

## **2013 Taiwan Life Insurance Market Overview**

### **I. Life Insurance Business and Financial Overview**

#### **1. Business Statistical Overview**

In 2013, life insurers in Taiwan reported NTD2,583.5 billion in premium income, up by 4.24 percent in comparison with NTD2,478.4 billion in 2012. First year premium income represented NTD1,106.3 billion of the total premium income, down by 7.06 percent in comparison with NTD1,190.4 billion in the previous year. On the other hand, renewal premium income accounted for NTD1,477.2 billion of the total premium income, up by 14.69 percent year over year. In summary, the increase in the premium income was mainly contributed by renewal policies.

##### **(1) A Breakdown of Premium Income**

According to the breakdown of the premium income, first year premium income accounted for NTD1,106.3 billion or 42.82 percent of the total premium income, sliding from 48.03 percent in the previous year. Single premium income decreased from NTD771.9 billion in 2012 to NTD728.6 billion in 2013, down by 5.61 percent. Installment premium income reduced from NTD418.5 billion in 2012 to NTD377.6 billion, declined by 9.77 percent. Renewal premium income amounted to NTD1,477.2 billion in 2013, up by NTD189.2 billion or 14.69 percent in comparison with NTD1,288.0 billion in 2012. It represented 57.18 percent of the total premium income in 2013, improving from 51.97 percent in 2012. In terms of first year premium income, as indicated by the aforementioned figures, both single premium income and installment premium income were on downward trend in 2013.

A further analysis on the first year premium income indicated that single premium accounted for 65.87 percent of the total. Traditional endowment insurance represented NTD265.8 billion of the total single premium income in 2013, down by 45.43 percent in comparison with NTD487.0 billion in 2012. Traditional deferred annuity made up NTD239.3 billion of the single premium income, significantly elevated by 129.34 percent in comparison with NTD104.4 billion in the previous year. These two products represented 36.47 percent and 32.85 percent of the single premium income reported in 2013, respectively.

##### **(2) Product Mix**

In 2013, premium income generated by traditional insurance products amounted to NTD2,196.3 billion, accounting for 85.01 percent of the total premium income; premium income generated by traditional life insurance accounted for NTD1,586.3 billion, down by 5.91 percent in comparison with NTD1,686.0 billion in 2012. Annuity generated NTD259.7 billion in premium income in 2013, soaring by 100.85 percent in comparison with NTD129.3 billion in 2012. Health insurance generated NTD290.3 billion in premium income, up by 6.77 percent in comparison with NTD271.8 billion last year. Accident insurance generated NTD60 billion, slightly up by 2.21% from NTD58.7 billion in the previous year.

Looking at the first year premium income, traditional life insurance accounted for

NTD553.8 billion or 50.06 percent of total first year premium income, declined by 32.65 percent from NTD822.3 billion or 69.07 percent of the total in 2012. Meanwhile, traditional annuity climbed by 107.30 percent, increasing from NTD121.9 billion to NTD252.7 billion in first year premium income. In 2011, the valuation interest rate for new policy reserves was downwardly adjusted twice. Under the speculation that premium rates would soon be raised, premium income generated by traditional insurance grew significantly during that period of time. Generally speaking, without any significant change in the external environment, it was reasonable to see that a decline when comparing the premium income generated by traditional life insurance in 2013 with same period 2012.

In 2013, premium income generated by traditional annuity grew remarkably due to regulation change that lengthened the surrender charge period for interest sensitive annuities and universal life policies from three to six years, with a minimum surrender charge of 1% effective from the beginning of 2014. Any policyholder who wishes to surrender their policy in less than six years must pay a surrender charge which lowers their return on investment. The announcement of the new regulation requirement triggered hot sale of interest sensitive annuity in 2013.

2013 premium income for investment-linked insurance products totaled NTD387.2 billion, up by 16.45 percent from NTD332.5 billion in 2012 and accounting for 14.99 percent of the total premium income. Premium income generated by investment-linked life insurance reached NTD269.6 billion, up by 9.37 percent in comparison with NTD246.5 billion in 2012. Investment-linked annuity also grew by 36.74 percent, climbing from NTD86.0 billion in 2012 to NTD117.6 billion in 2013.

Based on an analysis of the first year premium income, investment-linked life insurance boosted from NTD143.1 billion in 2012 to NTD172.1 billion in 2013 in premium income. Similar result was found in investment-linked annuity, which grew from NTD58.2 billion in 2012 to NTD87.4 billion in 2013.

