

2017 Taiwan Life Insurance Market Overview

I. Life Insurance Industry Business and Financial Overview

A. Business Statistics

The life insurance industry in Taiwan recorded NTD 3,420.2 billion in total premium income in 2017, up by 9.15 % from NTD 3,133.4 billion in 2016. Of these, first-year premium (FYP) income accounted for NTD 1,260.6 billion, a 0.79% decrease compared with the 2016 figure of NTD 1,270.6 billion. Renewal premium income stood at NTD 2,159.6 billion, a growth of 15.94% over the previous year. The data indicate that renewal premiums were the main contributor to the growth in total premium income.

1. Breakdown of Premium Income

First-year premium (FYP) represented NTD 1,260.6 billion, or 36.86% of the total premium income reported in 2017, down from 40.55% in 2016. Single premium stood at NTD 794.9 billion in 2017, an increase of 18.62% from NTD 670.1 billion in 2016. Meanwhile, installment premium dropped 22.44% from NTD 600.4 billion in 2016 to NTD 465.7 billion in 2017. Renewal premium income accounted for NTD 2,159.6 billion, or 63.14% of the total premium income in 2017, up by 15.94%, or NTD 296.9 billion from the previous year, when it accounted for NTD 1,862.7 billion.

A further breakdown of the first-year premium (FYP) indicates that single premium made up 63.06% in 2017. Of this, interest-sensitive life insurance premium stood at NTD 366 billion, while variable universal life insurance premium came to NTD 130.4 billion, or 46.04% and 16.40% of the total single premium, respectively. The data show that products with a higher percentage of single premium payments still contribute significantly to first-year premium (FYP) income.

2. Breakdown of Premium Income by Product

In 2017, premium income generated by traditional insurance policies amounted to NTD 2,933.1 billion, or 85.76% of the total premium income. Of these policies, life insurance accounted for NTD 2,423.6 billion, up by 3.67% compared with NTD 2,337.8 billion in 2016; health insurance generated NTD 353.2 billion in premium income, a growth of 4.47% over the 2016 figure of NTD 338.2 billion; premium income from accident insurance totaled NTD 65.2 billion, an increase of 2.03% from NTD 63.9 billion in 2016; and annuity premium income at NTD 91.1 billion represented a decline of 15.49% compared with NTD 107.8 billion in 2016.

Owing to a cut in interest rates on reserves for NTD-, USD-, and AUD-denominated new policies effective January 1, 2017, and an expense adequacy examination carried out at the end of 2016, there was a substantial increase in sales led by the expectation that certain policies would no longer be sold. The premium income of some policies sold in December last year was

only recognized in accounting in early 2017, so the premium income for the first two months of 2017 was significantly higher than the same period in 2016. However, after this first quarter boost in sales played out, sales of traditional policies declined, reflecting the impact of the aforementioned regulatory policies. In addition, the US initiated a rate hike cycle, leading prospective clients to expect rising interest rates and falling premiums and to remain on the sidelines. First-year premium (FYP) income generated from traditional life insurance policies decreased by 21.01% from NTD 927.6 billion in 2016 to NTD 732.7 billion, and the total market share also dropped from 73.01% to 58.12%. Meanwhile, traditional annuities generated NTD 84.8 billion in first-year premium (FYP) income, a decline of 16.04% over the figure of NTD 101 billion in 2016.

Thanks to an improving global economy and rising financial markets, sales of investment-linked insurance policies rallied significantly in 2017. The premium income generated by investment-linked insurance policies totaled NTD 487.1 billion in 2017, accounting for 14.24% of the total premium income. This was a significant increase of 70.43% compared with NTD 285.8 billion in 2016. Of the investment-linked insurance policies, premium income from investment-linked life insurance totaled NTD 257.2 billion, a growth of 37.10% from NTD 187.6 billion in 2016, while premium income from investment-linked annuity soared by 134.11% from NTD 98.2 billion in 2016 to NTD 229.9 billion in 2017.

Further analysis indicate that first-year premium (FYP) income generated from investment-linked life insurance policies increased by 66.33% to NTD 180.8 billion in 2017 over the previous year's figure of NTD 108.7 billion, while premium income from investment-linked annuity also saw a substantial increase of 148.92% from NTD 87.9 billion in 2016 to NTD 218.8 billion in 2017. Overall, first-year premium from investment-linked insurance products grew by 103.26%.

