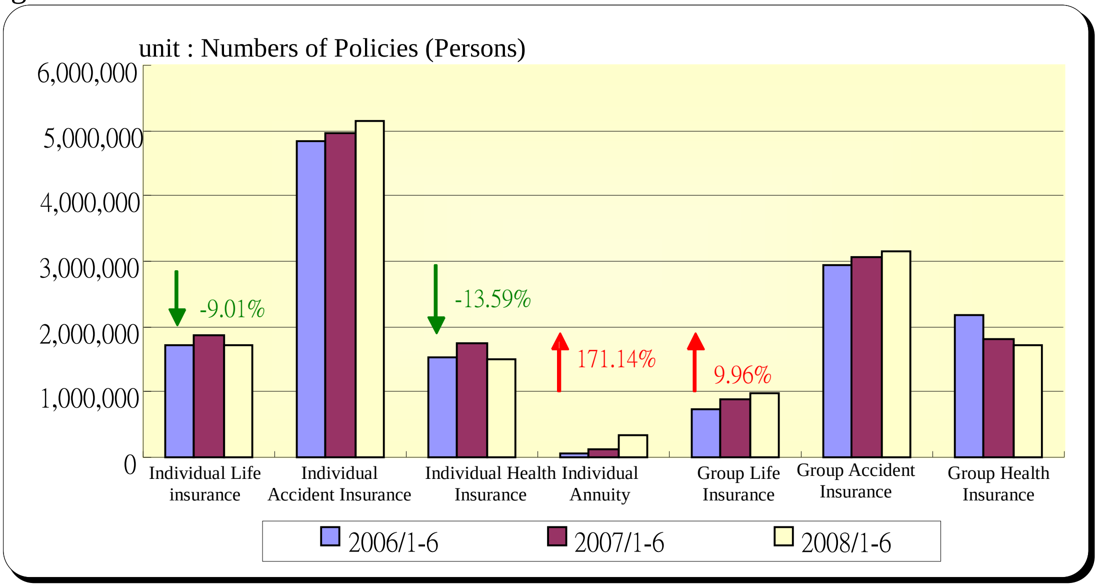

Figure 8 Numbers of New Business (2006/1-6~2008/1-6)

The total amount of new business was $15.76 trillion which is 1.31% less compared to the $15.97 trillion of the previous year. Group Health Insurance had the biggest growth rate of 366.16%, followed by the individual annuity (158.08%) and the individual life insurance had the most declining rate of -27.42% (see figure 9). Generally, the amount of individual insurance was $11.39 trillion which had 3.47% declined compared to the $11.80 trillion of the same period of previous year while the amount group insurances was $4.37 trillion which was a 4.79% growth compared to the $4.17 trillion of the same period of previous year.

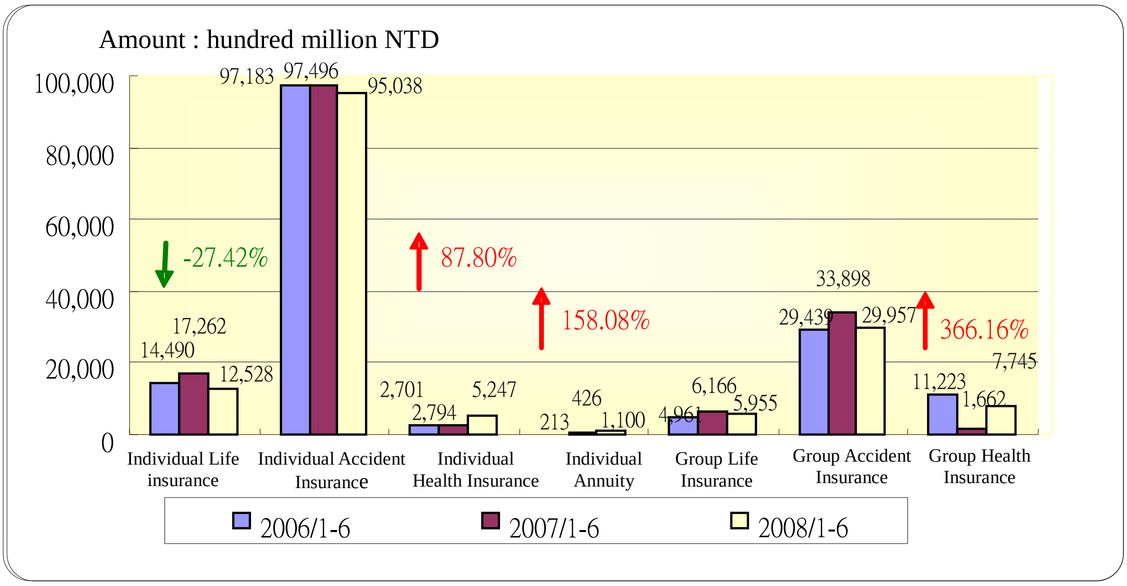

Figure 9 Amount of New Business （2006/1-6~2008/1-6）

From the perspective of FYP income of different insurance, the amount of income was totaled to $480.7 billion in the first half year of 2008 which had grown 31.98% compared to the $364.2 billion of the same period in the previous year. The individual annuity had the highest growth rate of 152.80%, followed by the group life insurance of 11.56% and the group accident insurance and group health insurance had decline the most of -13.07% and -12.46% respectively. Overall, the FYP income of individual insurance had increased 32.70% while the group insurance had declined 8.24%.