In 2013, first year premium generated by investment-linked life insurance product and investment-linked annuity achieved 20.27 percent and 50.17 percent year over year growth rate, respectively. The overall growth rate for investment-link insurance products by first year premium was 28.91 percent. The sales growth of investment-linked insurance could be attributed to several factors: due to the temporary withdraw of offshore structure note investment-linked insurance products in the first half of 2012, the base period for investment-linked insurance was low and the fire-sales of variable annuity and variable life insurance, which continued into the second half of 2012. Additionally, in the wake of global economic recovery, the US stock market was bullish, Taiwan's stock market also returned to above 8,000-point mark, onshore and offshore fund products were performing well thus further drove the momentum for the sales of investment-linked policy in 2013.

### (3) Distribution Channel

In 2013, first year premium income mainly came from bancassurance and life insurance agents. They accounted for NTD616.9 billion (55.76 percent) and NTD439.2 billion (39.70

percent) of the total, respectively. Together, they contributed 95.46 percent of the total first year premium income, leaving other distribution channels with 4.54 percent market share. More detailed analysis revealed that the first year premium income generated by bancassurance was slightly down by 1.85 percent from NTD628.5 billion in 2012 to NTD616.9 billion in 2013. However, its market share was augmented from 52.80 percent in 2012 to 55.8 percent in 2013. Life insurance agency generated NTD439.2 billion first year premium income, down by NTD71.7 billion from last year's NTD510.9 billion. Its market share declined from 42.92 percent in 2012 to 39.70 percent in 2013. Benefited by the low interest rate environment and consumers' excessive saving habits, market share of bancassurance by first year premium surpassed life insurance agents', and it was the largest distribution channel for life insurance business in 2013.

#### (4) Group Insurance and Personal Insurance

Life insurers posted 37.63 million newly issued policies in 2013, slightly up by 3.07 percent in comparison with 36.51 million a year ago. Personal insurance accounted for 13.79 million policies, declined by 5.16 percent from 14.54 million in 2012. A breakdown of the new personal insurance policies issued in 2013 revealed that life insurance accounted for 2.94 million, down by 13.53 percent; accident insurance grew 2.74 percent from last year to 6.75 million; health insurance fell 13.83 percent to 3.80 million; and annuity soared by 87.50 percent to 300,000. For group insurance, the number of people insured was up 8.51 percent, growing from 21.97 million in 2012 to 23.84 million in 2013.

The sum assured for newly issued policies amounted to NTD42.44 trillion, up by 5.57 percent in comparison with NTD40.20 trillion in 2012. Personal insurance represented NTD27.85 trillion of the total sum assured, slightly grew 2.58 percent from NTD27.15 trillion a year ago. Product wise, life insurance generated NTD1.80 trillion of the total sum assured for personal insurance, down by 16.67 percent; accident insurance had 24.76 trillion sum assured, up by 3.73 percent; health insurance had NTD0.95 trillion, dwindled by 1.04 percent; annuity had NTD0.34 trillion, significantly up by 112.50 percent. The sum assured generated by group insurance was NTD14.59 trillion, growing by 11.80 percent from NTD13.05 trillion a year ago.

Annuity, accident insurance, and health insurance had indicated steady growth in the number of policies, sum assured, and premium income throughout 2013. Most significant growth was found in interest-sensitive annuity insurance, which generated NTD272.7 billion first year premium in 2013, up by 123.71 percent in comparison with NTD121.9 billion in the previous year.

#### (5) New Investment-Linked insurance Product Policy

In 2013, there were 278,200 investment-link insurance policies newly issued, remarkably grew by 21.33 percent in comparison with 229,300 last year. Newly issued investment-link insurance policies were comprised of variable life insurance, which accounted for 119,600 policies, down by 8.42 percent from last year; variable universal life, which constituted for 98,100 policies, up by 71.50 percent; and variable annuity that represented 60,500 policies, climbed by 45.78 percent.

The sum assured of 2013 newly issued investment-link policies totaled NTD228.1 billion, ascended by around 7.96 percent in comparison with NTD211.3 billion last year. A breakdown of the sum assured indicated that variable life insurance, variable universal life, and variable annuity accounted for NTD81.3 billion, NTD139.5 billion, and NTD7.2 billion of the total sum assured, respectively, with year over year growth rates of 15.24 percent, 1.72 percent and 105.57 percent, respectively.

In general, investment-linked insurance products outperformed 2012 in terms of the sum assured for new policies issued, number of policies, and first year premium income.

