

2018 Taiwan Life Insurance Market Overview

I. Life Insurance Industry Business and Financial Overview

A. Business Statistics

The life insurance industry in Taiwan recorded NTD 3,511.5 billion in total premium income in 2018, up by 2.67 % from NTD 3,420.2 billion in 2017. Of these, first-year premium (FYP) income accounted for NTD 1,379.8 billion, a 9.46% increase compared with the 2017 figure of NTD 1,260.6 billion. Renewal premium income stood at NTD 2,131.7 billion, a decrease of 1.29% over the previous year. The data indicate that FYP income was the main contributor to the growth in total premium income.

1. Breakdown of Premium Income

First-year premium (FYP) represented NTD 1,379.8 billion, or 39.29% of the total premium income reported in 2018, up from 36.86% in 2017. Single premium stood at NTD 901.4 billion in 2018, an increase of 13.40% from NTD 794.9 billion in 2017. Meanwhile, installment premium climbed 2.68% from NTD 465.8 billion in 2017 to NTD 478.3 billion in 2018. Renewal premium income amounted to NTD 2,131.7 billion, or 60.71% of the total premium income in 2018, down by 1.29%, or NTD 27.8 billion from the previous year, when it totaled NTD 2,159.6 billion.

A further breakdown of the first-year premium (FYP) indicates that single premium made up 65.33% in 2018. Of this, interest-sensitive life insurance premium stood at NTD 384.5 billion, while variable annuity premium came to NTD 242.3 billion, or 42.65% and 26.88% 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 2018, premium income generated by traditional insurance policies amounted to NTD 2,924.3 billion, or 83.28% of the total premium income. Of these policies, life insurance accounted for NTD 2,426.0 billion, up by 0.10% compared with NTD 2,423.6 billion in 2017; health insurance generated NTD 367.6 billion in premium income, a growth of 4.08% over the 2017 figure of NTD 353.2 billion; premium income from accident insurance totaled NTD 65.9 billion, an increase of 1.07% from NTD 65.2 billion in 2017; and annuity premium income at NTD 64.8 billion represented a decline of 28.87% compared with NTD 91.1 billion in 2017.

In an attempt to guide the life insurance industry to increase sales of protection-type products, the Financial Supervisory Commission (FSC) raised the interest rate on policy reserves by 0.25% effective 2018, which drove down premiums and increased willingness to buy such products. FYP income generated from traditional life insurance policies climbed by 5.42% from NTD 732.7

billion in 2017 to NTD 772.4 billion. Of these, interest-sensitive life insurance policies made up the largest share and FYP income from them increased 11.97% from the same period in 2017 to reach NTD 695.9 billion. Meanwhile, traditional annuities generated NTD 58.6 billion in FYP income, a decline of 30.90% over the figure of NTD 84.8 billion in 2017. Of these, interest-sensitive annuities accounted for NTD 58 billion, a large year-on-year decrease of 30.54%.

Thanks to a rising global capital market and appreciating US dollar, sales of investment-linked insurance policies continued to increase in the first half of 2018. However, as the capital market started to fluctuate in the second half of the year, policyholders turned cautious towards investment-linked insurance products. The premium income generated by investment-linked insurance policies totaled NTD 587.2 billion in 2018, accounting for 16.72% of the total premium income. This was a significant increase of 20.55% compared with NTD 487.1 billion in 2017. Of the investment-linked insurance policies, premium income from investment-linked life insurance totaled NTD 305.9 billion, a growth of 18.93% from NTD 257.2 billion in 2017, while premium income from investment-linked annuities rose by 22.36% from NTD 229.9 billion in 2017 to NTD 281.3 billion in 2018.

Further analysis indicate that FYP income generated from investment-linked life insurance policies increased by 27.43% to NTD 230.4 billion in 2018 over the previous year's figure of NTD 180.8 billion, while income from investment-linked annuity also saw a substantial increase of 24.73% from NTD 218.8 billion in 2017 to NTD 272.9 billion in 2018. Overall, FYP income from investment-linked insurance products grew by 25.95%.

