Taiwan Life Insurance Report 2010

一、Business Overview of the Industry

（一）Business Overview

In 2010, the Taiwan life insurance market reported TWD 2,312.8 billion in premium income, up by 15.27% comparing with TWD 2,006.5 billion in 2009. The first-year premium income in 2010 reached a record high at TWD 1,161.6 billion and an astonishing growth rate of 25.56% as oppose to 8.16% in the previous year. Renewal premium income of the year totaled TWD 1,151.2 billion, rising by 6.43% when compared with previous year. In terms of product types, premium income from traditional life insurance accounted for 86.89%, or TWD 2,009.6 billion, of the total premium income. Meanwhile, premium income from investment-linked insurance accounted for 13.11%, or TWD 303.2 billion, of the total premium income. In comparison with 14.90% growth rate in 2009, the number improved slightly. Detail analysis on the breakdown of premium income and product types could be found in the following sections.

1.1 Premium Income Structure

According to the breakdown of 2010 premium income, the first-year premium income accounted for 50.22% (46.11% in 2009), or TWD 1,161.6 billion, of the total premium income. Among the first-year premium income, single premium income grew from TWD 576.7 billion in 2009 to TWD 763.6 billion in 2010, seizing a year-over-year growth rate of 32.41%. Installment premium income increased from TWD 348.4 billion in 2009 to TWD 398.0 billion in 2010. Renewal premium accounted for 49.78%, or TWD 1,151.2 billion, of total premium income during the year. In comparison to 53.91% in 2009, the percentage declined slightly. However, it improved in number by 6.43% or TWD 69.5 billion when compared with TWD 1,081.7 billion in 2009.

A further study on the first-year premium income revealed that single premium made up 65.74% of the total first-year premium income. Traditional endowment insurance and traditional deferred annuity were the two major contributors of 2010 single premium income in terms of product types. They accounted for 40.97% and 38.49% of the total single premium income, respectively. Traditional endowment insurance posted TWD 312.9 billion in single premium income, up by 41.43% when compared with TWD 221.2 billion in 2009. Traditional deferred annuity, on the other hand, delivered TWD 293.9 billion, rising by 46.31% in comparison with TWD 200.9 billion in 2009. These data indicated that products with high concentration of single premium income played pivotal role in the overall first-year premium income, especially the six-year endowment insurance (accounting for 75% of the first-year premium income of life insurance) and short-term interest-sensitive annuity (accounting for 80% of the first-year premium income of annuity) which had major impact to the growth of 2010 first-year premium income.

1.2 Product Structure Change

In 2010, investment-linked insurance seized TWD 303.2 billion in premium income, of which investment-linked life insurance accounted for TWD 193.5 billion, up by 6.79% when compared to TWD 181.2 billion in 2009. The augmentation was owed to conservative consumers' favor over structured-note linked insurance that served similarly to term deposit with minimum interest rate under the low interest market condition. However, investment-linked annuity fell from TWD 117.7 billion in 2009 to TWD 109.7 billion in 2010, declining by 6.89%.

Of the total first-year premium income in 2010, investment-linked life insurance accounted for 6.52%, slightly down from 6.59% in 2009. A larger decrease was found in investment-linked annuity, where it accounted for 11.62% in 2009 and 6.89% in 2010. This was probably led by low market confidence and contraction of consumer financial market during financial tsunami period. Moreover, effective from 2010, profits earned through investment-linked insurance products must be taxed as annual income thus lowering consumers' willingness to buy such product and pushing term-deposit alike insurance products to become top sellers.

In 2010, premium income from traditional insurance made up 86.89% of the total premium income at TWD 2,009.6 billion. Of the TWD 2,009.6 billion, traditional life insurance accounted for TWD 1,302.4 billion, rising by 15.83% when compared with TWD 1,124.4 billion in 2009. Premium income from traditional annuity was roughly around TWD 417.3 billion premium income, soaring by 36.02% when compared with TWD 306.8 billion in 2009. Health insurance premium income reached TWD 233.7 billion, seizing a growth rate of 6.47% when compared with TWD 219.5 billion in 2009. Only accident insurance posted a negative growth rate of 1.23%, sliding from TWD 56.9 billion in the previous year to TWD 56.2 billion in 2010.