3. Industry Channel Mix

In 2017, bancassurance and agency channels generated NTD 633.6 billion (50.26%) and NTD 547.4 billion (43.42%) of the life insurance industry's total first-year premium (FYP) income, respectively. The two distribution channels represented 93.68% of the total market share, while other channels accounted for merely 6.32%. Based on further analysis, first-year premium (FYP) income from the bancassurance channel slid by 2.17% from NTD 647.6 billion in 2016 to NTD 633.6 billion in 2017, and its market share dropped from 50.97% in 2016 to 50.26% in 2017. The agency channel generated NTD 11.9 billion more in first-year premium (FYP) income than the previous year, increasing from NTD 535.5 billion in 2016 to NTD 547.4 billion in 2017, and its market share grew from 42.15% to 43.42%. The bancassurance channel's share of first-year premium (FYP) income, which focuses mainly on interest-sensitive life insurance products, is still larger than that of the agency channel in 2017.

4. Group Insurance and Individual Insurance

In 2017, 46.06 million new business insurance policies were issued, down 2.08% from the 2016 figure of 47.04 million. The number of newly issued individual insurance policies totaled 14.78 million, a decrease of 0.94% from 14.92 million in 2016. A further breakdown by product type indicates the following: life insurance accounted for 3.29 million policies, down by 14.10%; accident insurance constituted 6.44 million policies, a growth of 1.74%; health insurance represented 4.74 million policies, an increase of 3.27%, and annuity insurance amounted to 0.31 million policies, an increase of 82.35%. The number of insured protected by group insurance totaled 31.28 million people, down by 2.62% from 32.12 million people reported in 2016.

The sum assured of the newly issued policies totaled NTD 50.27 trillion, a decline of 1.41% compared with NTD 50.99 trillion in 2016. The sum assured for newly issued individual insurance policies amounted to NTD 33.57 trillion, up by 0.54% from NTD 33.39 trillion recorded in the previous year. A breakdown by product type shows the following: the sum assured for life insurance stood at NTD 1.73 trillion, down by 15.20%; accident insurance reached NTD 29.71 trillion in sum assured, up by 0.34%; the sum assured for health insurance amounted to NTD 1.74 trillion, a growth of 10.83%; and the sum assured for annuity insurance was NTD 0.39 trillion, a surge of 129.41%. The sum assured for newly issued group insurance saw a decrease of 5.11%, dropping from NTD 17.6 trillion in 2016 to NTD 16.7 trillion in 2017.

In summary, life insurance and health insurance both saw a decline in the number of new policies issued, the levels of sum assured, and premium income in 2017. Fortunately interest-sensitive life insurance still posted growth, with FYP income increasing by 7.04% to NTD 621.5 billion. On the other hand, annuity insurance and accident insurance recorded growth in all three areas, and variable annuity even saw a surge of 149.20% in FYP income to NTD 218.8 billion.

5. New Business of Investment-linked Insurance

In 2017, 372,500 new business investment-linked insurance policies were issued, a jump of 109.15% compared with the figure of 178,100 in 2016. Among those, variable life insurance represented 26,000 policies, an increase of 73.33%; variable universal life insurance accounted for 129,300 policies, a growth of 54.30%, and variable annuity made up 217,300 policies, a surge of 174.02% over the previous year.

The sum assured for the new policies issued totaled NTD 153.4 billion in 2017, up by roughly 48.56% in comparison with NTD 103.3 billion in 2016. Of these new policies, the sum assured for variable life insurance policies grew by 81.32% to NTD 18 billion; the sum assured for variable universal life insurance increased by 41.53% to NTD 121 billion, and the sum assured for variable annuity increased by 83.67% to NTD 14.5 billion.

In summary, investment-linked insurance products posted growth in the number of new

policies issued, sum assured, and first-year premium (FYP) income from the levels achieved in 2016.

