

Insurance industry profile in Taiwan in the first half year of 2009

I. Business and Financial Profile of Life Insurance Industry

1. Business Statistic Overview

The total premium income of Taiwan's life insurance industry in the first half of 2009 was NTD\$926.2 billion with decline rate of 7.94% compared to NTD\$1,006.1 billion in the first half of 2008. Within which the first year premium income was NTD\$401.2 billion representing 16.54% decline rate while the renewal premium income was NTD\$525 billion with 0.06% declining compared to the first half of 2008. The premium income of life insurance in the first half year did not have growth as previous years and the decline rate of premium income of the first year was much higher than the decline rate of total premium income, it was clearing declining when comparing the decline rate of the first half of 2008 to the same period in 2007 which was 31.95%. The main reasons are the increase of unemployment rate and the decline of average salary which have limited the revival and prolonged the expected period of recovery from the depression that has turned people's investment attitude to be more conservative and prevented them from purchasing insurance policy. From the perspective of product type, the premium income of traditional products in the first half of 2009 was NTD\$800.4 billion which accounted for 86.42% of the total premium income while the premium income of the investment-linked products was NTD\$125.8 billion, accounting for the total premium income of 13.58%. The structures of both premium income and products will be discussed further in the following paragraphs.

(1) Structure of premium income

As to the structure of the premium income, the first year premium (FYP) income among the total premium income had decreased from 47.78% in the first half of 2008 to 43.32% in the first half of 2009, and among which, the single premium accounted for had decreased from NTD\$330 billion in the first half of 2008 to NTD\$226.2 billion compared to the first half of 2009, and the regular premium had increased from NTD\$150.7 billion in the first half of 2008 to NTD\$175 billion in the first half of 2009. The renewal premium income accounted for 56.68% of total premium income has declined from NTD\$525.4 billion in the first half of 2008 which accounted for 52.22% by 400 million or 0.08%.

As to further analysis of the first year of premium income, single premium accounted for 56.38% with the decline rate of 31.45% compared to the first half of 2008; and traditional endowment insurance was NTD\$93.5 billion accounting for 23.31%, which was ranked the 1st with the growth rate of 81.17% compared to NTD\$51.6 billion in the first half of 2008. Next was traditional deferred annuity insurance of which the premium income was NTD\$75.1 billion accounting for 18.73% with growth rate of 28.93% compared to NTD\$58.3 billion in the first half of 2008. The product that was ranked the 3rd was variable annuity insurance of which NTD\$34.9 billion accounting for 8.69% with declination rate of 53.51% compared to NTD\$75 billion in the first half of 2008. Then the product that was ranked the 4th was variable life insurance of which the premium income was NTD\$13.3 billion accounting for 3.30% compared to NTD\$114.6 billion in the first half of 2008 with declination rate of 88.43%. From above analysis, products with high proportion of single premium and the flexible premium of investment-linked products played important roles for the first year premium income. Due to increasing unemployment rate and the decline of average salary, people's investment attitude tended to be more conservative, which caused a substantial drop in the premium income of investment-linked products, furthermore, the first year insurance income had reduced proportionally.

(2) Product Structure Alteration

From the view of total premium income, an investment-linked product was NTD\$125.8 billion in the first half of 2009 and the investment-linked life insurance premium was NTD\$84 billion with the declination rate of 61.41% compared to NTD\$217.7 billion in the first half of 2008. Investment-linked annuity had drastically dropped from NTD\$111.2 billion in the first half of 2008 to NTD\$41.8 billion in the first half of 2009, its decline is similar to the investment-linked life insurance. As to the market share of First Year Premium (FYP), investment-linked life insurance had largely decline from 31.87% in the first half of 2009 to 6.03%; the investment-linked annuity insurance did not perform well either. The FYP had declined from 22.82% in the first half of 2008 to 9.07% with a decline rate of over 100%, which directly responded the market share change. The number described above showed that the premium income of investment-linked products in the first half of 2009 was in a downward spiral; the most direct reason of business depression was that policy owners became unwilling to undertake risk due to global financial recession, and their attitude towards investment tended to be conservative under the impact of uncertain recovery, policy owners turned to choose financial instruments with

lower risk.

