

Taiwan Life Insurance Market Report 2012

一、Business and Financial Overview of the Industry

(一)、Business Overview

In 2012, Taiwan life insurance companies reported a total of NT\$2,478.4 billion in premium income, up by 12.75 percent from last year's NT\$2,198.2 billion. Out of the total premium income in 2012, first-year premium income accounted NT\$1,190.4 billion, rose by 19.64 percent in comparison with NT\$995.0 billion in previous year. Meanwhile, renewal premium income for 2012 amounted to NT\$1,288.0 billion, increased by 7.04 percent year-over-year. In summary, the growth in total premium income was mainly contributed by the significant increase in first-year premium income.

(1) A Detailed Breakdown of Total Premium Income

According to the breakdown of the 2012 total premium income for the Taiwan's life insurance sector, first-year premium income accounted for 48.03 percent or NT\$1,190.4 billion of the total premium income in 2012, up from 45.26 percent in 2011. Out of the first-year premium income, single premium income rose from NT\$629.0 billion in 2011 to NT\$771.9 billion in 2012, seizing a year-over-year growth rate of 22.72 percent. Meanwhile, installment premium income increased from NT\$366.0 billion in 2011 to NT\$418.5 billion in 2012, achieving a year-over-year growth rate of 14.34 percent. Renewal premium income accounted for 51.97 percent or NT\$1,288.0 billion of the total premium income in 2012, up from 54.74 percent or NT\$1,203.3 billion in 2011. Even though the ratio of renewal premium income to total premium income declined in 2012, the renewal premium income in real number was increased by 7.04 percent or NT\$84.7 billion. The above mentioned data signified that both first-year premium income and renewal premium income grew steadily in 2012.

A further analysis on the first-year premium income revealed that single premium income accounted for 64.84 percent of the overall first-year premium income in 2012. Traditional endowment insurance premium income made up NT\$487.0 billion of the single premium income, rose by 44.04 percent in comparison with NT\$338.1 billion in previous year. Variable life insurance premium income made up NT\$114.1 billion of the single premium income in 2012, slightly down by 1.55 percent in comparison with NT\$115.9 billion in 2011. They accounted for 63.10 percent and 14.79 percent of the total single premium income, respectively. These data indicated that products with high ratio of single premium income played pivotal role in the overall first-year premium income.

(2) Premium Income by Product

In 2012, traditional insurance generated NT\$2,145.9 billion in premium income, accounting for 86.58 percent of the total premium income for the year. Out of various types of traditional insurance products, life insurance grew by 18.08 percent year-over-year, reaching

NT\$1,686.0 billion in premium income in 2012 from previous year's NT\$1,427.8 billion; annuity fell by 1.60 percent year-over-year, declining to NT\$129.3 billion in premium income in 2012 from last year's NT\$131.4 billion; health insurance was up by 8.41 percent year-over-year, climbing to NT\$271.9 billion in premium income in 2012 from last year's NT\$250.8 billion; finally, accident insurance slightly grew by 2.80 percent year-over-year, rising to NT\$58.7 billion in premium income in 2012 from previous year's NT\$57.1 billion.

In terms of first-year premium income, traditional life insurance seized a year over growth rate of 28.06 percent, reaching NT\$822.3 billion in 2012 from previous year's NT\$642.1 billion. It accounted for 69.08 percent of the total first-year premium income in 2012, up from 64.53 percent in 2011. In contrast, first-year premium income of traditional annuity insurance declined by 1.06 percent year-over-year, decreasing from last year's NT\$123.2 billion to NT\$121.9 billion in 2012. First-year premium generated by traditional annuity has gradually decreased year after year since its peak year in 2008.

As to the reasons why traditional life insurance, accident insurance, and health insurance posted positive year-over-year growth rates in premium income in 2012, a research suggested that it could be the result of two new stipulations passed by the competent authority in 2012, which lowered the interest rates on the required reserves of new life insurance policies (including insurance policies denominated in foreign currency such as USD, AUD, and EUR). The effective dates of the new stipulations were July 1, 2012 and January 1, 2013, respectively. One of the stipulations also required life insurers to set aside reserves in accordance with 2011 Taiwan Standard Ordinary Experience Mortality Table for Life Insurance starting from July 1, 2012, thus leading consumers to purchase life insurance policies and driving the first-year premium income to soar under the market anticipation that the new stipulation would cause the premium to raise.