6. Policies in Force

As of the end of December 2017, there were 213.41 million policies in force, up by 3.71% compared with 205.78 million as of the end of December 2016. The number of life insurance policies in force totaled 56.67 million, an increase of 2.31%; accident insurance policies in force came to 61.13 million, a growth of 4.78%; health insurance policies in force stood at 94.29 million, a rise of 3.76%, and annuities in force totaled 1.32 million, up by 11.86%. The sum assured for policies in force totaled NTD 99.83 trillion, an increase of 3.92% from the figure of NTD 96.06 trillion at the end of December 2016. A breakdown of the total sum assured by product type shows that life insurance grew by 2.22% to NTD 42.84 trillion; accident insurance saw an increase of 11.74% to NTD 40.07 trillion; health insurance was down by 9.34% to NTD 15.43 trillion, and the sum assured for annuities climbed 17.32% to NTD 1.49 trillion. Overall, there was growth in both the number and level of sum assured for individual policies in force, while the number of group policies increased but saw a slight decline in sum assured from the same period in the previous year.

7. Insurance Benefit Payments

In 2017, insurance benefit payments totaled NTD 1,655.2 billion, up by 1.88% compared with NTD 1,624.6 billion in 2016. Of these, life insurance payments made up the biggest share at 79.83%, totaling NTD 1,321.4 billion; annuity insurance payments came second at NTD 186 billion; followed by health insurance payments at NTD 122 billion, and accident insurance payments at NTD 25.8 billion. In terms of the number of beneficiaries, a total of 38.74 million people received insurance benefit payments in 2017, an increase of 14.92% compared with 33.71 million in 2016. The number of beneficiaries of life insurance benefit payments topped the chart, accounting for 21.84 million, or 56.38%, of the total number of beneficiaries.

A breakdown of the types of benefit paid indicates that surrender benefits accounted for NTD 622.1 billion, or 37.59 % of the total benefit payments in 2017, followed by maturity benefits at NTD 525.5 billion (31.75%), and survivor benefits at NTD 218.6 billion (13.21%). Together, the three types made up 82.54% of the total benefits paid, and surrender benefits saw the largest increase, growing 16.26% from NTD 535.1 billion in 2016 to NTD 622.1 billion. This growth may be attributable to interest-linked insurance policyholders surrendering their policies for profit-taking.

B. Financial Overview and Analysis

1. Assets and Liabilities

As of the end of December 2017, life insurance companies reported NTD 24.46 trillion in assets, up 10.13% compared with NTD 22.21 trillion in the same period in 2016. A breakdown of the assets shows that total assets excluding separate accounts totaled NTD 22.69 trillion, an increase of 10.04%. The value of the separate accounts amounted to NTD 1.77 trillion, representing 7.24% of the total assets, up from 7.16% as of the end of December 2016.

A breakdown of life insurance companies' asset allocation by category indicates the following: 73.88% of the total utilized fund was allocated in securities, 6.01% in loans, 7.24% in separate accounts, 4.66% in cash and bank deposits, 4.17% in property investment, and 4.05% in other assets. In comparison with the end of December 2016, the most notable growth can be seen in securities (10.59%) and property investment (3.03%). The growth is a result of life insurers' capital utilization and allocation strategies.

As of the end of December 2017, life insurance companies recorded NTD 23.10 trillion in total liabilities, up by NTD 2.01 trillion, or 9.53%, when compared with NTD 21.09 trillion in the same period in 2016. Of these, insurance liabilities accounted for NTD 20.75 trillion, or 89.83% of total liabilities and 84.83% of the total assets.

The owners' equity of the life insurance industry reached NTD 1,364.6 billion at the end of December 2017, an increase of NTD 248.6 billion from the 2016 figure of NTD 1,115.9 billion. The owners' equity to asset ratio climbed from 5.02% at the end of December 2016 to 5.58%, which was still far higher than the pre-European Debt Crisis level (the ratio stood at 4.03 % at the end of 2009). In the meantime, the debt-to-equity ratio (leverage) slid slightly from 19 times at the end of December 2016 to 17 times, indicating that life insurers have a stable ability to absorb future losses and that their financial standing remains robust.

