

Life Insurance Industry Profile in 2008

I. Economic profile

1. Economic situation

(1) International economy

In 2008, affected by extended USA credit crisis, the world economy expansion goes slowly causing a big plunge in international markets, but the economy of developing countries such as China and India still maintain increasing so as to fill the momentum of world economic growth. Shown by the newest information from Global Insight Inc., global economy growth rate fell to 2.3% in 2008 from 4.0% in 2007. Judging from various economic indicators declared by USA government and research institutes and the development of financial markets, USA's economy still keeps expanding, but American people lack confidence toward enterprises and employment market; impacted on economic growth by subprime house lending storm and derived credit deflation, USA enterprises still have trouble about making profit showing that recent USA economic growth is not stable.

As for Japan, influenced by USA financial crisis and economic downturn, its exportation to USA is deeply plunging and decreasing in its equipment investment, besides enterprises' profit goes down, higher unemployment rate, decrease of machinery orders and number of bankrupted enterprises going up also cause private sector's consumption growth weakens impacting adversely toward employment market. As for European Union countries, their economy is obviously slowing down because global status is impacted by financial crisis, facing shrinking of domestic demand and ceasing of foreign demand, among them, industrial and construction business have gone down under the long-term average confidence index; meanwhile, European house market will face a large-scale adjustment caused by deflation of credit/loan market, but the economy of developing countries still maintain increasing so as to fill the momentum of world economic growth. Among them, as for China, because of the slow-down of the economies of main countries in Europe and America, its growth rate of importation/exportation and industry product value are reducing which impact investment and production; however the impact on consumption aspect is relatively limited.

In the prospect of 2009, USA's economy keeps being impacted by subprime house lending storm, its near future economic growth status is still uncertain which will go worse than the expected one; the economy of both Europe and Japan keeps being impacted by financial crisis to go down, their domestic/foreign demands will not recover temporarily increasing uncertain factors on the economy of 2009. There is no trace for China's economy to tremendously slow down so that it is expected to upgrade the momentum of global economic growth. Even though, the variables such as lowering of inflation pressure, slowing-down of adverse influence of USA subprime house lending storm, dropping back of oil price and recovering of international stock markets will be helpful to global economic growth in 2009; plus that the advanced countries such as Europe, America and Japan propose many bailout programs to save economy and finance will also subsidize global economic growth.

(2) Domestic economy

Because of the burst of global financial Tsunami, the global economy of the 4th quarter of 2008 was freezing fast so that Taiwan's foreign trade and domestic demand market was impacted unprecedentedly. The foreign orders are fast shrinking causing a decrease of 23.99% for customs exportation counted in New Taiwan Dollars; with this influence, manufacturers' production capacity is excessive and profit was cut drastically making a tremendous reduction of private investment; plus that deterioration of labor conditions restricted the private sector's consumption so that the economy growth of 2008 was only 0.12%. In recent years, Taiwan's macro-economy has been described as "cold inside, hot outside"; In 2008, largely foreign trade was still the main contribution to economic growth, however, influenced by the obvious slowing-down of global economy, the growth of both domestic demand and foreign trade was obviously deteriorated; comparing with that of 2007, since the 4th quarter of 2008, Taiwan's economy has entered into the situation of "cold in both inside and outside".

Under the dual impact of both high price of international raw materials and financial storm, in 2008, Taiwan's production, trading and consumption were obviously deteriorated; financial indicators were not improved and labor market was weakened causing leading indicators and coincident indicators keep going down and the monitoring indicator changed to be blue from green by the beginning of that year

showing current economy is very glooming.

In the prospect of 2009, though all the countries have proposed large-scale economy recovery plans and the governments have aggressively developed exportation, but influenced by obvious shrinking of global demand, it's expected that our customs exportation will tremendously recess; as for domestic demand aspect, wealth shrinks, unemployment rate goes up, income goes down, private sector's consumption deflates, prices keep going down, the government issues shopping coupon and encouragement of tax cut so that the private sector's consumption maintain a small-scale growth; as for private sector's investment, since the time of economic recovery is hard to be predicted, enterprises are conservative in investing. Generally speaking, since domestic economy is under a bad environment, the Directorate General of Budget, Accounting and Statistics of Executive Yuan predicts there will be a negative economic growth of 2.97% .