The premium income of investment-linked insurance in 2012 was NT\$332.5 billion, accounting for 13.42 percent of the total premium income, slightly rose by 0.42 percent year-over-year in comparison with NT\$331.1 billion in 2011. Investment-linked life insurance generated NT\$246.5 billion in premium income, slightly fell by 0.96 percent in comparison with last year's NT\$248.9 billion. Investment-linked annuity, nevertheless, generated NT\$86.0 billion in premium income, increased by 4.62 percent in comparison with last year's NT\$82.2 billion.

Further analysis on the first-year premium income revealed that, investment-linked life insurance climbed from NT\$138.9 billion in 2011 to NT\$143.1 billion in 2012. Investment-linked annuity also hit the same trend, growing from NT\$49.6 billion last year to NT\$58.2 billion in 2012. The first-year premium income of investment-linked insurance in the first half of 2012 had a significant year-over-year decline in comparison with first half of 2011 mainly because majority of the premium income in 2011 came from the sales of insurance products linked to offshore structured notes, which life insurers had gradually stopped selling in the second half of 2011 in the wake of the overspill of the European Sovereign Debt Crisis in order to reduce risks and protect consumers' rights. Fortunately, life insurers were able to turn around the situation and boost up the first-year premium income of investment-linked annuity and investment-linked life insurance by offering popular products like the variable annuity or

variable life insurance that feature monthly dividends and launch principal guaranteed mutual fund products in the second half of 2012.

(3) Distribution Channels

Life insurance sector's first-year premium income in 2012 came from two major distribution channels: bancassurance which generated NT\$628.5 billion or 52.8 percent of the total first-year premium income and solicitors of life insurers that generated NT\$510.9 billion or 42.92 percent of the total first-year premium income. Together, the two accounted for 95.72 percent of the total first-year premium income leaving other distribution channels with merely 4.28 percent. Further studies showed that first-year premium income from bancassurance increased from NT\$535.5 billion in 2011 to NT\$628.5 billion in 2012, reaching a year-over-year growth rate of 17.38 percent. However, the ratio of first-year premium income generated from bancassurance to total first-year premium income decreased slightly from 53.81 percent last year to 52.8 percent this year. Moreover, solicitors of life insurers contributed NT\$510.9 billion in first-year premium income in 2012, up by NT\$86.7 billion from previous year's NT\$424.2 billion and accounted for 42.92 percent of the total first-year premium income for the year, improving slightly from 2011's 42.63 percent. In summary, both solicitors of life insurers and bancassurance delivered outstanding business results in 2012. Thanks to the effect of discontinuation of sales of certain products and the market's anticipation of potential premium hike on short-term endowment insurance in the second half of 2012, insurance products that offer similar feature as term deposit became very popular. Additionally, the newly launched investment-linked insurance products with monthly dividends feature and principal guaranteed mutual fund products were well received by the market as well.

(4) Group Insurance verses Individual Insurance

During 2012, 36.51 million new insurance policies were issued, posting a 4.34 percent growth rate year-over-year in comparison to last year's 34.99 million new policies. Individual insurance policies accounted for 14.54 million of the 36.51 million new policies issued, which was a 7.15 percent year-over-year increase in comparison with 13.57 new individual policies issued in 2011. Further analysis on the newly issued individual insurance policies showed the following: individual life insurance climbed by 9.68 percent reaching 3.40 million new policies; individual accident insurance was up by 2.18 percent attaining 6.57 million new policies; individual health insurance rose by 13.08 percent through issuing 4.41 million new policies; and individual annuity grew by 14.29 percent achieving 160,000 new policies. The number of persons insured by group insurance ascended by 2.57 percent in 2012, growing from 21.42 million persons in 2011 to 21.97 million persons in 2012.

The total insured amount of the new insurance policies issued during 2012 added up to NT\$40.20 trillion, slightly down by 0.81 percent in comparison with last year's NT\$40.53 trillion. The insured amount of the newly issued individual policies went up by 0.78 percent, increasing from 2011's NT\$26.94 trillion to NT\$27.15 trillion in 2012, of which the insured amount for the newly issued individual life insurance stood at NT\$2.16 trillion, up by 9.09

percent from previous year; individual accident insurance reached NT\$23.87 trillion, down by 0.13 percent from 2011; individual health insurance attained NT\$0.96 trillion in insured amount, up by 9.09 percent from last year; and individual annuity reached NT\$0.16 trillion, fell by 11.11 percent from last year. The insured amount for the newly issued group insurance policies summed up to NT\$13.05 trillion, down by 3.97 percent in comparison with last year's NT\$13.59 trillion.

