

2014 Taiwan's Life Insurance Industry Market Overview

一、Life Insurance Business and Financial Overview

(一) Business Statistics

In 2014, Taiwan's life insurance industry delivered NTD 2,771.1 billion in premium income, up 7.26 percent in comparison with NTD 2,583.5 billion of premium income reported in 2013. First-year premium income made up NTD 1,169.7 billion of the total premium income, a 5.73 percent growth compared with NTD 1,106.3 billion reported in 2013. Meanwhile, renewable premium income accounted for NTD 1,601.3 billion, an 8.4 percent year over year growth. The growth of total premium income was attributed to the increases of first-year and renewable premium incomes.

1. A Breakdown of Premium Income

According to the breakdown of the premium income, first-year premium income represented NTD 1,169.7 billion or 42.21 percent of the total premium income, slightly declining from 42.82 percent ratio in 2013. A further breakdown of the first-year premium income indicated that single premiums decreased from NTD 728.6 billion in 2013 to NTD 705.3 billion in 2014, down by 3.2 percent; and installment premiums rose from NTD 326.4 billion in 2013 to NTD 379.7.3 billion in 2014, up 16.33 percent. Renewable premium income accounted for NTD 1,601.3 billion or 57.79 percent of the total premium income. Compared with NTD 1,477.2 billion or 57.18 percent of total premium income in 2013, it was up by NTD 124.1 billion or 8.4 percent.

A detailed analysis of the first-year premium income showed that single premiums represented 64.99 percent of first-year premiums, decreasing 4.07 percentage points in comparison with 69.06 percent in the same period in 2013. Single premium generated from life insurance rose from NTD 427.6 billion in 2013 to NTD 582.1 billion in 2014, a growth of 36.13 percent. Single premium contributed through annuity insurance dropped from NTD 300.6 billion in 2013 to NTD 122.7 billion in 2014, a decrease of 59.18 percent. Therefore, it can be concluded that annuity insurance was the main cause for the decline in single premium's representation within the first year premium. Meanwhile, installment premiums accounted for 34.99 percent of the total first-year annual premiums, up by 4.05 percentage points in comparison with 30.94 percent in the same period in 2013.

2. Product Mix

An analysis of premium income share by product indicated that the premium income delivered from traditional insurance made up NTD 2,297.6 billion or 82.91 percent of the total premium incomes posted by life insurance companies in 2014, of which premium income from life insurance accounted for NTD 1,858.7 billion, up by 17.17 percent when compared with NTD 1,586.3 billion in 2013; the premium income from annuity insurance amounted to NTD 71.2 billion, drastically down by 72.57 percent when compared with NTD 259.6 billion in 2013;

health insurance premium income was NTD 306.5 billion, up by 5.58 percent in comparison with NTD 290.3 billion in 2013; and accident insurance premium income rose 2 percent from NTD 60 billion in 2013 to NTD 61.2 billion in 2014.

Further breakdown of the premium income showed traditional insurance accounted for NTD 711.9 billion of the total first-year premium income, up 28.55 percent increase when compared with NTD 553.8 billion in 2013. Market share of traditional life insurance climbed from 50.06 percent in the same period last year to 60.86 percent in 2014. Meanwhile, first-year premium income generated from traditional annuity insurance drastically plunged 74.75 percent from NTD 252.7 billion in 2013 to NTD 63.8 billion in 2014.

First-year premium income generated from traditional life insurance surged about 30 percent year over year mainly due to regulation changes over surrender charge and cash distribution of interest-sensitive life insurance. On September 15th, 2014 a new stipulation became effective, requiring insurance companies to charge surrender charges no less than 1 percent in the first six years of the policy. Another stipulation was implemented in 2014, banning the distribution of interest earnings in the form of cash within the first 10 years of the policy. Instead, the interest earning can only be used to deduct premium or increase sum assured. These new stipulations triggered fire sales of interest-sensitive life insurance, leading its first-year premium to soar 138.58 percent in comparison with the same period previous year.

