First Semi-Annual Report for 2012 of the Taiwan Life Insurance Industry

I. Business Overview of the Industry

1. Business Overview

In the six-month period ending June 2012, the Taiwan life insurance industry generated insurance premium revenues amounting to TWD 1,263.2 billion, or an increase of 14.90% over the TWD 1,099.2 billion posted for the same period of the previous year. Revenues from first-year premiums amounted to TWD 639.2 billion, that is, an increase of 27.84% vis-à-vis the TWD 500 billion posted for the same period in 2011. Revenues from renewal premiums amounted to TWD 624 billion; an slightly increase of 4.09% as compared to the revenues posted for the same period in 2011. It is apparent from the foregoing description that overall growth in the life insurance premium revenues of the industry mainly benefited from the significant growth in first-year premium revenues.

(1) Analysis of the Premium Revenue Structure

An analysis of the premium revenue structure would show that first-year premium revenues of the first half of 2012 amounted to TWD 639.2 billion, or 50.6% of total revenues, slightly higher than the 45.49% posted for the first half of 2011. The analysis further revealed that the revenues from single-payment premiums increased from TWD 324.2 billion of the first half of 2011 to TWD 431.2 billion of the first half of 2012, or a growth rate of 33.00%; whereas revenues from installment premiums increased from the TWD 118.8 billion of the same period in 2011 to TWD 172.8 billion of the same period in 2012, or a growth rate of 45.45%. On the other hand, the revenues from renewal premiums stood at TWD 624 billion, or 49.4% of total premium revenues, that is, a decrease from TWD 599.5 billion, or 54.54%, posted for the first half of 2011; however, despite the decrease in market share, insurance premiums posted a growth of TWD 24.5 billion, or 4.09%. It is apparent from the foregoing figures that premium revenues for the first half of 2012, in terms of first-year premiums and renewal premiums, maintained a stable growth trend.

A further analysis of the first-year premium structure indicated that single premiums comprised 67.46% of the total first-year premiums, of which, traditional endowment insurance premiums amounted to TWD 337.7 billion, or a growth of 107.19% vis-à-vis TWD 163 billion has been achieved in the same period in 2011. Next in lead is the deferred annuity insurance, premiums of TWD 42 billion, which has seen a decrease of 8.79% vis-à-vis TWD 46.1 billion posted for the same period in 2011. These two insurance products comprising 78.33% and 9.75%, respectively, of the total single premium revenues provided the more significant contributions. The foregoing data showed that insurance products with higher single premium play a crucial role in the first-year premium revenue.

(2) Changes in the Insurance Product Structure

A closer look into the total premium revenue structure showed that the premium revenues from traditional insurance products in the first-half of 2012 amounted to TWD 1,146.7 billion, or 90.78% of the total premium revenues, of which life insurance product premiums, which amounted to TWD 941.6 billion, posted a huge increase of 34.92% vis-à-vis TWD 697.9 billion posted in the first-half of 2011. Whereas, health insurance products amounted to TWD 126.3 billion, which represented an increase of 7.86% over TWD 117 billion posted for the same period in 2011, and accident insurance closed at TWD 28.3 billion, or a slight increase of 2.17% over TWD 27.7 closed in the same period in 2011. However, annuity insurance closed at TWD 50.5 billion, posting a decrease of 17.35% against TWD 61.1 billion posted in the same period in 2011.

A period-to-period comparison of the first-year premium revenues closed in the six-month periods ending June 2012 and June 2011 would show that premium revenues from traditional endowment insurance amounted to TWD 516.4 , posting a growth over TWD 303.7 billion of 2011, and the market share increased from 60.74% to 80.79%. On the other hand, traditional annuity insurance took a turn from the rising trend of revenues of TWD 47.1 billion in preceding years, to a slide of 17.94% against the previous period total of TWD 57.4 billion.

