

Taiwan Life Insurance Market Report for First Half of 2013

I. Life Insurance Financial and Business Overview

A. Business Statistics and Overview

In the first half of 2013, Taiwan life insurance companies reported NTD1,217.2 billion in premium income, down by 3.63 percent year-over-year in comparison with NTD1263.0 billion in the first half of 2012. The first-year premium income accounted for NTD506.8 billion of the total premium income, down by 20.71 percent year-over-year in comparison with NTD639.2 billion in the first half of 2012. Renewal premium income equaled to around NTD710.4 billion, up by 13.85 percent year-over-year, indicating that the decline in total premium income was mainly due to the growth stagnation of the first-year premium income.

1. A Detailed Breakdown of Premium Income

According to a detailed breakdown of the total premium income rendered by the Taiwan's life insurance companies, first-year premium income generated in the first half of 2013 accounted for NTD506.8 billion or 41.6 percent of the total premium income, down from 50.61 percent from the first half of 2012. Single premium income accounted for NTD325.5 billion of the first-year premium income, down by 24.51 percent in comparison with NTD431.2 billion in the first half of 2012. Moreover, installment premium income represented NTD181.3 billion of the first-year premium income, down by 12.84 percent in comparison with the record of NTD208 billion in first half of 2012. Renewal premium income amounted to NTD710.4 billion in the first half of 2013, up by NTD8.64 billion in comparison with NTD 624 billion in the same period last year. It accounted for 58.4 percent of the total premium income in the period, significantly increasing from last year's 49.41 percent, indicating that renewal premium income was under stable growth in the first half of 2013.

A further analysis of the first-year premium income revealed that single premium income accounted for 64.23 percent of the first-year premium income in the first half of 2013. Traditional endowment insurance premium income made up NTD121.7 billion of the single premium income, meanwhile deferred annuity insurance accounted for NTD71.4 billion. These two types of insurance accounted for 37.40 percent and 21.95 percent of the total single premium income, respectively, representing the majority of the single premium income reported in the first half of 2013. Abovementioned data reflected that although life insurance companies had gradually shifted their product focus toward installment type of insurance, products with high ratio of single premium income still played pivotal role in the generation of first-year premium income.

2. Premium Income by Product

In the first half of 2013, life insurers generated NTD990.4 billion in premium income through traditional insurance, which accounted for 81.37 percent of the total premium income. Among various types of traditional insurance products, life insurance accounted for NTD742.3 billion of NTD990.4 billion, down by 21.17 percent in comparison with NTD941.6 in the first

half of 2012; health insurance accounted for NTD134.9 billion, up by 6.81 percent in comparison with NTD126.3 billion in the first half of 2012; accident insurance accounted for NTD28.9 billion, slightly rose by 2.12 percent in comparison with NTD28.3 billion in the first half of 2012; and annuity accounted for NTD84.3 billion, remarkably up by 66.93 percent in comparison with NTD50.5 billion in the first half of 2012.

An analysis of the first-year premium showed that the first-year premium income generated through traditional insurance decreased by 40.90 percent in comparison with same period in 2012. A further study on different types of traditional insurance indicated that first-year premium income from traditional life insurance in the first half of 2013 totaled NTD245.5 billion, considerably down by 52.46 percent in comparison with NTD516.4 billion in the first half of 2012. It accounted for 48.44 percent of the total first-year premium income in the first half of 2013, plunging from 80.79 percent in same period last year. In contrast, the first-year premium income from traditional annuity climbed from NTD47.1 billion in the first half of 2012 to NTD80.8 billion in the first half of 2013, reversing its declining trend and soaring by 71.55 percent.

As for traditional type of insurance products, the interest rates on the required reserves of new life insurance policies were lowered twice over 2012, thus driving the premium income from traditional insurance to rise in 2012 under the consumer's speculation of a rate increase that led to a buying spree. Since there were no special market speculation in 2013, it was justifiable that the first-year premium income from traditional insurance decreased in the first half of 2013 in comparison with the same period in 2012.

