Taiwan Life Insurance First Half Year Report 2011

一、Business Overview of the Industry

（一）Business Overview

In the first half year of 2011, the Taiwan life insurance sector reported TWD 1,099 billion in premium income, down by 3.95% when compared with TWD 1,144.2 billion in the same period last year. First-year premium income in the first half year of 2011 declined by 12.25%, falling from TWD 569.7 billion in comparison with the same period 2010 to TWD 499.9 billion. On the contrary, renewal-premium income increased by 4.28% and reached TWD 599.1 billion. The figures implicated that the decline saw in the overall premium income was mainly due to the underperformance of first-year premium income. In terms of product type, the premium income from traditional insurance products totaled TWD 903.7 billion, accounting for 82.23% of the total premium income reported in the first half year of 2011; premium income from investment-linked insurance products amounted to TWD 195.3 billion, representing 17.77% of the total premium income. More detailed study over the breakdown of the premium income and product type could be found in the paragraphs below.

1. Breakdown of the Premium Income

Viewing from a further breakdown of the premium income, first-year premium income reported in the first half 2011 accounted for 45.49% of the total premium income, decreasing from 49.79% in the same period last year. Of the first-year premium income, single-payment premium income reduced from TWD 363.8 billion in first half of 2010 to TWD 325.0 billion in first half 2011. Installment premium income also declined from TWD 206.0 billion to TWD 174.8 billion. The only increase saw in the first half of 2011 was the renewal premium income, which accounted for 54.51% of the total premium income as compared with 50.21% or TWD 574.5 billion in the first half 2010; it improved by TWD 24.6 billion or 4.28%.

A further analysis of the first-year premium income indicated that single-payment premium income represented 65.03% of the total first-year premium income, of which traditional endowment insurance top the chart by TWD 163.0 billion, up by 22.74% when compared with TWD 132.8 billion in first half 2010. Next in the ranking was the investment-linked insurance, which grew by 520.35% from TWD 12.4 billion in the same period previous year to TWD 76.8 billion in first half year of 2011 mainly because the sales of insurance products that were linked to principal-guaranteed structure notes and insurance policies that were linked to discretionary accounts continued to pick up in the market during the first half of 2011 in light of the economic recovery. The third product on the ranking was the interest-sensitive annuity product. The single-payment premium income from interest-sensitive annuity product totaled TWD 46.1 billion, significantly declined by 72.49% in comparison to TWD 167.6 billion in the first half 2010. The stipulation to impose minimum charge period of three years on expense loading and surrender charges into the contract for short-term interest-sensitive annuities had devastated the purchase will of policyholder who were used to flexible surrender terms in the past. The above mentioned three products accounted for 50.14%, 23.63, and 14.18% of the total single-payment premium income, respectively. The above mentioned data also indicated that insurance products which made up majority of the single-payment premium income and products with flexible payment terms had contributed greatly to the first-year premium income. The high sales of traditional endowment insurance and investment-linked insurance especially had significant impact to the growth of the first-year premium income.

2. Breakdown of Insurance Product Type

Analyzing from the total premium income, the premium income for investment-linked insurance products in the first half year of 2011 amounted to approximately TWD 195.3 billion. Among this figure, investment-linked life insurance made up TWD 143.6 billion, up by 69.94% year over year in comparison with TWD 84.5 billion in first half 2010. Moreover, investment-linked annuity also increased slightly from TWD 49.3 billion in the first half 2010 to TWD 51.7 billion in first half 2011 in the wake of low-interest market which gave favorable advantage to investment-linked products with principal-guaranteed or loss-resistant feature amongst conservative policyholders.

In view of the first-year premium income, investment-linked life insurance made up 17.62% of the total first-year premium income, remarkably increased from 4.48% in the first half of 2010. Premium income for investment-linked annuity, on the other hand, reported a decline; it represented 6.32% of the first-year premium income, down from 6.92% in first half 2010. From the above data, it could be concluded that the growth of premium income from investment-linked insurance product was mainly led by the rebounding of the sales of the investment-linked life insurance products.