A further analysis of the first-year premium income indicated that traditional life insurance seized a growth rate of 36.03%, climbing from TWD 408.6 billion in 2009 to TWD 555.8 billion in 2010. It accounted for 47.85% of the total first-year premium income as compared to 44.17% in 2009. In contrast to its moderate growth trend, traditional annuity premium income rose significantly by 37.25% in 2010, ascending from TWD 300.9 billion in 2009 to TWD 413.0 billion in 2010 as banks injected large amount of funds to short-term interest-sensitive annuity or endowment products in lieu of investment-linked products which were still impacted by the structured-note trouble, thus leading to the record high first-year premium income in 2010.

1.3 Distribution Channels

In terms of distribution channels, the main contributors of 2010 first-year premium income were bancasssurance（TWD 758.2 billion）and solicitors of life insurers（TWD 366.0 billion). The two channels accounted for 65.25% and 31.50% of the 2010 first-year premium income, respectively; the combination of the two made up 96.75%. Meanwhile, other distribution channel contributed a mere 3.25%. The percentage of first-year premium income generated by insurance solicitors has been gradually decreasing year after year. In 2009, solicitors of life insurers contributed to 33.13% of the total first-year premium income. In 2010, the number dropped by 1.63%, down to 31.50%. However, it escalated in dollar amount from TWD 306.4 billion in 2009 to TWD 366.0 billion in 2010. In contrarily, contribution by bancassurance has been growing year by year: from TWD 409.2 billion in 2008 to TWD 584.2 billion in 2009, and then to TWD 758.2 billion in 2010, thus attaining 29.79% year over year growth rate. The cause of the outstanding growth rate in bancassurance was same as described in the preceding paragraph where banks focused on attracting funds to endowment products that are similar to term deposits in lieu of investment-linked insurance products, which consequently brought first-year premium income to hit high record high.

Based on the statistics above, it can be concluded that the distribution channels of life insurance sector have been transforming, leading by integration of financial market. The heavy reliance on solicitors has now been shifted to brokers and agents. In addition, premium income from direct marketing has also shown steady growth, increasing from TWD 5.8 billion in 2009 to TWD 6.7 billion in 2010. These are all indications that the distribution channels of life insurance are now more diversified than ever.

1.4 Group Insurance vs. Individual Insurance

In 2010, the number of new policies issued Individual totaled 36.12 million policies, boosting by 8.60% in comparison to 33.26 million in 2009. Of the 36.12 million new policies issued during the year, group accident insurance accounted for 11.78 million policies, posting 68.05% year-over-year growth rate. Group life insurance rose by 23.39%, attaining 2.11 million new policies. Individual accident insurance, on the other hand, fell by 22.46%, plummeting to 6.94 million new policies; and individual health insurance declined by 18.75%, dipping to 3.38 million new policies. Overall speaking, the number of new individual insurance policies issued in 2010 dropped 15.62% to 13.67 million policies from 16.20 million in 2009. The number of persons insured by group insurance augmented by 31.59% in 2010, growing from 17.06 million persons in 2009 to 22.45 million persons in 2010.

The sum of the insured amount of new policies issued in 2010 was approximately TWD 34.19 trillion, rising by 5.52% year-over-year in comparison to TWD 32.40 trillion in 2009. Of the total insured amount, individual annuity made up TWD 433.9 billion, snatching 126.32% year-over-year growth rate; insured amount from group accident insurance posted a growth rate of 109.96%, attaining TWD 11.17 trillion. Contrarily, the insured amount posted from group health insurance declined 76.72%, dropping to TWD 983.9 billion. Individual health insurance decreased 33.64%, standing at TWD 726.2 billion. In summary, the insured amount from individual insurance equaled about TWD 20.76 trillion, declining slightly by 4.38% in comparison with TWD 21.71 trillion in 2009; the insured amount from group insurance policies boosted by 25.63%, from TWD 10.69 trillion in 2009 to TWD 13.43 trillion in 2010.