2. Foreign trade and structure of importation/exportation

In recent years, Taiwan's foreign trade activities have been benefited by booming of global economy and competitiveness of exchange rate of NT\$ to perform outstandingly becoming the main momentum of economic growth. However, following the fast deterioration of global economy, Taiwan's momentum of foreign trade growth has obviously gone down. Firstly, as for commodity exportation, it's accumulated to be US\$ 255.7billion in 2008, the yearly increase lowered to be 3.64% . as for importation, since average prices of energy and raw materials were so high that it's accumulated to be US\$ 240.8billion in 2008, the yearly increase was 3.64% . As for the trade surplus, it's accumulated to be US\$ 14.8billion in 2008, comparing with US\$ 27.4billion of the previous year, the yearly downturn rate reached 45.99% .

Since the structure of Taiwan's exportation is tremendously changing, in 2008 the proportion of newly-emerged markets kept upgrading (the proportion of ASEAN 6 countries had occupied 15.02% in Taiwan's exportation which was far higher than 12.05% of USA and 11.7% of EU) so that it will absorb the influence form the decrease of some industrialized countries' demand; however, China and Hongkong, our largest exportation market occupied high up to 38.95% ; though there is no trace of tremendous downturn for China's economic development, but with the downturn of global major countries' economy, it will obviously influence the growth performance of China's foreign trade. Looking to 2009, with the influences from fast downturn of global economy and the shrinking of trade, it will be adverse to Taiwan's performance of exportation.

3. Changes of prices

In the 4th quarter of 2008, influenced by global economy downturn as well as tremendous price cuts of international energy, raw materials and food, exportation chain deflator and wholesale price went down to be 5.22 % and 4.55% respectively; the entire year's indices were -1.04% and 5.17% respectively; importation chain deflator reached up to 7.54% with the influence from the appreciation of Japan Yen. As for Consumer Price Index (CPI) , with the go-down of oil price offsetting the go-up of food price, in 2008 the average consumer price growth rate was 3.53% which was much more than 1.80% of 2007; plus under the circumstance that the comparative base year after 2007 was high, we can predict Taiwan's domestic price surging will be improved continuously in the future.

In the prospect of 2009, the prices of raw materials will keep going down following the downturn of global economy and the shrinking of demand, it's predicted the wholesale price index will go down to be 6.36% ; as for consumer price, the surged oil price in last year has not existed and it will fluctuate in small scale in this year, plus the influence from the factors such as that many firms lower the prices to stimulate weakened buying motivation and that interest rate cut pulls go-down of house rental, we predict there will be a decrease of 0.82% for overall year.

4. Employment market

In the 4th quarter of 2008, because of the fast setback of exportation, the firstly impacted manufacturers all implemented salary-less leaves to cope with that so that the unemployment rate had showed upgrading since the second half of the year and the overall year's average unemployment rate was about 4.14% which was higher than the unemployment rate of 2007 as 3.91% ; besides, as for employed population, influenced by economic downturn

and slow-down of firms' manpower demand, Taiwan's employment growth momentum is slowing down, plus, in the present, domestic demand and exportation growth are obviously going down, the situation of laying off by various industries is unceasingly increasing so that we have to pay attention to the unemployment problem of labor market in 2009. Looking to 2009's domestic consuming trend which almost stops because of the limit on wage growth; the poor performances of real estate market and stock market also shrink the wealth of consuming population so that it's not optimistic for the growth of private sector's consumption; but whether the policy advantages by the government such as that issuing shopping coupons to stimulate consumption and expanding domestic demand, that opening chartered planes for direct flight and that allowing Chinese tourists to visit Taiwan have substantial effects to vitalize the employment market needs a further observation.

5. Monetary policy, interest rate and exchange rate

(1) Monetary market

In 2008, monetary total M2's average yearly growth rate was 2.7% mainly caused by slow-down of financial institutes' loan and investment as well as the capital showed net flow-out; M1B's average yearly growth rate was -2.9% caused by weakness of stock market and constant increase of demand deposit. As for banks' loan and investment, influence by the increase of banks' debits toward public businesses and private sector, the yearly growth rate of major financial institutes' loan and investment cost was up to 2.83%; if including loan and investment from life insurance companies as well as investment & trust companies adding major financial institutes' over-due account receivable and bad debt expense as well as direct finance, then yearly growth rate of overall non-financial sectors acquiring total capital was 2.75%.

