

Taiwan Life Insurance Report 2011

一、Business Overview of the Industry

(一) Business Overview

The Taiwan life insurance sector reported TWD 2,198.2 billion in premium income in 2011, down by 4.96% when comparing with TWD 2,312.9 billion in 2010. First-year premium income in 2011 declined by 14.34%, falling from TWD 1,161.6 billion in comparison with 2010 to TWD 995 billion. On the contrary, renewal-premium income increased by 4.53% and reached TWD 1,203.3 billion. The figures implicated that the decline seen in the overall premium income was mainly due to the underperformance of first-year premium income.

A. Breakdown of the Premium Income

Viewing from a further breakdown of the premium income, first-year premium income reported in 2011 was TWD 995 billion, accounted for 45.26% of the total premium income, sliding from 50.22% in 2010. Of the first-year premium income, single-payment premium income reduced 17.61% from TWD 763.6 billion in 2010 to TWD 629.1 billion in 2011. Installment premium income also declined from TWD 398 billion to TWD 365.9 billion. The only increase seen in 2011 was the renewal premium income TWD 1,203.3 billion, which accounted for 54.74% of the total premium income as comparing with 49.77% or TWD 1,151.2 billion in 2010; in other words, it improved by TWD 52.1 billion or 4.53%.

A further analysis of the first-year premium income indicated that single-payment premium income represented 63.25% of the total first-year premium income, of which variable life insurance tops the chart by 18.43% of total single-payment premium, or TWD 115.9 billion, up by 158.80% when comparing with TWD 44.8 billion in 2010. Next in the ranking was the traditional endowment insurance, which grew by 8.06% from TWD 312.9 billion in 2010 to TWD 338.1 billion in 2011 or 53.74% of total single-payment premium. The data mentioned above also indicated that the single-payment premium income had contributed greatly to the first-year premium income.

B. Breakdown of Insurance Product Type

Analyzing from the total premium income, the premium income for traditional insurance products in 2011 amounted to approximately TWD 1,867.1 billion, which is an equivalent of 84.94% of the total premium income. Amongst this figure, life insurance made up TWD 1,427.8 billion, up by 9.64% year over year in comparison with TWD 1,302.3 billion in 2010. Moreover, health insurance increased 7.27% from TWD 233.8 billion in 2010 to TWD 250.8 billion in 2011; Accident insurance also increased slightly 1.60% from TWD 56.2 billion in 2010 to TWD 57.1 billion. However, annuity insurance dropped dramatically 68.51% from TWD 417.3 billion in 2010 to TWD 131.4 billion in 2011.

Further study of the first-year premium income showed that the premium income from traditional life insurance grew by 15.53% from TWD 555.8 billion in 2010 to TWD 642.1

billion in 2011. It accounted for 64.53% of the market share, improving from 47.84% market share reached in 2010. Nevertheless, traditional annuity insurance, unlike the steady growing trend in past few years, posted merely TWD123.2 billion in premium income, substantially plunged by 70.17% year over year from TWD 413 billion in the same period last year. Again, the large decline in traditional annuity premium income was likely to be the result of the extension of surrender charges period for interest-sensitive annuity insurances thus reducing the policyholders' purchase power to the products.

In 2011, the premium income from investment-linked products rounded to about TWD 331.1 billion, increased slightly from 13.11% of the total premium income in 2010 to 15.06% in 2011. Amongst the investment-linked products, the premium income of investment-linked life insurance accounted for TWD 248.9 billion, climbing by 28.63% in comparison with TWD 193.5 billion in 2010 in the wake of low-interest market which gave favorable advantage to structured note products that resemble savings with principal-guaranteed minimum interest rate feature amongst conservative policyholders. Additionally, the premium income from investment-linked annuity products was TWD 82.2 billion, dropping by 25.07% from TWD 109.7 billion in 2010.

In view of the first-year premium income, investment-linked life insurance made up 13.96% of the total first-year premium income, increased remarkably from 6.52% in 2010. Premium income for investment-linked annuity, on the other hand, reported a downward sliding trend; it represented 4.98% of the first-year premium income, down from 6.89% in 2010. From the above data, it could be concluded that the due to the fact that the interest rate is staying low along with on going global financial markets' activities, growth of premium income from investment-linked insurance product was mainly led by the growth of first-year premium income of the investment-linked insurance products.