According to the aforementioned statistics, life insurance was growing steadily in terms of the number of new policies issued, the insured amount and premium income. The most evident growth was found in endowment insurance, which delivered NT\$718.7 billion in first-year premium income, up by 24.88 percent in comparison with 2011's NT\$575.5 billion. Other types of life insurance such as accident insurance, health insurance and annuity also showed steady growth. In summary, the growths in new insurance policies issued in 2012 were contributed by all types of insurance.

(5) Newly Issued Investment-Linked Policies

In 2012, there were 229,300 new investment-linked insurance policies issued, fell considerably by 30.98 percent in comparison with 332,200 new policies in 2011. Variable life insurance was down by 29.48 percent with 130,600 new policies issued in 2012. Variable universal life insurance decreased by 41.93 percent with 57,200 new policies issued in 2012. Variable annuity resulted in 41,500 newly issued policies, down by 14.43 percent from last year.

The total insured amount of new insurance policies issued during 2012 amounted to NT\$211.3 billion, down by approximately 30.68 percent in comparison with NT\$304.8 billion in previous year. Variable life insurance slightly declined by 7.23 percent with insured amount of NT\$70.6 billion. Variable universal life insurance dropped by 39.81 percent with insured amount of NT\$137.2 billion. The insured amount of variable annuity, on the other hand, remarkably raised from last year's NT\$700 million to NT\$3.5 billion this year, up by 368.45 percent.

Overall speaking, investment-linked life insurance declined in both the number of newly issued policies and the insured amount of newly issued insurance policies in 2012 in comparison with last year's records; meanwhile, only first-year premium indicated a positive growth.

(6) Policies in Force

As of the end of 2012, there were 190.96 million policies in force in Taiwan's life insurance industry, enhancing by 1.77 percent in comparison to 187.63 million policies in force at the end of 2011. Out of the total policies in force in 2012, life insurance policies accounted for 51.01 million policies, up by 3.78 percent year-over-year; accident insurance accounted for 58.62 million policies, up by 2.48 percent year-over-year; health insurance represented 80.35 million policies, up by 0.07 percent year-over-year; and annuity constituted 980,000 policies, slightly down by 1.01 percent year-over-year. The insured amount of policies in force at the end of 2012 came to be NT\$92.64 trillion, down from NT\$93.86 trillion last year and down by

1.30 percent year-over-year. Out of the total insured amount, life insurance accounted for NT\$39.09 trillion, up by 2.76 percent year-over-year; accident insurance accounted for NT\$36.57 trillion, up by 2.96 percent year-over-year; health insurance posted NT\$16.05 trillion in insured amount, down by 17.10 percent year-over-year; and annuity posted NT\$930 billion in insured amount, fell by 1.06 percent year-over-year. Overall speaking, the number of policies in force at the end of 2012 indicated steady growth. However, total insured amount of the policies in force in 2012 slightly declined under the effect of health insurance and annuity.

(7) Insurance Benefit Payout and Claims

The total amount of insurance benefits paid during 2012 equaled to approximately NT\$1,249.0 billion, down by 11.80 percent in comparison to last year's NT\$1,416.2 billion. The largest decline was found in annuity's benefit payout, which totaled NT\$219.1 billion in 2012, down by 37.70 percent from last year. Next was the benefit payout of life insurance in 2012, which amounted to NT\$926.2 billion, down by 4.27 percent from 2011. Health insurance rendered NT\$82.3 billion in benefit payout, up by 8.22 percent in comparison to 2011. Accident insurance paid NT\$21.3 billion in benefits, up by 2.02 percent from previous year. In 2012, insurance benefits were paid to 21.73 million beneficiaries or recipients, up by 16.58 percent in comparison with last year's 18.64 million beneficiaries or recipients. Life insurance topped the chart with 11.53 million beneficiaries or recipients, accounting for 53.06 percent of the total beneficiaries or recipients in 2012.

Analyzing from benefit types, surrender benefit ranked number one with NT\$545.9 billion, representing 43.71 percent of the total benefits paid during the year. Next was maturity benefit which stood at NT\$359.0 billion or 28.74 percent of the total benefits paid. Survivor benefit ranked third on the list with NT\$151.4 billion, constituting 12.12 percent of the total. All three summed up to represent 84.57 percent of the total benefits paid during the year. In comparison with the numbers in 2011, surrender benefit paid in 2012 declined the most – reducing from NT\$683.5 billion in 2011 to NT\$545.9 billion in 2012, down by 20.14 percent. Majority of the decline came from surrender benefits paid on traditional annuity which significantly decreased by 46.99 percent, plunging from last year's NT\$268.3 billion to this year's NT\$142.2 billion. Furthermore, variable annuity now offers an extended surrender period which has helped to slow down policyholders' urge to surrender early.