(2) Exchange rate

In view of the trend of NT\$ against US\$, at the end of 2007 the close of US\$ exchange rate was NT\$ 32.44; in Jan. of 2008, it slightly appreciated to NT\$ 32.20 and fast appreciated to NT\$ 30.95 at the end of Feb.; from Feb. through June it came up to NT\$30.35 which had the span of NT\$ 1.85 (over 5.75%) within 4 months. This surging trend slightly stopped since the 6th and 7th months by fluctuating between 30.35 and 30.59; since Aug., it started to depreciate to be NT\$ 32.86 at the end of 2008; comparing with 30.35 at the end of the second quarter, the depreciated span reached 8.27%.

Japan Yen kept appreciating since the second half of 2007 and reached the record high value of 0.3636 in recent years, comparing with 0.2896 at the end of 2007, the appreciated span was high up to 25.6%. Since Japan is Taiwan's major trade-deficit country, the appreciation of Japan Yen must form a pressure on Taiwan's importation costs. As for the prediction for the trend of NT\$ in 2009, since Japan Yen still has appreciating space, if NT\$ keeps depreciating, then the pressure on enterprises' importation costs will upgrade; on the contrary, if NT\$ goes up, it possibly has adverse influence on our country's future exportation; judging from Central Bank's recent actions, it's predicted that the possibility of Central Bank's inclination to lead NT\$ to "slowly depreciate".

(3) Interest rate

Speaking of interest rate, though Taiwan's basic interest rate level is very low caused slight capital burden on enterprises' investments, but the fast downturn of global economy has forced each country's central bank to adopt interest rate cut measure attempting to slow down the strength of real economy's going down, the same thing goes to Taiwan's central bank. As for overnight interbank call-loan rate, in the first quarter of 2008, the average rate maintained between 2.082% and 2.088%; in the 2nd and 3rd quarters, it maintained between 2.092% and 2.166% with a limited appreciation. Since the 4th quarter, it obviously went down to 0.872% until December.

Speaking of future trend of interest rate, since USA's zero interest rate policy is not changed and Taiwan's economy is obviously going down, the public predicts Central Bank may still maintain interest rate cut policy. Besides, if we want to maintain an ideal trend that NT\$ slightly depreciates, the difference between Taiwan's interest rate and USA's interest rate is not good for a tremendous change. We predict that the direction of our country's central bank's interest rate policy will connect with its exchange rate policy as an overwhelm consideration.

II. Business and Financial Profile of Life Insurance Industry

1. Business Statistic Overview

The total premium income of Taiwan's life insurance industry in 2008 was NTD\$1,918.9 billion dollars with growth rate of 2.34% compared to NTD\$1,875.1 billion dollars 2007; within which the annual premium income of the first year was NTD\$855.3 billion dollars representing 13.75% growth rate while the renewal premium income was NTD\$1,063.6 billion dollars with 5.31% declining compared to 2007. Although the premium income of the life insurance in 2008 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 2007 to the same period in 2006 which was 43.33%. The main reason is the global recession which prevented consumers from purchasing insurance policy. From the perspective of product type, the premium income of traditional products in 2008 was NTD\$1,487.9 billion dollars which accounted for 77.54% of the total premium income while the premium income of the investment-linked products was NTD\$431 billion dollars, accounting for the total premium income of 22.46%. The structures of both premium income and products will be discussed further in the below paragraphs.

(1) Structure of Premium Income

As to the structure of the premium income, the rate of the first year premium (FYP) income was NTD\$855.3 billion dollars among the total premium income had increased from 40.10% in 2007 to 44.57% in 2008 and among which the single premium accounted for had increased from NTD\$330.4 billion dollars in 2007 to NTD\$479 billion dollars compared to 2008, and the installment premium had declined from NTD\$421.5 billion dollars to NTD\$376.3 billion dollars in 2008. The renewal premium income was NTD\$1,063.6 billion dollars which accounted for 55.43% of total premium income and had declined from NTD\$1,123.2 billion dollars in 2007 which accounted for 59.90% by NTD\$59.6 billion dollars or 5.31%.

As to further analysis of the first year premium income, single premium accounted for 56% with the growth rate of 44.98% compared to the year of 2007 and deferred annuity premium income was NTD\$156.3 billion dollars accounting for 32.63%, which was the 1st ranked product with the growth rate of 81.11% compared to NTD\$86.3 billion dollars in 2007. The 2nd rank product was investment-linked life insurance of which the premium income was NTD\$131.8 billion dollars accounting for 27.52% with declination rate of 21% compared to NTD\$167.1 billion dollars in 2007. The 3rd ranked product was endowment insurance performing quite significant. The premium income was NTD\$97 billion dollars with the growth rate of 273.08% compared to NTD\$26 billion dollars in 2007. The 4th ranked product was investment-linked annuity and the premium income was NTD\$90.1 billion dollars which closed to the 3rd ranked product with growth rate of 91.3% compared to the premium income of NTD\$47.1 billion dollars in 2007. From above analysis, products with high portion of single premium and the flexible premium of investment-linked products played important roles for first year premium income. On the other hand, the portion of renewal premium was declining with the influence from single premium and flexible premium products.