#### (6) Policy in Force

At the end of December 2013, the number of policies in force was 202.99 million, up by 6.30 percent in comparison with 190.96 million in the same period last year. Life insurance represented 52.58 million of the total policies in force, increasing by 3.08 percent. Accident insurance had 60.36 million policies in force, up by 2.97 percent. Health insurance had 88.94 million policies in force, up by 10.69 percent. Annuity had 1.11 million policies in force, growing by 13.27 percent. The total sum assured as of end of 2013 was NTD97.70 trillion, up by 5.46 percent in comparison with NTD92.64 trillion in the same period last year. The sum assured of life insurance was NTD39.96 trillion, ascended by 2.23 percent; accident insurance was NTD37.21 trillion, increased by 1.75 percent; health insurance was NTD19.43 trillion, enhancing by 21.06 percent. The sum assured for annuity grew by 18.28 percent, reaching NTD1.10 trillion. Overall speaking, by the end of December 2013, policies in force were growing steadily in both number of policies in force and the amount of sum assured.

#### (7) Insurance Benefit Payout

The total amount of insurance benefits paid during 2013 equaled to approximately NTD1,253.9 billion, up by 0.39 percent in comparison with last year's NTD1,249 billion. Benefits paid for life insurance accounted for 73.80 percent or NTD925.4 billion of the total; annuity insurance accounted for NTD219.7 billion; health insurance accounted for NTD87.4 billion and accident insurance accounted for NTD21.5 billion. Life insurance benefits were paid to 24.56 million beneficiaries in 2013, up by 13.02 percent in comparison with 2012's figure of 21.73 million. Approximately 54.32 percent of the total benefit recipients in 2013 or 13.34 million beneficiaries received benefit claims through life insurance.

Based on the types of benefit paid, surrender benefit topped the ranking with NTD583.6 billion, accounting for 46.55 percent of the total benefits paid in 2013. Next was maturity benefit which accounted for NTD313.1 billion or 24.97 percent. Third on the chart was survivor benefit with the amount of NTD150.5 billion, representing 12 percent of the total benefit paid. The sum of the three constituted for around 83.51 percent. Surrender benefit grew the fastest, elevated by 6.91 percent year over year and climbing from NTD545.9 billion in 2012 to NTD583.6 billion in 2013. Surrender benefit paid for variable life insurance and variable universal life reached NTD148.9 billion, up by 49.90 percent in comparison with

NTD99.3 billion in the previous year. Surrender benefit paid for variable annuity was also up by 40.04 percent. The stock rallies in 2013 drove some policyholders to surrender their policies and place the money in equity investment instead.

## **2. Financial Overview and Analysis**

### **(1) Asset Liability Overview**

As of the end of 2013, Taiwan's life insurance companies reported NTD16.50 trillion in total assets, up by 13.56 percent in comparison with NTD14.53 trillion in the same period last year. Total assets excluding separate accounts equaled to NTD15.15 trillion, increasing by 14.17 percent year-over-year. The value of investment-linked insurances' separate accounts totaled NTD1.35 trillion as of the end of 2013. It accounted for 8.18 percent of the total assets, slightly lower than last year's 8.67 percent.

As of end of 2013, a breakdown of life insurance companies' asset allocation by category indicated the following: 68.97 percent of the total utilized fund was allocated in securities and bonds, 8.79 percent in loans, 8.18 percent in separate accounts, 6.42 percent in cash and bank deposits, 4.06 percent in property investment, and 3.58 percent in other assets. In comparison with same period last year, most notable growth rates were found in securities and bonds (16.72 percent) and loans (18.85 percent). The changes were mainly connected with the life insurer's capital utilization and allocation strategy.

The total liabilities of the life insurance sector stood at NTD15.85 trillion at end of 2013, up by 14.52 percent or NTD2.01 trillion in comparison with NTD13.84 trillion reported in the same period last year. Insurance liabilities totaled NTD13.95 trillion, accounting for 84.55 percent of the total assets or 88.01 percent of the total liabilities.

At the end of 2013, the owners' equity for the life insurance sector reached NTD644.5 billion, down by NTD40.7 billion from 2012's NTD685.2 billion. The owners' equity to asset ratio slightly declined from 4.72 percent last year to 3.91 percent, lower than the level prior to the outbreak of the European Sovereign Debt Crisis (it was 4.03 percent at the end of 2009). Concurrently, liability-to-owners' equity ratio (leverage) the life insurance sector increased from 20 in 2012 to 25, indicating life insurers' tolerance level for future losses has weakened and thus require further financial strengthening.

### **(2) Loss and Profit**

In 2013, life insurers posted NTD3.01 trillion, in aggregated operating revenue, climbed by 4.38 percent NTD2.88 trillion from previous year. Operating cost accounted for NTD2.85 trillion or 94.68 percent of the total revenue, soared by 3.50 percent year over year from last year's NTD2.75 trillion. Revenue minus cost revealed a business profit of NTD158.6 billion.