Additional, the regulators had put forth tighter regulations related to the applicable years for surrender charge and surrender charge rate of interest-sensitive annuity in the beginning of 2014, which led the first-year premium income of interest-sensitive annuity to a substantial decline of 74.75 percent year over year.

The premium income contributed through investment-linked insurance policy reached NTD 473.5 billion, which accounted for 17.09 percent of total premium income. In comparison with NTD 387.2 billion of premium income in 2013, it was up 22.29 percent. Among the NTD 473.5 billion premium income, investment-linked life insurance made up NTD 303.4 billion, up 12.54 percent in comparison with NTD 269.6 billion in 2013; and investment-linked annuity increased 44.64 percent year over year, growing from NTD 117.6 billion in 2013 to NTD 170.1 billion in 2014.

Looking at first-year premium income, investment-linked life insurance rose from NTD 172.1 billion in 2013 to NTD 211.7 billion in 2014, up by 23.01 percent year over year. The same trend was found in investment-linked annuity, which increased from NTD 87.4 billion in 2013 to NTD 137.6 billion in 2014, up by 57.44 percent. Overall speaking, the first-year premium income generated from investment-linked policy grew 34.61 percent year over year. The growth was mainly attributed to the continuous hot selling of investment-linked insurance with mandate account.

3. Distribution Channels

In 2014, the industry's first-year premium income mainly came from bancassurance and agency channels, which accounted for NTD 608.5 billion or 52.02 percent and NTD 502.2 billion or 42.93 percent, respectively, leaving other channels with merely 5.05% market share.

Further analysis indicated that first-year premium income generated by bancassurance channel slightly declined from NTD 616.9 billion in 2013 to NTD 608.5 billion in 2014, down by 1.37 percent; and its market share dropped from 55.76 percent in 2013 to 52.02 percent in 2014. The first-year premium income delivered by agency channel reached NTD 502.2 billion in 2014, increasing NTD 63 billion when compared with NTD 439.2 billion in 2013. Its market share rose from 39.7 percent in 2013 to 42.93 percent in 2014. Bancassurance's market share in terms of first-year premium income top all distribution channels, surpassing agency channel's, mainly because of the low market interest rate and consumers' large saving demands.

4. Group Insurance and Personal Insurance

In 2014, the life insurance companies issued 45.49 million new policies (insured), an increase of 20.89 percent from 37.63 million new policies (insured) in the previous year. Among these new insurance policies, personal insurance increased 6.82 percent from 13.79 million new policies issued in 2013 to 14.73 million in 2014. Further breakdown of the new personal insurance policies issued in 2014 indicated that life insurance accounted for 3.19 million new policies, up by 8.5 percent; accident insurance was up 9.63 percent to 7.4 million new policies; health insurance represented 4.01 million new policies, up by 5.53 percent; and annuity insurance fell 56.67 percent to 0.13 million new policies. As for the new group insurance policies issued in 2014, the number of insured reached 30.76 million people, climbing by 29.03 percent year over year when compared with 23.84 million people in 2013.

The sum assured of the new policies augmented 11.17 percent from NTD 42.44 trillion in 2013 to NTD 47.18 trillion in 2014, in which the sum assured for the new personal insurance policies accounted for NTD 30.22 trillion, growing 8.51 percent in comparison with NTD 27.85 trillion in 2013. Analysis of the sum assured by type of personal insurance unveiled the following: the sum assured of the new life insurance issued in 2014 grew 7.78 percent and totaled NTD 1.94 trillion; sum assured of the new accident insurance reached NTD 27.06 trillion, up 9.29 percent; the sum assured of the new health insurance soared 10.53 percent to NTD 1.05 trillion; and the sum assured of the new annuity insurance fell significantly by 50.00 percent to NTD 0.17 trillion. The sum assumed for group insurance issued in 2014 reached NTD 16.96 trillion, up 16.24 percent in comparison with NTD 14.59 trillion in 2013.

