

# **2016 Taiwan Life Insurance Market Overview**

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

### **A. Business Statistics**

The life insurance industry in Taiwan recorded NTD 3,133.4 billion in total premium income in 2016, up by 7.07 percent from NTD 2,926.5 billion in 2015. Of these, first-year premium income accounted for NTD 1,270.6 billion, a 7.11 percent increase compared with the 2015 figure of NTD 1,186.3 billion. Renewal premium income stood at NTD 1,862.8 billion, a growth of 7.04 percent over last year. The data indicate that growth in both first-year and renewal premiums contributed to the increase in total premium income.

#### **1. Breakdown of Premium Income**

First-year premium represented NTD 1,270.6 billion, or 40.55 percent of the total premium income reported in 2016, up from 40.54 percent in 2015. Single premium stood at NTD 670.1 billion in 2016, a decrease of 3.96 percent from NTD 697.7 billion in 2015. Meanwhile, installment premium increased 22.91 percent from NTD 488.5 billion in 2015 to NTD 600.4 billion in 2016. Renewal premium income accounted for NTD 1,862.8 billion, or 59.45 percent of the total premium income in 2016, up by NTD 122.5 billion, or 7.04 percent, from the previous year, when it accounted for NTD 1,740.3 billion.

A further breakdown of the first-year premium indicates that single premium made up 52.74 percent in 2016, a decrease of 6.08 percent from the 2015 figure of 58.82 percent. Of this, life insurance premium increased 3.68 percent from NTD 486.7 billion in 2015 to NTD 504.6 billion in 2016, while annuity premium dropped 21.62 percent from NTD 210.5 billion in 2015 to NTD 165 billion in 2016. The data show that the lower percentage of single premium payments can be attributed to a decline in annuities. Meanwhile, first-year installment premium made up 47.26 percent of the total first-year premium, a growth of 6.08 percent over the 2015 figure of 41.18 percent.

#### **2. Changes in Product Mix**

In 2016, premium income generated by traditional insurance policies amounted to NTD 2,847.6 billion, or 90.88 percent of the total premium income. Of these policies, life insurance accounted for NTD 2,337.8 billion, up 17.79 percent compared 2015's NTD 1,984.7 billion; annuity insurance generated NTD 107.8 billion in premium income, a slight drop of 0.46 percent over the 2015 figure of NTD 108.3 billion; premium income from health insurance totaled NTD 338.1 billion, an increase of 4.64 percent from NTD 323.1 billion in 2015; and accident insurance premium income at NTD 63.9 billion represented a growth of 2.08 percent on the 2015 figure of NTD 62.6 billion.

First-year premium income generated from traditional life insurance policies increased by 33.89 percent from NTD 692.8 billion in 2015 to NTD 927.6 billion, and the total market share also grew from 58.40 percent to 73 percent; of these, interest-sensitive life insurance contributed NTD 580.6 billion, an increase of 30.56 percent over the previous year. This growth can be attributed to the fact that—against a background of persistently low interest rates across Europe, the US, Japan, and Taiwan—the declared interest rates of Taiwanese life insurance companies remained competitive in 2016, thus driving up sales of interest-sensitive insurance policies, which contributed to the overall performance of traditional insurance policies. In addition, in an attempt to rein in savings-oriented insurance policies, in the second half of 2016 the Financial Supervisory Commission required that insurance companies reduce policy sales commissions paid to distribution channels, and banned policies from carrying expense deficits. The commission’s announcement that it would reduce interest rates on reserves for new NTD-, USD-, and AUD-denominated policies starting in 2017 also led to a suspension in sales of certain policies. These factors all helped increase sales of traditional life insurance policies.

On the other hand, premium income generated by traditional annuity policies slid by 1.37 percent from NTD 102.4 billion in 2015 to NTD 101 billion in 2016; and of these, interest-sensitive annuities saw their premium income falling by 3.89 percent in the same year-on-year period.

The premium income generated by investment-linked insurance policies totaled NTD 285.8 billion in 2016, accounting for 9.12 percent of the total premium income. However, this was a notable decline of 36.21 percent from NTD 448 billion in 2015. Of the investment-linked insurance policies, premium income from investment-linked life insurance totaled NTD 187.6 billion, a decrease of 25.79 percent from NTD 252.8 billion in 2015, while premium income from investment-linked annuity plummeted 49.69 percent from NTD 195.2 billion in 2015 to NTD 98.2 billion in 2016.