In the first half year of 2011, the premium income from traditional insurance products rounded to about TWD 903.7 billion and among which the traditional life insurance accounted for TWD 697.9 billion, climbing by 10.41% in comparison with TWD 632.1 billion in the first half of 2010; additionally, the premium income from traditional annuity products was TWD 61.1 billion, remarkably dropping by 74.69% from TWD 241.4 billion in the first half of 2010; premium income from health insurance came to be TWD 117.0 billion, ascending by 6.95% in comparison with the same period last year; and accident insurance posted a premium income of TWD 27.7 billion, up slightly by 0.73% in comparison with TWD 27.5 billion in the first half of 2010.

Further study of the first-year premium income showed that the premium income from traditional life insurance grew by 23.35% from TWD 246.2 billion in the first half of 2010 to TWD 303.7 billion in first half of 2011. It accounted for 60.75% of the market share, improving from 43.22% market share reached in the first half 2010. Nevertheless, traditional annuity insurance, unlike the past, posted merely TWD 57.4 billion in premium income, substantially plunged by 76.01% year over year from TWD 239.3 billion in the same period last year. Again, the large decline in traditional annuity premium income was likely to be the result of the new stipulation which imposes minimum charge period of three years on expense loading and surrender charges into the contract for short-term interest-sensitive annuities thus reducing the policyholders' willingness to purchase such product.

In summary, the life insurance companies posted a significant rebound in terms of the first-year premium income from investment-linked insurance products. The figure improved by 84.44% in comparison with same period last year. However, the traditional insurance product which was popular in the first half year of 2010 underwent a year over year decline of 24.67% in premium income. The first-year premium income and renewal premium income made up 45.49% and 54.51%, respectively, of the total premium income in the first half of 2011. As compared with 49.79% and 50.21% in the first half of 2010, there was a bigger gap between the two ratios, indicating that the growth rate of first-year premium income has slowed down.

3. An Overview of the Distribution Channels

In the first half year of 2011, majority of the premium income were earned through bancassurance (TWD 275.3 billion) and solicitors of life insurers (TWD 204.4 billion). These two distribution channels accounted for 55.06% and 40.89% of the first-year premium income earned in the first half year of 2011, respectively; the combination of the two represented 95.95%; meanwhile, other distribution channels merely accounted for 4.05%. In terms of first-year premium income, solicitors of life insurers made up 30.39% of first-year premium income earned during the first half year of 2010; and the figure increased to 40.89% in the first half year of 2011. Dollar amount wise, the premium income earned through solicitor of life insurers also increased year over year from TWD 173.1 billion in the first half year of 2010 to TWD 204.4 billion, or by 18.08%, when compared with the same period in 2011. On the contrary, bancassurance only accounted for 55.06% of the first-year premium income earned in the first half of 2011, sliding from 66.69% in the same period last year. Moreover, the total premium income earned through bancassurance dwindled from first half of 2010's TWD 379.9 billion or by 27.53% to TWD 275.3 billion in the first half of 2011. In 2010, life insurance companies launched endowment type of products which became one of the best tools for banks to manage liquidity. Under the bancassurance's powerful promotion, the first-year premium income hit record high. However, beginning from 2011, new stipulations were imposed on interest-sensitive annuity and six-year single-payment insurance products which diminished the policyholders' purchase will for saving-alike insurance product.

From the data mentioned above, one can see that under the financial market integration, the market distribution channels of life insurance products have gradually transformed. The selling of insurance products is no longer depending on solicitors of life insurers. The bancassurance, insurance agents and brokers, as well as direct sales have been maintaining a steady growth trend in the recent years, indicating that the distribution channels are becoming more diversified.