A study of the traditional life insurance, accident insurance, and health insurance premium revenue structures showed that the respective growth rates of period ending June 2012 mainly benefited from the FSC's policy enacted on July 1, 2012 that reduced the interest rate of new insurance business policy reserve. Under the new FSC's policy, the reserve calculation shall be based on the latest mortality table (5th Taiwan Standard Ordinary Experience Mortality Table); consequently, insurance policy holders purchase insurance products harboring an anticipation that insurance premiums are likely to increase, thereby propelling the dramatic increase in first-year premium revenues.

In the six-month period ending June 2012, premium revenues from investment-linked insurance products totaled TWD 116.4 billion, or 9.22% of total revenues, posting a significant drop from the 17.78% noted in the same period of the previous year. A detailed breakdown would show that investment-linked life insurance amounted to TWD 88.5 billion, or a decline of 38.41% from that of the same period in 2011 (that is, TWD 143.7 billion), and investment-linked annuity insurance declined from TWD 51.8 billion of the period ending June 2011 to TWD 27.9 billion of the same period of 2012; that is, a decline of 46.14%.

A further analysis of the first-year premium revenue structure showed that the share of premium revenues from investment-linked life insurance dropped by a noticeable margin from 17.62% of the period ending June 2011 to 5.91% of the same period of 2012; whereas, investment-linked annuity insurance market share declined from 6.34% of the same period in 2011 to 2.39% of the same period of 2012. An investigation of the underlying cause revealed that despite the presence of policies conjoined with offshore structured products in the first half of 2011, the worsening European sovereign debt crisis in the second-half of the year compelled insurance companies to suspend sales of policies that may be conjoined with offshore structured products due to risk reduction considerations and in protection of consumer interests; consequently, sales performance of this type of products decreased.

(3) An Overview of the Distribution Channels

In the six-month period ending June 2012, main sources of first-year premium revenues were bancassurance (TWD 362.89 billion) and field force of life insurers (TWD 252.47 billion), which accounted for 56.78% and 39.50%, respectively, or the combined total of 96.28 of the first-year premium revenues; other channels merely took up 3.72%. A closer analysis showed that revenues from bancassurance significantly increased from TWD 260 billion of the six-month period ending June 2011 to TWD 362.89 of the same period of 2012, or a marked increase of 39.58%; whereas revenues from field force of life insurers merely manifested a marginal increase. Although the first-year premium revenues amounting to TWD 252.47 billion was up TWD 29.87 billion from the TWD 222.59 revenue of the same period in 2011, ratio dropped from the 44.52% posted in the same period in 2011 to 39.50%, or a decline of 5.02%. In light of the consecutive effects of the sales suspension, it is projected in the second-half period, under a market expectation of price increases in short-term endowment insurance premiums, sales of savings-oriented insurance products soared dramatically, strongly contributing to the remarkable business performance of the bancassurance.

(4) A Comparative Study of Group and Individual Insurance Products

In the six-month period ending June 2012, a total of 18.9 million new policies were issued, or a growth of 5.35% vis-à-vis 17.94 million policies of the same period in 2011, of which 7.18 million were in form of individual insurance policies, that is up 13.61% against the 6.32 million policies of 2011 (same period). A closer analysis into the insurance policy performances indicated that 2.18 million policies were for health insurances, up by 26.01%, 1.81 million policies were for life insurance, up by 16.77%, and 3.13 million policies were for accident insurance, up by 5.39%. The only decline in growth was noted in the annuity insurance, or merely 60,000 policies sold representing down by 14.29%, On the other hand, a total of 11.72 million group insurance policies had been issued, or an increase of 0.86% against the 11.62 million policies issued in the same period in 2011.

Total insurance coverage of the new business issued amounted to TWD 20.22 trillion, that is, 15.08% less than the TWD 23.81 trillion coverage of the same period in 2011, of which individual insurance policy coverage totaled TWD 13.18 trillion, or 17.57% less than the TWD 15.99 trillion of the same period in 2011. A further analysis of the insurance policy issuance status revealed that total coverage of life insurance policies reached TWD 1.16 trillion, up by 19.59% and that of accident insurance policies reached TWD 11.48 trillion, up by 2.41%; however, coverage of health insurance policies merely amounted to TWD 26.01 trillion, down by 86.79% and that of individual annuity insurance policies amounted to TWD 50 billion, down by 50.00%. On the other hand, total coverage of group insurance policies amounted to TWD 7.04 trillion; that is, a decrease of 9.97% against the TWD 7.82 trillion coverage of policies issued in the same period in 2011.