Further analysis indicates that first-year premium income generated from investment-linked life insurance policies decreased by 35.98 percent from NTD 169.8 billion in 2015 to NTD 108.7 billion in 2016. At the same time, first-year premium from investment-linked annuity also saw a substantial decline of 50.11 percent from NTD 176.2 billion in 2015 to NTD 87.9 billion in 2016. Overall, first-year premium income from investment-linked insurance policies fell by 43.18 percent, which is likely the result of the battering of investor confidence by fluctuations in the global financial market this year.

### **3. Industry Channel Mix**

In 2016, bancassurance and agency channels generated NTD 647.6 billion (50.97 percent) and NTD 535.5 billion (42.15 percent) of the life insurance industry’s total first-year premium

income, respectively. The two distribution channels represented 93.12 percent of the total market share, while other channels accounted for merely 6.88 percent. Based on further analysis, first-year premium income from the bancassurance channel grew 2.4 percent from NTD 632.5 billion in 2015 to NTD 647.6 billion in 2016, but the channel's market share slid from 53.32 percent to 50.97 percent. The agency channel, on the other hand, generated NTD 46.2 billion more in first-year premium income than the same period last year, increasing from NTD 489.3 billion in 2015 to NTD 535.5 billion in 2016, and its market share also grew from 41.25 percent to 42.15 percent. As the bancassurance channel's share of first-year premium income increased primarily through a rebound in sales of interest-sensitive life insurance policies, it was still larger than that of the agency channel and the largest channel in 2016.

#### **4. Group Insurance and Personal Insurance**

In 2016, 47.04 million new insurance policies were issued, down 6.2 percent from the 2015 figure of 50.15 million. The number of new personal insurance policies issued totaled 14.92 million, an increase of 1.22 percent from 14.74 million in the previous year. A further breakdown by product type indicates the following: life insurance accounted for 3.83 million policies, up by 11.66 percent; accident insurance constituted 6.33 million policies, a decline of 1.56 percent; health insurance represented 4.59 million policies, a decrease of 1.08 percent, and annuity insurance amounted to 0.17 million policies, a slump of 29.17 percent. The number of insured protected by group insurance totaled 32.12 million people, down by 9.29 percent from 35.41 million people reported in 2015.

The sum assured of the newly issued policies totaled NTD 50.99 trillion, a decline of 5.49 percent compared with NTD 53.95 trillion in 2015. The sum assured for newly issued personal insurance policies amounted to NTD 33.39 trillion, up by 0.42 percent from NTD 33.25 trillion recorded in the previous year. A breakdown of the sum assured for the newly issued personal insurance by product type shows the following: the sum assured for life insurance stood at NTD 2.04 trillion, up by 5.70 percent; accident insurance reached NTD 29.61 trillion in sum assured, up by 0.34 percent; the sum assured for health insurance amounted to NTD 1.57 trillion, an increase of 3.97 percent; and the sum assured for annuity insurance was NTD 0.17 trillion, a decline of 43.33 percent. The sum assured for newly issued group insurance saw a decrease of 14.98 percent, dropping from NTD 20.70 trillion in 2015 to NTD 17.60 trillion in 2016.

In summary, life insurance saw growth in the number of new policies, the sum assured, and premium income in 2016 compared with the previous year. Of these policies, interest-sensitive life insurance policies recorded a notable increase, with first-year premium income reaching NTD 580.6 billion, an increase of about 30.56 percent over the 2015 figure of NTD 444.7 billion. By contrast, compared with 2015, annuity insurance posted a decline in the number of new policies issued, the sum assured, and premium income, while accident insurance and health insurance saw an increase in the sum assured and premium income but a

decline in the number of new policies.

## **5. New Investment-linked Insurance Policies**

In 2016, life insurance companies issued 178,100 new investment-linked insurance policies, a decline of 43.15 percent compared with the figure of 313,300 in 2015. Among the new investment-linked insurance issued, variable life insurance represented 15,000 policies, plunging by 53.99 percent; variable universal life insurance accounted for 83,800 policies, a decrease of 35.49 percent, and variable annuity made up 79,300 policies, a decline of 47.41 percent over the previous year.

The sum assured for the new policies issued totaled NTD 103.3 billion in 2016, down by approximately 24.61 percent in comparison with NTD 137 billion in 2015. Of these new policies, the sum assured for variable life insurance policies dropped by 59.84 percent to NTD 9.9 billion; the sum assured for variable universal life insurance declined by 16.49 percent to NTD 85.5 billion, and the sum assured for variable annuity decreased by 20.50 percent from NTD 9.9 billion in 2015 to NTD 7.9 billion in 2016.

In summary, investment-linked insurance products posted decline in the number of new policies issued, sum assured, and first-year premium income from the levels achieved in 2015.