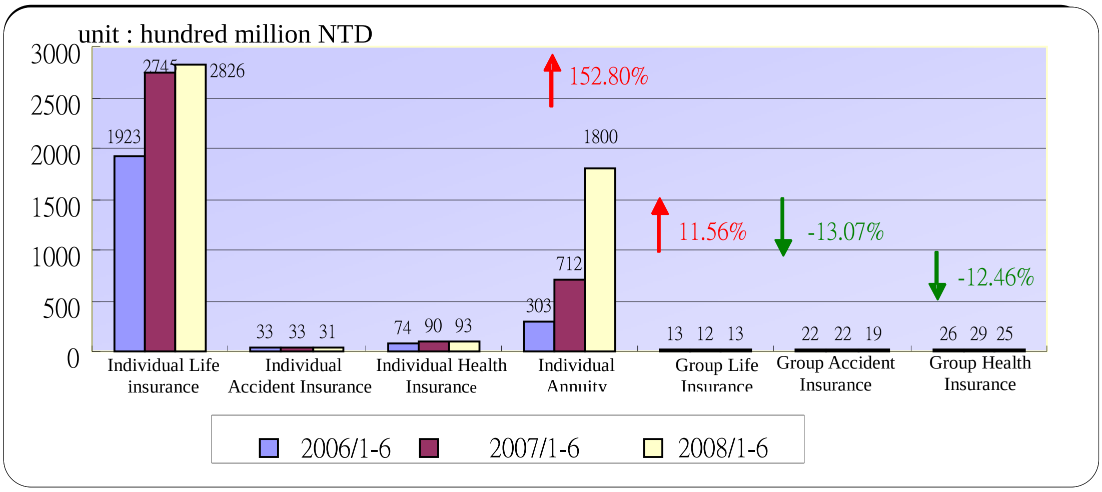

Figure 10 Comparison of FYP Income of both Individual Insurance and Group Insurance（2006/1-6~2008/1-6）

The above analysis showed, although either amount or policies of individual insurance in the first half year of 2008 were a little less than the previous year, the FYP income of the individual insurances were better than the group insurances. Therefore, the reason of causing such decline may be had a direct relation with the rise of short-term endowment and the decline of average amount of life insurance.

（5）New Business of Investment-linked Products Overview

It was easy to tell that the premium income of investment-linked life insurance had a large decline of 16.46% comparing the $217.7 billion to the $260.6 billion of the same period year of previous year from the premium income of first half year in 2008. Furhtermore, the total of variable annuity premium income was $111.2 billion which had grown 263.40% compared to the $30.6 billion of the previous year at the same period. The profile of new business amount and policies of investment-linked products will be discussed later.

There were total of 807,100 policies of new business in the first half year of 2008 which had 4.22% decline compared to the 842,700 of the same period in the previous year; within which the variable annuity had grown the most (233.51%) and the variable universal life insurance had decline the most (-47.17%), followed by the variable life insurance (-16.50%) (see figure 11).

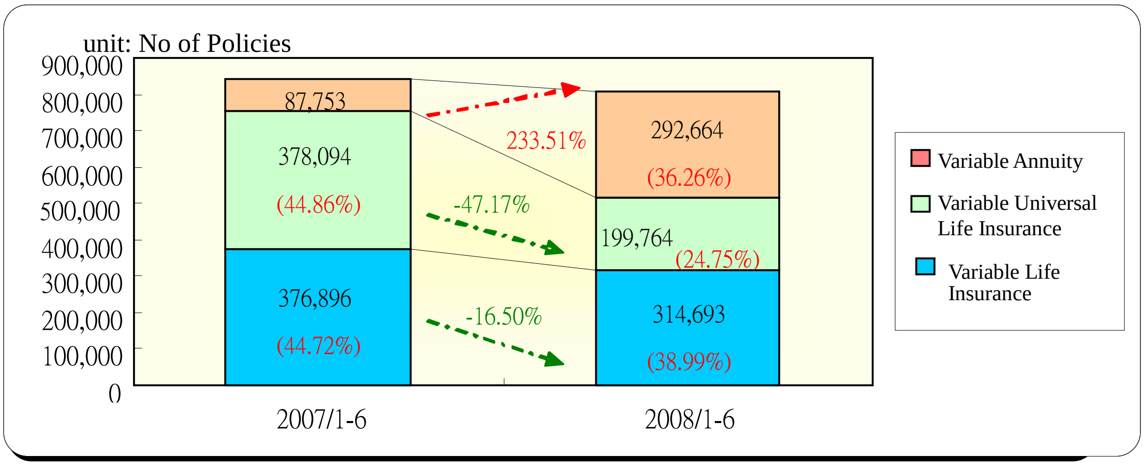

Figure 11 Number of New Business of Investment-linked Products (2007/1-6~2008/1-6)

The total amount of new business was $693.1 billion which declined 42.55% compared to the $1,206.4 billion of the same period in the previous year. The biggest growth rate was still variable annuity (149.40%) and the variable life insurance declined the most with -54.86%, followed by Variable Universal Life Insurance (-38.16%) (see figure 12).