(2) Product Structure Alteration

From the view of total premium income, an investment-linked product was NTD\$431 billion dollars in 2008 and the investment-linked life insurance premium was NTD\$300.2 billion dollars with the declination rate of 44.82% compared to NTD\$544 billion dollars in 2007. Investment-linked annuity had rapid growth from NTD\$57.8 billion dollars in 2007 to NTD\$130.8 billion dollars in 2008 with growth rate of 126.30%. As to the market share of FYP, investment-linked life insurance had declined from 54.18% in 2007 to 20.06%. The main reason of declination was the implementation of new reformed policies of investment-linked life insurance products in Oct, 2007. On contrast, investment-linked annuity products which were not influenced by new policy had a continuous growth. FYP had grown from NTD\$57.4 billion dollars in 2007 to NTD\$127.6 billion dollars in 2008 with a growth rate of 122.30%. The market share especially had grown significantly from 7.64% in 2007 to 14.92%, which almost doubled.

Total premium income from traditional insurance in 2008 was NTD\$1,487.9 billion dollars. Traditional life insurance premium was NTD\$1,035.2 billion dollars with the growth rate of 12.2% compared to NTD\$922.6 billion dollars in 2007. Traditional annuity premium income was NTD\$197.2 billion dollars with the growth rate of

76.7% compared to NTD\$111.6 billion dollars in 2007. Health insurance premium income was NTD\$197.3 billion dollars with the growth rate of 9.19% compared to the year of 2007 and accident insurance premium income was NTD\$58.1 billion dollars which had slightly declined by 0.51% from NTD\$58.4 billion dollars in 2007.

With further analysis of FYP, traditional life insurance premium was NTD\$324.4 billion dollars with significant growth rate of 129.26% compared to NTD\$141.5 billion dollars in 2007 and the market share had also grown from 18.82% in the previous year to 37.93%. The main reason was the crisis caused by structured notes, which had impact on the sale of investment-linked products. Thus, consumers transferred to purchase traditional products, which also lead the significant growth of endowment insurance. Traditional annuity had slight growth from NTD\$107.8 billion dollars in 2007 to NTD\$192.6 billion dollars in 2008 with the growth rate of 78.66%, which was benefited from the declaration rate of interest sensitive annuity was higher than market rate.

From above information, the outstanding investment-linked life insurance in the past two years had declined with the impacts from new reformed policy and global recession while investment-linked annuity had significant growth rate of 122.3% compared to 2007. Moreover, traditional life insurance and traditional annuity played important roles in FYP. Overall, traditional life insurance accounted for 40%, and investment-linked life insurance, investment-linked annuity and traditional annuity accounted for 20% of FYP respectively. In conclusion, life insurance premium income still highly depends on the growth of new business.

(3) Distribution Overview

The total insurance premium income in 2008 was mainly from NTD\$1,317.6 billion dollars contributed by field force of insurance companies and NTD\$439.7 billion dollars contributed by brokers, which accounted for 68.66% and 22.91% respectively and 91.57% in total, the rest of channels contributed less than 9%. The premium income from field force had remained accounting for 75% in past few years (76.56% in 2006 and 75.87% in 2007), but it declined to 68.67% in 2008 with declination rate of 7% compared to 2007. The premium income had declined from NTD\$1,422.5 billion dollars in 2007 to NTD\$1,317.6 billion dollars in 2008. However, the distribution channels as brokers and agents had grown year by year. The channel of brokers had contributed NTD\$243.9 billion dollars in 2006, NTD\$315.8 billion dollars in 2007 and NTD\$439.7 billion dollars in 2008, with the significant growth of 80.28% in two years. The market share had also grown from 15.6% in 2006 to 22.91% in 2008. The channel of agents also had significant growth in past three years, from NTD\$83.6 billion dollars in 2006, NTD\$106.7 billion dollars in 2007 to NTD\$129.1 billion dollars in 2008, with the growth rate of 54.43% in two years and the market share had grown from 5.35% in 2006 to 6.73% in 2008.

