

First Half 2014 Taiwan Life Insurance Market Overview

I. Life Insurance Industry Business and Financial Overview

A. Business Statistical Overview

The life insurance industry in Taiwan delivered NTD1,340.5 billion in premium income in the first half of 2014, up by 10.13 percent from NTD1,217.2 billion delivered in the first half of 2013. First year premium income accounted for NTD586.8 billion; it grew 15.79 percent year over year from NTD506.8 billion. Renewal premium income constituted NTD 753.7 billion, climbed by 6.10 percent year over year. The data indicated that first year premium made up majority of the growth of the total premium income.

1. Breakdown of the Premium Income

According to the breakdown of the premium income, first year premium accounted for NTD586.8 billion or 43.77 percent of the total premium income in the first half of 2014, increasing from 41.64 percent in the first half of 2013. Single premium grew by 17.27 percent from NTD 325.5 billion in the first half of 2013 to NTD381.7 billion in the first half of 2014. Meanwhile, regular pay premium also increased by 13.13 percent from NTD181.3 billion in the first half of 2013 to NTD205.1 billion in the same period 2014. Renewal premium income represented NTD753.7 billion or 56.23 percent of the total premium income in the first half of 2014, up by NTD43.3 billion in comparison with NTD710.4 billion or 58.36 percent in the first half of 2013. These numbers proved that there was a steady growing trend for renewal premium income in the first half of 2014.

A further breakdown of the first year premium indicated that single premium accounted for 65.05 percent of the total first year premium; of which traditional endowment insurance represented NTD188.6 billion, variable life insurance constituted NTD75.3 billion; the two made up 49.42 percent and 19.71 percent, respectively, of the total single pay premium income collected in the first half of 2014. The aforementioned data indicated that products with higher proportion of single payment ratio played significant role in their contribution to first year premium income.

2. Product Mix

In the first half of 2014, premium income generated by traditional insurance policy amounted to NTD1,092.2 billion, accounting for 81.48 percent of total premium income. Within traditional insurance products, life insurance represented NTD878.8 billion, up by 18.39 percent when compared with NTD742.3 billion in the first half of 2013. Health Insurance generated NTD143.8 billion in premium income, increased by 6.6 percent in comparison with NTD134.9 billion in the first half of 2013. Premium income from accident insurance totaled NTD29.4 billion, slightly grew by 1.73 percent year over year from

NTD28.9 billion in the same period of 2013. Traditional annuity, on the other hand, fell remarkably by 52.43 percent from premium income of NTD84.3 billion in the first half of 2013 to NTD40.1 billion in the same period of 2014.

In terms of first year premium income, traditional life insurance grew by 39.67 percent from NTD245.5 billion in the first half of 2013 to NTD342.9 billion in the second half of 2014. It accounted for 58.44 percent of the product mix in the market, up from 48.44% a year ago. However, traditional annuity plunged by 54.95 percent from NTD80.8 billion in the first half of 2013 to NTD36.4 billion in the first half of 2014.

Under the regulators' request, life insurers were required to conduct profit testing on products that are currently sold in the market and to submit a responsive plan for or cease selling products that failed the profit testing, in other words with negative profit margin. This new regulatory measure had a largest impact on interest-sensitive life insurance and short-term insurance products thus triggered fire sales of these products, leading to the sales performance to grow significantly by 119.2 percent year over year. Traditional life insurance expanded by 39.67 percent year over year; and the first year premium income generated by traditional insurance products also augmented by 16.02 percent year over year.

A study on the reasons that led to the declination of first year premium generated by traditional annuity revealed that regulator's stricter requirements on the years to charge and rate of surrender fee for interest-sensitive annuity had led the first year premium income for the product to drop by 55.0 percent.

The premium income generated by investment-linked insurance policy totaled NTD248.3 billion in the first half of 2014, accounting for 18.52 percent of the industry's premium income. In comparison with NTD226.8 billion rendered in the same period of 2013, it rose by 9.48 percent. Investment-linked life insurance delivered NTD173.1 billion, up by 11.61 percent year over year from NTD155.1 billion, and investment-linked annuity was up by 4.88 percent, ascending from NTD71.7 billion in the first half of 2013 to NTD75.2 billion in the first half of 2014.