C. An Overview of the Distribution Channels

In 2011, majority of the premium income were earned through bancassurance (TWD 567.9 billion) and solicitors of life insurers (TWD 385.7 billion). These two distribution channels accounted for 57.07% and 38.76% of the first-year premium income earned in 2011, respectively; the combination of the two represented 95.83%; meanwhile, other distribution channels merely accounted for 4.17%. In terms of first-year premium income, solicitors of life insurers made up 31.50% of first-year premium income earned during 2010; and the figure increased 7.26% to 38.76% in the 2011. Viewing from the perspective of dollar amount, the premium income earned through solicitor of life insurers also increased TWD 19.7 billion year over year from TWD 366 billion in 2010 to TWD 385.7 billion in 2011. On the contrary, unlike the fast growing in the past, bancassurance only earned TWD 567.9 billion first-year premium income earned in 2011, sliding 25.10 % from TWD 758.2 billion in the same period last year. Further study of the diminishing of the first-year premium income broken down by types of distribution channels showed that the growth of first-year premium income from investment-linked life insurance lead to the increasing proportion of premium income from solicitors of life insurers. However, due to the significant reduction on interest-sensitive annuity premium income, the premium income from bancassurance has fallen accordingly.

D. Group Insurance vs. Individual Insurance

In 2011, the number of new policies issued totaled 34.99 million policies, down by 3.13% when compared with 36.12 million policies issued in the same period previous year. Amongst the new policies issued, individual health insurance had the highest year over year growth rate—15.38%, reaching 3.90 million new policies. Following individual health insurance is the individual life insurance which increased by 3.33% through the year, posting 3.10 million new policies. The highest decline was found in individual annuity which dropped by 60%, hitting 0.14 million new policies. Next in line was the personal accident insurance, which dwindled by 7.35% and down to 6.43 million new policies. The number of new individual policies issued during 2011 was 13.57 million policies, slightly decreased by 0.73% when compared with 13.67 million policies issued in 2010; the number of people insured under newly issued group insurance during 2011 was 21.42 million, faintly declined by 4.59% when comparing with 22.45 million in 2010.

The sum of the insured amount of the new issued policies in 2011 totaled TWD 40.53 trillion, up by 18.54% when comparing with the same period of the previous year, which equals TWD 34.19 trillion. The increase was mainly because statistical mechanisms of the Taiwan Insurance Institute had redefined the ways to calculate insured amount for health insurance. For the same reason, the health insurance would not be included in the comparison study this time. In 2011, individual personal accident insurance posted the largest year over year growth in insured amount with 35.33%, standing at TWD 23.90 trillion; and followed by individual life insurance's TWD 1.98 trillion with year over year growth rate of 2.06%. Largest decline was found in individual annuity which reported an insured amount of TWD 0.18 trillion in 2011, down by 58.14% when comparing with the same period 2010. Second largest downfall was the insured amount of group accident insurance which descended by 16.20%, standing at TWD 9.36 trillion. Overall speaking, the insured amount from individual insurance came to be TWD 26.94 trillion, up by 29.77% in comparison with TWD 20.76 trillion reported in 2010. The insured amount from group insurance summed to TWD 13.59 trillion, up by 1.19% from TWD 13.43 trillion in 2010.

From the above analysis, a conclusion could be drawn: the individual life insurance turned the downfall situation around this year, both in number of policies, insured amount, and premium income were in the upward trend. Amongst all individual life insurance, endowment has brought 1.60 million policies and the highest growth in insured amount 6.73% to TWD 1.00 trillion in 2011. The first-year premium of endowment policies was TWD 575.5 billion, increase by 22.36% from TWD 470.4 billion in 2010. Opposite from the growing trend of endowment insurance, the number of policies, insured amount, and premium income of individual annuity delivered an obvious decline comparing with 2010. According to above data, we can see that the main reason for the slightly declining number of individual insurance is the result of negative growth of annuity insurance.

E. New Issued Investment-linked Policies

The life insurance industry issued 332.2 thousand new investment-linked policies during 2011. In comparing with 270.2 thousand new policies posted in 2010, the yearly growth rate turned out to

be 22.95%. Amongst different types of investment-linked insurance products, variable life insurance increased the most, by 92.72% through the year, reaching 185.2 thousand new policies, in the new favor of policy holders. Next was the variable deferred annuity insurance which rose by 5.21% year over year, reaching 48.5 thousand new policies.

The insured amount of the newly issued policies totaled TWD 304.8 billion, slid by as much as 11.96% when comparing with TWD 346.1 billion in the 2010. The condition of decreasing insured amount was the result of the dramatic declining of 75.31% of variable annuity insured amount from TWD 3 billion in 2010 to TWD 0.7 billion in 2011. However, unlike most individual life insurance, the insured amount of variable life insurance was TWD 76.1 billion, growing slightly 1.51% from 2010.