From above information, with the financial integration, the market channels of insurance industry have been changed from mostly depending on the field force toward brokers and agents and the premium income has grown gradually from brokers and agents. In addition, premium income from direct marketing has also been growing stably, from NTD\$12.6 billion dollars in 2006 to NTD\$17.2 billion dollars in 2008, which revealed that the distribution channels of life insurance industry have been more and more diverse.

(4) Business Growth between Group and Individual Insurance

New business signed in 2008 were 32.92 million policies, which declined by 2.20% compared to 33.66 million policies in 2007. Individual annuity growth was the most significant with 0.47 million policies (113.64%), and the 2nd ranked was individual accident insurance with 10.70 million policies (10.20%). And individual life insurance declined the most with 3.29 million policies with declination rate of 19.76% compared to 2007, which had reversed the past growing trend. Meanwhile, individual health insurance declined by 3.58 million policies (-11.82%). Overall, individual insurance was 18.04 million policies which declined slightly by 0.28% from 18.09 million policies in 2007 and group insurance was 14.88 million policies which declined by 4.43% from 15.57 million policies in 2007.

The total amount of new business was NTD\$41.56 trillion dollars which had grown by 13.4% compared to NTD\$36.65 trillion dollars in 2007. Individual annuity had grown NTD\$0.2 trillion dollars by 100% growth rate, which was the great growth last year. The 2nd ranked of growth was individual health insurance which had grown NTD\$1.38 trillion dollars (91.67%). Individual life insurance had declined the most by NTD\$2.21 trillion dollars (-45.57%). Above all, individual insurance amount was NTD\$23.4 trillion dollars which had slightly declined 4.72% from NTD\$24.56 trillion dollars in 2007. Group insurance amount was NTD\$18.16 trillion dollars with

growth rate of 50.21% compared to NTD\$12.09 trillion dollars, especially group accident insurance had the most growth of 85.18% with the amount of NTD\$12.37 trillion dollars.

From the aspects of FYP, individual annuity in 2008 performed quite significant whether the number of business policies, insured amount or premium income. Despite the number of business policies had declined compared to the year of 2008, both insured amount and premium income had grown in 2008. However, individual life insurance had reversed the past growing trend, the number of business, insured amount and premium income all declined. Only endowment insurance was not influenced and had significant growth. With comparison to the year of 2007, the business had grown by 1.43 million policies (78.75%), insured amount had grown by NTD\$0.7 trillion dollars (59.09%) and FYP had reached NTD\$316.2 billion dollars with the growth rate of 128.96% compared to NTD\$138.1 billion dollars in 2007.

From above analysis, despite the business policies and insured amount of individual insurance had declined slightly in 2008 compared to the year of 2007, the FYP was still superior to group insurance. Thus, the reasons caused the declination of business policies and insured amount were supposed to be global financial tsunami and the uncertain time of recovery which lead consumers tend to be more conservative toward investment. Thus, with both saving and converge functions, the endowment insurance has become popular which lead the average insured amount decline.

(5) New Business of Investment-linked Products Overview

New business of investment-linked products in 2008 was 983.3 thousand policies with a declination rate of 46.24% compared to 1.83 million policies in 2007. Variable annuity had grown most with 320.2 thousand policies (120.68%). Universal variable life insurance had declined most with 274.1 thousand policies (-69.86%) which was followed by variable life insurance declining 389 thousand policies (-49.78%).

The total insured amount of new business was NTD\$976.21 billion dollars with declination rate of 65.13% compared to NTD\$2,799.19 billion dollars in 2007. Variable annuity had grown most with NTD\$56.08 billion dollars (50.03%). Variable life insurance had declined most with NTD\$364.06 billion dollars which was followed by universal variable life insurance declining NTD\$556.07 billion dollars (-63.92%).

Overall, whether the new business insured amount, policies and FYP of investment-linked life insurance all had declined obviously. The variable annuity new business growths of insured amount, policies and FYP were significant, which revealed that variable annuity played an important in FYP of investment-linked products. From above information, the new reformed policies implemented in Oct, 2007 and global financial tsunami in 2008 had great impact that made consumers tend to be more conservative about selecting investment instruments. They tended to choose annuity with features of capital-protected or saving functions and it had direct impact on FYP and new business of investment-linked life insurance.