For the perspective of first year premium income, investment-linked life insurance soared from NTD160.4 billion in first half of 2013 to NTD184.9 billion in the same period of 2014. Variable annuity also climbed from NTD55.4 billion in the first half of 2013 to NTD57.7 billion. Overall, the first year premium income generated by investment-linked policy grew 15.27 percent year over year.

3. Industry Channel Mix

In the first half of 2014, bancassurance and agency channels accounted for NTD299.8 (51.1 percent) billion and NTD258.9 billion (44.11 percent) of the life insurance industry's first year premium income, respectively. These two main distribution channels represented 95.21 percent of the market share, leaving other channels with 4.79 percent market share. Based on further analysis, first year premium income rendered by bancassurance channel grew by 18.49 percent year over year from NTD253.1 billion to NTD299.8 billion in the first

half of 2014. First year premium income delivered by agency channel also went up by NTD27.9 billion, increasing from NTD230.9 billion in the first half of 2013 to NTD258.9 billion in the same period of 2014. Although both bancassurance and agency channel grew in sales numbers, the market share of agency channel declined from 45.57 percent in the first half of 2013 to 44.11 percent in the first half of 2014.

4. Group Insurance and Personal Insurance

A total of 18.89 million new insurance policies were issued in the first half of 2014, down by 7.45 percent in comparison with 20.41 million new policies issued in the first half of 2013. New personal insurance policies issued amounted to 6.99 million policies, up by 4.64 percent year over year from 6.68 million policies in previous year. A breakdown by product type indicated the following: life insurance accounted for 1.55 million policies, up by 4.03 percent; accident insurance represented 3.37 million policies, up by 6.98 percent; health insurance equaled to 2.01 million policies, up by 4.69 percent; and annuity stood for 0.06 million policies, down by 50 percent. The number of insured covered by group insurance totaled 11.9 million people, down by 13.33 percent in comparison with 13.73 million people in the first half of 2013.

The sum assured of the newly issued policies totaled NTD20.33 trillion, fell by 7.17 percent in comparison with NTD21.90 trillion in the first half of 2013. The sum assured for newly issued personal insurance amounted to NTD14.06 trillion, up by 8.24 percent from NTD12.99 trillion in the first half of 2013. A detail breakdown of the sum assured for newly issued personal insurance by product type revealed the following: sum assured for life insurance equaled to NTD0.98 trillion, up by 10.11 percent year over year; accident insurance reached NTD12.49 trillion in sum assured, up by 8.61 percent; health insurance was up by 13.04 percent, reaching NTD0.52 trillion in sum assured; personal annuity fell remarkably by 50 percent, attaining only NTD0.07 trillion in sum assured. The sum assured for newly issued group insurance was down by 29.63 percent, falling from NTD8.91 trillion in the first half of 2013 to NTD6.27 trillion in the first half of 2014.

In comparison with the performances in the first half of 2013, life insurance, accident insurance and health insurance grew in terms of new policy issued, sum assured, and premium income. Only annuity saw declines in all three categories of comparison.

5. Newly Issued Investment-Linked Insurance Policies

In the first half of 2014, life insurers issued 176,500 investment-linked insurance policies, up by 6.65 percent year over year from 165,500 policies issued in same period last year. Variable life insurance increase 43.60 percent, reaching 99,800 policies. Variable universal life was down by 13.68 percent, attaining 49,200 policies. Variable annuity dropped 29.49 percent, down to 27,500 policies.

The sum assured for the newly issued policies totaled NTD107.7 billion in the first half of 2014, slid by 15.64 percent from NTD127.7 billion in the same period last year. Variable life delivered NTD40.5 billion in sum assured, down by 12.80 percent; variable universal life

declined 18.73 percent in sum assured, fell to NTD62.1 billion in sum assured. Variable annuity, nevertheless, climbed 5.80 percent and reached NTD5.1 billion in sum assured.

In summary, investment-linked insurance product improved in comparison with same period last year in both the number of newly issued policies and premium income.