In the first half of 2013, life insurers generated NTD226.8 billion in premium income from investment-linked insurance products, accounting for 18.63 percent of the total premium income, which was more than double of the 9.22 percent in the first half of 2012. Investment-linked life insurance accounted for NTD155.1 billion, up by 75.25 percent in comparison with NTD88.5 billion in the first half of 2012. Investment-linked annuity also pulled an enormous year-over-year growth rate of 156.99 percent, increasing from NTD27.9 billion in the first half of 2012 to NTD71.7 billion in the first half of 2013.

In terms of first-year premium income, investment-linked life insurance made up 20.72 percent of the total first-year premium income in the first half of 2013, significantly up from 5.91 percent in the first half of 2012. The ratio of first-year premium income from investment-linked annuity to total first-year premium income also soared from 2.39 percent in the first half of 2012 to 10.93 percent in the first half of 2013. The first-year premium income from overall investment-linked product increased by as much as 202.07 percent in comparison with the figure in the first half of 2012 by continuing the momentum set in the second half of 2012 through selling popular products like variable annuity or variable life insurance that feature monthly dividends. Due to a temporary ban on the sales of insurance products linked to offshore structured notes in the first half of 2012, the low comparison base led to a high year-over-year growth rate for the premium income from investment-linked products in the first half of 2013.

3. Distribution Channels

In the first half of 2013, majority of the first-year premium income was generated through two distribution channels: bancassurance which brought in NTD253.1 billion or 49.94 percent of the total first-year premium income and solicitors of life insurance companies that delivered NTD230.9 billion or 45.57 percent of the total first-year premium income. Together, the two accounted for 95.50 percent of the total first-year premium income leaving other distribution channels with merely 4.50 percent of contribution rate. Further analysis showed that first-year premium income from bancassurance in the first half of 2013 plunged by 30.27 percent from same period last year, decreasing from NTD362.9 billion to NTD253.1 billion. In addition, the first-year premium delivered by solicitors of life insurance companies slightly declined from NTD252.4 billion in the first half of 2012 to NTD230.9 billion in the first half of 2013, down by NTD21.5 billion. It accounted for 45.57 percent of the total first-year premium income reported by the industry, increasing by 6.07 percent in comparison with 39.49 percent in the first half of 2012. Due to the high comparison bases established in the first half of 2012, both distribution channels – bancassurance and solicitors of life insurance companies showed a decline in their sales performances.

4. Group Insurance Versus Individual Insurance

In the first half of 2013, 20.40 million new insurance policies were issued, up by 7.94 percent in comparison with 18.90 million new policies issued in the first half of 2012. Individual insurance accounted for 6.68 million of the newly issued policies, down by 6.96 percent in comparison with 7.18 million in the first half of 2012. Further analysis on the newly issued individual insurance policies showed the following: individual life insurance plummet by 17.68 percent year-over-year, reaching 1.49 million new policies; individual health insurance decreased by 11.93 percent year-over-year by issuing only 1.92 million new policies; individual annuity nearly doubled in its year-over-year growth rate by delivering 120,000 new policies; and individual accident insurance was slightly up by 0.64 percent year-over-year, attaining 3.15 million new policies. The number of persons insured by group insurance ascended by 17.06 percent, growing from 11.72 million persons in the first half of 2012 to 13.72 million persons in the first half of 2013.

The total insured amount of the new insurance policies issued in the first half of 2013 amounted to NTD22.06 trillion, up by 9.10 percent in comparison with NTD20.22 trillion in the first half of 2012. The insured amount of the newly issued individual policies slightly declined 0.23 percent, sliding from NTD13.18 trillion in the first half of 2012 to NTD13.15 trillion in the first half of 2013. A detailed breakdown of the insured amount by product indicated the following: individual life insurance plunged 23.28 percent year-over-year, attaining NTD0.89 trillion; individual health insurance decreased 6.12 percent year-over-year, falling to NTD0.46 trillion; individual annuity grew five times from same period last year, reaching NTD0.30 trillion; individual accident insurance slightly improved 0.17 percent year-over-year, climbing to NTD11.50 trillion. The insured amount of the newly issued group insurance, on the other hand, grew significantly by 26.56 percent, increasing from NTD7.04 trillion in the first half of 2012 to NTD8.91 trillion in the first half of 2013.