(6) Growths and Declinations of Business in Force

Business in force in the end of Dec. 2008 was 162.37 million policies with growth rate of 4.67% compared to 155.13 million policies in the end of 2007. Annuity had grown the most with 0.84 million policies (71.43%) followed by life insurance with 45.98 million policies (3.3%), accident insurance with 49.19 million policies (4.7%) and health insurance with 66.36 million policies (5.08%), which all had grown in 2008. The insured amount of business in force was NTD\$91.97 trillion dollars with growth rate of 2.81% compared to NTD\$89.46 trillion dollars in 2007. The most shining product was still annuity of which NTD\$0.39 trillion dollars (44.44%) followed by health insurance with NTD\$17.92 trillion dollars (4.31%), accident insurance with NTD\$37.26 trillion dollars (2.79%) and life insurance with NTD\$ 36.4 trillion dollars (1.79%), which all had grown compared to 2007. Overall, the business in force in the end of Dec, 2008 has grown stably on business policies and insured amount.

(7) Benefit Payments

Total benefit payments in 2008 was NTD\$1,108.57 billion dollars with growth rate of 28.31% compared to NTD\$863.95 billion dollars in 2007. Life insurance had grown the most with NTD\$879.75 billion dollars (36.15%) followed by health insurance with NTD\$60.67 billion dollars (12.65%), accident insurance with NTD\$19.55 billion dollars (4.57%) and annuity with NTD\$148.6 billion dollars (2.32%). With the reference of the number of persons receiving the payments, there were 13.03 million persons receiving benefit payments in 2008 with growth rate of

11.27% compared to 11.71 million persons in 2007. The number of persons receiving benefits payments of life insurance accounted for 49.88% with 6.5 million persons, which was the most reaching almost 50%.

Refer to the items of benefit payments, surrender payments accounting for 41.1% with NTD\$455.67 billion dollars followed by matured payments accounting for 35.5% with NTD\$393.6 trillion dollars and survivor benefit payment accounting for 9.66% with NTD\$107.12 billion dollars; these three types of payments accounted for 86.27% with NTD\$956.38 billion dollars. From the 1st ranking surrender payments, payment amount had grown from NTD\$209.88 billion dollars in 2006, NTD\$407.03 billion dollars in 2007 to NTD\$455.67 billion dollars in 2008, the trend was climbing. For further reasons, it was assumed that some customers preferred wealth management than insurance as well as the impact from global financial crisis, thus, for lowering loss, customers chose to surrender or be pushed to suspend the contract for consideration of personal finance. For reasons above, the number of policies and amounts of surrender payments had accounted for most part of benefit payments.

To analyze benefit payments for each type of insurance, life insurance benefit payment was NTD\$879.75 billion dollars and for 6.5 million persons. Payment items were maturity payment for NTD\$393.6 billion dollars, surrender payment for NTD\$ 314.67 billion dollars and survivor benefit payment for NTD\$107.12 billion dollars, all of which accounted for 92.68% of total payment. The benefit payment of accident was NTD\$19.55 billion dollars for 1.83 million persons. The 1st ranked was medical benefit payment for NTD\$10.35 billion dollars followed by death benefit payment for NTD\$5.6 billion dollars and disability benefit payment for NTD\$3.42 billion dollars. Health benefit payment was NTD\$60.67 billion dollars for 4.46 million persons. Within health benefit payment, the 1st ranked was medical benefit for NTD\$53.51 billion dollars followed by death benefit payment for NTD\$4.86 billion dollars and dread disease benefit payment for NTD\$1.35 billion dollars. Annuity payment was NTD\$148.6 billion dollars for 0.23 million persons and the surrendered payment was NTD\$140.83 billion dollars accounted for 94.77% which was the most part of annuity payment.

From above information, domestic customers still prefer whole life insurance or endowment life insurance with matured benefit, and the propose for purchasing annuity products was not the future annuity payment but as an investment instrument, so most of policies were surrendered before annuity payment period. Hence, some customers' attitude toward purchasing insurance was more investment than the coverage of insurance.

2. Financial Overview

(1) Asset and Liability Overview

The total assets of life insurance industry in the end of 2008 were NTD\$9.14 trillion dollars which had 4.94% growth rate compared to the NTD\$8.71 trillion dollars in 2007. For further analysis, the total assets excluding separate account product assets were NTD\$8.3 trillion dollars with 7.51% growth rate while the separate account product assets were NTD\$0.84 trillion dollars which had declined from 11.37% to 9.19% in 2008.

The assets allocation were as followed, securities & bonds (61.6%), separate account products assets(9.19%), loans (13.68%), cash, bank deposits (7.55%), investment on real estates (3.5%) and other assets (4.48%). With comparison with 2007, other asset had greatest growth (50%) followed by accounts receivable (30.19%), and the separate account products assets had declined the most (-15.15%).