After viewing the first-year premium income of various insurance products, an overview of the individual insurance in 2010 could be summarized as follows: both life insurance and annuity showed steady growth in the aspects of premium income, number of newly issued policies, and insured amount. Contrary to its downfall trend last year, life insurance emerged strongly in 2010. Amongst life insurance products, growth in endowment was the most obvious, reporting 1.59 million new policies issued and TWD 0.9 trillion in insured amount. In comparison with 2009, the statistics increased 7.72% and 3.87%, respectively. The first-year premium income from endowment was approximately TWD 470.4 billion, picking up by 37.03% from TWD 343.3 trillion in 2009. As for the number of newly issued policies, insured amount and premium income from accident insurance and health insurance, all had declined in comparison with 2009. In conclusion of the analysis above, individual insurance have decayed moderately in comparison with 2009 in terms of the number of newly issued policies or insured amount mainly owing to the shortfall in the sales of accident insurance and health insurance.

1.5 Newly Issued Investment-Linked Insurance Policies

The number of newly issued investment-linked policies in 2010 amounted to 270,200 policies, plunging considerably by 14.47% in comparison to 315,900 policies in 2009. Amongst different types investment-linked products, deferred variable annuity continued to be un-favored by the market, thus reducing drastically to 46,100 policies (by -42.52%). Moreover, variable life insurance fell by 11.10% to 96,100 policies.

The insured amount of the newly issued insurance policies was approximately TWD 346.1 billion, shrinking by around 5.36% when compared with TWD 365.7 billion in 2009. The largest cutback, namely -68.53%, was seen in the variable annuity which fell to TWD 3.0 billion. It was followed by variable life insurance, which declined 26.09%, posting a total insured amount of TWD 75.0 billion.

As a whole, investment-linked product rendered a remarkable decline in 2010 from all three dimensions of the number of new policies issued, total insured amount as well as first-year premium income for 2010. Based on that, an assumption could be drawn: policyholders' conservative attitudes toward investment and inclination to buy principal-guaranteed or term deposit alike insurance products have had directly impacted the overall first-year premium income and number of new investment-linked policies issued in 2010.

1.6 Policies In Force

As of the end of 2010, the number of policies in force was 176.17 million policies, enhancing slightly by 4.78% when compared with 2009's 168.13 million policies. Of the total policies in force, annuity grew by 9.90% to 1.11 million policies; health insurance rose by 5.73% to 73.66 million policies; accident insurance increased by 5.09% to 53.70 million; and life insurance surged by 2.91% to 47.70 million policies. In terms of insured amount, the sum came to TWD 92.31 trillion, decreasing by 1.44% from TWD 93.66 trillion which was attained in 2009. The best performing product type remained to be annuity which scored

71.15% year-over-year growth rate with TWD 893.7 billion. Life insurance rose merely by 0.49% with insured amount of TWD 37.14 trillion. Both health insurance and accident insurance declined in comparison with 2009, by 7.42% to TWD 16.97 trillion and by 1.43% to TWD 37.31 trillion, respectively. In general, the number of policies in force continued to grow steadily in 2010.

1.7 Benefit Payout

The amount of benefits paid during 2010 totaled TWD 1,191.5 billion, escalated by 32.04% when compared with TWD 902.3 billion paid in the previous year. The benefits paid by annuities increased most significantly at 72.61% from the previous year to TWD 370.8 billion. It was followed by the life insurance's 21.44% year over year growth rate, or surge to TWD 729.8 billion in 2010. Moreover, benefit payouts made by health insurance equaled about TWD 70.7 billion, attaining 7.01% growth rate; on the other hand, benefits paid by accident insurance reduced to TWD 20.1 billion, declining by 1.85%. The number of beneficiaries increased from 13.05 million people in 2009 to 17.11 million people in 2010, or by 31.11%. Life insurance beneficiaries accounted for as high as 49.04% of the total beneficiaries in 2010, standing at 8.39 million people.