A summation of the foregoing data showed that life insurance business, in terms of number of policies, amount of coverage, and premium revenues, had manifested stable growth, of which the endowment insurance sector manifested the most apparent growth; that is, a total of 2.13 million policies providing a total coverage of TWD 1.2 trillion, or 12.66% increase over the total of the same period in 2011. Moreover, first-year premium revenues reached TWD 439.7 billion, an enormous leap of 111.90% over the TWD 207.5 billion closed in the same period in 2011. On the other hand, the annuity insurance posted negative growth against the same period totals of 2011 in terms of number of policies issued, amount of coverage, and premium revenues. It is therefore apparent that life insurance policies considerably contributed to the new insurance business growth rate posted for the six-month period ending June 2012.

(5) New Business for Investment-linked Insurance Policies

New business for investment-linked insurance issued in the six-month period ending June 2012 amounted to 79,500 policies, falling by of 60.29% against the 200,200 policies of the same period in 2011. In detail, variable life insurance policies amounted to 40,600 policies, or a drop of 67.42%, variable universal life insurance policies totaled 28,200 policies, or a drop of 39.74%, and variable deferred annuity insurance amounted to 10,700 policies, or a drop of 62.85%.

Total coverage of new business amounted to TWD 97.27 billion, a drop of around 37.82% vis-à-vis TWD 156.42 billion of the same period in 2011, with variable life insurance policy coverage closing at TWD 26.70 billion, or a drop of 45.64%, variable universal life insurance policy coverage closing at TWD 70.36 billion, or a drop of 34.07%, and variable annuity policy coverage closing at TWD 200 million, or a drop of 65.52%.

In conclusion, performance of investment-linked insurance products in terms of insurance coverage of new business, number of policies issued, and first-year premium revenues, posted lower totals vis-à-vis the totals of the same period in 2011.

(6) Policies in Force

As of the end of June 2012, total insurance policies in force amounted to 191.26 million representing, a slight increase of 4.62% over the total policies (182.82 million) in force in the same period in 2011, of which health insurance policies comprised 81.82 million posting a growth of 5.30%, accident insurance policies comprised 58.42 million posting a growth of 4.94%, and life insurance policies comprised 50.07 million posting a growth of 3.43%. Only annuity insurance policies posted a negative growth in the six-month growth period; that is, a total of 950,000 policies, or a decline of 8.65%. On the matter of insurance coverage, total coverage of policies in force amounted to TWD 100.06 trillion, dropping 30.48% against TWD 143.92 trillion of the same period in 2011, of which life insurance policies comprised TWD 38.67 trillion, posting a growth of 3.09% and accident insurance policies comprised TWD 41.08 trillion, posting a growth of 4.80%; whereas, health insurance policies comprised TWD 19.43 trillion, posting a decrease of 70.65% and annuity insurance policies comprised TWD 880 billion, posting a decrease of 13.73%. In general, a stable growth has been noted in the number of policies in force in the period ending June 2012.

(7) Benefit Payout

Insurance benefit payouts in the six-month period ending June 2012 amounted to TWD 607.01 billion, posting a decrease of 19.27% vis-à-vis the payouts made in the same period in 2011 (TWD 751.89 billion). The largest difference was noted in annuity insurance payouts, of TWD 120.18 billion, representing a decrease of 33.90%; followed by life insurance, of TWD 437.77 billion, or a decrease of 16.43%. On the other hand, accident insurance posted an increase of 6.41% at TWD 10.39 billion, and health insurance posted an increase of 6.09% at TWD 38.68 billion. In terms of beneficiary population, benefit payouts were paid to 10.14 million policyholders during the period, representing an increase of 7.53% over the 9.43 million beneficiaries of the same period in 2011, with life insurance policyholders occupying the highest ratio of payment beneficiaries; of 5.24 million policyholders, or a ratio of 51.68%.