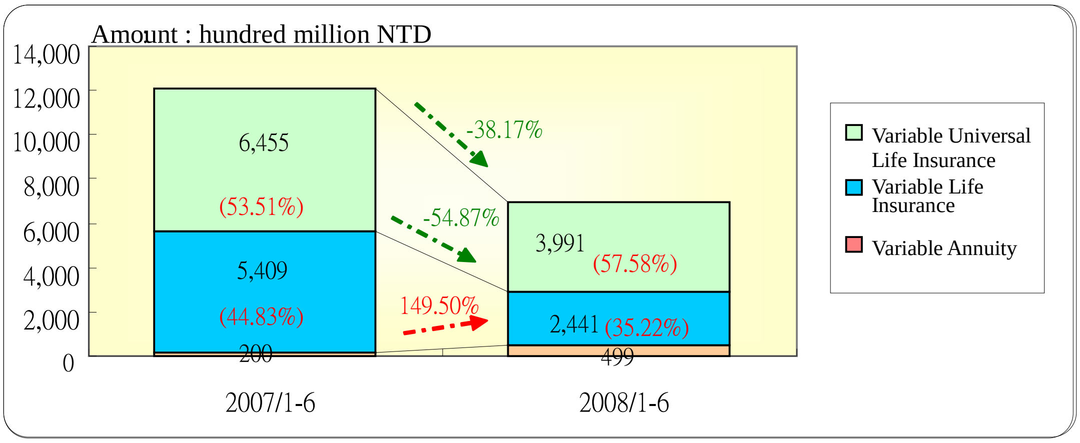

Figure 12 New Business Amount of Investment-linked Products （2007/1-6~2008/1-6）

Overall, the premium income of investment products was $328.9 billion which had 12.94% growth compared to the $291.2 billion of same period of the previous, yet the new business amount, number of policies and premium income of investment-linked life insurance appeared to be declining. On the other hand the new business amount, number of policies and premium income of variable annuity appeared to have large scale of growth which showed that the income growth of investment-linked products relied quite heavily on variable annuity. Combining the data above, the threshold regulation of investment-linked life insurance implemented in October 2007 had a certain impact on investment-linked insurance.

（6）Overview of Rising and Declining of Business In Force

There were 159 million policies of business in force at the end of June 2008 with 6.71% growth rate compared to the 149 million policies of the same period of previous year, within which the annuity had outstanding growth (66.83%); others such as life insurance (6.31%), accident insurance (7.35%) and health insurance (6.29%) were growing positively (see figure 13). Furthermore, the total amount of business in force was $91.35 trillion with 6.69% growth compared to the $85.62 trillion of the same period of previous year. The annuity was still the one with highest growth rate (36.31%), followed by life insurance (8.23%), health insurance (6.44%) and accident insurance (5.10%), which were all increased compared to the same period of the previous year. Overall, business in force was rising stably on either the number of policies or amount at the end of June 2008.

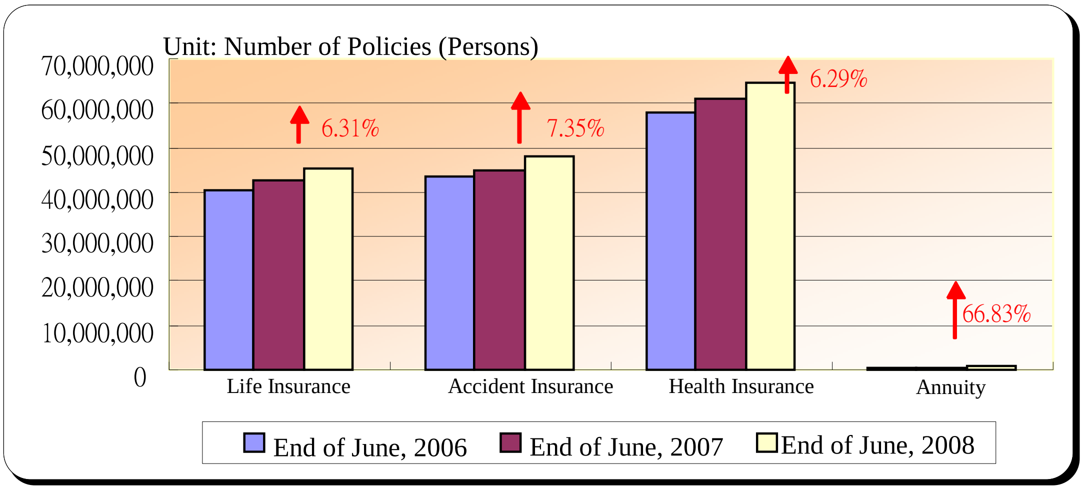

Figure 13 Numbers of Business In Force (2006/6~2008/6)

（7）Benefit Payments Overview

The total benefit payments of the first half year of 2008 was $483.6 billion which had 16.14%

growth compared to the $416.4 billion of the same period of the previous year, within which the life insurance grew the most (18.80%), followed by health insurance (12.10%), annuity (5.89%) and accident insurance with a slightly growth of the same period of the previous year (3.01%). Refer to the figure below for the percentage that each benefit payments accounted for (see figure 14). As for the number of persons received the benefit payments, there were 6.19 million people in the first half year of 2008 which had 8.98% growth rate compared to the 5.68 million people of previous year at the same period.