## **6. Policies in Force**

As of the end of December 2016, there were 205.78 million policies in force, up by 1.37 percent compared with 202.99 million policies in force in the same period in 2015. The number of life insurance policies in force totaled 55.39 million, an increase of 2.86 percent; accident insurance policies in force came to 58.34 million, a decrease of 3.54 percent; health insurance policies in force stood at 90.87 million, a growth of 3.84%, and annuities in force totaled 1.18 million, up by 2.61 percent. The sum assured for policies in force totaled NTD 96.06 trillion, a slight increase of 0.22 percent from the figure of NTD 95.85 trillion at the end of December 2015. A breakdown of the total sum assured by product type shows that life insurance grew by 2.65 percent to NTD 41.91 trillion; accident insurance saw a drop of 0.58 percent to NTD 35.86 trillion; health insurance declined by 3.95 percent to NTD 17.02 trillion, and the sum assured for annuities climbed 3.25 percent to NTD 1.27 trillion. Overall, the personal insurance policies in force as of the end of December 2016 posted a year-on-year decline in both their number and the sum assured while those of group insurance policies saw growth.

## **7. Insurance Benefit Payments**

In 2016, insurance benefit payments totaled NTD 1,624.6 billion, up by 5.76 percent compared with NTD 1,536.1 billion in 2015. Of these, life insurance payments represented the biggest share at 80.59 percent, totaling NTD 1,309.2 billion; annuity payments came second, reaching NTD 181.1 billion; followed by health insurance payments of NTD 110.5 billion, and

accident insurance payments of NTD 23.9 billion. In terms of the number of beneficiaries, a total of 33.71 million people received insurance benefit payments in 2016, an increase of 10.02 percent compared with 30.64 million in 2015, and the number of beneficiaries of life insurance benefit payments topped the chart, accounting for 19.31 million, or 57.28 percent, of the total number of beneficiaries.

A breakdown of the types of benefit paid indicates that maturity benefits accounted for NTD 645.5 billion, or 39.80 percent of the total benefit payments in 2016, followed by surrender benefits at NTD 535.1 billion (32.99 percent), and survivor benefits at NTD 184.6 billion (11.38 percent). Together, these three types made up 84.16 percent of the total benefits paid, and maturity benefits grew by 19.33 percent from NTD 541 billion in 2015 to NTD 645.5 billion in 2016. This significant increase is likely owing to the fact that some companies' short-term insurance policies reached maturity.

## **B. Financial Overview and Analysis**

### **1. Assets and Liabilities**

As of the end of December 2016, life insurance companies reported NTD 22.25 trillion in assets, up 12.77 percent compared with NTD 19.73 trillion in the same period in 2015. A breakdown of the assets shows that total assets excluding separate accounts totaled NTD 20.66 trillion, an increase of 13.45 percent. The value of investment-linked separate accounts amounted to NTD 1.59 trillion, representing 7.15 percent of the total assets, down from 7.70 percent as of the end of December 2015.

A breakdown of life insurance companies' asset allocation by category indicates the following: 73.53 percent of the total utilized fund was allocated in securities, 6.70 percent in loans, 7.15 percent in separate accounts, 3.78 percent in cash and bank deposits, 4.45 percent in property investment, and 4.40 percent in other assets. In comparison with the end of December 2015, the most notable growth can be seen in securities (14.49 percent) and property investments (6.45 percent). The growth is likely a result of life insurers' capital utilization and allocation strategies.

As of the end of December 2016, life insurance companies recorded NTD 21.13 trillion in total liabilities, up by NTD 2.39 trillion, or 12.75 percent, when compared with NTD 18.74 trillion in the same period in 2015. Of these, insurance liabilities accounted for NTD 18.91 trillion, or 84.99 percent of the total assets and 89.49 percent of total liabilities.

Also during this period, the owners' equity of the life insurance industry totaled NTD 1,113.4 billion, an increase of NTD 118.6 billion from the figure of NTD 994.8 billion at the end of December 2015. The owners' equity to asset ratio fell from 5.04 percent at the end of

December 2015 to 5 percent, which was still higher than the pre-European Debt Crisis level (the ratio stood at 4.03 percent at the end of 2009). In the meantime, liability-to-owners' equity ratio (leverage) remained at 19-fold at the end of December 2015, indicating that life insurers still have the same level of tolerance for future losses and that their financial standing remains robust.

## **2. Profits and Losses**

Life insurance companies recorded NTD 3.86 trillion in aggregated operating revenue in 2016, up 15.34 percent from NTD 3.35 trillion in the same period in 2015. Operating costs at NTD 3.64 trillion, an increase of 17.25 percent from the figure of NTD 3.10 trillion in 2015, accounted for 94.30 percent of the total revenue. As the result, life insurance companies posted NTD 221.1 billion in business profits.