In terms of benefit payout items, surrender payouts took the lead with TWD 265.72 billion in payments, accounting for 43.78% of the total benefit payouts, followed by maturity benefit payouts taking second lead with TWD 175.37 billion, or 28.89% of the total benefit payouts, and third in line was survivor benefit payouts, amounting to TWD 71.01 billion accounted for 11.70%. Overall, total of these three types of benefit payouts accounted for 84.36% of the total benefit payouts. Largest difference was noted in the total maturity benefit payouts of TWD 175.37 billion, dropping 28.75% against the TWD 246.13 billion of the same period in 2011. A closer look into underlying factors revealed that a portion of the short-term endowment insurance of life insurance companies were concentrated within the six-month period ending June 2011; thus, maturing policies for the period took a consequential decrease.

A detailed breakdown of the TWD 437.76 billion benefit payouts disbursed to 5.24 million beneficiaries would show that the three highest benefit payouts were maturity benefits (TWD 175.36 billion), surrender payouts (TWD 147.57 billion), and survivor benefit payouts (TWD 70.78 billion), which accounted for 89.94% of the total life insurance benefit payouts of the period. Moreover, benefit payouts from accident insurance policies amounting to TWD 10.39 billion were disbursed to 960,000 beneficiaries; that highest majority of which were in the form of medical benefit payouts, amounting to TWD 5.66 billion, followed by death benefit payouts of TWD 2.67 billion and disability benefit payouts of TWD 1.16 billion. Health insurance benefit payouts of TWD 38.68 billion were disbursed to 3.52 million beneficiaries, the highest majority of which were in the form medical benefit payouts, amounting to TWD 33.41 billion, followed by death benefit payouts of TWD 2.87 billion and dread disease benefit payouts of TWD 1.62 billion. Furthermore, annuity benefit payouts amounting to TWD 120.18 billion were paid to 420,000 beneficiaries, of which TWD 117.92 or 98.13% were in the form of surrender payouts, and from which the traditional annuity surrender payouts posted a steep drop of 39.66% from TWD 138.35 billion in the first half of 2011 to TWD 83.48 billion of the same period of 2012. The foregoing statistics were clear indications that extension of the surrender periods of interest-sensitive annuity insurance policies would lower inclination of early surrender.

Pursuant to the foregoing statistics, Taiwan market consumers still prefer to purchase principal-guaranteed life insurance or endowment that offers maturity benefits. Inclination to purchase annuity insurance is not driven by expectations of future annuity benefits, but mainly by its value as an investment tool; hence majority of the insurance policies have been terminated before their scheduled maturity periods. It is apparent that certain policy holders regard insurance policies as a form of investment tool rather than protection for the future.

2. Financial Overview

(1) Assets and Liabilities

In the six-month period ending June 2012, the life insurance industry posted total assets of TWD 13.85 trillion, that is, a 9.92% increase over TWD 12.60 trillion of the same period in 2011. The posted total had not included separate account assets of around TWD 12.69 trillion, that is, an increase of 11.61%. Separate account assets of investment-linked insurance amounted to TWD 1.16 trillion, which posted a drop from the total asset ratio of 9.76% as of end of June 2011 to 8.38% as of end of June 2012.

The respective distribution ratios of assets are as follows: 67.00% in securities and bonds; 8.38% in separate account assets; 8.74% in loans; 8.74% in cash and bank deposits; 3.54% in real estate investments; and 3.61% in other assets. Vis-à-vis the distribution ratios of the same period in 2011, cash and bank deposits posted the highest growth rate, 26.04%, followed by other assets of 21.43%.

On the matter of liabilities and owner equities, in the six-month period ending June 2012, total liabilities amounted to TWD 13.40 trillion, that is, an increase of TWD 1.25 trillion, or 10.29%, over the same period total of 2011 (that is, 12.15 trillion). Reserves for liabilities comprised TWD 11.94 trillion, or 86.21% of total assets and 89.10% of total liabilities. On the other hand, owner's equity amounted to TWD 448.7 billion, posting a drop of TWD 7.7 billion against the TWD 456.4 billion total of the same period in 2011. The ratios of liabilities and owner equities against assets stood at 96.76% and 3.24% respectively; after the exclusion of separate account assets, the ratios stood at 96.45% and 3.55% respectively.