As to the liability and owner's equity, the liability by the end of Dec 2008 was NTD\$8.92 trillion dollars which had grown 7.73% (NTD\$0.64 trillion dollars) compared to the NTD\$8.28 trillion dollars in 2007. Furthermore, owner's equity had declined NTD\$0.21 trillion dollars from NTD\$0.43 trillion dollars in 2007 to NTD\$0.22 trillion dollars with 48.84% declining rate. The ratio to the assets of each were 97.59% and 2.41% respectively; each would be 97.35% and 2.65% respectively if deduct the influential factors of separate account products liabilities ; within which the reserves was NTD\$7.85 trillion dollars which was accounted for 85.89% of total assets, and 88% of total liability.

In further analysis of owner's equity, the total of overall life insurance industry was positive by the end of Dec 2008 yet 5 companies had negative owner's equity which showed the financial structure needed improvements. The reasons for the decline in owner's equity in the industry were the retained earning had turned into negate NTD\$0.09 trillion dollars from the positive NTD\$0.09 trillion dollars at the end of Dec 2007 with the significant declination rate of 200% reflecting the current profit and loss (after tax) was turned from positive to negative because of investing loss and FX loss. Moreover, the shareholders' equity had also been turned from NTD\$0.1 trillion dollars in 2007 to negative NTD\$0.08 trillion dollars.

(2) Profits and Loss Overview

The total revenue by the end of Dec 2008 was NTD\$3.57 trillion dollars, within which the operating income (insurance business income) was NTD\$3.24 trillion dollars which was accounted for 90.76% of the total revenue. It had 15.77% growth rate compared to the NTD\$2.80 trillion dollars in 2007. The total expense was NTD\$3.7 trillion dollars and within which the operating cost (insurance business expense) was NTD\$3.43 trillion dollars which was accounted for 92.7% of the total expense. It had grown 15.19% compared to the NTD\$2.98 trillion dollars in 2007. From the perspective of operating income and operating cost, both of the growth scale did not differ much yet the total expense of NTD\$3.7 trillion dollars was much larger than the total revenue of NTD\$3.57 trillion dollars. The reasons might be the increasing financial expenses and the net income had been turned from positive to negative.

Further analyzing financial revenue and expenses showed that the total of financial revenue by the end of Dec 2008 (included interest income, gain from investment-securities and investment-real estate) was NTD\$0.3 trillion dollars which was accounted for 8.4% of the total revenue with declination rate of 8.41% compared to the NTD\$0.33 trillion dollars in 2007; within which the gain from investment-securities was NTD\$119.93 billion dollars with significant declination rate of 79.08% compared to the NTD\$573.34 billion dollars in 2007. As to financial expense (included interest paid, loss on investment-securities and loss on investment-real estate), it was NTD\$0.15 trillion dollars accounting for 4.05% of the total expense and it had grown 12.27 times compared to NTD\$0.01 trillion dollars in 2007. The loss on investment-securities had the largest losses. It had grown 13.77 times from the NTD\$9.79 billion dollars in 2007 to NTD\$144.62 billion dollars which was almost the same as financial losses. Thus it demonstrated that with the impact of global financial tsunami, the serious losses resulted from security investment was the majority of the life insurance company.

The net income of life insurance industry after tax were NTD\$-126.66 billion dollars by the end of Dec 2008. There were only 6 companies profited with total of NTD\$11.66 billion dollars while 24 companies had losses with total of NTD\$138.32 billion dollars. The net income of overall life insurance industry after tax had turned to NTD\$-126.66 billion dollars from profiting NTD\$56.88 billion dollars compared to 2007 thus NTD\$183.54 billion dollars was lost compared to 2007 with 322.67% declining rate. In addition to the great loss from investment of security, since the significant volatility of international exchange rate, all insurance company were serious impacted and had great loss on FX which had accelerated the overall loss.

(2) Capital Allocation Overview

The total available capital of the life insurance industry at the end of Dec in 2008 was NTD\$7.95 trillion dollars with growth rate of 6.71% compared to NTD\$7.45 trillion dollars in 2007. The ratio of available capital was 98.51% (ratio of total amount of available capital and total assets); within which were mainly the securities accounting for 43.14% with NTD\$3.43 trillion dollars (within which the NTD\$1.94 trillion dollars were government & treasury bonds accounting for 24.4%) and foreign investments of NTD\$2.4 trillion dollars (with 30.19% coverage), the sum of the two had accounted for 73.33%.