Life insurance companies, excluding those exited from the market in 2013, posted net profit or loss of continuing operations of NTD62.49 billion for the year, up by NTD26.99 billion year over year in comparison with last year's NTD35.50 billion. Business profitability

was remarkably improved. However, the exit of the US quantitative easing and sharp rebound of bond yield had led to a seriously increase on the unrealized gain or loss on available-for-sale financial assets. As the result, life insurers reported a loss of NTD81.40 billion for total comprehensive income, down by NTD40.7 billion in comparison with same period last year and significantly affected owners' equity,.

### (3)Utilization of Funds

As of the end of December 2013, the aggregated available fund reported by life insurance companies totaled NTD14.68 trillion, up by 15.05 percent year over year in comparison with NTD12.76 trillion in 2012. The utilization ratio of the fund was around 99.19 percent (the percentage of available fund that was utilized). Among the fund utilization projects, securities investments accounted for NTD5.33 trillion (government and treasury bonds represented NTD2.55 trillion or 17.37 percent) or 36.31 percent of the total utilized fund; overseas investment accounted for NTD6.40 trillion or 43.60 percent. The combination of the two represented as high as 79.90 percent of the total utilized funds.

Under the low interest rate and loose liquidity environment, the spreads of onshore and offshore government and treasury bonds are toward the decreasing trend in recent year. Life insurers have gradually allocated higher percentage of their utilized funds to invest in domestic securities with stable dividends as well as investment targets with higher expected investment returns such as rental property and offshore fixed income assets. As of the end of 2013, NTD1,091.1 billion of the total utilized fund were allocated in onshore equities, up by 27.04 percent year over year and accounting for 7.43 percent of the utilized fund (6.73 percent in 2012). Property investment amounted to NTD819.8 billion, up by 22.63 percent, accounting for 5.59 percent of the total utilized fund (5.24 percent in 2012). Overseas investment accounted for 43.58 percent (40.94 percent in 2012) of the total utilized fund in the amount of NTD6,396.7 billion, up by 22.45 percent year over year.

## II. Conclusion and Future Outlook

### 1. Conclusion

In 2013, life insurers saw NTD2,583.5 billion in premium income, up by 4.24 percent. First year premium income was NTD1,106.3 billion, weakened by 7.06 percent year over year. Traditional insurance delivered NTD846.8 billion in first year premium income, down by 14.40 percent year over year. The decline was considered reasonable due to the raised base period established last year and the lack of severe change in the external market environment in 2013. Investment-linked insurance, however, was up by 28.91 percent year over year in first year premium income, reaching NTD259.5 billion. The notable growth in premium income was attributed to the hot sales of universal annuity and universal life insurance which started from second half of 2012.

In 2013, a total of 37.63 million new policies were issued with a total sum assured of

NTD42.44 trillion. However, the number of policies, sum assured, and premium income of the newly issued life insurance policies in 2013 had declined from 2012. The total policies in force were 202.99 million and sum assured totaled NTD97.70 trillion; both are maintaining a steady growth. Benefit paid in 2013 reached NTD1,253.9 billion. Life insurance and annuity benefit together accounted for 91.32 percent of the total benefit paid. Maturity benefit made up NTD313.1 billion; surrender benefit was NTD583.6 billion, and survivor benefit reached NTD150.5 billion. Together, they accounted for 83.51 percent of the total benefit paid in 2013. Surrender benefit increased by 6.91 percent from last year. Return of investment was the main reason for early surrender.

Life insurers posted net investment profit of NTD541.9 billion, up by 14.24 percent in comparison with 2012's NTD474.3 billion. Profitability significantly improved in the year due to the recognized increase of property value, stock market rally, increase cash dividend, reduction of hedging cost for foreign exchange. As the result, life insurers (excluding insurers that have exited the market in 2013) reported net profit or loss of continuing operations of NTD62.49 billion for 2013.

## 2. Future Outlook

In 2012, the premium income reported by life insurers hit record high resulting in higher base for comparison in 2013. Without any remarkable change to impact the life insurance market, the premium income generated during 2013 only merely increased by 4.24 percent year over year. Looking into 2014, as life insurers comply with regulator's new requirements gradually cut down the sales of single premium insurance as well as hot-sale deposit oriented insurance products such as saving endowment insurance and interest sensitive annuity and face with the challenge of a strengthened surrender charge period for interest sensitive annuities and universal life policies from three to six years, life insurers must proactively develop innovative, diverse products in order to see a stable growth in premium income.

In 2014, low interest rate will remain the biggest factor impacting the development of life insurance market in Taiwan. While US quantitative easing is expected to exit by the end of the year, domestic economy continues to recover and low inflation rate is driving consumer disposable income to rise. The market needs for insurance protection, long-term saving, and asset management is steadily climbing. Moreover, the trend towards rising interest rate will also enhance life insurer's profitability.