4. Group Insurance vs. Individual Insurance

In the first half year of 2011, the number of new policies issued totaled 17.91 million policies, down by 0.78% when compared with 18.05 million policies issued in the same period previous year. Among the new policies issued, individual life insurance had the highest year over year growth rate – 8.39%, reaching 1.55 million new policies. Following individual life insurance is the individual health insurance which increased by 2.98% year over year, posting 1.73 million new policies. The highest decline was found in individual annuity which dropped by 65.00%, hitting 0.07 million new policies. Next in line was the group life insurance, which dwindled by 10.77% and down to 1.16 million new policies. The number of new individual policies issued during the first half of 2011 was 6.32 million policies, slightly decreased by 2.02% when compared with 6.45 million policies issued during the same period 2010; the number of people insured under newly issued group insurance during the first half of 2011 was 11.59 million, faintly declined by 0.09% when compared with 11.60 million in the first half of 2010.

The sum of the insured amount of the new issued policies in the first half of 2011 totaled TWD 23.8 trillion, up by 44.07% when compared with the same period previous year's TWD 16.52 trillion. The drastic increase was mainly because Taiwan Insurance Institute's statistic system 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 the first half of 2011, individual health insurance posted the largest year over year growth in insured amount with 36.04%, standing at TWD 11.21 trillion; and followed by individual life insurance's TWD 0.97 trillion with year over year growth rate of 7.78%. Largest decline was found in individual annuity which reported an insured amount of TWD 0.09 trillion in the first half year of 2011, down by 62.50% when compared with same period 2010. Second largest downfall was the insured amount of group accident insurance which descended by 12%, standing at TWD 4.84 trillion. Overall speaking, the insured amount from individual insurance came to be TWD 15.98 trillion, up by 64.40% in comparison with TWD 9.72 trillion reported in the first half of 2010. The insured amount from group insurance summed to TWD 7.82 trillion, up by 15.00% from TWD 6.80 trillion in the first half 2010.

From the above analysis, a conclusion could be drawn: the individual insurance faced a down trend in terms of the number of policies; however the insured amount was in the upward trend. Opposite from the growing trend saw in the first half of 2010, individual annuity delivered an obvious decline which could be related to the new imposed stipulations which had negatively impacted the sales of individual annuity products. As for the group insurance, both the number of policies and insured amount showed slight cut back.

5. New Issued Investment-linked Policies

The life insurance industry issued 200.2 thousand new investment-linked policies during the first half year of 2011. In compare with 127.0 thousand new policies posted in the first half of 2010, the year over year growth rate turned out to be 57.64%. Amongst different types of investment-linked insurance products, variable life insurance increased the most, by 299.36% year over year, reaching 124.6 thousand new policies. Next was the variable annuity insurance which rose by 46.94% year over year, reaching 28.8 thousand new policies. Nevertheless, variable universal life insurance fell by 38.66% with only 46.8 thousand new policies issued during the first half of 2011.

The insured amount of the newly issued policies totaled TWD 156.43 billion, slid by as much as 14.30% when compared with TWD 182.53 billion in the first half of 2010. Of various product types, variable annuity grew most tremendously by 523.66%, hitting TWD 580 billion in insured amount. Secondly was the variable life insurance which grew by 73.35%, standing at TWD 49.13 billion. On the opposite hand, variable universal life insurance dropped down by 30.74% year over year, plunging to TWD 106.72 billion. The number of new policies issued and insured amount both manifested a negative growth.

In general, although the total insured amount of investment-linked insurance products has decreased, both the number of new policies issued and total premium income have enhanced. The variable life insurance and variable annuity both recorded large growth, overthrowing the shadow of low sales in the first half of 2010. The global stock market rally continued from 2010 into 2011 although the stock market also underwent correction under the concern over the European debt crisis and the United States debt-ceiling crisis. Most of the life insurance companies launched discretionary accounts that are professionally managed. These discretionary accounts were positioned as defensive investments with investment performance as secondary priority – a strategy adopted to boost consumers' confidence in investment-linked insurance products. In addition, investment linked insurance that were linked to structure notes with guaranteed minimum dividend recapture the favoritism from conservative policyholder. These two above mentioned products were probably the major contributors to the rebounding of the investment-linked products.