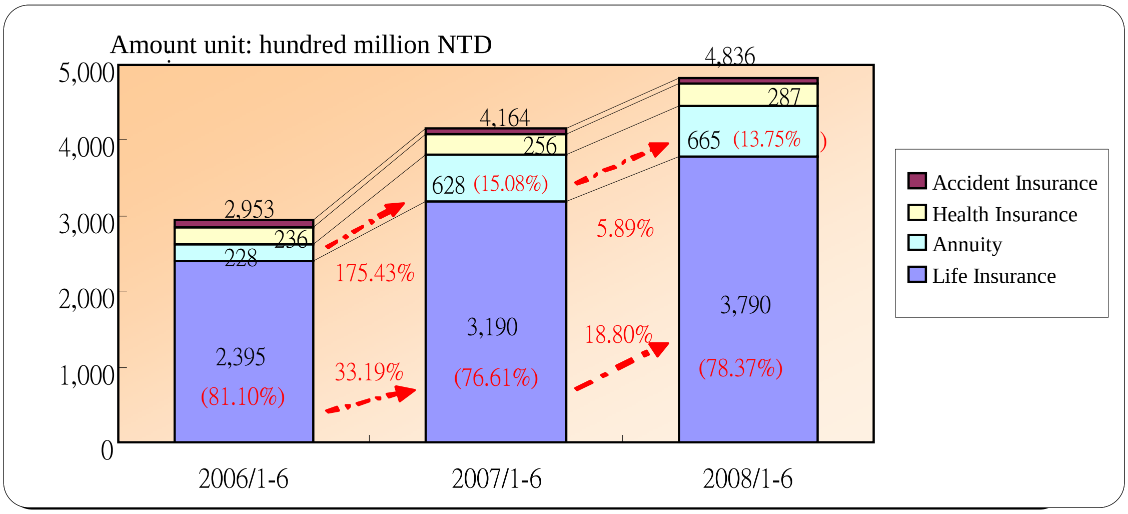

Figure 14 The Coverage Rate of Benefit Payments（2006/1-6~2008/1-6）

In further exploration on individual life insurance and individual annuity , both with highest benefit payments rate, the total was $442.9 billion. As for the detailed benefit payment amounts, the first place was the surrender, $195.5 billion, which was accounted for 44.14% of overall payment while the second place was the maturity benefit payments of $170.6 billion which was accounting for 38.52% and the third place was the survivor benefit with $43.1 billion which is accounted for 9.73%. The top three payments were $442.9 billion which is accounted for 92.39% of overall benefit payments. Furthermore, analyzing from the types of insurance, the surrender of investment-linked life insurance and traditional annuity were accounting for 90% of all the benefit payments and variable annuity were over 50%. Therefore, insured who purchased investment-linked products were more like financially investing rather than having an insurance warranty. Furthermore, insured used traditional annuity more as a saving account than insurances. 56.37% maturity payments, 20.36% surrender and 14.33% survivor benefit of traditional life insurance were the main payment accounts which showed that the domestic citizens prefers whole insurance or endowment that combines survivor benefit and maturity when purchasing life insurances (see figure 15).

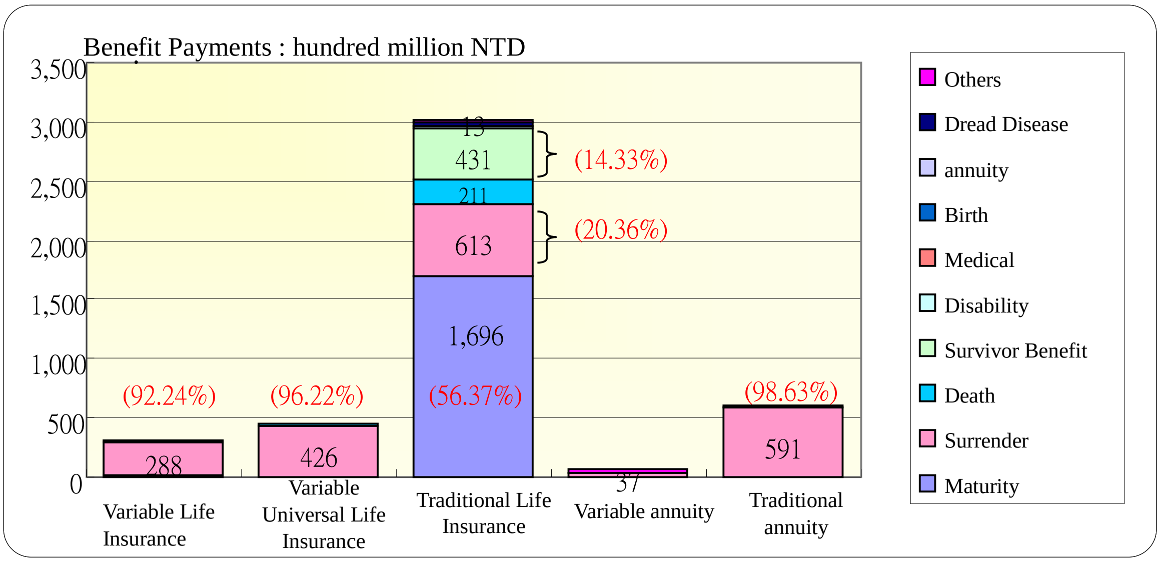

Figure 15 Benefit Payments of Life Insurance and Annuity

B. Financial Overview Analysis

（1） Assets and Liability Overview

The total assets of life insurance industry in June 2008 were $9.04 trillion which had 9.05% growth rate compared to the $8.29 trillion of the previous year at the same period. To analyze deeper, the total assets excluding separate account product assets were $7.95 billion with 6.42% growth rate while the separate account product assets were $1.09 trillion which had increase from 9.86% to 12.02% of this year as coverage rate of total assets.