Total premium income from traditional insurance in the first half of 2009 was NTD\$800.4 billion. Traditional life insurance premium was NTD\$558.3 billion with the growth rate of 14.92% compared to NTD\$485.8 billion in the first half of 2008; traditional annuity premium income was NTD\$111 billion with the growth rate of 53.74% compared to NTD\$72.2 billion in the first half of 2008. Health insurance premium income was NTD\$101.9 billion with growth rate of 12.35% compared to the first half year of 2008 and accident insurance premium was NTD\$29.2 billion which had slightly grown by 2.46% compared to NTD\$28.5 billion in the first half of 2008.

With further analysis of FYP, traditional life insurance premium was NTD\$209.9 billion with significant growth rate of 60.60% compared to NTD\$130.7 billion in the first half of 2008 and the market share had also grown from 27.19% to 52.31%. The main reason was the crisis caused by structured notes which had impact on the sales of investment-linked products. Thus, consumers turned to purchase traditional products, which lead a significant growth of endowment life insurance. Traditional annuity insurance had slight growth from NTD\$70.3 billion in the first half of 2008 to NTD\$107.5 billion in the first half of 2009 with growth rate of 52.92%, which was benefited from the rate of interest sensitive annuity that was higher than market rate.

The above information shows that FYP income of the outstanding investment-linked products in the past two years had declined 76.95% in the first half of 2009 due to global recession and its uncertain recovery and clients' conservative attitude towards to investment. Meanwhile, traditional life insurance and traditional annuity insurance played important roles in FYP. Overall, the FYP income had only dropped 16.54% compared to the first half of 2008, and the FYP income and renewal premium income accounted for 43.32% and 56.68% compared to 47.78% and 52.22% in the first half of 2008, the difference was respectively larger. In conclusion, the insurance industry has transformed from one that was highly depending on the growth of new business to one that was depending on premium income of renewal business in force.

(3) Distribution Overview

The FYP income in the first half of 2009 was mainly from NTD\$242.4 billion contributed by brokers and banks and NTD\$139.5 billion contributed by agents of insurance companies, which accounted for 60.41% and 34.77% respectively and 95.18% in total; the rest of channels contributed only 4.82%. In past few years, the premium income contributed by agents of insurance companies remained accounting for about 50% (63.68% in the first half of 2007 and 57.70% in the first half of 2008), but it declined to 34.77% in the first half of 2009 with decline rate of 22.93% compared to the first half of 2008. The premium income had also dropped from NTD\$277.5 billion in the first half of 2008 to NTD\$139.5 billion in the first half of 2009. However, the distribution channels as brokers and banks had grown year by year from NTD\$111.5 billion in the first half of 2007 to NTD\$185.6 billion in the first half of 2008, then to NTD\$242.4 billion in the first half of 2009 with growth rate of 30.55% compared to 2008. The market share had also significantly grown from 38.61% in the first half of 2008 to 60.41% in the first half of 2009. It is estimated that the significant growth of brokers and banks may be mainly caused by the overall financial change and the continuously low market interest rate, which made customers transferred their interests to savings insurance products with lower investment risk which was similar to fixed deposit.

The information above shows that with the financial integration, the market channels of insurance industry have been gradually transformed from one that was mainly depending on agents in the past to various sales channels. Especially in these few years, the premium income from brokers and banks, general brokers and agencies, or direct market channels have being growing stably, 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 the first half of 2009 were 14.48 million policies, which declined by 0.34% compared to 14.53 million policies in the first half of 2008. The growth of individual health insurance was the most significant with 1.97 million policies (30.46%), and next was group health insurance with 2.12 million policies (24.71%). Individual annuity insurance declined the most with 0.11 million policies with declination rate of 67.65% compared to the first half of 2008, which was totally different from the growing situation in the last year, which was individual accident insurance with 4.34 million policies (-15.56%). Overall, individual insurance was 7.94 million policies with slight declination rate of 8.63% compared to 8.69 million policies in the first half of 2008; group insurance was 6.54 million policies with growth rate of 5.84% compared to 5.84 million policies in the first half of 2008.