In summary, the number of new policies issued and the sum assured of and the premium income delivered through life insurance, accident insurance and health insurance indicated steady growth in 2014. Interest-sensitive life insurance in particular had more remarkable growth with first-year premium income boosted to NTD 514.9 billion from NTD 215.8 billion in 2013, up 138.58 percent year over year. The only exception was annuity insurance, which suffered a year over year declined in terms of the number of new policies issued, sum assured, and premium income.

5. New Investment-Linked Insurance Policies

In 2014, life insurance companies issued 319,500 new investment-linked insurance policies, a 14.85 percent year over year growth compared with 278,200 in 2013. Among the new

investment-linked insurance issued, variable life insurance represented 136,800 policies with year over year growth rate of 14.38 percent; variable universal life insurance accounted for 108,100 policies with year over year growth rate of 10.19 percent, and variable annuity made up 74,600 policies, up 23.31 percent year over year.

The sum assured for the new policies issued in 2014 totaled NTD 215.6 billion, a 5.47 percent decrease compared with NTD 228.1 billion in 2013. The sum assured of the new variable life insurance policies dropped 9.43 percent, down to NTD73.7 billion; the sum assured of the new variable universal life insurance declined 7.34 percent, sliding to NTD 129.3 billion, and the sum assured of the new variable annuity grew 75.59 percent, climbing from NTD7.2 billion in 2013 to NTD 12.6 billion in 2104.

In summary, investment-linked insurance grew in both the number of new policies issued and first-year premium income when compared with 2013.

6. Policies in Force

As of the end of 2014, there were 200.87 million policies in forces, down 1.04 percent in comparison with 202.99 million policies in force at the end of 2013. A breakdown of the policies in force by product showed: life insurance accounted for 52.97 million policies in force, up by 0.74 percent; accident insurance represented 60.18 million policies in force, slightly down by 0.3 percent; health insurance made up 86.65 million policies in force, down by 2.57 percent; and annuity insurance stood for 1.07 million of the total policies in force, fell by 3.6 percent. The sum assured of these policies in force totaled NTD 95.87 trillion, down 1.87 percent in comparison with NTD 97.7 trillion sum assured at the end of 2013. In which, life insurance represented NTD 40.13 trillion of the total sum assured, up slightly by 0.43 percent; accident insurance accounted for NTD 36.18 trillion, down 2.77 percent; health insurance accounted for NTD 18.35 trillion sum assured, declined 5.56 percent; and annuity insurance made up NTD 1.21 trillion sum assured, up 10 percent. On the whole, both the number of policies in force and the total amount of sum assured of these policies declined slightly year over year.

7. Insurance Benefit Payout

In 2014, life insurance companies paid NTD 1,622 billion of insurance benefits, increasing 29.36 percent when compared with NTD 1,253.9 billion in 2013. Dividing the total insurance benefits paid in 2014 by the types of insurance indicated the following: life insurance benefits accounted for 77.44% or NTD 1,256.1 billion of the total benefit paid in 2014; annuity insurance benefits represented NTD 248.8 billion; health insurance benefits paid stood at NTD 94.7 billion; and accident insurance benefits paid totaled NTD 22.4 billion. In 2014, the insurance benefits were paid to a total of 27.82 million beneficiaries. Beneficiaries of life insurance benefit payout top the chart by accounting for 57.08 percent or 15.88 million of the total beneficiaries.

An analysis of the benefit paid in 2014 based on benefit types concluded the following: insurance companies paid a total of NTD 660 billion as surrender benefit, accounting for 41.06 percent of the total benefit paid in 2014; maturity benefit paid in 2014 amounted to NTD 573.3 billion, representing 35.34 percent of the total; and survivor benefit made up NTD 152.1 billion or 9.37 percent of the total insurance benefit paid. In combination, the abovementioned three types of benefits constituted 85.78 percent of the total benefits paid in 2014. Maturity benefit paid significantly ascended 83.09 percent, increasing from NTD 313.1 billion in 2013 to NTD 573.3 billion in 2014. Maturity benefit paid for traditional life insurance grew remarkably by 70.49 percent, climbing from NTD 284.6 billion in 2013 to NTD 485.2 billion in 2014. Moreover, maturity benefit paid for universal life insurance in 2014 almost tripled year over year mainly due to the maturity of a large number of short-term endowment insurance contracts.