A closer look into the owner's equity would show that in the six-month period ending June 2012, although the life insurance industry posted a positive overall total, four life insurers posted negative owner's equity figures, indicating a need for the improvement of their financial structures. Changes in owner's equity may have been driven by the decrease in other owner's equities, which slid from TWD 106.20 billion as of end of June 2011 to TWD 70.41 billion as of end of June 2012, that is, a decline of 33.70%. The decrease reflected that low market interest rates consequently caused the return of investment rate of the insurance industry to fall much lower than the projected interest rate of insurance policies. Another factor is the continued appreciation of the Taiwan dollar against the U.S. dollar, which is causing foreign investments to face huge foreign exchange losses. As a result financial problems are further aggravated by the worsening negative interest rate spread.

(2) Losses and Profits

The operating revenue in the six-month period ending June 2012 reached TWD 1.49 trillion, an increase of 16.40% over the TWD 1.28 trillion generated in the same period of 2011. The operating cost amounted to TWD 1.44 trillion, or 96.64% of total revenues, posting an increase of 16.20% against TWD 1.24 trillion of the previous year (2011). After deduction of the operating cost, the underwriting gains reached TWD 49.3 billion, indicating an improvement in the underwriting system of the industry.

The net investment gains (including interest revenues, net gains/losses in securities & bonds, and net gains/losses in real estate) of life insurers in the period ending June 2012 amounted to TWD 222.4 billion, which comprised 14.91% of total revenues, posting a growth of 21.17% vis-à-vis TWD 183.6 billion closed in the same period of 2011. It is apparent that continuing recovery of Taiwan economy is arriving the dynamic of growth in the financial market.

As of end of June 2012, the life insurance industry posted a net gain of TWD 7.30 billion, that is, an increase of TWD 1.52 billion, or a growth of 26.38%, vis-à-vis the net gains of TWD 5.78 billion closed in the same period in 2011. No change was noted in the number of life insurers (16) posting net losses for the six-month period ending June 2012; except for the higher net investment gains posted for the period, some of the insurance companies that posted massive losses in the previous year had posted profits or remarkable reduction in losses for the period ending June 2012, thus significantly contributing to the growth in after tax gains/losses.

(3) Available Funds

As of end of June 2012, the funds of the life insurance industry available for investment amounted to TWD 12.27 trillion, posting an increase of 12.05% over TWD 10.95 trillion of the same period of 2011 with a fund utilization rate (ratio of utilized funds against total available funds) of 99.03%. Primary fund utilizations were in form of securities investments (TWD 4.96 trillion) with government and treasury bonds accounting for TWD 2.48 trillion and foreign investments of TWD 4.72 trillion, respectively occupying 40.42% and 38.47%, or a combined total of 78.89%, of the total utilized funds.

Other fund utilization designations included loans to policyholders, which stood at TWD 551.81 billion, falling slightly against TWD 573 billion as of end of June 2011. The fund utilization rate dropped from 5.23% as of end of June 2011 to 4.50%; apparently, recovery of the domestic economy had alleviated the loan requirements of policyholders. Moreover, corporate bond investments rose from TWD 491.25 billion of June 2011 to TWD 579.91 billion, representing a growth of 18.05%; stock investments increased from TWD 735.08 billion of June 2011 to TWD 875.92 billion, representing a growth of 19.16%; government and treasury bond investments increased from TWD 2,354.94 billion of June 2011 to TWD 2,483.18 billion, representing a growth of 5.45%; trust fund and beneficiary certificate investments rose from TWD 110.49 billion of June 2011 to TWD 172.27 billion, representing a growth of 55.92%; real estate investments rose from TWD 504.20 billion of June 2011 to TWD 576.77 billion, representing a growth of 14.39%; loans rose from TWD 559.84 billion of June 2011 to TWD 591.57 billion, representing a growth of 5.67%; however, derivative instrument transactions declined from TWD 17.58 billion of June 2011 to TWD 12.83 billion, representing a decline of 27.04%. The foregoing statistics indicated that gradual economic recovery and stronger stock market trends had fostered the restoration of market confidence.