3. Industry Channel Mix

In 2018, bancassurance and agency channels generated NTD 736.9 billion (53.41%) and NTD 554.7 billion (40.20%) of the life insurance industry's total FYP income, respectively. The two distribution channels represented 93.61% of the total market share, while other channels accounted for merely 6.39%. Based on further analysis, FYP income from the bancassurance channel grew by 16.31% from NTD 633.6 billion in 2017 to NTD 736.9 billion in 2018, and its market share rose from 50.26% in 2017 to 53.41% in 2018. The agency channel generated NTD 7.3 billion more in FYP income than the previous year, increasing from NTD 547.4 billion in 2017 to NTD 554.7 billion in 2018, and its market share slid from 43.42% to 40.20%. The bancassurance channel's share of FYP income, which focuses mainly on interest-sensitive life insurance products, is still larger than that of the agency channel in 2018.

4. Group Insurance and Individual Insurance

In 2018, 50.86 million new business insurance policies were issued, up 10.42 from the 2017 figure of 46.06 million. The number of newly issued individual insurance policies totaled 14.53 million, a decrease of 1.69% from 14.78 million in 2017. A further breakdown by product type indicates the following: life insurance accounted for 3.02 million policies, down by 8.21%; accident insurance constituted 6.24 million policies, a decline of 3.11%; health insurance

represented 4.94 million policies, an increase of 4.22%, and annuity insurance amounted to 0.33 million policies, a rise of 6.45%. The number of insured protected by group insurance totaled 36.33 million people, up by 16.14% from 31.28 million people reported in 2017.

The sum assured of the newly issued policies totaled NTD 47.58 trillion, a decline of 5.35% compared with NTD 50.27 trillion in 2017. The sum assured for newly issued individual insurance policies amounted to NTD 30.95 trillion, down by 7.8% from NTD 33.57 trillion recorded in the previous year. A breakdown by product type shows the following: the sum assured for life insurance stood at NTD 1.96 trillion, up by 13.29%; accident insurance reached NTD 26.85 trillion in sum assured, down by 9.63%; the sum assured for health insurance amounted to NTD 1.77 trillion, a growth of 1.72%; and the sum assured for annuity insurance was NTD 0.37 trillion, a decrease of 5.13%. The sum assured for newly issued group insurance saw a decrease of 0.42%, dropping from NTD 16.7 trillion in 2017 to NTD 16.63 trillion in 2018.

In summary, health insurance saw an increase in the number of new policies issued and the levels of sum assured in 2018 while accident insurance recorded a decline in both categories. Fortunately life insurance, accident insurance, and annuities all posted growth in premium income, and of these insurance types, variable life insurance saw a surge of 107.04% in premium income over the 2017 level, reaching NTD 99.5 billion.

5. New Business of Investment-linked Insurance

In 2018, 496,100 new business investment-linked insurance policies were issued, an increase of 33.18% compared with the figure of 372,500 in 2017. Among those, variable life insurance represented 89,300 policies, a surge of 243.46%; variable universal life insurance accounted for 141,000 policies, a growth of 9.05%, and variable deferred annuities made up 265,900 policies, a rise of 22.37% over the previous year.

The sum assured for the new policies issued totaled NTD 207.4 billion in 2018, up by roughly 35.15% in comparison with NTD 153.4 billion in 2017. Of these new policies, the sum assured for variable life insurance policies grew by 83.96% to NTD 33.1 billion; the sum assured for variable universal life insurance increased by 15.74% to NTD 140 billion, and the sum assured for variable deferred annuities jumped by 136.86% to NTD 34.2 billion.

In summary, investment-linked insurance products posted growth in the number of new policies issued, sum assured, and FYP income from the levels achieved in 2017.