2. Profits and Losses

Life insurance companies recorded NTD 4.08 trillion in aggregated operating revenue as of the end of December 2017, up 5.88% from NTD 3.85 trillion in the same period in 2016. Operating costs at NTD 3.86 trillion, an increase of 6.21% from the figure of NTD 3.63 trillion at the end of December 2016, accounted for 94.61% of the total revenue. As the result, life insurance companies posted NTD 226.1 billion in business profits.

Life insurance companies posted an income from continuing operations of NTD 123.5 billion as of the end of December 2017, an increase of NTD 17.3 billion on the NTD 106.2 billion from the same period in 2016. The earnings can be attributed to a loosened overseas investment policy, while the adoption of the International Financial Reporting Standards (IFRS), which allow property investment to be measured at fair value and its gains to be recognized, is another reason why earnings grew. At the same time, interest rates on global bonds and the world economy are both on the rise, and as a result the comprehensive income for life insurance companies increased from NTD 96.4 billion in 2016 to NTD 255.2 billion in 2017.

3. Investment Portfolio

As of the end of December 2017, the life insurance industry recorded NTD 22.13 trillion in available funds, up 10.65% from NTD 20 trillion as of the end of December 2016, with a 99.86% fund utilization rate (the ratio of the total funds utilized to total available funds). Securities investment accounted for NTD 4.55 trillion, or 20.56% of the total funds (mostly government bonds and treasury bills, which made up NTD 1.79 trillion or 8.09%), and foreign investment totaled NTD 14.41 trillion, or 65.12%. The combination of the two categories represented as high as 85.68% of the total funds.

Foreign investments by the domestic insurance industry grew from NTD 12,570.9 billion in 2016 to NTD 14,406.3 billion, and the share of foreign investments also rose 14.6% from 62.84% to 65.10%, indicating that foreign 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 saw a small increase of NTD 5.2 billion, or 9.57 %, from NTD 53.9 billion in 2016 to NTD 59 billion in 2017.

II. Conclusion and Outlook

In 2017, life insurance companies recorded NTD 3,420.2 billion in premium income, up by 9.15% compared with the previous year, while first-year premium (FYP) income decreased by 0.79% to NTD 1,260.6 billion. First-year premium (FYP) income generated from traditional products dropped by 19.82% from 2016 to NTD 861 billion, and most of the income came from interest-sensitive products. On the other hand, first-year premium (FYP) income from investment-linked products surged 103.26% to NTD 399.6 billion. Meanwhile, renewal premium income totaled NTD 2,159.6 billion, an increase of 15.94% over the figure recorded in 2016. Overall, the increase in premium income was a result of growth in premium income generated from investment-linked products and renewal premium income.

In 2017, 46.06 million new insurance policies were issued, with a total sum assured of NTD 50.27 trillion. Annuity insurance and accident insurance saw growth in the number of new policies issued, the levels of sum assured, and premium income; by contrast, life insurance and health insurance recorded decline in all three areas. A total of 213.41 million policies were in force and the total sum assured came to NTD 99.83 trillion, a small increase over the previous year. Meanwhile, life insurers paid a total of NTD 1,655.2 billion in benefits, 91.07% of which was accounted for by life insurance and annuities. Further analysis of the benefit payments shows that surrender benefits (NTD 622.1 billion), maturity benefits (NTD 525.5 billion), and survivor benefits (NTD 218.6 billion) made up 82.54% of total benefit payments. Of the three, surrender benefit payments grew by 16.26% from 2016, possibly owing to an increase in profit taking from investment-linked products.

Life insurance companies posted a net investment profit of NTD 806.1 billion, up 4.89% from NTD 768.5 billion in 2016. This significant increase in 2017 can be attributed to a number of favorable factors, including a loosened overseas investment policy and recognition of property gains, and the life insurance industry recorded overall net profits of NTD 123.5 billion.

2. Outlook

The total premium income hit a record high in 2017. Although the interest rates on reserves for NTD-, USD-, and AUD-denominated new policies remained at last year's levels, the US initiated a rate hike cycle, leading prospective clients to expect rising interest rates and falling premiums and thus remain on the sidelines. Fortunately, a rising NTD and global capital market led to a continued rally in investment-linked products. However, it will prove challenging for the insurance industry to generate higher first-year premium incomes in 2018.