6. Policies in Force

As of the end of June 2014, there were 198.89 million policies in force, slightly down by 0.56 percent when compared with 200 million policies in force in June 2013. There were 52.59 million life insurance policies in force, up by 1.53 percent; 58.55 million accident life policies in force, down by 1.60 percent; 86.68 million health insurance policies in force, down by 1.15 percent; and 1.08 million annuity policies in force, up by 5.88 percent. The sum assured of policies in force totaled NTD96.53 trillion, faintly down by 0.43 percent year over year when compared with NTD96.95 trillion sum assured in same period 2013. A summary of the total sum assured divided by product type showed that life insurance grew by 0.99 percent year over year, attaining NTD39.86 trillion; accident insurance slid 0.7%, falling to NTD36.63 trillion; health insurance declined 3.32 percent year over year, down to NTD18.93 trillion; the sum assured of annuity climbed 9.9 percent, up to NTD1.11 trillion. Overall speaking, the newly issued policies as of end of June 2014 declined slightly in comparison to the same period last year in terms of the number of policy issued and sum assure.

7. Insurance Benefit Payout

In the first half of 2014, life insurers paid NTD767.7 billion in benefit, up by 27.45 percent year over year when compared with NTD602.4 billion in the same period of 2013. Benefit paid for life insurance accounted for NTD580.5 billion and was up 29.94 percent year over year, followed by annuity benefit payout of NTD131.5 billion, health insurance NTD45.1 billion, and accident insurance NTD10.7 billion. The insurance benefits were paid to a total of 13.65 million beneficiaries in the first half of 2014, up by 15.29 percent when compared with 11.84 million beneficiaries in the same period last year. Beneficiaries of life insurance benefit payout top the chart by accounting for 57.36 percent or 7.83 million of the total.

Based on the types of benefit paid, data showed that surrender benefit represented 44.98 percent or NTD345.3 billion of the benefit paid in the first half of 2014. It was followed by maturity benefit which stood at NTD239.1 billion, representing 31.14 percent of the benefit paid. The next was survivor benefit which accounted for 9.14 percent of the total with NTD70.2 billion. The sum of the three made up 85.27 percent of the total benefit paid. Maturity benefit increased the most in comparison with the same period last year, rising from NTD146 billion in the first half of 2013 to NTD239.1 billion (year over year growth rate of 63.75 percent) because many life insurers had short-term endowment policies that matured during this time.

B. Financial Analysis and Overview

1. Assets and Liabilities

As of the end of June 2014, Taiwan's life insurance companies reported NTD17.53 trillion in assets, up by 11.87 percent from NTD15.67 trillion in the same period 2013. Excluding separate account, the year over year growth rate was 11.67 percent. The value of investment-linked insurance separate accounts totaled NTD1.46 trillion as of the end of June 2014. It accounted for 8.33 percent of the total assets, slightly higher than last year's 8.17 percent.

As of the end of June 2014, a breakdown of life insurance companies' asset allocation by category indicated the following: 68.91 percent of the total utilized fund was allocated in securities and bonds, 8.33 percent in separate accounts, 8.56 percent in loans, 5.82 percent in cash and bank deposits, 4.91 percent in real estate property investment, and 3.48 percent in other assets. In comparison with the same period last year, most notable growth rates were found in securities and bonds (13.11 percent) and loans (11.94 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 NTD16.63 trillion at the end of June 2014, up by 11.24 percent or NTD1.68 trillion in comparison with NTD14.95 trillion reported in the same period last year. Insurance liabilities totaled NTD14.64 trillion, accounting for 88.03 percent of the total assets or 83.51 percent of the total liabilities.

At the end of June 2014, the owners' equity for the life insurance sector reached NTD902.7 billion, up by NTD174.2 billion from NTD728.4 billion in the same period last year. The owners' equity to asset ratio slightly rose from 4.65 percent in June 2013 to 5.33 percent, much higher than 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) of the life insurance sector decreased from 21 in June 2013 to 18 as of the end of June 2014, indicating life insurers' tolerance for future losses has improved and the financial standing is stronger than before.

2. Loss and Profit

At the end of June 2014, life insurers posted NTD1.63 trillion in operating revenue, soared by 17.89 percent year over year from NTD1.38 trillion last year. Operating cost accounted for NTD1.54 trillion or 94.48 percent of the total revenue, augmented by 19.02 percent year over year from last year's NTD1.29 trillion. Revenue minus cost gave a business profit of NTD94.8 billion.