Operating life insurance companies posted total profits of NTD 105.3 billion in 2016, a decrease of NTD 13.2 billion on the NTD 118.5 billion for the same period in 2015. The life insurance industry's profits can be attributed to a loosened policy governing overseas investment and the adoption of the International Financial Reporting Standards (IFRS), which allow investment properties to be measured at fair value and gains from such properties to be recognized. In addition, owing to a broad-based rebound in interest rates on global bonds and an improving global economy, the comprehensive income for life insurance companies returned to positive territory, rising from a loss of NTD 46.6 billion in 2015 to a profit of NTD 164.8 billion in 2016.

## **3. Utilization of Funds**

As of the end of December 2016, the life insurance industry recorded NTD 20.04 trillion in available funds, up by 13.99 percent from NTD 17.58 trillion in same period in 2015. The fund utilization rate (the total funds utilized as a share of the total available funds) was 99.75 percent, and among the fund utilization categories, securities investment accounted for NTD 4.40 trillion, or 21.96 percent of the total utilized funds (government bonds and treasury bills making up NTD 1.89 trillion or 9.43 percent), and foreign investment totaled NTD 12.59 trillion, or 62.82 percent. The combination of the two categories represented as high as 84.78 percent of the total utilized funds.

The life insurance industry's overseas investment grew from NTD 10,131.8 billion in 2015 to NTD 12,589.1 billion in 2016. Overseas investment as a share of the total utilized funds also increased 24.25 percent from 57.63 percent in 2015 to 62.82 percent in 2016, indicating that overseas investment has become a dominant fund utilization category. On the other hand, after the regulator eased public infrastructure investment rules for the insurance industry as a way to encourage the industry to invest in public infrastructure and social welfare projects in Taiwan, the industry's investment in authorized projects and public infrastructure

increased by NTD 5 billion, or 10.28 percent, from NTD 48.8 billion in 2015 to NTD 53.9 billion in 2016.

## **II. Conclusion and Outlook**

### **A. Conclusion**

In 2016, life insurance companies recorded NTD 3,133.4 billion in premium income, up by 7.07 percent compared with the same period last year, while first-year premium income increased by 7.11 percent to NTD 1,270.6 billion. First-year premium income generated from traditional products grew 27.83 percent from 2015 to NTD 1,074 billion, and the growth is mainly attributable to the contribution from interest-sensitive life insurance policies. On the other hand, first-year premium income from investment-linked products declined by 43.18 percent to NTD 196.6 billion. Overall, the increase in premium income was a result of growth in premium income generated from traditional products and renewals.

In 2016, 47.04 million new insurance policies were issued, with a total sum assured of NTD 50.99 trillion. Annuity insurance recorded a decline in the number of years and the sum assured and premium income, while life insurance remained stable in terms of the number of years and the sum assured and premium income. The total number of policies in force was 205.78 million, and the total sum assured came to NTD 96.06 trillion, a slight year-on-year decrease. Meanwhile, life insurers paid a total of NTD 1,624.6 billion in benefits, of which life insurance and annuities accounted for 91.73 percent. Further analysis of the benefit payments shows that maturity benefits (NTD 645.5 billion), surrender benefits (NTD 535.1 billion), and survivor benefits (NTD 184.6 billion) made up 84.16 percent of the total benefit payments. Of these three, maturity benefit payments grew 19.33 percent from 2015, possibly owing to the fact that some companies' short-term insurance policies reached maturity.

Life insurance companies posted a net investment profit of NTD 769.3 billion, up 10.19 percent from NTD 698.2 billion in 2015. This significant increase in profits in 2016 was mainly a result of loosened policies regarding overseas investments and recognized gains in real estate. As a whole, the life insurance industry recorded net profits of NTD 105.3 billion.

### **B. Outlook**

Total premium income reached an all-time high in 2016, and as an expense adequacy test was conducted at the end of the year, sales of certain policies surged before they were eventually suspended. In addition, the regulator lowered interest rates on reserves for new NTD-, USD-, and AUD-denominated policies starting on January 1, 2017. This, together with the beginning of a rate-hike cycle in the US, led to an expectation that insurance premiums would drop, and thus prospective clients chose to remain on the sidelines. Fortunately, the global economy is seeing a recovery and financial markets are performing well, creating a window of opportunity in which investment-linked insurance products can rebound. Overall, it

will be a great challenge for the life insurance industry to post another record first-year premium income in 2017.