In general, the number of policy, insured amount, and first-year premium of variable life insurance illustrated an upward trend; meanwhile, those of investment-linked life insurance also gradually showed an upward trend.

F. Policies In Force

As of the end 2011, the number of insurance policies in force was 187.63 million. In comparison with 176.17 million policies in force at the end of 2010, the figure increased by 6.51%. Amongst the policies in force, health insurance improved by 9% and reached 80.29 million. Accident insurance was up by 6.52% and had 57.20 million policies in force. Life insurance grew by 3.04% and hit 49.15 million policies by end 2011. Annuity, however, fell by 10.81% and down to 0.99 million policies in force. The insured amount of the policies that were in force was TWD 93.86 trillion, increasing significantly by 1.68% through the year from TWD 92.31 trillion in 2010. The reason for the substantial increase was the same as the reason mentioned in the newly issued insurance policies, thus health insurance once again would not be included in the comparison study. Total insured amount of annuity insurance experienced 5.62% yearly growth rate reached TWD 0.94 trillion; life insurance total insured amount climbing by 2.42% reach to TWD 38.04 trillion; accident insurance total insured amount decreasing by 4.80% to TWD 35.52 trillion. Generally speaking, both the number of policies in force and insured amount of annuity insurance indicated a steady growth trend.

G. Benefit Payout

The life insurance industry paid out TWD 1,416.6 billion as benefits during 2011. In comparison with the figures in the same period last year (TWD 1,191.5 billion), the yearly growth rate was as high as 18.90%. Of the benefits paid, life insurance accounted for the highest proportion with TWD 967.8 billion and a year over year growth rate of 32.61%; health insurance made up the second highest proportion with TWD 76.1 billion and a yearly growth rate of 7.65%; accident insurance benefit payout totaled TWD 20.9 billion and a yearly growth rate of 3.72%. However, totaled benefit payout of annuity insurance dropped 5.12% landed to TWD 351.8 billion.

The benefits were paid to 19.06 million beneficiaries during 2011, up by 11.40% when compared with 17.11 million beneficiaries recorded in the same period last year. Of the different types of insurance products, life insurance were paid to the highest number of beneficiaries, namely 9.68 million, accounting for 50.79% of the total beneficiaries that received benefits during 2011.

In view of 2011 benefit payouts by benefit types, surrender payments ranked on top with TWD 683.9 billion, accounting for 48.28% of the total benefit paid during the year; maturity benefit was ranked as second with TWD 419.2 billion, marking 29.59% of the total benefit; thirdly, survivor benefit made up 9.32% of the total with TWD 132 billion. Together, these three benefit types represented 87.18% of the total benefits paid during the year.

Taking a closer look at the maturity payments, the amount of payout had boosted from TWD 197.6 billion in 2009 to TWD 306.9 billion in 2010, and TWD 419.2 billion in 2011. The high percentage of policy surrender may have been driven by the result of increasing short-term endowment benefit.

A further breakdown of the benefits paid in 2011 by product types indicated that life insurance benefit payout amounted to TWD 967.8 billion and was paid to 9.68 million beneficiaries. Maturity benefit, surrender payment, and survivor benefit together accounted for 91.65% of the total life insurance benefit paid during the period in TWD 419.1 billion, TWD 336.4 billion, and TWD 131.4 billion, respectively.

Furthermore, accident insurance benefits paid during 2011 reached approximately TWD 20.9 billion and were paid to 1.95 million beneficiaries. Medical benefits, in the amount of TWD 11.2 billion, made up the largest portion, followed by death benefit payout of TWD 5.3 billion and disability benefit payout of TWD 2.7 billion.

Health insurance benefit payout totaled TWD 76.1 billion in 2011 and was paid to 6.53 million beneficiaries. Of the total health insurance benefits paid, medical benefits accounted for the largest portion in the amount of TWD 65.6 billion, followed by death benefits in the amount of TWD 5.7 billion and dread disease benefits in the amount of TWD 3.3 billion.

During 2011, a total of TWD 351.8 billion annuity benefit were paid to 0.91 million beneficiaries. Of the total annuity benefits paid, approximately 98.66% or TWD 347.1 billion were paid as surrender payments. Of the total surrender payments made during the period, traditional annuity accounted for TWD 268.2 billion, shrunk by 6.57% through the year from TWD 287.1 billion. According to the data above, a conclusion could be drawn that the extension of surrender period of the interest-sensitive annuity insurance mitigated policy holders' willingness of early policy surrenders.