6. Policies In Force

As of the end of June 2011, the number of insurance policies in force was 182.80 million. In comparison with 173.09 policies in force in June 2010, the figure increased by 5.61%. Among the policies in force, life insurance improved by 2.91% and reached 48.41 million. Accident insurance was up by 5.34% and had 55.66 million policies in force. Health insurance grew by 7.75% and hit 77.69 million policies by end of June 2011. Annuity, however, fell by 6.31% and down to 1.04 million policies in force.The insured amount of the policies that were in force amounted to TWD 143.69 trillion, increasing significantly by 54.84% year over year from TWD 92.80 trillion. 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. Accident insurance had the best performance － climbing by 4.45% with a total insured amount of TWD 39.19 trillion. Following it was the life insurance which experienced 1.08% year over year growth rate, making the insured amount to reach TWD 37.51 trillion. On the opposite end was the annuity insurance which experienced a year over year decline rate of 9.09% and reported an insured amount of TWD 0.80 trillion. Both the number of policies in force and insured amount of annuity insurance indicated a decline. Generally speaking, as of end of June 2011, the policies in force reflected a steady growth in terms of insured amount as well as the number of policies.

7. Benefit Payout

The life insurance industry paid out TWD 751.96 billion as benefits during the first half year of 2011. In comparison with the figure in the same period last year (TWD 513.78 billion), the year over year growth rate was as high as 46.36%. Of the benefits paid, life insurance accounted for the highest proportion with TWD 523.93 billion and a year over year growth rate of 66.96%; annuity insurance made up the second highest proportion with TWD 181.81 billion and a year over year growth rate of 16.06%. Health insurance benefit payout was TWD 36.46 billion with year over year growth rate of 8.77%, and accident insurance benefit payout totaled TWD 9.77 billion with year over year decline rate of 0.43%. The benefits were paid to 9.43 million beneficiaries during the first half year of 2011, up by 20.13% when compared with 7.85 million beneficiaries recorded in the same period last year. Of the different type of insurance products, life insurance were paid to the highest number of beneficiaries, namely 4.93 million, accounting for 52.28% of the total beneficiaries that received benefits during the first half year of 2011.

In view of first half year of 2011 benefit payouts by benefit types, surrender payments ranked on top with TWD 353.88 billion, accounting for 47.06% of the total benefit paid during the year; maturity benefit was ranked as second with TWD 246.13 billion, marking 32.73% of the total benefit; thirdly, survivor benefit made up 8.41% of the total with TWD 63.24 billion. Together, these three benefit types represented 88.20% of the total benefits paid during the year.

Taking a closer look at the surrender payments, the amount of payout had boosted from TWD 254.17 billion in the first half of 2010 to TWD 353.88 billion in the first half of 2011. Both the number of surrender policies and the amount of surrender payments surged by more than 40 percent year over year. The high percentage of policy surrender may have been driven by large number of surrender charge-free interest-sensitive annuity products sold in the past couple of years together with stock market rallies that motivated policyholders to terminate their policies early to realize profits.

A further breakdown of the benefits paid in the first half year of 2011 by product types indicated that life insurance benefit payout amounted to TWD 523.93 billion and was paid to 4.93 million beneficiaries. Maturity benefit, surrender payment, and survivor benefit together accounted for 92.20% of the total life insurance benefit paid during the period in TWD 246.11 billion, TWD 173.72 billion, and TWD 63.21 billion, respectively.

Furthermore, accident insurance benefits paid during the first half year of 2011 reached approximately TWD 9.77 billion and were paid to 0.92 million beneficiaries. Medical benefits, in the amount of TWD 5.25 billion, made up the largest portion, followed by death benefit payout of TWD 2.54 billion and disability benefit payout of TWD 1.18 billion.