6. Policies in Force

As of the end of December 2018, there were 222.76 million policies in force, up by 4.38% compared with 213.41 million as of the end of December 2017. The number of life insurance policies in force totaled 57.33 million, an increase of 1.16%; accident insurance policies in force came to 63.37 million, a growth of 3.66%; health insurance policies in force stood at 100.55 million, a rise of 6.64%, and annuities in force totaled 1.5 million, up by 13.64%. The sum

assured for policies in force totaled NTD 104.50 trillion, an increase of 4.68% from the figure of NTD 99.83 trillion at the end of December 2017. A breakdown of the total sum assured by product type shows that life insurance grew by 5.77% to NTD 45.31 trillion; accident insurance saw an increase of 1.65% to NTD 40.73 trillion; health insurance was up by 7.97% to NTD 16.66 trillion, and the sum assured for annuities climbed 20.81% to NTD 1.8 trillion. Overall, there was growth in both the number and level of sum assured for individual and group policies in force from the same period in the previous year.

7. Insurance Benefit Payments

In 2018, insurance benefit payments totaled NTD 1,875.8 billion, up by 13.33% compared with NTD 1,655.2 billion in 2017. Of these, life insurance payments made up the biggest share at 81.03%, totaling NTD 1,520 billion; annuity insurance payments came second at NTD 192.2 billion; followed by health insurance payments at NTD 136 billion, and accident insurance payments at NTD 27.7 billion. In terms of the number of beneficiaries, a total of 44.29 million people received insurance benefit payments in 2018, an increase of 14.33% compared with 38.74 million in 2017. The number of beneficiaries of life insurance benefit payments topped the chart, accounting for 24.27 million, or 54.80%, of the total number of beneficiaries.

A breakdown of the types of benefit paid indicates that surrender benefits accounted for NTD 733 billion, or 39.08% of the total benefit payments in 2018, followed by maturity benefits at NTD 567.9 billion (30.28%), and survivor benefits at NTD 252.1 billion (13.44%). Together, the three types made up 82.79% of the total benefits paid, and surrender benefits saw the largest increase, growing 17.84% from NTD 622.1 billion in 2017 to NTD 733 billion. This growth was mainly attributable to traditional insurance policyholders surrendering their policies.

B. Financial Overview and Analysis

1. Assets and Liabilities

As of the end of December 2018, life insurance companies reported NTD 26.32 trillion in assets, up 7.60% compared with NTD 24.46 trillion in the same period in 2017. A breakdown of the assets shows that total assets excluding separate accounts totaled NTD 24.45 trillion, an increase of 7.76%. The value of the separate accounts amounted to NTD 1.87 trillion, representing 7.1% of the total assets, up 5.65% from 1.77 trillion as of the end of December 2017.

A breakdown of life insurance companies' asset allocation by category indicates the following: 75.65% of the total utilized fund was allocated in securities, 5.55% in loans, 7.10% in separate accounts, 3.46% in cash and cash equivalents, 3.91% in property investment, and 4.33% in other assets. In comparison with the end of December 2017, the most notable growth can be seen in securities (10.55%) and investment accounted for using the equity method (20%). The growth is a result of life insurers' capital utilization and allocation strategies.

As of the end of December 2018, life insurance companies recorded NTD 25.23 trillion in

total liabilities, up by NTD 2.13 trillion, or 9.22%, when compared with NTD 23.1 trillion in the same period in 2017. Of these, insurance liabilities accounted for NTD 22.69 trillion, or 89.93% of total liabilities and 86.21% of the total assets.

The owners' equity of the life insurance industry reached NTD 1,088.9 billion at the end of December 2018, a decrease of NTD 275.7 billion from the 2017 figure of NTD 1,364.5 billion. The owners' equity to asset ratio declined from 5.58% at the end of December 2017 to 4.14%, which was slightly 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) rose from 17 times at the end of December 2017 to 23 times, indicating that life insurers' ability to absorb future losses increased and that their financial standing remains robust.