According to the abovementioned statistics, there was a decline momentum on the number of new policies issued, insured amount and premium income for life insurance. The number of newly issued policies, insured amount, and premium income for annuity, in contrast, grew remarkably in comparison to same period in 2012. In summary, annuity insurance was the largest contributor to the growth of newly issued policies in the first half of 2013.

5. Newly Issued Investment-Linked Policies

In the first half of 2013, there were 165,500 new investment-linked insurance policies issued, soaring considerably by 108.18 percent in comparison with 79,500 new policies issued in the first half of 2012. Variable life insurance grew by 71.18 percent year-over-year with 69,500 new policies issued in the first half of 2013. Variable universal life insurance also ascended by 102.13 percent year-over-year, attaining 57,000 new policies issued. Variable annuity rose by 264.49 percent year-over-year, reaching 39,000 new policies in the first half of 2013.

The total insured amount of the new insurance policies issued in the first half of 2013 amounted to NTD296.2 billion, up considerably by 204.50 percent year-over-year in comparison with NTD97.3 billion in the first half of 2012. The insured amount of the newly issued variable life insurance reached NTD46.464 billion, up by 73.98 percent year-over-year. Variable universal life insurance rose by 8.55 percent year-over-year with insured amount of NTD76.379 billion. The insured amount of variable annuity also remarkably rose by 86,574.50 percent year-over-year, attaining NTD173.349 billion in the first half of 2013.

Overall speaking, in the first half of 2013, investment-linked products grew significantly in terms of the number of new policies issued, insured amount, and first-year premium income in comparison with same period last year.

6. Policies in Force

As of the end of June 2013, the number of policies in force stood at 200.01 million policies, up by 4.57 percent in comparison with 191.26 million policies in the same period last year. Annuity insurance grew by 7.37 percent year-over-year, attaining 1.02 million policies in force; health insurance boosted by 7.17 percent year-over-year, reaching 87.69 million policies in force; life insurance rose by 3.46 percent year-over-year, standing at 51.80 million policies in force; and accident insurance was up by 1.85 percent, achieving 59.50 million policies in force. As for the insured amount of the policies in force, the total came to NTD97.10 trillion, down by 2.96 percent in comparison with NTD100.06 trillion in same period 2012. The insured amount of annuity insurance policies amounted to NTD1.16 trillion, up by 31.82 percent year-over-year; the insured amount of life insurance equaled to NTD39.47 trillion, up by 2.07 percent year-over-year; and the insured amount of health insurance reached NTD19.58 trillion, rose by 0.77 percent year-over-year. However, the insured amount of accident insurance was down by 10.20 percent year-over-year, decreasing to NTD36.89 trillion as of the end of June 2013. Generally speaking, the number of policies in force at the end of June 2013 indicated a steady growth. However, the total insured amount of the policies in force marked a slight decline.

7. Insurance Benefit Payout and Claims

The total amount of insurance benefits paid during the first half of 2013 equaled to approximately NTD602.4 billion, down by 2.35 percent in comparison with NTD616.9 billion in the first half of 2012. The largest decline was found in benefits paid for annuity, which totaled NTD103.9 billion in the first half of 2013, down by 14.04 percent year-over-year. Next was the benefit payout of accident insurance, which amounted to NTD10.2 billion, less by 2.31 percent year-over-year. The benefit payout of health insurance came to NTD41.6 billion, up by 4.69 percent year-over-year. Life insurance paid NTD446.7 billion in benefits, up by 0.19 percent year-over-year. In the first half of 2013, insurance benefits were paid to 11.84 million beneficiaries or recipients, up by 19.23 percent in comparison with 9.93 million beneficiaries or recipients in the first half of 2012. Life insurance topped the chart with 6.51 million beneficiaries or recipients, accounting for 54.98 percent of the total beneficiaries or recipients in the first half of 2013.