The total amount of new business was NTD\$13.89 trillion which had declined by 11.81% compared to NTD\$15.75 trillion in the first half of 2008. Individual health insurance had the most growth of NTD\$0.7 trillion (34.62%). Other insurance policies had declined compared to 2008, especially group health insurance had declined the most by NTD\$0.24 trillion (68.83%); next was individual annuity insurance by NTD\$0.06 trillion (-45.45%). Overall, individual insurance amount was NTD\$10.39 trillion with decline rate of 8.70% compared to NTD\$11.38 trillion in the first half of 2008, and group insurance was NTD\$3.5 trillion with decline rate of 19.91% compared to NTD\$4.37 trillion in the first half of 2008.

The analysis above has showed that the insured amount of both individual and group in the first half of 2009 had declined compared to the first half of 2008. The insured amount of individual annuity insurance had declined the most, which was different from the growing trend of the first half of 2008. The reason of declining number of policies and the insured amount may be related to the great declination of variable deferred annuity insurance policies.

(5) New Business of Investment-linked Products Overview

New business of investment-linked products in the first half of 2009 was 131.1 thousand policies with a significant declination rate of 83.76% compared to 807.1 thousand policies in the first half of 2008. Variable annuity life insurance had decreased the most with 32.9 thousand policies (-88.76%). Next was variable life insurance with 53.8 thousand policies (-82.90%), and what followed variable life insurance was variable universal life insurance with 44.3 thousand policies (-77.83%).

The total insured amount of new business was NTD\$140.76 billion with decline rate of 79.69% compared to NTD\$693.17 billion in the first half of 2008. Variable annuity insurance had declined most with NTD\$4.57 billion (-90.85%) which was followed by variable universal life insurance declining NTD\$84.18 billion (-78.91%), and then variable life insurance declining NTD\$52.02 billion (-78.69%).

Overall, the new business insured amount, policies and FYP of investment-linked life insurance all had declined obviously, especially variable annuity insurance which had declined most from the growing trend of the first half of 2008. The subprime mortgage and bankruptcy of Lehman Brothers from the second half of 2008 and global financial tsunami had great impact that made policy owners to be more conservative while selecting investment instruments. They turned to choose traditional insurance with features of capital-protected or saving functions, and also caused the short-term traditional endowment life insurance to be the best seller, and had impact on FYP and new business of investment-linked products.

(6) Growths and Declinations of Business in Force

Business in force in the end of Jun, 2009 was 164.54 million policies with growth rate of 3.46% compared to 159.03 million policies in the end of Jun, 2008. Annuity insurance had the most growth with 0.90 million policies (15.38%), and others also had growth such as life insurance with 45.80 million policies (0.66%), accident insurance with 49.76 million policies (3.45%) and health insurance with 68.08 million policies (5.31%). The insured amount of business in force was NTD\$92.11 trillion with growth rate of 0.82% compared to NTD\$91.36 trillion in the end of Jun, 2008. The product with the best performance was annuity of which NTD\$0.43 trillion (22.86%) followed by health insurance with NTD\$18.15 trillion (4.19%), accident insurance with NTD\$37.08 trillion (0.11%), which all had growth compared to 2008. Only the insured amount of life insurance had dropped slightly by NTD\$36.45 trillion (-0.27%). Overall, the business in force in the end of Jun, 2009 has grown stably on business policies and insured amount.

(7) Benefit Payments

Total benefit payments in 2009 was NTD\$390.50 billion with decline rate of 19.24% compared to NTD\$483.54 billion in the first half of 2008. Annuity insurance had grown the most with NTD\$74.55 billion (12.06%) followed by health insurance with NTD\$31.22 billion (8.67%) and accident insurance with NTD\$9.57 billion (3.50%). The benefit payment of life insurance was only NTD\$275.15 billion with declination rate of 27.41% compared to last year. With the reference of the number of policyholders receiving the payments, there were 6.12 million policyholders in the first half of 2009 with decline rate of 1.29% compared to 6.20 million policyholders in the first half of 2008. The number of policyholders receiving benefits payments of life insurance accounted for 44.61% with 2.73 million policyholders.