Within which the deposits in bank had grown from NTD\$400.35 billion dollars in 2007 to NTD\$519.26 billion dollars in 2008 with growth rate of 29.7% while policy loans had also increased from NTD\$542.37 billion dollars to NTD\$616.91 billion dollars with 13.74% of growth rate. The overall available capital had also risen from 7.28% to 7.76%, yet others such as beneficiary certificate had great growth from NTD\$223.96 billion dollars in 2007 to NTD\$292.9 billion dollars with a growth rate of 30.78%, government & treasury bonds had great growth from NTD\$1,720.08 billion dollars in 2007 to NTD\$ 1,943.43 billion dollars with a growth rate of 12.99%. In contrast, stock investment had declined from NTD\$553.44 billion dollars in 2007 to NTD\$364.93 billion dollars with declination rate of 34.06%. From above statistic, the global recession had caused the whole insurance industry to be more conservative on investment, tended to more stable instruments with stable interest income.

III. Conclusion and Outlook

1. Conclusion

With the impacts of the appreciation of NTD, subprime events and the bankruptcy of Lehman Brothers in 2008, global economy was serious influenced, thus, 2008 was a very sever year for insurance industry. Premium income was NTD\$1,918.9 billion dollars with stable growing trend compared to 2007. The growth mostly came

from new business, and the most shining products were traditional annuity, short-term endowment insurance and investment-linked annuity. As to renewal premium income, it was influenced by the flexible payment features of single premium and investment-linked products, the portion had declined gradually. As to the structure of products, the portion of FYP from investment-linked life insurance accounted for 20.06% had declined despite it was always the top one product before. Meanwhile, annuity and traditional life insurance had grown and accounted for 37.44% and 37.93% respectively, which had made the market was separated into three parts.

New business in 2008 was 32.92 million (persons) policies with slight declination compared to 2007, while insured amount was NTD\$41.56 trillion dollars with growth rate of 13.4%. Traditional annuity and variable annuity had significant growth no matter in the aspect of number of policy or insured amount, the policies in force was 162.37 million (persons) with insured amount of NTD\$91.97 trillion dollars, both of them had grown stably. The benefit payment was NTD\$1,108.57 billion dollars in total, within which the sum of benefit payment of life insurance and annuity was NTD\$1,028.35 billion dollars accounting for 92.76% of total benefit payment. In further, the surrendered payment was NTD\$455.67 billion dollars (41.10%), matured payment was NTD\$393.6 billion dollars (35.5%) and survivor payment was 107.12 billion dollars (9.66%); to sum up had accounted for 86.26%. Furthermore, surrendered payment had grown 11.95% compared to 2007, of which life insurance had accounted for 35.77% and annuity payment had accounted for 94.77%. This had revealed that economic recession had impact on policy holders.

Global economy has been influenced by financial crisis and leads our domestic economy to be in recession. The profit of insurance industry has mainly depended on interest income of NTD\$271.15 billion dollars, and the loss from investing in security had expanded from NTD\$9.79 billion dollars in 2007 to NTD\$144.62 billion dollars in 2008, which had turned the net income (after tax) of insurance industry from gain NTD\$56.88 billion dollars to loss NTD\$126.66 billion dollars, with a great loss rate of 322.67%.

2. Outlook

Looking into 2009, short-term life insurance and annuity can keep FYP growing. As to financial investment, stock market was benefited from foreign capital keeps investing in and the international bull markets; the loss from investing in stock has been improved. Moreover, the depreciation of NTD to USD has relived FX loss, which has lead insurance industry step away from global recession.

To expand the insurance business, supervisory attempted to permit insurance company can operate trust business to help the young or disable beneficiary who can not handle benefit alone. In addition, supervisory has discussing and researching that insurance company can also operate full authority investment to manage the investment-linked products with the insurance policy from applicants to provide policy holders more diverse investment-linked products.

In response to low average insured amount, aging population and lacking child society, and promoting products with coverage and annuity, supervisory is still providing incentive scheme to encourage insurance company to develop related products. Moreover, to implement the care for weak economy people and assist to construct a complete social security net, the possibility of micro insurance business is under consideration.

Through new products to fulfill customers' demand, supervisory keeps promoting policies to raise insurance company's competitive ability. With all the co-operation, life insurance industry is expected to breakthrough financial crisis and creates another peak.