The assets allocation were as followed, securities & bonds (61.60%), separate account products assets(12.02%), mortgage loans (6.93%), policy loans (6.29%), cash, bank deposits (5.23%), investment on real estates (3.30%) and other assets (4.63%) (see figure 16). The accrued income receivable greater scale of growth (65.16%) compared to the same period of the previous year, followed by the separate account products assets (32.95%) while the other accounts receivable were the assets that declined the most (-12.25%) (see figure 17).

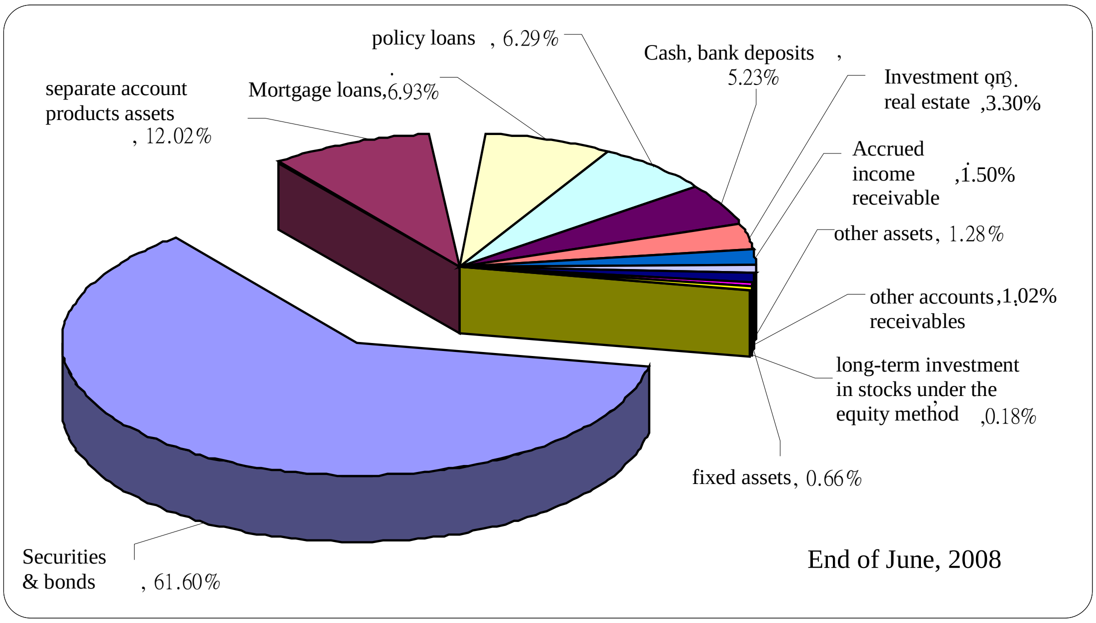

Figure 16 Pie Chart of Life Insurance Industry Assets（End of June 2008）

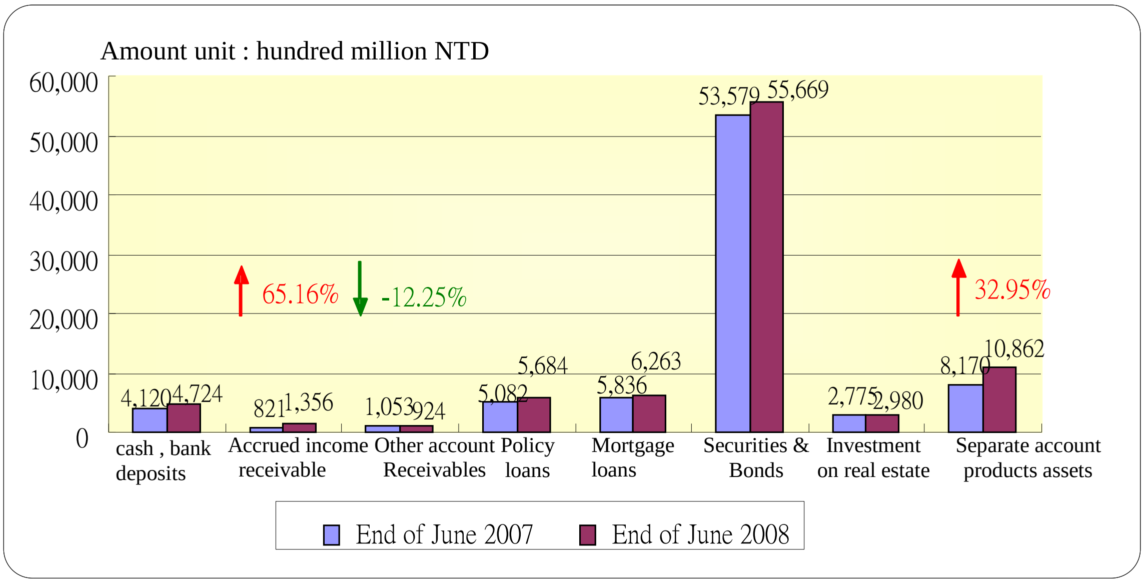

Figure 17 Changes in Each Asset within Life Insurance Industry (End of June 2007~ End of June 2008)

As for the liability and owner's equity, the liability by the end of June 2008 was $8.76 trillion which had grown 12.30% ($0.96 trillion) compared to the $7.80 trillion of the previous year at the same period. Furthermore, owner's equity had declined $0.21 trillion from $0.48 trillion of the previous year to $0.27 trillion with 43.75% declining rate. The ratio to the assets of the two were 96.97% and 3.03% respectively; each would be 96.43% and 3.57% respectively if deduct the influential factors of separate account products liabilities ; within which the reserves was $7.50 trillion which was accounted for 82.96% of total assets, and 85.61% of total liability. The net amount of each reserve was 69.80% of the premium income (see figure 18).

