

Taiwan Life Insurance Market Overview 2017 H1

I. Life Insurance Industry Business and Financial Overview

A. Business Statistics

The life insurance industry in Taiwan recorded NTD 1,679.4 billion in total premium income in the first half of 2017, up by 8.42 % from NTD 1,549 billion in the same period of 2016. Of these, first-year premium (FYP) income accounted for NTD 635.3 billion, a 2.93 % decrease compared with the 2016 H1 figure of NTD 654.5 billion. Renewal premium income stood at NTD 1,044.1 billion, a growth of 16.71 % over the same period last 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 635.3 billion, or 37.8 percent of the total premium income reported in 2017 H1, down from 42.25 % in 2016 H1. Single premium stood at NTD 404.2 billion in 2017 H1, an increase of 13.25 % from NTD 356.9 billion in 2016 H1. Meanwhile, installment premium dropped 22.38 % from NTD 297.6 billion in 2016 H1 to NTD 231 billion in 2017 H1. Renewal premium income accounted for NTD 1,044.1 billion, or 62.2 % of the total premium income in 2017 H1, up by NTD 149.4 billion from the same period last year, when it accounted for NTD 894.6 billion, or 57.75 % of the total premium income earned. The figures indicate that the renewal premium income was on a steady rise in 2017 H1.

A further breakdown of the first-year premium (FYP) indicates that single premium made up 63.63 % in 2017 H1. Of this, interest-sensitive life insurance premium stood at NTD 193.3 billion, while variable annuity premium came to NTD 86.2 billion, or 47.82 % and 21.33 % 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 H1, premium income generated by traditional insurance policies amounted to NTD 1,446.9 billion, or 86.16 % of the total premium income. Of these policies, life insurance accounted for NTD 1,194.7 billion, up by 3 % compared with NTD 1,159.9 billion in 2016 H1; health insurance generated NTD 170.4 billion in premium income, a growth of 5.45 % over the 2016 H1 figure of NTD 161.6 billion; premium income from accident insurance totaled NTD 32.2 billion, an increase of 3.54 % from NTD 31.1 billion in 2016 H1; and annuity premium income at NTD 49.6 billion represented a decline of 28.01 % compared with NTD 68.9 billion in 2016 H1.

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 last December 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 this year was significantly higher than the same period last year.

However, after this first quarter boost in sales played out, sales of traditional policies declined, reflecting the impact of the aforementioned regulatory policies.

First-year premium (FYP) income generated from traditional life insurance policies decreased by 21.76 % from NTD 483.9 billion in 2016 H1 to NTD 378.6 billion, and the total market share also dropped from 73.93 % to 59.59 %. Meanwhile, traditional annuities generated NTD 46.4 billion in first-year premium (FYP) income, a substantial decline of 29.48 % over the figure of NTD 65.8 billion in 2016 H1.

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 232.5 billion in 2017 H1, accounting for 13.84 % of the total premium income. This was an increase of 82.35 % compared with NTD 127.5 billion in 2016 H1. Of the investment-linked insurance policies, premium income from investment-linked life insurance totaled NTD 122.4 billion, a growth of 46.76 % from NTD 83.4 billion in 2016 H1, while premium income from investment-linked annuity soared by 149.66 % from NTD 44.1 billion in 2016 H1 to NTD 110.1 billion in 2017 H1.

Further analysis indicate that first-year premium (FYP) income generated from investment-linked insurance policies increased by 125.54 % to NTD 188.1 billion in 2017 H1 over the same period last year. Of these, first-year premium (FYP) income from investment-linked life insurance grew significantly from NTD 44.4 billion in 2016 H1 to NTD 84.1 billion in 2017 H1, and that from investment-linked annuity saw a substantial increase of 166.67 % from NTD 39 billion in 2016 H1 to NTD 104 billion in 2017 H1.