Health insurance benefit payout totaled TWD 36.46 billion in the first half of 2011 and was paid to 3.11 million beneficiaries. Of the total health insurance benefits paid, medical benefits accounted for the largest portion in the amount of TWD 31.32 billion, followed by death benefits in the amount of TWD 2.84 billion and dread disease benefits in the amount of TWD 1.58 billion.

During the first half year of 2011, a total of TWD 181.81 billion annuity benefit were paid to 0.47 million beneficiaries. Of the total annuity benefits paid, approximately 98.99% or TWD 179.98 billion were paid as surrender payments. Of the total surrender payments made during the period, traditional annuity accounted for TWD 122.6 billion, augmented by 12.89% year over year.

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.

（二）、Financial Overview

Effective from 2011, certain accounting stipulations have been revised because of the implementation of the International Account Standard 40. Therefore the following financial analysis contains only financial and market statistics and no year over year comparison.

1. Assets and Liabilities

As of the end of June 2011, the total assets of life insurance companies amounted to TWD 12.60 trillion. Assets excluding separate account assets equaled approximately TWD 11.37 trillion. Separate account assets of investment-linked insurance stood at TWD 1.23 trillion as of the end of June 2011, constituting 9.76% of the life insurance sector's total assets.

The allocation of these assets was as follows: 65.79% in securities and bonds; 9.76% in separate account assets; 9.37% in loans; 7.62% in cash and bank deposits; 3.41% in real estate investments; and 4.05% in other assets.

The total liabilities of the industry as the end of June 2011 stood at TWD 12.15 trillion. Meanwhile, the owner's equity attained TWD 460 billion. The ratios of assets to liabilities and assets to owner's equity were 96.43% and 3.57%, respectively. The ratios became 96.04% and 3.96%, respectively, after excluding separate accounts assets. Liability reserve totaled TWD 10.63 trillion, accounting for 84.37% of the total liability.

Even though the owner's equity of the life insurance sector remained positive as of the end of June 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 decline in retained earnings, which stood at -TWD 114.52 billion as of the end of June 2011. 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.

2. Losses and Profits

During the first half year of 2011, the life insurance companies generated TWD 1.28 trillion in revenue. Operating expense equaled to around 96.88%, or TWD 1.24 trillion, of total revenue. The differences between operating revenue and operating expense led to an underwriting gain of TWD 4 billion, indicating the life insurers have effective underwriting system.

The net investment gains (including interest income, securities gains and real estate gains) of life insurers in the first half year of 2011 amounted to TWD 183.57 billion, representing 14.32% of the total revenue. The top three sources of net investment gains were: interest gain (TWD 160.54 billion); securities investment gain (TWD 13.78 billion) and real estate investment gain (TWD 9.25 billion).

As of end of June 2011, life insurance companies posted a net gain of TWD 5.78 billion. The number of life insurers that suffered net loss in the first half year of 2011 decreased down to 16 from 23 in the same period last year. The numbers mentioned in the section revealed that a few life insurance companies had turned around its performance in the light of economic recovery and stock market rises. However, exchange loss caused by TWD appreciation continued to impact the life insurers' profits. Unless the international investments can be replaced by other suitable investment tools, exchange loss will continue to be great effect to the earnings of life insurers.

3. Available Funds

As of end of June 2011, the amount of the life insurance sector's available funds was TWD 10.95 trillion. The ratio of utilized funds to available funds equaled 98.74%. Securities investments and foreign investments were the two most popular means of fund utilization; they accounted for 41.46%, or TWD 4.54 trillion (among which government and treasury bonds represented 21.46%, or TWD 2.35 trillion), and 36.44%, or TWD 3.99 trillion, of the total utilized funds, respectively. The combination of the two attained as high as 77.90% of the total utilized funds.

As for other means of utilization, bank deposits represented TWD 699.02 billion or 6.38% of the utilized funds; and loan to policyholders accounted for TWD 573.00 billion or 5.23% of the utilized funds. Loan made up TWD 559.85 billion or 5.11% of the utilized funds. Meanwhile, investment in real estate accounted for TWD 429.56 billion or 3.92% of the utilized funds and owner-occupied real estate represented TWD 74.64 billion or 0.68% of the utilized funds.