A ranking of benefit types by the amount of benefit paid in the first half of 2013 is as follows: surrender benefit ranked first with NTD280.7 billion, representing 46.59 percent of the total benefits paid in the first half of 2013; maturity benefit ranked second with NTD146.0 billion, constituting 24.24 percent of the total benefits paid; and survivor benefit ranked third on the list with NTD75.6 billion, making up 12.55 percent of the total benefit paid. All three together summed up to represent 83.38 percent of the total benefits paid in the first half of 2013. Maturity benefit payout declined the most, sliding from NTD1,770 billion paid in the first half of 2012 to NTD146.0 billion in the first half of 2013, down by 17.51 percent. Short-term endowment insurance offered by some life insurers had gradually matured in the previous two years, therefore, maturity benefit payout was on a decline trend in 2013.

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.

II. An Overview of Financial Analysis

1. Assets and Liabilities

As of the end of June 2013, Taiwan's life insurance companies reported NTD15.59 trillion in total assets, up by 14.05 percent in comparison with NTD13.67 trillion in the same period last year. Total assets excluding separate accounts equaled to NTD14.30 trillion, increasing by 14.31 percent year-over-year. The value of investment-linked insurances' separate accounts totaled NTD1.29 trillion as of the end of 2013. It accounted for 8.27 percent of the total assets, slightly lower than 8.49 percent in the first half of 2012.

As of the end of June 2013, a breakdown of life insurance companies' asset allocation by category and distribution ratio is as follows: 68.70 percent of the total utilized fund was allocated in securities and bonds, 8.27 percent in separate accounts, 8.60 percent in loans, 6.54 percent in cash and bank deposits, 4.11 percent in real estate investments, and 3.78 percent in other assets. In comparison with same period last year, the largest growth was found in

securities and bonds at 16.92 percent; followed by loan at 13.56 percent. The changes were mainly connected with the life insurance industry's capital utilization strategy.

The total liabilities of the life insurance sector as a whole stood at NTD14.98 trillion as of the end of June 2013, up by 14.18 percent or NTD1.86 trillion in comparison with NTD13.12 trillion as of end of June 2012. Liability reserve, which accounted for 84.09 percent of the total assets or 87.52 percent of the total liabilities, totaled NTD13.11 trillion.

As of the end of June 2013, the owners' equity for the life insurance sector reached NTD618.3 billion, up by NTD73.8 billion from the first half of 2012's NTD544.5 billion. However, the owners' equity to asset ratio slightly declined from 3.98 percent as of end of June 2012 to 3.97 percent, coming close 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) remained at 24, no different from same period last year, indicating that life insurance industry has maintained a stable financial structure though it might require further strengthening.

2. Losses and Profits

As of the end of June 2013, life insurance companies posted NTD1.39 trillion in operating revenue, down by 4.05 percent in comparison with NTD1.45 trillion in the end of June 2012. Operating cost as of the end of June 2013 was NTD1.31 trillion, accounting for 94.24 percent of the total revenue, down by 6.22 percent from NTD1.40 trillion in the same period last year. The combination of the two resulted in a business profit of NTD82 billion.

In the first half of 2013, the life insurance sector achieved NTD266.7 billion in net investment gains, accounting for 19.22 percent of the total revenue and up by 23.56 percent year-over-year in comparison with the first half of 2012's net investment gains of NTD215.9 billion. Under the competent authority's permission to include part of real estate appreciation, the aggregated real estate investment profit grew considerably by 132.32 percent year-over-year, reaching NTD15.7 billion from NTD6.7 billion in the same period last year.

As of end of June 2013, life insurance industry posted a net profit after taxes of NTD33.2 billion, dramatically improved by NTD26.6 billion from NTD6.6 billion in the end of June 2012, signifying the enormous impact that the appreciation of real estate has over the overall profitability of life insurance industry.