3. Industry Channel Mix

In 2017 H1, bancassurance and agency channels generated NTD 315.6 billion (49.67 %) and NTD 277.9 billion (43.74 %) of the life insurance industry's total first-year premium (FYP) income, respectively. The two distribution channels represented 93.41 % of the total market share, while other channels accounted for merely 6.59 %. Based on further analysis, first-year premium (FYP) income from the bancassurance channel slid by 3.4 % from NTD 326.7 billion in 2016 H1 to NTD 315.6 billion in 2017 H1. The agency channel generated NTD 7.7 billion less in first-year premium (FYP) income than the same period last year, decreasing from NTD 285.5 billion in 2016 H1 to NTD 277.9 billion in 2017 H1, but its market share grew 0.11 % from 43.62 % to 43.74 %. The bancassurance channel's share of first-year premium (FYP) income is still larger than that of the agency channel in 2017 H1.

4. New Business of Investment-linked Insurance

In 2017 H1, 175,600 new business investment-linked insurance policies were issued, a jump of 120.88 percent compared with the figure of 79,500 in 2016 H1. Among those, variable life insurance represented 8,900 policies, an increase of 8.54 %; variable universal life insurance accounted for 60,500 policies, a growth of 64.85 %, and variable annuity made up 106,200 policies, a surge of 207.83 % over the same period last year.

The sum assured for the new policies issued totaled NTD 71.3 billion in 2017 H1, up by 43.35 % in comparison with NTD 49.7 billion in 2016 H1. Of these new policies, the sum

assured for variable life insurance policies dropped by 8.45 % to NTD 5 billion; the sum assured for variable universal life insurance grew by 48.50 % to NTD 60.3 billion, and the sum assured for variable annuity increased by 64.40 % to NTD 6 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 H1.

5. Group Insurance and Individual Insurance

In 2017 H1, 23.73 million new business insurance policies were issued, up 6.65 % from the 2016 H1 figure of 22.25 million. The number of newly issued individual insurance policies totaled 7.37 million, an increase of 2.36 % from 7.2 million in the same period last year. A further breakdown by product type indicates the following: accident insurance accounted for 3.11 million policies, up by 3.32 %; health insurance constituted 2.4 million policies, a growth of 13.74 %; annuity insurance represented 0.15 million policies, an increase of 66.67 %, and life insurance amounted to 1.71 million policies, a decrease of 14.07 %. The number of insured protected by group insurance totaled 16.36 million people, up by 8.7 % from 15.05 million people reported in 2016 H1.

The sum assured of the newly issued policies totaled NTD 24.63 trillion, an increase of 6.26 % compared with NTD 23.18 trillion in 2016 H1. The sum assured for newly issued individual insurance policies amounted to NTD 16.57 trillion, up by 1.66 % from NTD 16.3 trillion recorded in the same period last year. A breakdown by product type shows the following: the sum assured for accident insurance stood at NTD 14.64 trillion, up by 1.53 %; health insurance reached NTD 0.87 trillion in sum assured, up by 16 %; the sum assured for annuity insurance amounted to NTD 0.2 trillion, a surge of 150 %; and the sum assured for life insurance was NTD 0.86 trillion, a decline of 18.10 %. The sum assured for newly issued group insurance saw a growth of 17.15 %, climbing from NTD 6.88 trillion in 2016 H1 to NTD 8.06 trillion in 2017 H1.

In summary, accident insurance, health insurance, and annuity insurance saw growth in the number of new policies issued, sum assured, and premium income in 2017 H1 compared with the same period last year. By contrast, life insurance posted decline in all three areas compared with 2016 H1.

6. Policies in Force

As of the end of June 2017, there were 209.59 million policies in force, up by 3.64 % compared with 202.22 million as of the end of June 2016. The number of life insurance policies in force totaled 55.97 million, an increase of 2.62 %; accident insurance policies in force came to 59.60 million, a growth of 1.74 %; health insurance policies in force stood at 92.77 million, a rise of 5.52 %, and annuities in force totaled 1.25 million, up by 5.93 %. The sum assured for policies in force totaled NTD 99.59 trillion, a slight increase of 3.76 % from the figure of NTD 95.98 trillion at the end of June 2016. A breakdown of the total sum assured by product type shows that life insurance grew by 2.32 % to NTD 42.26 trillion; accident insurance saw an increase of 5.98 % to NTD 38.28 trillion; health insurance was up by 2.02 % to NTD 17.67

trillion, and the sum assured for annuities climbed 11.29 % to NTD 1.38 trillion.