A year over year growth of 5.55% was found in government and treasury bonds, up from TWD 2,231.14 billion in June 2010 to TWD 2,354.94 in June 2011. Stock investment increased substantially by 33.94% year over year, rose from TWD 549.03 billion to TWD 735.37 billion; corporate bonds went up by 13.23% year over year, from TWD 433.58 billion to TWD 490.96 billion. Nevertheless, decline was seen in the amount of funds deployed to beneficiary certificates; it decreased by 24.96% year over year, down from TWD 147.24 billion in June 2010 to TWD 110.49 billion in June 2011. In summary, these numbers indicated that economic stability and bullish stock market had encouraged life insurance companies to inject their investments to investment tools like equities and corporate bonds which offered higher profitability.

二、Conclusion and Outlook

（一）、Conclusion

After the implementation of FSC's new requirements to impose a minimum charge period of three years on expense loading and surrender charges into the contract for short-term interest-sensitive annuities and to lower the reserving interest rate by twenty-five basis points for single premium products with liability duration less than six years, those products which were very popular in 2010 all the sudden had become much less appealing to consumers. In first half 2011, the total premium income came to be TWD 109.90 billion, down by 3.95% year over year. Of which the first-year premium income accounted for only 45.49% of the total premium income, falling from 49.79% in the same period previous year.

A further study of the first-year premium income by products indicated that investment-linked insurance products had surged from the shadow of 2008 financial crisis: It accounted for 12.62% of the total first-year premium income in June 2010, and the figure has improved to 23.94% in June 2011. Meanwhile, traditional life insurance has maintained a steady growth. Although interest-sensitive products has lost its spotlight in comparison to first half 2010, the bancassruance distribution channel segment has continued to target short-term endowments and interest-sensitive annuity as its promotion focus.

In the first half year of 2011, 17.91 million new policies were issued, sliding slightly from first half 2010. The number of new policies issued for life insurance and annuity went down in comparison with first half 2010. The decrease was easily noticeable for annuity insurance. Total number of policies in force was 182.80 million, higher than the number revealed in June 2010. Insurance benefit payout was approximately TWD 751.96 billion. Benefit payout from life insurance and annuity insurance accounted for 93.85% or TWD 705.74 billion. A further breakdown of the benefit payout by benefit types indicated the following: surrender payment accounted for TWD 353.88 billion, maturity benefit accounted for TWD 246.13 billion, and survivor benefit accounted for TWD 63.24 billion; and together they constituted 88.20% of the total benefit paid during the year. Maturity benefit alone augmented by 93.43% 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 sector's profits. In terms of net gain from investment, the life insurers posted an interest income of TWD 160.54 billion and return on securities investment bounced from negative in June 2010 to a gain of TWD 13.78 billion in June 2011. Nonetheless, after-tax profit went from negative TWD 29.29 billion in June 2010 to TWD 5.78 billion in June 2011, signifying the heavy impact which the stock market has on the earnings of life insurers.

（二）、Outlook

As the impact of financial tsunami gradually diminished, world economy started to head toward a gradually strengthening recovery. Nonetheless, shock waves of the European debt crisis have recently led to vigorous volatilities in the financial market and further caused both stock market and exchange rate to drop. Whether or not the debt crisis is going to further impact the economic and trade activities of Asian countries is worth further observation. Doubtless to say, life insurers will face tough battles in the second half year of 2011.

Due to the product strategy adjustments implemented by various life insurers, the first-year premium income in the first half of 2011 has weakened in comparison with same period a year ago. Most of the life insurers have begun to shift its promotion focus from short-term single payment life insurance to installment life insurance and foreign currency denominated insurance policies. In addition, there have been signs of rebound for the sales of investment-linked products. It is possible, with stronger push in the second half year, that the first-year premium income may still surpass the TWD trillion thresholds.