Operating life insurance companies posted NTD45.7 billion in profit in the first half of 2014, significantly improved by NTD7.1 billion in comparison with NTD38.5 billion in the first half of 2013. Moreover, the outstanding performance of Taiwan's stock exchange this year turned the available-for-sale asset from unrealized loss to unrealized profit, leading the total comprehensive profit to bounce to NTD125.4 billion and owner's equity to rise by

NTD174.2 billion from the same period last year.

3.Utilization of Funds

As of the end of June 2014, the aggregated available fund reported by life insurance companies totaled NTD15.62 trillion, up by 12.37 percent year over year in comparison with NTD13.9 trillion in 2013. Among the fund utilization categories, securities investment accounted for NTD5.49 trillion (government and treasury bonds constituted NTD2.5 trillion or 16.01 percent) or 35.15 percent of the total utilized fund, and overseas investment made up NTD6.97 trillion or 44.62 percent of the total utilized fund. The combination of the two represented as high as 79.77 percent of the total utilized funds.

Under the low interest rate and liquidity easing environment in recent years, life insurers have gradually allocated higher proportion of their utilized funds to invest in domestic securities with stable dividend distribution as well as investment targets with higher expected investment returns such as rental property and offshore fixed income assets. As of the end of June 2014, life insurers invested NTD1,225.8 billion in onshore equities, up by 16.02 percent year over year and accounting for 7.85 percent of the utilized fund (7.60 percent in June 2013). Property investment amounted to NTD900.5 billion, up by 14.7 percent, accounting for 5.77 percent of the total utilized fund (5.65 percent in June 2013). Overseas investment accounted for 44.62 percent (40.78 percent in June 2013) of the total utilized fund in the amount of NTD6,970.2 billion, up by 22.96 percent year over year.

II. Conclusions and Outlooks

A. Conclusions

In the first half of 2014, life insurance companies rendered NTD1,340.5 billion in premium income, up by 10.13 percent year over year. First year premium income increased 15.79 percent from the same period last year, reaching NTD586.8 billion. Traditional products increased 16.02 percent from the same period of 2013, attaining NTD401.9 billion. Investment-linked products reached year over year growth rate of 15.27 percent with NTD184.9 billion. In general, first year premium income of both traditional insurance and investment-linked insurance showed steady growing trend.

In the first half of 2014, a total of 18.9 million new insurance policies were issued with a total sum assured of NTD20.33 trillion. Personal insurance showed upward growth trend in number of policy issued and sum assured. The total policies in force were 198.89 million and sum assured totaled NTD96.53 trillion; both figures indicated slight decline. Life insurers paid NTD767.7 billion in benefit, of which benefit paid for life insurance and annuity insurance accounted for 92.74 percent of the total. Based on a more detailed report, surrender benefit represented NTD345.3 billion, maturity benefit made up NTD239.1 billion, and endowment benefit accounted for NTD70.2 billion. In total, these three types of benefit payout constituted 85.27 percent of the total. Maturity benefit along grew 63.75 percent year over year because many short-term endowment policies reached maturity during this period.

In the first half of 2014, life insurance companies posted a net investment profit of NTD309.6 billion, up by 15.67 percent year over year from NTD267.6 billion in the first half of 2013. Attributed to positive market and regulatory factors such as recognizing real estate value increase, stabilized return from stock market, increase of stock dividend received, and suspending interest rate rise, life insurers showed obvious improvement in their profitability. The overall life insurance industry reported a total comprehensive profit of NTD125.4 billion.

B. Outlooks

In the first half of 2014, life insurance industry delivered record high premium income. Regulator's new requirements to submit responsive plan or cease selling products with negative profit margin triggered the fire sales of certain traditional insurance products such as interest-sensitive life and short-term insurance products, leading the sales performance to grow notably by 134.8 percent in comparison with the same period last year. It also led to the first year premium income of traditional insurance to soar by 16.02 percent. However, future sales trend still require further observation on performance of the market in the months to come.

For investment-linked insurance products, investment-linked life insurance was up by 11.67 percent. Variable annuity grew 4.48 percent and the overall first year premium income of investment-linked products soared 15.34 percent year over year. However, it is a great challenge for life insurers whether they can maintain the sales volume of variable life insurance products.

Concerning distribution channels, bancassurance channel is facing new challenges as regulators impose in the second half of 2014 stricter regulatory guidelines for selling saving type products, which makes up majority of bancassurance's premium income.