2. Profits and Losses

Life insurance companies recorded NTD 4.04 trillion in aggregated operating revenue as of the end of December 2018, down 0.93% from NTD 4.08 trillion in the same period in 2017. Operating costs at NTD 3.83 trillion, a decrease of 0.57% from the figure of NTD 3.85 trillion at the end of December 2017, accounted for 94.80% of the total revenue. As the result, life insurance companies posted NTD 213 billion in business profits.

Life insurance companies posted an income from continuing operations of NTD 94.6 billion as of the end of December 2018, a decrease of NTD 28.9 billion on the NTD 123.5 billion from the same period in 2017. 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. However, the global market took a sharp turn in the fourth quarter of 2018, leading to a decline in the Taiwanese equity and bond market. As a result, the comprehensive income for life insurance companies fell significantly from NTD 255.3 billion in 2017 to a loss of NTD 501.6 billion in 2018.

3. Investment Portfolio

As of the end of December 2018, the life insurance industry recorded NTD 23.75 trillion in available funds, up 7.27% from NTD 22.14 trillion as of the end of December 2017, with a 99.58% fund utilization rate (the ratio of the total funds utilized to total available funds). Securities investment accounted for NTD 4.43 trillion, or 18.65% of the total funds (mostly equities, which made up NTD 1.51 trillion or 6.36%), and foreign investment totaled NTD 16.31 trillion, or 68.67%. The combination of the two categories represented as high as 87.33% of the total funds.

Foreign investments by the domestic insurance industry grew from NTD 14,406.3 billion in 2017 to NTD 16,305.5 billion, and the share of foreign investments also rose 13.18% from 65.07% to 68.65%, 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 6.6 billion, or 11.11%, from 59 billion in 2017 to NTD 65.6 billion in 2018.

II. Conclusion and Outlook

1. Conclusion

In 2018, life insurance companies recorded NTD 3,511.5 billion in premium income, up by 2.67% compared with the previous year, while FYP income grew by 9.46% to NTD 1,379.8 billion. FYP income generated from traditional products rose by 1.79% from 2017 to NTD 876.5 billion, and most of the income came from interest-sensitive products. On the other hand, FYP income from investment-linked products increased 25.95% to NTD 503.3 billion. Meanwhile, renewal premium income totaled NTD 2,131.7 billion, a decline of 1.29% over the figure recorded in 2017. Overall, the increase in premium income was a result of growth in premium income generated from investment-linked products and FYP income.

In 2018, 50.86 million new insurance policies were issued, with a total sum assured of NTD 47.58 trillion. Life insurance, health insurance, annuity insurance, and accident insurance all saw growth in premium income, but the picture was mixed in terms of the number of policies and sums assured. A total of 222.76 million policies were in force and the total sum assured came to NTD 104.5 trillion, both representing a small increase over the previous year. Meanwhile, life insurers paid a total of NTD 1,875.8 billion in benefits, 91.27% of which was accounted for by life insurance and annuities. Further analysis of the benefit payments shows that surrender benefits (NTD 733 billion), maturity benefits (NTD 567.9 billion), and survivor benefits (NTD 252.1 billion) made up 82.79% of total benefit payments. Of the three, surrender benefit payments grew by 17.84% from 2017, possibly owing to an increase in cancellation of traditional life insurance policies.

Life insurance companies posted a net investment profit of NTD 850.5 billion, up 5.5% from NTD 806.1 billion in 2017. This increase 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 94.6 billion in 2018.

2. Outlook

As the total premium income hit a record high in 2018, the interest rates on reserves for USD-denominated new policies were cut, while those for NTD- and AUD-denominated new policies remained at last year's levels. On the other hand, the authorities launched a series of measures to encourage Taiwanese citizens to buy protection-type insurance products, including urging the insurance industry to offer more protection-type insurance products to raise the overall protection levels for Taiwanese policyholders, adding long-term care insurance into the scope of

specific protection-type products, and allowing health insurance products with over 30 years of policy period. These measures may help push the insurance industry to generate higher first-year premium incomes in 2019.