Refer to the items of benefit payments, surrender payments accounting for 45.90% with NTD\$179.22

billion followed by maturity payments accounting for 21.55% with NTD\$84.15 billion and survivor benefit payment accounting for 13.44% with NTD\$52.46 billion; these three types of payments accounted for 80.88% with NTD\$315.84 billion. As for surrender payments, payment amount had declined from NTD\$195.68 billion in the first half of 2008 to NTD\$179.22 billion in the first half of 2009 with decline rate of 8.41%. For further reasons, it is expected that the recession in most countries has been controlled, and there is a sign of revival in Asian countries. For the insurance industry, the trend of rescission has tended to slow down.

To analyze benefit payments for each type of insurance, life insurance benefit payment was NTD\$275.15 billion and for 2.72 million policyholders. Payment items include surrender payment for NTD\$106.02 billion, maturity benefit for NTD\$84.15 billion and survivor benefit payment for NTD\$52.46 billion respectively, all of which accounted for 88.18% of total payment. The benefit payment of accident was NTD\$9.57 billion and for 0.99 million policyholders. The one that was ranked the 1st was medical insurance for NTD\$5.25 billion followed by death benefit payment for NTD\$2.55 billion and dread diseases benefit for NTD\$1.68 billion respectively. Health benefit payment was NTD\$31.22 billion and for 2.31 million persons. Within health benefit payment, the top one was medical benefit for NTD\$27.58 billion followed by death benefit payment for NTD\$2.43 billion and dread diseases benefit for NTD\$0.67 billion respectively. Annuity payment was NTD\$74.55 billion and for 0.10 million policyholders and the surrendered payment was NTD\$73.07 billion accounted for 98.01%, which was the most significant type.

The information above shows that people prefer life insurance or endowment life insurance with maturity benefit, and the purpose for purchasing annuity products was not the future annuity payment but as an investment instrument, thus most of the policies were surrendered before annuity payment period. Hence, some customer's attitude toward purchasing insurance was for investment more than the coverage of insurance.

2. Financial Overview

(1) Asset and Liability Overview

The total assets of life insurance industry in the end of Jun, 2009 were NTD\$9.88 trillion which had grown 9.29% compared to NTD\$9.04 trillion in 2008. For further analysis, the total assets excluding separate accounts product assets were NTD\$8.91 trillion with 12.08% of growth rate while the investment-linked separate account product assets were NTD\$0.97 trillion which had declined from 12.06% in the end of Jun, 2008 to 9.82% in 2009.

The asset allocation were as followed: securities & bonds (61.13%), separate account products assets (9.82%), loans (12.25%), cash and bank deposits (8.91%), investment on real estate (3.54%) and other assets (4.25%). Compared to the end of Jun, 2008, cash and bank deposits had a great growth (87.23%) followed by other receivables (44.44%); account receivables had declined the most (-35.71%) followed by separate account products assets (-11.01%).

As for the liability and owner's equity, the liability by the end of Jun 2009 was NTD\$9.6 trillion which had grown 9.59% (NTD\$0.84 trillion) compared to NTD\$8.76 trillion in 2008, and the owner's equity had grown by NTD\$0.01 trillion or 3.7% from NTD\$0.27 trillion in 2008 to NTD\$0.28 trillion. The ratio to the assets of each were 97.17% and 2.83% respectively; each would be 96.86% and 3.14% if the influential factors of separate account products liabilities was removed, and within which the reserves was NTD\$8.4 trillion which accounted for 87.50% of total liabilities.

In further analysis of owner's equity, the total of overall life insurance industry was positive in the end of Jun 2009 yet 5 companies had negative owner's equity. It means that the financial structure required improvements. The reasons for the change in owner's equity were the declination of retained earnings had been increased from NTD\$-18.61 billion in the end of Jun 2008 to NTD\$-91.99 billion of accumulative loss in the end of June in 2009 with significant declination rate of 394.43% which had reflected the net income (after tax) of security investment was turned from positive to negative due to capitalization and the effect by unfavorable overall economic environment. Other items of owner's equity had lost NTD\$21.73 billion with growth rate of 40.48% compared to NTD\$-15.47 billion in the end of Jun 2008; however, if comparing with NTD\$-76.55 billion in the end of Dec 2008, the declination was very small; it is estimated that the unrealized profit and loss of financial products is related to the large interest reduction of currency exchange.