3. An Overview of Fund Utilization

As of end of June 2013, the amount of life insurance sector's available funds was NTD13.80 trillion, up by 15.19 percent in comparison with NTD11.98 trillion in the end of June 2012. Securities investments and foreign investments were the two most popular means of fund utilization. Securities investment accounted for 38.33 percent, or NTD5.29 trillion (including NTD2.55 trillion of government and treasury bonds), of the total utilized funds; whilst foreign investment made up 41.09 percent, or NTD5.67 trillion, of the total utilized funds. The combination of the two represented as high as 79.42 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 lessened. Life insurers have gradually allocated higher percentage of their utilized funds to invest in domestic securities with stable and dependable dividends as well as items with higher return of investment ratio like rent income and offshore fixed income assets. As of end of June 2013, investment in domestic securities totaled NTD1,057.6 billion, up by 23.07 percent year-over-year, representing 7.66 percent of the total utilized funds as compared to 4.63 percent at the end of June 2012. Real estate investment attained NTD655.9 billion in the end of June 2013, up by 36.02 percent year-over-year, constituting 4.75 percent of the total utilized fund, up from 4.03 percent in the end of June 2012. Foreign investment stood at NTD5,674.9 billion in the end of June 2013, up by 22.11 percent year-over-year, representing 41.12 percent of the total utilized fund, up from 38.80 percent in the first half of 2012.

II. Conclusion and Future Outlook

A. Conclusion

Due to the high comparison base achieved in the first half of 2012, the total premium income in the first half of 2013 declined by 3.63 percent year-over-year, reaching NTD1,217.2 billion. First-year premium income amounted to NTD506.8 billion, down by 20.71 percent year-over-year. Renewal premium income totaled NTD710.4 billion, up by 13.85 percent year-over-year, proving that the decline in premium income was mainly caused by the decrease in the first-year premium income.

From the perspective of product types, the sales focus for the first half of 2013 had switched from short term Endowment to investment-linked insurance products with monthly dividend. Therefore, the ratio of first-year premium income from traditional product to total premium income dropped down significantly from 91.69 percent in the first half of 2012 to 68.35 percent in the first half of 2013. In contrast, the ratio for investment-linked product climbed from 8.31 percent in the first half of 2012 to 31.65 percent in the first half of 2013, indicating that the product popularity of investment-linked product has gradually recovered back to the level prior to the financial crisis.

In the first half of 2013, 20.40 million new policies were issued and the total insured amount came to NTD22.06 trillion. However, only the statistics of annuity insurance showed an increase in both number of policies in force and insured amount. The number of life insurance policies in force amounted to 200.01 million, indicating a steadily growth, whilst insured amount totaled NTD97.10 trillion. Insurance benefits paid in the first half of 2013 summed up to NTD602.4 billion. Life insurance and annuity benefits accounted for 91.41 percent of the total amount of benefits paid in the first half of 2013. A further breakdown of the benefits paid indicated that surrender benefit, maturity benefit, and survivor benefit together accounted for 83.38 percent of the total benefits paid in the year, in the amount of NTD280.7 billion, NTD146 billion, and NTD75.6 billion, respectively. The maturity benefit decreased 17.51 percent year-over-year mainly because certain short-term life insurance had gradually matured in the past two years.

As for sources of profit for life insurers, interest income, which amounted to NTD183.9 billion, was the most important source of net investment gains in the first half of 2013. Additionally, gains from real estate investment improved dramatically under the competent authority's agreement to recognize a portion of the real estate appreciation as profit. The overall life insurance profit after tax increased from NTD6.6 billion in the end of June 2012 to NTD33.2 billion in the first half of 2013, extending the growth momentum which started in the end of 2012.

B. Future Outlook

In the first half of 2013, it was quite challenging for the life insurers to render a premium income to surpass the high comparison base established last year. During the period, the main sales focus had shifted from short term Endowment, which had been quite popular in the past few years, to investment-linked product with monthly dividend. However, whether or not the variable annuity insurance with monthly dividend could continue to sell well in the market in the second half of 2013 is another challenge that life insurers have to face.

In the recent year, the competent authority has initiated many new policies and measures in the advent of aging society (such as draft regulations for long term care services, amendment on the National Pension Act, and etc.) as well as promotional events in connection with the topic. These initiatives have supported life insurers to design and launch products such as annuity, long term care insurance, and long term health insurance to transfer related risks, for instances 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 become more diverse and a wider range of products is expected to become available.