7. Insurance Benefit Payments

In 2017 H1, insurance benefit payments totaled NTD 775.5 billion, down by 1.59 % compared with NTD 788 billion in 2016 H1. Of these, life insurance payments saw the biggest decrease of 3.53 %, totaling NTD 615 billion; annuity insurance payments came second at NTD 90.4 billion; followed by health insurance payments at NTD 58.1 billion, and accident insurance payments at NTD 12.1 billion. In terms of the number of beneficiaries, a total of 18.52 million people received insurance benefit payments in 2017 H1, an increase of 14.89 % compared with 16.12 million in 2016 H1. The number of beneficiaries of life insurance benefit payments topped the chart, accounting for 10.59 million, or 57.18 %, of the total number of beneficiaries.

A breakdown of the types of benefit paid indicates that surrender benefits accounted for NTD 290.5 billion, or 37.46 % of the total benefit payments in 2017 H1, followed by maturity benefits at NTD 249.2 billion (32.14 %), and survivor benefits at NTD 94.3 billion (12.16 %). Together, the three types made up 81.76 % of the total benefits paid, and surrender benefits saw the largest increase, growing 10.69 % from NTD 262.5 billion in 2016 H1 to NTD 290.5 billion. This growth may be attributable to an increase in surrender benefit payments for traditional life insurance and interest-sensitive life insurance products by comparison with the same period last year.

B. Financial Overview and Analysis

1. Assets and Liabilities

As of the end of June 2017, life insurance companies reported NTD 23.31 trillion in assets, up 9.95 % compared with NTD 21.20 trillion in the same period in 2016. A breakdown of the assets shows that total assets excluding separate accounts totaled NTD 21.64 trillion, an increase of 10.13 %. The value of the separate accounts amounted to NTD 1.67 trillion, representing 7.16 % of the total assets, down from 7.31 % as of the end of June 2016.

A breakdown of life insurance companies' asset allocation by category indicates the following: 73.19 % of the total utilized fund was allocated in securities, 7.16 % in separate accounts, 6.31 % in loans, 4.89 % in cash and bank deposits, 4.33 % in property investment, and 4.12 % in other assets. In comparison with the end of June 2016, the most notable growth can be seen in securities (11.36 %) and cash and bank deposits (26.67 %). The growth is a result of life insurers' capital utilization and allocation strategies.

As of the end of June 2017, life insurance companies recorded NTD 22.07 trillion in total liabilities, up by NTD 1.99 trillion, or 9.91 %, when compared with NTD 20.08 trillion in the same period in 2016. Of these, insurance liabilities accounted for NTD 19.79 trillion, or 89.67 % of total liabilities and 84.90 % of the total assets.

The owners' equity of the life insurance industry reached NTD 1,247.1 billion, an increase of NTD 127.8 billion from the figure of NTD 1,119.3 billion at the end of June 2016. The

owners' equity to asset ratio climbed from 5.28 % at the end of June 2016 to 5.35 %, which was still 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) remained at 18 times—the same level as at the end of June 2016—indicating that life insurers have a stable ability to absorb future losses and that their financial standing is still robust.

2. Profits and Losses

Life insurance companies recorded NTD 1.96 trillion in aggregated operating revenue as of the end of June 2017, up 3.76 % from NTD 1.89 trillion in the same period in 2016. Operating costs at NTD 1.88 trillion, an increase of 5.11 % from the figure of NTD 1.79 trillion at the end of June 2016, accounted for 95.92 % of the total revenue. As the result, life insurance companies posted NTD 80.9 billion in business profits.

Life insurance companies posted an income from continuing operations of NTD 35 billion as of the end of June 2017, a decrease of NTD 5 billion on the NTD 40 billion from the same period in 2016. The significant appreciation of the New Taiwan Dollar led to substantial foreign exchange losses, but thanks to a strong performance across global stock markets in the first half of the year, both equity and bond markets in Taiwan also rallied. As a result, the comprehensive income for life insurance companies recorded a NTD 40.1 billion increase—from NTD 101.3 billion at the end of June 2016 to NTD 141.4 billion at the same point in 2017.