In further analyzing owner's equity, the total of overall life insurance industry was positive by the end of June 2008 yet four companies had negative owner's equity which showed the financial structure needed improvements. There were two reasons for the decline in owner's equity in the industry, one was that the retained earning had turned into negate $0.02 trillion from the positive $0.07 trillion at the end of June in 2007 while the other reason was the equity adjustment had became negative $0.02 trillion from $0.17 trillion at the end of June in 2007 which reflected the impact on the net income (after tax) in the income statement which had turned from positive to negative and losses results from investments and exchange rates on life insurance industry.

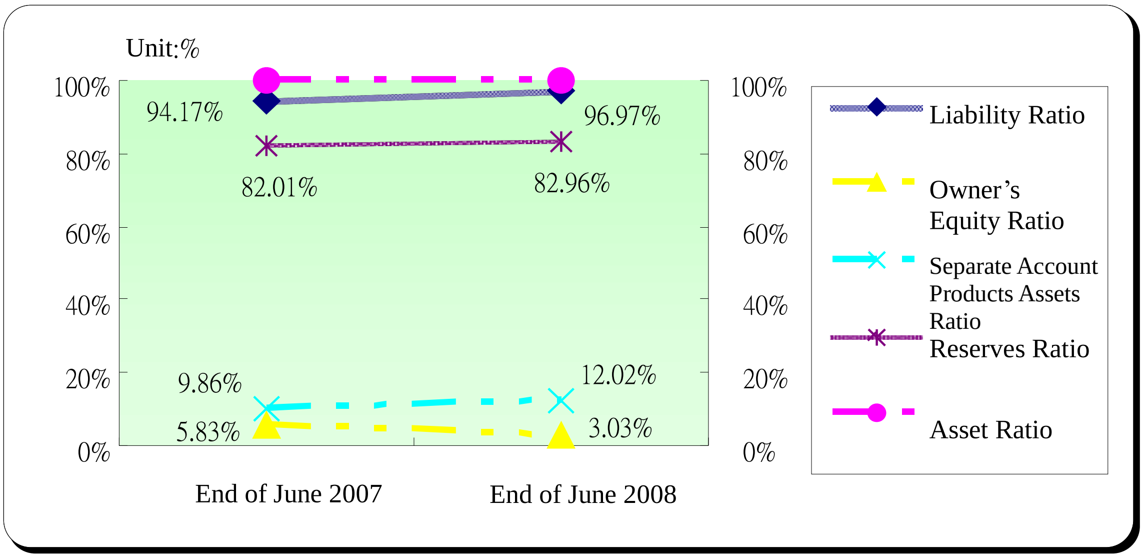

Figure 18 Life Insurance Industry Finance Structure Index （End of June 2007~End of June 2008）

（2）Profits and Loss Overview

The total revenue by the end of June 2008 was $1.85 trillion, within which the operating income (insurance business income) was $1.56 trillion which was accounted for 84.32% of the total revenue. It had 13.87% growth rate compared to the $1.37 trillion of the previous year at the same period. The total expense was $1.91 trillion and within which the operating cost (insurance business expense) was $1.66 trillion which was accounted for 86.91% of the total expense. It had grown 13.69% compared to the $1.46 trillion of the previous year at the same period. From the perspective of operating income and operating cost, the growth scale for the two did not differ much yet the total expense of $1.91 trillion was must larger than the total revenue of $1.85 trillion and had grown 20.89% ($0.33 trillion) compared to the $1.58 trillion of the same period in 2007. Expenses of non-insurance oriented business may be the reason why the expenses surpassed the revenue.

Further analyzing financial revenue and expenses showed that the total of financial revenue by the end of June 2008 (included interest income, gain on investment-securities and gain on investment-real estate) was $267.8 billion which was accounted for 14.46% of the total revenue and had it grown 15.08% compared to the $232.7 billion of the previous year at the same period; within which the gain on investment-securities was $129.2 billion, it had grown over 22.70% compared to the $105.3 billion of the previous year of the same period. As for the financial expense (included interest paid, loss on investment-securities and loss on investment-real estate) was $108.4 billion which was accounted for 5.66% of the total expense and it had grown 71.25% compared to the $63.3 billion of the previous year at the same period. The loss on investment-securities had the largest losses. It had grown 72.28% from the $62.4 billion of year 2007 to $107.5 billion which was almost as much as financial losses, thus it demonstrated the serious losses results from security investment of majority of the life insurance company.

The net income of life insurance industry after tax were $-60.756 billion by the end of June 2008. There were only 6 companies profited with total of $5.369 billion while 24 companies had losses with total of $66.126 billion. The net income of overall life insurance industry after tax had turned to $-60.8 billion from profiting $45.2 billion compared to the previous of the same period thus $106.0 billion was lost compared to the previous year at the same period with 234.51% declining rate. Although financial investment profit of $267.8 billion had a 15.08% growth rate compared to the $232.7 billion of previous year at the same period, the heavy fluctuation of international exchange rate caused all the life insurance companies lost from this damage which result in bad profit overall (see figure 19).