二、Financial Overview and Analysis

(一) Asset and Liability Overview

As of end of 2014, life insurance companies reported NTD 18.64 trillion in assets, up 12.09 percent year over year from NTD 16.63 trillion in 2013. A breakdown of the assets showed that total assets excluding separate account reached NTD 17.14 trillion, up 12.1 percent year over year. The value of separate account amounted to NTD 1.50 trillion, constituting 8.05 percent of the total asset which stayed almost the same as the 8.06 percent recorded at the end of 2013.

A breakdown of life insurance companies' asset allocation by category as of end of 2014 indicated the following: 70.06 percent of the total utilized fund was allocated in securities and bonds, 8.37 percent in loans, 8.05 percent in separate accounts, 4.94 percent in cash and bank deposits, 4.83 percent in property investment, and 3.76 percent in other assets. In comparison with the same period last year, the most notable growth rates were found in securities and bonds (14.96 percent) and loans (8.33 percent). The growth rates were mainly connected with the life insurer's capital utilization and allocation strategies.

At the end of 2014, life insurance companies recorded NTD 17.66 trillion in total liabilities, up by 11.56 percent or NTD 1.83 trillion when compared with NTD 15.83 trillion in 2013. Insurance liabilities represented NTD 15.4 trillion or 87.2 percent of total liabilities and 82.62 percent of the total assets.

At the end of 2014, the owners' equity of life insurance industry reached NTD 977.7 billion, which increased by NTD 171.3 billion in comparison with NTD 806.4 billion in the same time last year. The owners' equity to asset ratio rose from 4.85 percent in 2013 to 5.25 percent, which was higher than the level at the time before European Debt Crisis (the ratio was 4.03 percent at the end of 2009). At the same time, liability-to-owners' equity ratio (leverage) decreased from 20-folds at the end of 2013 to 18-folds, proving that life insurers' tolerance for future losses had improved and their financial standing had become more stable.

（二）Loss and Profit

In 2014, the aggregated operating revenue of life insurance sector amounted to NTD 3.31 trillion, up 9.43 percent year over year when compared with NTD 3.02 trillion in 2013. Operating cost accounted for 93.66 percent of the total revenue with NTD 3.10 trillion, up 8.78 percent in comparison with NTD 2.85 trillion in 2013. As the result, life insurance companies posted NTD 211.2 billion in business profits.

Operating life insurance companies posted NTD 102.4 billion in profit in 2014, significantly improved by NTD 23.2 billion when compared with NTD 79.3 billion of profit posted in the previous year. In addition to the profit brought by the relaxation of foreign investment policies, the alignment with the International Financial Reporting Standards (IFRSs), which allows the property investments to be recorded at fair value and recognizes property appreciation as profit, was another reason that led to a significant profit growth. In 2014, life insurance companies reported a gain of NTD 164.8 billion in comprehensive income, leading the owner's equity to increase 21.25 percent year over year.

（三）Utilization of Funds

As of end of 2014, life insurance industry recorded NTD 16.46 trillion in available funds, up 12.05 percent when compared with NTD 14.69 trillion in 2013. Fund utilization rate was 99.22 percent (the ratio of total utilized fund to total fund). Among the fund utilization categories, securities investment accounted for NTD 5.14 trillion or 31.23 percent of the total utilized fund (government and treasury bills constituting 2.39 trillion or 14.52 percent) and foreign investment accounted for NTD 8.27 trillion or 50.24 percent. The combination of the two represented as high as 81.47 percent of the total utilized fund.