In summary, consumers in Taiwan in general have special preference for principal guaranteed life insurance products or endowments that offer maturity benefits. Annuity is seen as an investment tool instead of an insurance protection or a guaranteed income for future, thus resulting in high percentage of early policy surrenders.

二、An Overview of Financial Analysis

(一) Assets and Liabilities

As of the end of 2012, Taiwan's life insurance companies reported NT\$14.71 trillion in total assets, up by 12.72 percent in comparison to NT\$13.05 trillion in the previous year. Total

assets excluding separate accounts equaled to NT\$13.45 trillion, which was up by 13.03 percent in comparison to same period last year. The value of investment-linked insurances' separate accounts totaled NT\$1.26 trillion as of the end of 2012. It accounted for 8.57 percent of the total assets, slightly lower than last year's record of 8.81 percent.

The total assets of the life insurance companies were allocated in the following categories in the ratios indicated as below: 67.03 percent in securities and bonds, 8.57 percent in separate accounts, 8.5 percent in loans, 8.5 percent in cash and bank deposits, 3.74 percent in real estate investments, and 3.67 percent in other assets. In comparison with same period last year, most significant growths were found in real estate investment at 19.57 percent and securities and bonds at 13.99 percent. This was due to the capital utilization strategy of the industry.

The total liabilities of the life insurance sector as a whole stood at NT\$14.12 trillion as of the end of 2012, up by 11.89 percent or NT\$1.5 trillion in comparison with NT\$12.62 trillion in previous year. Liability reserve, which accounted for 85.45 percent of the total assets or 89.02 percent of the total liabilities, totaled NT\$12.57 trillion.

As of the end of 2012, the owners' equity for the life insurance sector reached NT\$590.8 billion, up by NT\$160.8 billion from 2011's NT\$430.0 billion. Owners' equity to asset ratio climbed from 3.30 percent in 2011 to 4.01 percent in 2012, bouncing back to the level prior to the outbreak of the European Sovereign Debt Crisis (4.03 percent at the end of 2009). Concurrently, the life insurance sector's liability-to-owners' equity ratio (leverage) declined from 29 in 2011 to 24 in 2012, indicating stable financial condition and bigger capacity to tolerate future losses.

(二) Losses and Profits

The aggregated operating revenue for 2012 totaled NT\$2.97 trillion, up by 19.56 percent in comparison with NT\$2.48 trillion in the same period last year. Operating cost was NT\$2.84 trillion, accounting for 95.62 percent of the total revenue, up by 17.93 percent from NT\$2.41 trillion in last year. The combination of the two resulted in a business profit of NT\$125.4 billion.

In terms of net investment gains (including interest income, net securities investment gains or losses, net real estate gains or losses, net change in foreign exchange volatility reserve), the life insurance sector achieved NT\$482.3 billion in net investment gains in 2012, which accounted for 16.24 percent of the total income. In comparison with last year's net investment gains of NT\$ 379.9 billion, the year-over-year growth rate for 2012 was as high as 26.96 percent. The largest growth was found in securities investment, which turned out to be NT\$104.1 billion in gains, up by 277.88 percent from NT\$27.6 billion in 2011. In response to the low interest environment, life insurers had gradually shifted their investment targets to securities that offer stable dividends, and the results were quite positive and significant.

As of end of 2012, life insurance industry posted a net profit after taxes of NT\$36.319 billion, dramatically improved by NT\$37.2 billion from last year's loss of NT\$901 million, marking 2012 the best year for life insurers of Taiwan since the occurrence of Financial Tsunami. The outstanding business performance was mainly contributed by not only

investment gains, but also the implementation of the “foreign exchange volatility reserve” mechanism, which became effective in March 2012. Under the new mechanism, life insurers have set aside a total of NT\$796 million in foreign exchange volatility reserve, which has begun to help ease the impact of fluctuating New Taiwan Dollar exchange rate on the profits of life insurers.

(三) An Overview of Fund Utilization

As of end of 2012, the amount of life insurance sector’s available funds was NT\$13.03 trillion, up by 13.60 percent in comparison with NT\$11.47 trillion in the end of 2011. The ratio of utilized funds to available funds equaled to 99.01%. Securities investments and foreign investments were the two most popular means of fund utilization. Securities investment accounted for 38.53 percent, or NT\$5.02 trillion (among which government and treasury bonds represented 19.26 percent, or NT\$2.51 trillion), of the total utilized funds; whilst foreign investment constituted 40.60 percent, or NT\$5.92 trillion, of the total utilized funds. The combination of the two represented as high as 79.13 percent of the total utilized funds.