(2) Profits and Loss Overview

The total revenue by the end of Jun 2009 was NTD\$1.59 trillion, within which the operating income (insurance business income) was NTD\$1.41 trillion which was accounted for 88.68% of total revenue. Compared to NTD\$1.56 trillion in 2008, it had declined 9.58%. The total expense was NTD\$1.59 trillion and

within which the operating cost (insurance business expense) was NTD\$1.53 trillion which accounted for 96.23% of total expense. Compared with NTD\$1.66 trillion in 2008, it had declined 7.77%. From the perspective of operating income and operating costs, the profit and loss of underwriting was NTD\$-117.28 billion, and the reasons might be that the insurance industry needs to improve its underwriting business.

The analysis of revenue and expenses showed that the total of financial revenue by the end of Jun 2009 (included interest income, gain from investment-securities and investment-real estate) was NTD\$169.77 billion which was accounted for 10.67% of total revenue with declination rate of 36.62% compared to NTD\$267.85 billion in 2008. As for financial expense (included interest paid, loss on investment-security and investment-real estate), it was NTD\$7.55 billion accounting for 0.47% of total expense and had declined 93.03% compared to NTD\$108.39 billion in 2008. The main reason for declination of both revenue and expense is the profit and loss of security investment. Further analyzing the net profit of investment, the top one was net revenue of interest with NTD\$131.47 billion which was similar to NTD\$130.82 billion by the end of June 2008 followed by the net revenue of investment-security with declination of NTD\$3.45 billion from NTD\$21.81 billion in 2008 to NTD\$18.37 billion. The net revenue of investment-real estate was 12.38 billion with a significant growth of 81.24% compared to NTD\$6.83 billion in 2008. The data mentioned above showed that the life insurance industry tends to be conservative on capital allocation and rather invests in financial instruments with lower risk due to global financial tsunami.

The net income of life insurance industry after tax by the end of Jun 2009 was NTD\$-3.42 billion; compared to NTD\$-60.67 billion in the end of Jun 2008, it has significantly grown of NTD\$57.26 billion with growth rate of 94.37%. There were 24 companies having losses in 2008, but there were only 13 in June, 2009. Although the net profit of investment was 15.80% which was less than last year's, the difference of profit and loss after tax had gradually become smaller due to the great improvement on other expense caused by the depreciation of US dollars to NT dollars.

(3) Capital Allocation Overview

The total available capital by the end of Jun 2009 was NTD\$8.53 trillion with growth rate of 11.94% compared to NTD\$7.62 trillion in 2008. The available capital ratio was 98.36% (ratio of total amount of available capital and total assets), which were mainly covered by the securities accounting for 43.26% with NTD\$3.7 trillion (which contributed mostly by the government and treasury bond of NTD\$2.06 trillion, accounting for 24.13%) and foreign investments of NTD\$2.62 trillion (with 30.75% coverage), the aggregation of the two had accounted for 74.01%.

The bank deposits had grown from NTD\$347.16 billion in the end of Jun 2008 to NTD\$635.22 billion with the growth rate of 82.98% while policy loans had also increased from NTD\$563.08 billion in the end of Jun 2008 to NTD\$609.16 billion with growth rate of 8.18%, yet others such as beneficiary certificate had grown greatly from NTD\$73.72 billion in the end of Jun 2008 to NTD\$187.74 billion with growth rate of 154.66%, and corporate bond had grown from NTD\$232.67 billion in the end of Jun 2008 to NTD\$319.50 billion with growth rate of 37.31%, government & treasury bond had grown from NTD\$1,812.22 billion in the end of Jun 2008 to NTD\$2,059.75 billion with growth rate of 13.66%. Relative stock investment had declined from NTD\$582.53 billion in the end of Jun 2008 to NTD\$445.88 billion with declination rate of 23.46%. The statistics above showed that the global recession had caused the whole insurance industry to be more conservative on investment and tended to invest in more stable instruments with stable interest income.