Under the low interest rate and loose liquidity environment in recent years, the spreads of onshore and offshore government and treasury bonds hit a decreasing trend. 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 2014, life insurance industry's investment in domestic securities reached NTD 1,237.5 billion, up 13.55 percent year over year. It accounted for 7.52 percent of the total utilized fund, up 0.1 percentage points from 7.42 percent at the end of 2013. The industry's fund allocation in property investment reached NTD 1,089.8 billion, increasing by 25.90 percent. It accounted for 6.62 percent of the total utilization fund, up 0.73 percentage points from 5.89 percent at the end of 2013. Overseas investment increased 29.47 percent, hitting NTD 8,273.4 billion at the end of 2014. It constituted 50.25 percent of the total utilized fun in 2014, up 6.74 percentage points from 43.51 percent recorded in 2013.

二、Conclusions and Outlooks

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Life insurance companies delivered NTD 2,771.1 billion in premium income, up by 7.26

percent year over year And NTD 1,169.7 billion in first year premium income, a year over year growth rate of 5.73 percent. The premium income from traditional insurance was down 3.12 percent year over year, declining to NTD 820.4 billion. Since the base established in 2013 was high and there was lack of any significant changes in the market environment, the decline of premium income from traditional insurance was justifiable. The premium income from investment-linked insurance, on the other hand, surged 34.61 percent, reaching NTD 349.3 billion due to the continuous hot selling of investment-linked insurance with mandate account which started in the second half of 2013.

In 2014, a total of 45.49 million new insurance policies were issued with total sum assured of NTD 47.18 trillion. Except annuity insurance, life insurance, accident insurance and health insurance maintained a stabled growth in the number of policies, sum assured, and premium income. The total policies in force were 200.87 million policies and sum assured totaled NTD 95.87 trillion; both figures slightly declined from the previous year. Insurance benefit paid amounted to NTD 1,622 billion with life insurance and annuity insurance benefit payout accounting for 92.78 percent of the total benefit paid in 2014. A closer study indicated the following: surrender benefit paid made up NTD 573.3 billion, maturity benefit paid represented NTD 666 billion, and survivor benefit paid constituted NTD 152.1 billion of the total benefit paid. The combination of the three aforementioned benefit types accounted for 85.78 percent of total benefit paid. Maturity benefit paid increased as high as 83.09 percent year over year because many short-term endowment policies reached maturity during this period.

In 2014, life insurance companies posted NTD 662.8 billion in net investment profit, increasing by 17.84 percent from NTD 562.5 billion of profit made 2013. Benefited by favorable factors such as the new financial reporting rules which recognize property value appreciation, stable stock market, increase in cash dividend income, and the significant reduction of hedging cost for foreign exchange, life insurance industry enjoyed a prominent growth in profit in 2014. The net profit of operating life insurance companies reached as high as NTD 102.4 billion.

(二) Outlook

In 2014, the premium income of Taiwan's life insurance industry hit record high, attributed to the hot selling of interest-sensitive life insurance. However, under the regulator's active actions to raise the average sum assured, new stipulations have been imposed to discourage short-term saving-oriented insurance. For example, starting September 15, 2014, life insurance companies are required to charge surrender fee on interest-sensitive life insurance in the first 6 year of the policy as well as prohibited from distributing interest earning in the form of cash within the first 10 years of the policy. Interest-sensitive life insurance, thus, lost its attractions to customers, and customers have one less financial planning tool for retirement.

Fortunately, as economy recovered, domestic investors regained faith. Thus, investment-linked insurance products, which offer both protection and wealth management, once again became consumers' favorite. In 2014, the first-year premium income generated

from investment-linked insurance products reached NTD 349.3 billion, accounting for more than 29.86 percent of total premium income generated from new policies issued in 2014.

After the regulator prohibited the cash distribution of interest-sensitive insurance in the first 10 years of the policy, investment-linked insurance with mandated accounts that offers monthly interest distribution was on the rise. Most of the customers enjoy taking back their money every month or choose to reinvest that money. In addition, the mandated accounts are managed by professional investment institutions. Such products provide the protection of an insurance as well as opportunities to pursue higher investment profits, therefore are perfectly suitable for customers who have a busy life style and lack of the time to closely monitor the investment market. Thus, it can be predicted that investment-linked insurance with mandated account will play a crucial role in whether the first-year premium income of life insurance industry can reach a new record high in 2015.