II. Conclusion and Outlook

1. Conclusion

In light of the domino effect of insurance product sales suspension, premium revenues of the entire life insurance industry as of end of June 2012 amounted to TWD 1,263.2 billion, or enough to turn the tide of sluggish business growth in the six-month period ending June 2011. First-Year insurance premium revenues amounted to TWD 639.2 billion, setting a new record in the annals of life insurance. Contributions of principal guaranteed life insurance, single premium endowment insurance, and long-term health insurance to the first-year premium revenues had been significant.

A review of the product structure showed that for first-year premium revenues, traditional insurance occupied 91.69% of the total revenues, which is an increase of 15.65% over the 76.04% of June 2011; whereas, investment-linked insurance products merely occupied a 8.31% share. It is apparent from the foregoing statements that sales suspension of policies conjoined with offshore structured products create a considerable impact on the first-year premium revenues of investment-linked products.

In the period ending June 2012, the industry issued 18.9 million new policies having a total coverage of TWD 20.22 trillion. Increase was noted in both life insurance and accident insurance policy number and coverage. Policies in force amounted to 191.26 million policies with a total coverage of TWD 100.06 trillion; a stable growth trend was noted in this area. Insurance benefit payouts amounted to TWD 607.01 billion, of which life insurance and annuity insurance payouts jointly occupied 91.92%. A further analysis of the benefit payout structure showed that surrender payouts comprised TWD 265.72 billion, maturity benefit payouts comprised TWD 175.37 billion, and survivor benefits comprised TWD 71.01 billion, or a combined total of 84.36% of the total benefit payouts. Largest difference was seen in maturity benefit payouts, which fell by 28.75%, mainly due to the maturing short-term life insurance policies that matured in the period ending June 2011.

On the matter of profitability, the life insurance industry also began feeling the warmth of a recovering economy. Main source of revenue of net gains from investments had been interest earnings, which amounted to TWD 176.2 billion. Moreover, gains from securities investments leaped from TWD 13.8 billion of June 2011 to TWD 40 billion of June 2012; however, since foreign exchange losses far exceeded gains achieved in securities investments, after tax gains of the life insurance industry for the six-month period ending June 2012 (TWD 7.30 billion) merely posted a marginal growth over that (TWD 5.78 billion) of the same period in 2011. in fact, half of the insurance companies were still a long way from profitability.

2. Outlook

Starting July 2012, implementation of the reduced interest rate of life insurance policies, the 5th Taiwan Standard Ordinary Mortality Table, and the 2nd Taiwan Individual Annuity Mortality Table would boost the sales of long-term principal-guaranteed life insurance, single premium endowment insurance, long-term health insurance, and interest-sensitive annuity insurance products to face the hurdle of premium price hikes. Insurance companies shall be compelled to adjust the product structure in the face of this new challenge.

The interest rate of the foreign currency-denominated insurance policy reserve is lower than that of domestic insurance policy. Moreover, sales of foreign currency-denominated insurance policies may transfer the exchange risk and increase the investment amount, and life insurance companies may also alleviate the heavy burden of foreign exchange losses. Furthermore, the industry would be providing policyholders a new option since policyholders would find the foreign currency-denominated insurance policies less costly than domestic insurance policies.

On the other hand, FSC has earnestly promoted a multitude of related policies and measures in the recent years in preparation for the advent of the aging society era. Life insurance companies may introduce annuity insurance, long-term care insurance, and long-term health insurance products to combat the impending aging society risks, including longer life spans, increasing elderly support ratios, rising medical costs, long-term nursing care requirement, and so forth thereby meeting market requirements. At the same time, insurance products should provide more diversity and options to be attractive.