3. Investment Portfolio

As of the end of June 2017, the life insurance industry recorded NTD 21.06 trillion in available funds, up by 10.61 % from NTD 19.04 trillion as of the end of June 2016. Securities investment accounted for NTD 4.59 trillion, or 21.79 % of the total funds (mostly government bonds and treasury bills, which made up NTD 1.83 trillion or 8.69 %), and foreign investment totaled NTD 13.33 trillion, or 63.30 %. The combination of the two categories represented as high as 85.09 % of the total funds.

In recent years, the general environment has been characterized by low interest rates and loose liquidity conditions, and the spread between domestic and foreign government bonds has been tightening. Thus, the life insurance industry is gradually shifting capital allocation to higher-yielding assets such as domestic real estate with steady rental income and dividends, and foreign investments. As of the end of June 2017, the life insurance industry invested NTD 1,393 billion in domestic equities, which comprised 6.61 % of total investments, up 22.31 % from the 5.98 % at the same point in 2016. At NTD 1,073.7 billion, investment in real estate in terms of absolute figure was up 4.52 %, but its share slid to 5.1 % from 5.4 % at the end of June 2016. Foreign investments totaled NTD 13,328.2 billion, or 63.28 %, up 15.01 % from 60.88 % at the end of June 2016.

II. Conclusion and Outlook

In 2017 H1, life insurance companies recorded NTD 1,679.4 billion in premium income, up by 8.42 % compared with the same period last year, while first-year premium (FYP) income decreased by 2.93 % to NTD 635.3 billion. First-year premium (FYP) income generated from traditional products dropped by 21.69 % from 2016 H1 to NTD 447.2 billion. On the other hand,

first-year premium (FYP) income from investment-linked products surged 125.54 % to NTD 188.1 billion. Meanwhile, renewal premium income totaled NTD 1,044.1 billion, an increase of 16.71 % over the figure recorded in 2016 H1. 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 H1, 23.73 million new insurance policies were issued with a total sum assured of NTD 24.63 trillion. Both individual and group insurance saw growth in the number of new policies issued and the sum assured. The total number of policies in force was 209.59 million and the total sum assured came to NTD 99.59 trillion, an increase over the same period last year. Meanwhile, life insurers paid a total of NTD 775.5 billion in benefits, of which life insurance and annuities accounted for 90.96 %. A further analysis of the benefit payments shows that surrender benefits (NTD 290.5 billion), maturity benefits (NTD 249.2 billion), and survivor benefits (NTD 94.3 billion) made up 81.76 % of the total benefit payments. Of these three, surrender benefit payments grew by 10.69 % from 2016 H1, possibly owing to an increase in surrender benefit payments for traditional products.

Life insurance companies posted a net investment profit of NTD 352.2 billion, down 3.31 % from NTD 364.3 billion in 2016 H1. The decline in 2017 H1 was mainly a result of substantial foreign exchange losses, which led to net profits from continuing operations in the life insurance industry shrinking to NTD 35 billion.

2. Outlook

While the total premium income hit a record high in 2017 H1, the US initiated a rate hike cycle, leading prospective clients to expect rising interest rates and falling premiums and to remain on the sidelines. As a result, it will prove challenging for the insurance industry to generate a higher premium income in 2017 H2 over the same period last year.

But at the same time, thanks to a recovering global economy and rallying financial markets, sales of investment-linked products saw a significant rebound. In 2017 H1, investment-linked products contributed NTD 188.1 billion in first-year premium (FYP) income, or about 30 percent of the total. Among these products, discretionary investment policies, a type of product where investment decisions are made by experts, recorded the biggest growth, generating NTD 157.3 billion in first-year premium (FYP) income, a 1,240 % increase from the NTD 11.7 billion in 2016 H1.

Thus, the prospect of first-year premium (FYP) income hitting another high in 2017 will depend on the performance of discretionary investment policies.