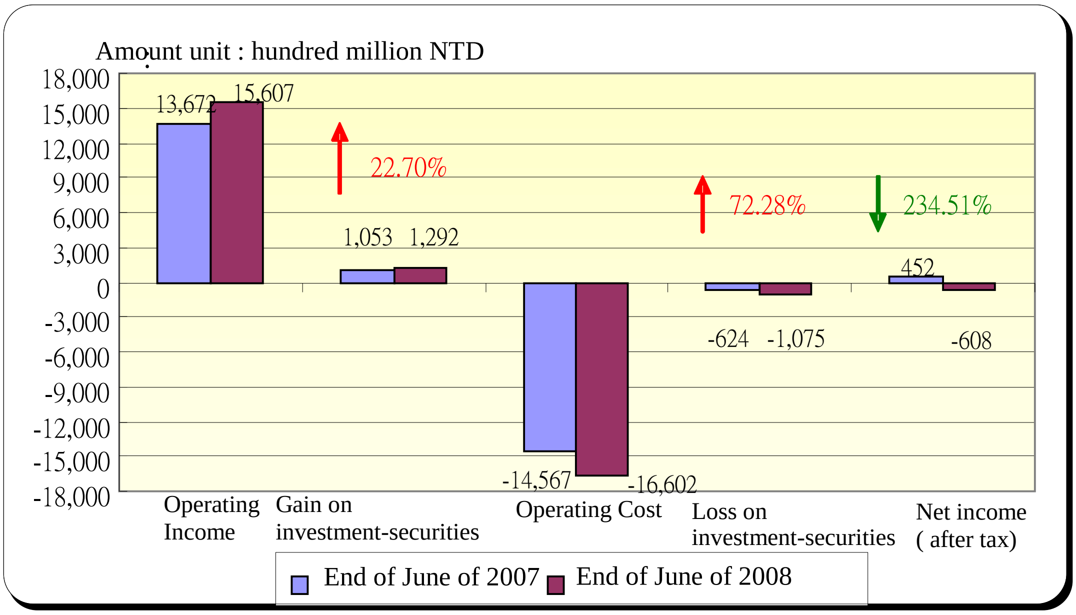

Figure 19 Revenue and Expenses VS Net Income（after tax）of Life Insurance Industry

（3）Capital Allocation Overview

The total available capital of the life insurance industry at the end of June in 2008 was $7.62 trillion which had grown 6.42% compared to the $7.16 trillion of previous year at the same period. The ratio of available capital was 98.66% (ratio of total amount of available capital and total assets); within which were mainly the securities that covered 44.84% with $3.42 trillion (within which the $1.81 trillion were government & treasury bonds which was accounted for 23.78%) and foreign investments of $2.34 trillion (with 30.79% coverage), the sum of the two was as high as 75.63%.

Within which the deposits in bank had grown from $0.23 trillion of the previous year of the same period to $0.35 trillion by the end of June in 2008 with growth rate of 52.17% while the mortgage loans had also increased from $0.43 trillion to $0.62 trillion with 44.19% of growth rate. The overall available capital had also risen from 6.02% to 8.20% yet others such as policy loans had decline from $0.65 trillion of the previous year at the same time to the $0.56 trillion with 16.07% declining rate and the stock certificates investment had also decline from the previous year of $0.61 trillion to $0.56 trillion with negative growth of 8.93%. Therefore from the statistic above showed that the downturn of global economy had caused the investment of life insurance industry to become more reserved and turned to interest income as a more stable financial tool (see figure 20, 21).

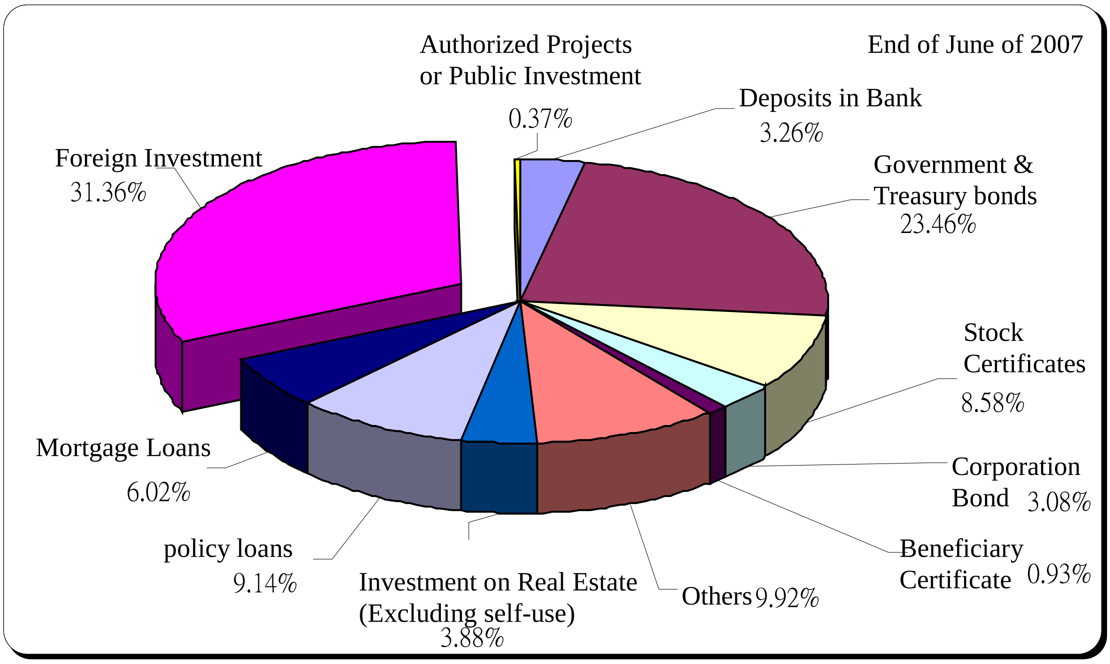

Figure 20 Acquisitions of Investment by Life Insurance Industry (End of June of 2007)