Under the low interest rate environment and liquidity easing measures in recent years, the interest spread of domestic and offshore government bonds have declined. Life insurers have gradually allocated higher percentage of their utilized funds to invest in stable and dependable dividend domestic securities as well as items with higher return of investment ratio like real estate rent income and fixed income assets abroad. As of end of 2012, investment in domestic securities totaled NT\$871.0 billion, up by 21.98 percent from previous year, representing 6.68 percent of the total utilized funds as compared to last year’s 6.23 percent. Real estate investment attained NT\$642.9 billion in the end of 2012, up by 18.33 percent from previous year, constituting 4.93 percent of the total utilized fund, up from previous year’s 4.74 percent. Foreign investment stood at NT\$5,290.6 billion in the end of 2012, up by 22.25 percent from 2011, representing 40.60 percent of the total utilized fund, up from last year’s 37.74 percent.

二、 Conclusion and Future Outlook

一、 Conclusion

Benefited by insurance product discontinuation effect, life insurers achieved NT\$2,487.4 billion in premium income in 2012, bouncing back from last year’s unsatisfactory business performance. First-year premium income climbed to NT\$1,190.4 billion, creating a new record high. Whole life with coupon , single premium short-term endowment policy, and long term health insurance had remarkable contribution to the first-year premium income.

From the perspective of product lines, traditional life insurance products accounted for 83.09 percent of the total first-year premium income in 2012, rose by 2.03 percent in comparison with last year’s 81.06 percent. Investment-linked products, which had considerably declined following the Financial Tsunami, slightly improved in 2012. Investment-linked products generated NT\$201.3 billion in first-year premium income, up by 6.79 percent in comparison with last year’s NT\$188.5 billion and accounted for 16.91 percent of the total first-year premium income in 2012.

In 2012, 36.51 million new policies were issued and the total insured amount came to NT\$40.20 trillion. However, only life insurance rendered an increase in both number of policies in force and insured amount. The number of life insurance policies in force stood at 190.96 million, indicating a steadily growth, whilst insured amount totaled NT\$92.64 trillion. Insurance benefits paid in 2012 summed up to NT\$1,249.0 billion. Life insurance and annuity benefits accounted for 91.70 percent of the total amount of benefits paid in 2012. A further breakdown of the benefits paid indicated that maturity benefit, surrender benefit, and survivor benefit together accounted for 84.57 percent of the total benefits paid in the year, with NT\$359.0 billion, NT\$545.9 billion, and NT\$151.4 billion, respectively. Surrender benefit was down by as much as 20.14 percent in comparison to previous year mainly due to the extension on the surrender period of interest-sensitive annuity products.

As for sources of profit for life insurers, interest income, which amounted to NT\$357.1 billion, was the most important source of net investment gains in 2012. Additionally, gains from securities investment also increased from NT\$27.6 billion last year to NT\$104.1 billion in 2012. Contrary to the huge amount of foreign exchange losses that life insurers faced in the past due to strong New Taiwan Dollar against greenback, the launch of “foreign exchange volatility reserve” mechanism in March 2012 has eased the foreign exchange pressure as well as reduced operating costs for life insurers. The overall business performance of life insurance industry in terms of net profit improved from previous year’s net loss after taxes of NT\$901 million to a net profit after taxes of NT\$36.319 billion, setting the best record after the outbreak of the Financial Tsunami.

二、Outlook

In 2012, the competent authority twice lowered the interest rates on the required reserves of new life insurance policies. Driven by the anticipation of premium hikes, policies were sold and premium income in 2012 soared considerably against 2011. For 2013, premium income for the year will not likely to exceed the high standard set in 2012 if life insurers cannot introduce new products to satisfy consumers’ needs. Moreover, whether investment-linked insurance products could extend the hot sales trend of variable annuity or variable life insurance that feature monthly policy dividends in the second half of 2012 into 2013 presents another challenge for the life insurers.

Fortunately, the competent authority has initiated many new policies and measures in the advent of aging society, supporting life insurers to design and launch products such as annuity, long term care insurance, and long term health insurance to transfer related risks like extended life expectancy, rising old age dependency ratio, increasing medical expenses, and the need for long term care to satisfy the needs of the market. Thus, insurance products are expected to be more diverse and a wider range of products are to be offered.