In view of 2010 benefit payouts by benefit types, surrender payments topped the chart with TWD 605.3 billion, accounting for 50.80% of the total benefit paid during the year; maturity benefit was listed as second with TWD 306.9 billion, marking 25.76% of the total benefit; thirdly, survivor benefit made up 8.85% of the total with TWD 105.4 billion. Together, they represented 85.41% of the total benefits paid during the year.

A comparison on the surrender payments paid in the recent years indicated that the amount of payout had slightly declined from TWD 455.7 billion in 2008 to TWD 442.8 billion in 2009, and then soared to TWD 605.3 billion in 2010. Both the number of surrender policies and the amount of surrender payments surged by more than 30 percent from a year ago. The high percentage of policy surrender in 2010 may have been driven by large number of surrender charge-free interest-sensitive annuity products sold in recent years together with stock market rallies in 2010 that motivated policyholders to terminate their policies early to realize profits without penalty charges.

A further breakdown of the benefits paid in 2010 by product types indicated that life insurance benefits paid during the year amounted to TWD 729.8 billion and was paid to 8.39 million beneficiaries. Maturity benefit, surrender payment, and survivor benefit together accounted for 89.06% of the total life insurance benefit paid in 2010 with TWD 306.9 billion, TWD 238.1 billion, and TWD 104.9 billion, respectively.

Furthermore, accident insurance benefits paid during the year reached approximately TWD 20.1 billion and were paid to 1.99 million beneficiaries. Medical benefits, in the amount of TWD 10.9 billion, made up the largest portion, followed by death benefits in TWD 5.2 billion and disability benefits in TWD 3.5 billion.

Health insurance benefit payout totaled TWD 70.7 billion in 2010 and was paid to 6.03 million beneficiaries. Of the total health insurance benefits paid, medical benefits accounted for the largest portion in the amount of TWD 61.8 billion, followed by death benefits in TWD 5.4 billion and dread disease benefits in TWD 2.1 billion.

In 2010, a total of TWD 370.8 billion annuity benefit were paid to 0.71 million beneficiaries. Of the total annuity benefits paid, approximately 98.90% or TWD 366.8 billion were paid as surrender payment. Of the total surrender payments made during the year, traditional annuity accounted for TWD 287.1 billion, which skyrocketed by 76.79% from the previous year (TWD 162.4 billion).

According to the statistics shown in the preceding paragraphs, consumers in Taiwan in general have preference over principal guaranteed life insurance or endowment with maturity benefits. Annuity is seen as an investment tool instead of finance protection tool thus resulting in high percentage of early policy surrenders.

（二）**Financial Overview**

2.1 Assets and Liabilities

As of the end of 2010, the total assets of life insurance companies totaled TWD 12.12 trillion, up by 12.43% from previous year’s TWD 10.78 trillion. Assets excluding separate account assets equaled approximately TWD 10.93 trillion, attaining 13.38% year-over-year growth rate. Separate account assets of investment-linked insurance stood at TWD 1.19 trillion as of 2010 yearend, constituting 9.82% of the sector’s total assets which was a slight decline in comparison to 10.58% in 2009.

The sector’s total assets were allocated as follows: 64.03% securities and bonds; 9.82% separate account assets; 9.65% loans; 8.72% cash and bank deposits; 3.38% real estate investments; and 4.37% other assets. In comparison to same period last year, the largest growth was seen in fixed assets at 33.33%, followed by other account receivables at 18.18%; only decline was found in loan (-0.85%).