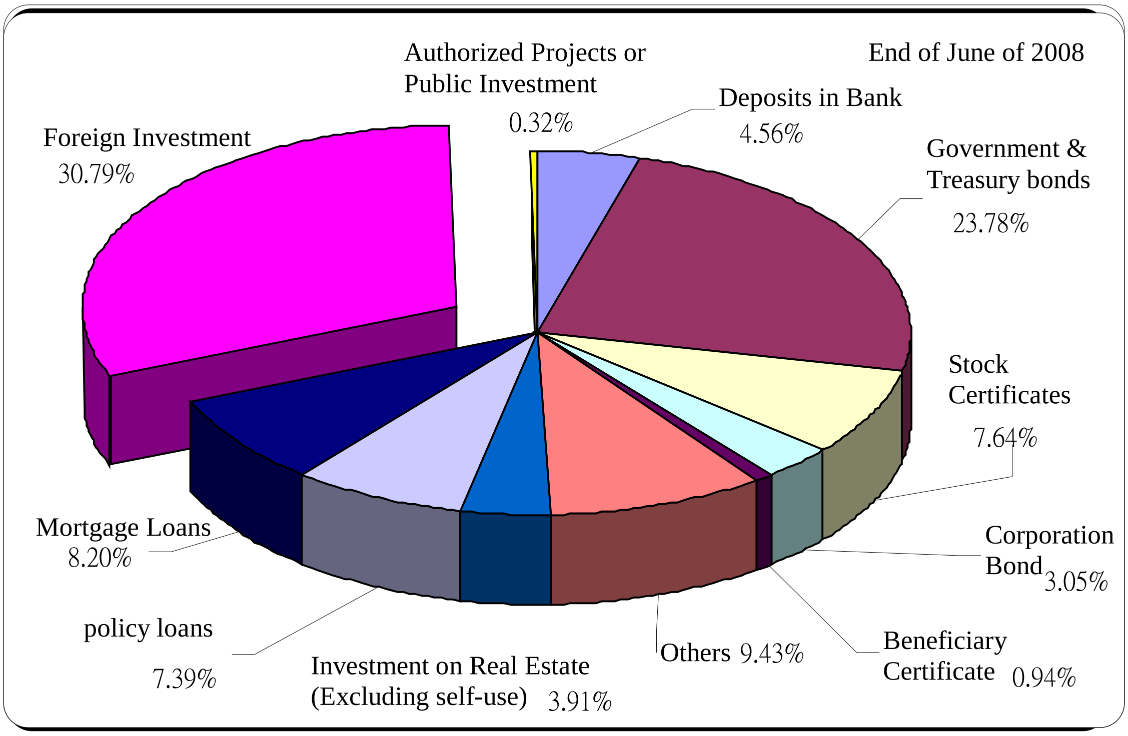

Figure 21 Acquisitions of Investment by Life Insurance Industry (End of June of 2008)

C. Conclusion and Vision

The premium income of the life insurance industry in the first half year of 2008 was $1,006.1 billion which had continuously growing compared to the same period of previous year. The growth of premium income mainly came from the new business and within which the performances of traditional life insurance and variable annuity were outstanding while under the influence of flexible premium of single premium and investment-linked products, the renewal premium was beginning to decline. As for the product structure in the view of FYP income, the investment-linked life insurance was accounted 31.87% which had switch the table from being the winner in the past. On the other hand, annuity and traditional life insurance had catching up with accounted percentage of 37.45% and 27.19% respectively which was separating the marketing into three.

The new business had grown quite a bit with 14.53 million policies compared to the previous year of the same period yet the amount of $15.76 trillion had declined except for the outstanding performance of policies and amount of both traditional annuity and variable annuity; there were 159 million business in force with amount of $91.35 trillion and both were growing stably. Benefit payments were $483.6 billion and within which $442.9 billion was paid out to individual life insurance and individual annuity which altogether accounted for 91.58% of the total benefit payments while the main payment expense was surrender with $195.5 billion which was accounted for 44.14%, maturity with $170.6 billion with 38.52% and survivor benefit of $43.1 billion with 9.73%. Further analysis, the growth rate of surrender had grown 59.29% compared to the previous year at the same period, within which the surrender of variable life insurance, variable universal life insurance, variable annuity and traditional annuity was half of the total paid out expense which demonstrated that domestic citizens were most willing to purchase products that value investment rather than security.

As for the profits, the main revenue of the life insurance industry was $267.8 billion which came from investment income yet due to the impacts of rising value in NTD, the second-graded mortgage crisis and severe crashes of stock market due the bankruptcy of Lehman Brothers, the global economy was also involved which caused the net income (after tax) of the life insurance industry to turn from profiting $45.2 billion of the previous year to losing more than $60.8 billion with declining rate as high as 234.51%.

Looking into the next half year, it was hoping that short-term endowment and annuity may continue to bring in the growth of FYP income while the financial investment had profited from the third season dividend and the decline of the exchange rate, which hoped that these would help the growth of profits for life insurance industry.