II. Conclusion and Outlook

1. Conclusion

Although the industrialized countries in America and Europe were still in recession in the first half year of 2009, the recession in Asian was almost over. The rising unemployment rate and lower average salary had limited public consumption, and had brought challenges to life insurance industry. Being different from the growing trend in the past, the premium income was NTD\$926.2 billion which had declined by 7.94% compared to the first half year of 2008. More than half of premium income depended on the maintenance of renewal premium income within which the performance of traditional life insurance, short-term endowment life insurance and traditional annuity insurance was rated outstanding.

As for product structure, from the viewpoint of FYP income, the ratio of investment-linked life insurance and annuity insurance had declined to 15.10%, which was quite different from the past. On the contrary, the traditional annuity insurance and traditional life insurance had emerged suddenly to 26.79% and 52.32% respectively. The information above showed that the traditional products had once again won the policy owners' favor.

The new business in the first half of 2009 was 14.48 million policies with a slight declination compared to the first half of 2008; the insured amount was NTD\$13.89 trillion with declination rate of 11.81%; policies and insured amount of life insurance and annuity insurance both had declined compared to 2008, especially the annuity insurance with declination rate of over 50%. Business in force was 164.54 million policies and the insured amount was accounted for NTD\$92.11 trillion; both were in stable growth. The total benefit payment was NTD\$390.50 billion within which the sum of life insurance and annuity insurance was NTD\$349.71 billion accounted for 89.55% of total. For further analysis, surrender payment for NTD\$179.22 billion was the 1st of all with 45.90%; however, when comparing with 2008, it had declined 8.41% within which the surrender payment of life insurance and annuity insurance was 38.53% and 98.01% respectively. The information above showed that, yet the overall economic environment had stopped going down, the rising unemployment rate still had an impact to policy owners to a certain degree.

As for net revenue on investment of life insurance industry, the net interest revenue for NTD\$131.47 billion was ranked the 1st. In addition, the net revenue of investment-security had declined from NTD\$24.71 billion in the end of Jun 2008 to NTD\$18.37 billion in the end of Jun 2009. However, the profit and loss after tax for insurance industry had gradually grown from NTD\$-60.67 billion in the end of Jun 2008 to NTD\$-3.42 billion. Even though it was still negative, it had been improved greatly when comparing with that of last year.

2. Outlook

Looking into the second half of this year, after one year of the financial tsunami caused by the event of subprime mortgage in the U.S. which had been detrimental to global economics, the recession in most countries had been controlled by large financial stimulus package of developed countries in American and European, as well as the financial and currency policy in every country. Especially the recession in Asian newly economics has stopped. For the second half of this year, it is estimated that global economics may revive gradually; the stock market has been rising with the international bull market from the lowest in the beginning of the year and may will help to rebuild the wealth. However, the high unemployment rate and lower average salary are still exhausting mass consumption; the recent damage to life and property by Typhoon Morakot has also intruded the consumption ability.

The information above showed that the insurance industry will still face a quite serious trial in the second half of the year. If the traditional insurance and short-term life insurance can be still in great demand, it is estimated that they can drive the continuous growth of FYP income. As to financial investment, being benefited from foreign capitals investment in and the international bull markets, the stock market has become busier, and the loss from investing in stocks has been milder. In addition, since the rising exchange rate of NT dollar and US dollar has released the pressure of currency loss, the profitability of overall insurance industry is slowly reviving from the mess of global recession.

In addition, in order to cope with small insured amount of average life insurance and aging society with fewer children, and to improve the promotion of insured and annuity products, the authorities shall continue to provide incentives to encourage the insurance industry to design relevant insurance products. Based on the consolidation of focus of economic minority and assistance of building up social security web, the authorities shall also promote micro-insurance. Through the promotion of new products to satisfy consumers' needs, the authorities shall encourage various kind of policy to improve the competency of insurance industry. With the collaboration in all aspects, it is expected that the insurance industry can be first free from the financial tsunami and create another peak in near future.