The total liabilities of the industry as the end of 2010 stood at TWD 11.65 trillion, rising by 12.56% or TWD 1.30 trillion when compared with TWD 10.35 trillion in 2009. Various liability reserves accounted for 84.32%, or TWD 10.22 trillion, of the total assets and 87.73% of the total liabilities. Meanwhile, the owner’s equity attained TWD 476.2 billion, ascending by TWD 40.9 billion or 9.39% from TWD 435.3 billion in 2009. The ratios of assets to liabilities and assets to owner’s equity were 96.07% and 3.93%, respectively. The ratios became 95.70% and 4.30%, respectively, after excluding separate accounts assets.

Even though the owner’s equity of the sector remained positive as of the end of 2010, four life insurers appeared to have negative owner’s equity, implicating the need for financial improvement. The change in owner’s equity may have been driven by the decline in retained earnings, which remarkably dropped by 57.14% down from -TWD 0.07 trillion in 2009 to -TWD 0.11 trillion in 2010. This decrease further reflected the increasing spread loss on the balance sheet as return on investment of life insurance companies has fallen far behind the pricing interest rate under the low interest market condition. Moreover, the implementation of new accounting standards in 2011 compelled insurers to set aside more reserves, which further worsen the problems that the sector has to face.

2.2 Losses and Profits

In 2010, the life insurance companies generated TWD 4.10 trillion in revenue, of which the operating revenue (income from insurance) accounted for 86.83%, or TWD 3.56 trillion, of total revenue, representing 13.80% growth from TWD 3.13 trillion a year ago. Total expense in 2010 came to TWD 4.12 trillion. Operating expense accounted for 93.90%, or TWD 3.85 trillion, of total expense. In comparison to same period last year, the operating expense rose by 14.55%, or TWD 0.49 trillion. The differences between operating expense and operating revenue led to an underwriting loss of TWD 289.7 billion for 2010. The cause of the loss could have been the significant growth found in various reserves which reached as high as 18.13%, soaring from TWD 1,817.2 billion in 2009 to TWD 2,146.6 billion in 2010.

The financial revenue (including interest income, securities gains and real estate gains) of life insurance industry in 2010 totaled TWD 561.2 billion, constituting 13.7% of total revenue. It climbed by 46.27% when compared with TWD 383.6 billion in the previous year. The financial expenses (including interest expense, securities losses, and real estate losses) amounted to TWD 3.6 billion, accounting for 0.09% of the total expenses for the year. It improved remarkably by 46.13% from TWD 6.7 billion in the previous year in light of economic recovery and stock market rises that boosted up securities gains by 162.47% in 2010.

As of end of 2010, life insurance industry posted a net loss of TWD 19.9 billion. In comparison with a net profit of TWD 4.8 billion achieved in the same period last year, the number plummeted amazingly by 516.74%, or TWD 24.6 billion. In 2009, a total of 16 life insurers suffered net loss and that number grew to 20 in 2010. Despite that the industry had scored a 47.92% year-over-year growth rate in net investment gain, it failed to offset the huge exchange loss done by the TWD appreciation against USD.

2.3 Available Funds

As of end of 2010, the amount of the industry’s available funds was TWD 10.49 trillion, up by 13.28% in comparison with TWD 9.26 trillion in 2009. The ratio of utilized funds to funds equaled 98.04%. Securities investments and foreign investments were the two most popular means of fund utilization; they accounted for 43.28%, or TWD 4.54 trillion (among which government and treasury bonds represented 21.54%, or TWD 2.26 trillion), and 34.51%, or TWD 3.62 trillion, of the total utilized funds, respectively. The combination of the two attained as high as 77.76% of the total utilized funds.

As for other means of utilization, bank deposits improved by 5.83%, expanding from TWD 688.4 billion in 2009 to TWD 728.5 billion; and loans increased slightly from TWD 612.5 billion last year to TWD 625.4 billion in 2010 yearend. Loan made up only 5.96% of all utilized funds in 2010, improving from 6.61% in 2009, implicating an ease of needs for funds from policyholders as the result of economic recovery. A growth of 32.30% was found in corporate bonds, adding from TWD 376.2 billion in 2009 to TWD 497.7 billion in 2010.