Based on the statistics shown in the preceding paragraphs, consumers in Taiwan in general have preference over principal guaranteed life insurance or endowment that offers maturity benefits. Annuity is seen as an investment tool instead of financial protection tool thus resulting in high percentage of early policy surrenders. In another word, consumers in Taiwan purchase insurance products for investing purposes instead of protection.

二、Financial Overview

(一) Assets and Liabilities

As of the end 2011, the total assets of life insurance companies amounted to TWD 13.05 trillion, the year over year growth rate was 7.67% comparing with TWD 12.12 trillion at the end of 2010. Assets excluding separate account assets grow 8.87% equaled approximately TWD 11.90 trillion. Separate account assets of investment-linked insurance stood at TWD 1.15 trillion as of the end of 2011, constituting 8.81% of total assets of the life insurance sector declining from 9.82% at the end of 2010.

The allocation of assets was as follows: 66.28% in securities and bonds; 8.81% in separate account assets; 9.12% in loans; 8.58% in cash and bank deposits; 3.52% in real estate investments; and 3.68% in other assets. Net reinsurance asset had the highest growth rate 18.86% comparing with 2010; Interests and dividends receivable had the second highest yearly growth rate of 14.27%.

The total liabilities of the industry as the end of 2011 stood at TWD 12.62 trillion went up by 8.42% or TWD 0.98 trillion from TWD 11.64 trillion at the end of 2010. Amongst the total liability of the industry, reserve for liabilities was TWD 11.18 trillion, which represents 85.67% of total asset and 88.59% of total liability.

Meanwhile, the owner's equity attained TWD 430.4 billion, dropping TWD 44.4 billion from TWD 474.8 billion at the end of 2010. The ratios of assets to liabilities and assets to owner's equity were 96.70% and 3.30%, respectively. The ratios became 96.39% and 3.61%, respectively, after excluding separate accounts assets.

Even though the owner's equity of the life insurance sector remained positive as of the end of 2011, 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 dramatically decline of equity adjustment, which dropped by 51.20% from TWD 137.28 billion to TWD 66.99 billion as of the end of 2011. This decrease in stockholder's equity further reflected as return on investment of life insurance companies has fallen far behind the pricing interest rate under the low interest market condition. As a result of stronger USD currency, life insurance companies faced the serious loss in overseas investment from currency swap, and that has led to worse negative interest rate spread in the life insurance sector.

(二) Losses and Profits

During 2011, the TWD 2.48 trillion generated by the life insurance companies slid down 1.10% from TWD 2.51 trillion in 2010. Operating expense declined 1.93% from TWD 2.46 trillion at the end of 2010 to around 97.18%, or TWD 2.41 trillion, of total revenue. The differences between operating revenue and operating expense led to an underwriting gain of TWD 75.9 billion, indicating the life insurers have effective underwriting techniques.

The net investment gains (including interest income, gain(loss) on investment-securities and gain(loss) on investment-real estate) of life insurers in 2011 amounted to TWD 379.9 billion, representing 15.29% of the total revenue, rising 10.11% from TWD 345.0 billion in the

same period of 2010. The numbers mentioned in the section revealed economic and stock market recovery.

As of end of 2011, life insurance companies posted a net income of TWD -0.91 billion, which equals a reduction of TWD 21.1 billion from TWD -21.97 billion at the end of 2010. The number of life insurers that suffered net income in 2011 decreased down to 14 from 16 in the same period last year. In addition, other than the similar growth in net investment gain, surplus net income experienced by life insurance companies that suffered from huge losses in the previous year was also a rationale behind diminishing after tax net income.

(三) Available Funds

As of end of 2011, the amount of the life insurance sector's available funds was TWD11.47 trillion, upturning 8.62% from TWD 10.56 trillion at the end of 2010. The ratio of utilized funds to available funds equaled 98.79%. Securities investments and foreign investments were the two most popular means of fund utilization; they accounted for 40.89%, or TWD 4.69 trillion (among which government and treasury bonds represented 21.53%, or TWD 2.47 trillion), and 37.75%, or TWD 4.33 trillion, of the total utilized funds, respectively. The combination of the two reached as high as 78.64% of the total utilized funds.