Similarly, stock investment increased by 23.11%, from TWD 552.0 billion to TWD 679.5 billion; government and treasury bonds went up by 11.38%, from TWD 2,032.0 billion to TWD 2,263.3 billion. Declines were seen in the amount of funds deployed to beneficiary certificates and collateral loans. They decreased respectively by 13.73%, or from TWD 177.6 billion in 2009 to TWD 153.2 billion, and 4.43%, or from TWD 569.8 billion last year to TWD 544.5 billion. In summary, these numbers indicated that economic stability and bullish stock market had facilitated the overall market to regain confidence.

二、Conclusion and Outlook

（一）Conclusion

Benefited by the recovery of world economy, rebound of consumptions, expansion of service trade, and rises of stock market which bring wealth effect, the domestic economy has shown signs of gradual and steadily recovery. Life insurance sector maintained a growing trend and delivered TWD 2,312.8 billion in premium income. Worth mentioning was that interest-sensitive annuity and short-term endowments had done exceptionally well in 2010, thus striking strong growth for first-year premium income.

A further study of the first-year premium income by product lines indicated that investment-linked product is no longer dominating the chart as it did in the past. It only accounted for 13.40% of the first-year premium income in 2010. On the contrary, traditional annuity and traditional life insurance soared to account for 35.55% and 47.85% of the first-year premium, respectively. Meanwhile, principal or interest guaranteed insurance products had become hot sale products of bancassurance.

In 2010, 36.12 million new policies were issued; total insured amount stood at TWD 34.19 trillion, increased slightly from a year ago. Traditional annuity grew staggeringly in terms the number of policies and insured amount. Policies in force grew steadily to 176.17 million policies, however, insured amount declined slightly to TWD 92.31 trillion. The total benefits paid in 2010 totaled TWD 1,191.5 billion. Benefits paid via life insurance and annuity accounted for 92.38% of the total. Further breakdown by benefit types indicated the following: surrender payment accounted for TWD 605.3 billion, maturity benefit accounted for TWD 306.9 billion, and survivor benefit accounted for TWD 105.4 billion; and together they constituted 85.41% of the total benefit paid during the year. Maturity benefit alone augmented by 55.33% from the previous year mainly due to maturity of short-term endowments.

Another sign of economic recovery could be detected by looking at the sector’s profits. Interest income of TWD 297.0 billion was one of the major sources of financial income; moreover, return on securities investment substantially grew from TWD 91.3 billion in 2009 to TWD 239.5 billion in 2010. Nonetheless, exchange loss was far beyond securities gains thus leading the bottom line to overturn from 2009’s after-tax profit of TWD 4.8 billion to after-tax loss of TWD 19.9 billion in 2010, down by 516.74%.

（二）Outlook

After the financial tsunami, life insurance sector enjoyed a period of time with improved market condition as the Central Bank continued to raise interest rates. However, under FSC’s requirement to impose minimum charge period of three years on expense loading and surrender charges into the contract for short-term interest-sensitive annuities as well as the stipulation which is scheduled to become effective for new business from February 2011 that lowers the reserving interest rate by twenty-five basis points for single premium products with liability duration less than six years, the market demand for six-year endowment and interest-sensitive annuity is expected to reduce tremendously. Therefore, life insurance industry must readjust product structure in order to meet the new challenge arise.

As for financial investments, in light of the world economic recovery, national economy is expected to grow steadily. Moreover the life insurance sector’s securities gains are likely to improve considerably driven by the increasing investment activities. Nonetheless, life insurers’ overseas investments faces huge pressure from exchange loss risk as TWD remained strong against greenback. To guard against exchange risks, life insurance companies should diverse their investments, strengthen their hedge strategies, and tighten risk management measures.