Other funds such as loan to policyholders went down from TWD 581.6 billion or 5.51% of total available funds in 2010 to TWD 569.0 billion or 4.96% of total available funds in 2011, showing the demand of economy recovery relieve on policyholder loan. Corporate bonds raised 7.99% from TWD 480.7 billion in 2010 to TWD 519.1 billion in 2011; Stock certificates increased slightly by 5.71% through the year, rose from TWD 675.3 billion to TWD 713.8 billion; government bonds and treasury bills went up by 9.09% through the year, from TWD 2,268.3 billion to TWD 2,474.6 billion; the amount of funds deployed to funds and benefit certificates grew by 5.07% year over year, up from TWD 143.5 billion in 2010 to TWD 150.7 billion in 2011. Additionally, real estate investment increased 13.28%, up from TWD 479.8 billion in 2010 to TWD 543.5 billion in 2011; loans grew 4.37 % through the year from TWD 545.7 billion at the end of 2010 to TWD 569.5 billion in the same period the next year. Nevertheless, cash in bank fell 3.55% from TWD 731.5 billion in 2010 to TWD 705.6 billion at the end of 2011.

In summary, these numbers indicated that economic stability and bullish stock market had contributed to the recovery of the market as a whole.

二、 Conclusion and Outlook

(一) Conclusion

Comparing with the steady growth trend of total premium income for prior years, the total premium income of 2011 has fallen to TWD 2,198.2 billion due to the diminishing of first-year premium. Fading favor over interest-sensitive annuity and short-term endowment was also the cause of shrinking total premium income in 2011.

A further study of the first-year premium income by products indicated that investment-linked insurance products had surged from the shadow of the financial crisis in 2008: It accounted for TWD 75.7 billion of the total first-year premium income in 2010, and the figure increasing significantly 83.49% to TWD 138.9 billion in 2011, growing more than double of the total first-year premium income from 6.52% in the previous year to 13.96% in 2011.

After the implementation of FSC's new requirements to extend the surrender charge period for interest-sensitive annuities in 2010, there was a significant drop first-year premium income of interest-sensitive annuity. In 2011, the first-year annuity premium income came to be TWD 172.7 billion, theatrically fell by 64.97% year over year comparing with TWD 493 billion in 2010. In addition, the first-year premium income accounted for only 17.36% of the first-year premium income in 2011, falling from 42.44% in the same period previous year.

In 2011, 34.99 million new policies were issued with total insured amount of TWD 40.53 trillion, only the number of individual life insurance performed upward trend in both the number of policy and insured amount; 187.63 million in force policies with total insured amount of TWD 93.86 trillion, maintaining stable growth trend. Insurance benefit payout was approximately TWD 1,416.6 billion. Benefit payout from life insurance and annuity insurance accounted for 93.15%. A further breakdown of the benefit payout by benefit types indicated the following: surrender payment accounted for TWD 683.9 billion, maturity benefit accounted for TWD 419.2 billion, and survivor benefit accounted for TWD 132 billion; and together they constituted 87.18% of the total benefit paid during the year. Maturity benefit alone augmented by 36.57% from the same period last year mainly due to maturity of short-term endowments.

Another sign of economic recovery could be detected by looking at the profit of the life insurance sector. In terms of net gain from investment, the life insurers posted an interest income of TWD 331.3 billion and return on securities investment bounced from TWD 23.8 billion in 2010 to a gain of TWD 27.6 billion in 2011. However, due to the impact from exchange rate risk was greater than securities investment profit, after-tax net income went up from negative TWD 21.97 billion in 2010 to negative TWD 0.91 billion in 2011, but still need some growth to reach a positive profit.

(二) Outlook

Due to the decreasing interest rate for new policy reserve calculation starting from July 2012, the whole life endowment insurance, single payment short-term endowment, and long-term health insurance are expected to experience premium increases. The fact that premium would be raised for new policies concluded on and after 1, July has presented an opportunity for life insurance companies to take advantage of consumer behavior before the premium adjustment and thereby could easily push the sales of existing products to make significant temporary profit. There would be an expected temporary sales boom for savings-oriented insurance products and would lead the first-year premium income to a new high for the first half of 2012. However, the life insurance sector would have to face the challenge of reduced popularity of savings-oriented insurance products after the premium raise starts to take effect for the second half of 2012 by re-adjusting product structures.

As a result of the aging society, FSC vigorously promoting a number of related policies; insurance companies are encouraged to develop annuity insurance, long-term care insurance, long-term health insurance, and other products to address the risk brought by aging population such as longer life expectancy, higher dependency ratio, rising medical expenses, and the need for long-term care to meet the market demand and provide consumer options and diversified products.