

2020H1 Taiwan Life Insurance Market Overview

I. Life Insurance Industry Business and Financial Overview

A. Business Statistics

The life insurance industry in Taiwan recorded NTD 1,601.6 billion in total premium income in 2020H1, down by 8.96% from NTD 1,759.2 billion in 2019H1. Of these, first-year premium (FYP) income accounted for NTD 471.3 billion, a 33.52% decrease compared with the 2019H1 figure of NTD 708.9 billion. Renewal premium income stood at NTD 1,130.3 billion, an increase of 7.62% over the same period in the previous year.

1. Breakdown of Premium Income

First-year premium (FYP) represented NTD 471.3 billion, or 29.43% of the total premium income reported in 2020H1, down from 40.30% in 2019H1. Single premium stood at NTD 241.3 billion in 2020H1, a decrease of 40.18% from NTD 403.4 billion in 2019H1. Meanwhile, installment premium declined by 24.69% from NTD 305.4 billion in 2019H1 to NTD 230 billion in 2020H1. Renewal premium income amounted to NTD 1,130.3 billion, or 70.57% of the total premium income in 2020H1, up by NTD 80 billion from the same period last year, when it totaled NTD 1,050.3 billion (59.70%).

A further breakdown of the first-year premium (FYP) indicates that single premium made up 51.20% in 2020H1. Of this, interest-sensitive life insurance premium stood at NTD 96.1 billion, while variable annuity premium came to NTD 73.1 billion, or 39.84% and 30.31% of the total single premium, respectively. The data show that single-premium products no longer contribute as much to first-year premium (FYP) income.

2. Breakdown of Premium Income by Product

In 2020H1, premium income generated by traditional insurance policies amounted to NTD 1,411.3 billion, or 88.12% of the total premium income. Of these policies, life insurance accounted for NTD 1,165.2 billion, down by 7.60% compared with NTD 1,261.1 billion in 2019H1; health insurance generated NTD 191.6 billion in premium income, a growth of 6.27% over the 2019H1 figure of NTD 180.3 billion; premium income from accident insurance totaled NTD 32.8 billion, a slight increase of 0.92% from NTD 32.5 billion in 2019H1; and annuity premium income at NTD 21.7 billion represented a decline of 38.18% compared with NTD 35.1 billion in 2019H1.

As the policy reserve interest rate is set to be cut by 25 basis points and the declared interest rates offered by interest-sensitive policies are trending downwards, FYP income from interest-sensitive life insurance policies, which make up the largest share of traditional life insurance products, declined by 46.78% over the same period in 2019. In addition, the Financial Supervisory Commission (FSC) announced that a declared interest rate stabilizing mechanism would be implemented in July 2020, whereby life insurers must take into account the yield of fixed income products when setting their declared interest rates, so that the latter stays closer to the actual bond market yield. The FSC's new rule will also require the contractual service margin

(CSM) of insurance policies to be above zero, which will have an impact on the sales of traditional insurance products. In 2020H1, FYP income generated from traditional life insurance policies fell by 37.36% from NTD 443.5 billion in 2019H1 to NTD 277.8 billion. The market share of traditional life insurance policies also decreased from 62.57% in 2019H1 to 58.94% in 2020H1. Meanwhile, traditional annuities generated NTD 19.2 billion in FYP income, a decline of 38.85% over the figure of NTD 31.4 billion in 2019H1.

In the area of investment-linked products, the Insurance Bureau devised new measures to tighten sales of insurance policies linked to target-maturity bond funds, requiring all bonds invested by the funds to be rated BBB+ or above. As a result, sales of investment-linked products recorded a significant decline in 2020H1. The premium income generated by investment-linked insurance policies totaled NTD 190.3 billion in 2020H1, accounting for 11.88% of the total premium income. This was a decrease of 23.88% compared with NTD 250 billion in 2019H1. Of the investment-linked insurance policies, premium income from investment-linked life insurance totaled NTD 89.9 billion, a decline of 31.11% from NTD 130.5 billion in 2019H1, while premium income from investment-linked annuities fell by 15.98% from NTD 119.5 billion in 2019H1 to NTD 100.4 billion in 2020H1.

Further analysis indicates that FYP income generated from investment-linked life insurance policies decreased to NTD 51.4 billion in 2020H1 over the previous year's figure of NTD 92.8 billion, while income from investment-linked annuity also saw a decrease of 17.20% from NTD 115.7 billion in 2019H1 to NTD 95.8 billion in 2020H1. Overall, FYP income from investment-linked insurance products fell by 29.40%.

3. Industry Channel Mix

In 2020H1, bancassurance and agency channels generated NTD 230.6 billion (48.94%) and NTD 197.4 billion (41.89%) of the life insurance industry's total FYP income, respectively. The two distribution channels represented 90.83% of the total market share, while other channels accounted for merely 9.17%. Based on further analysis, FYP income from the bancassurance channel fell by 40.18% from NTD 385.6 billion in 2019H1 to NTD 230.6 billion in 2020H1. The agency channel generated NTD 75 billion less in FYP income than the same period in the previous year, decreasing from NTD 272.4 billion in 2019H1 to NTD 197.4 billion in 2020H1, but its market share climbed 3.46% from 38.43% to 41.89%. The bancassurance channel's share of FYP income is still larger than that of the agency channel in 2020H1.

4. New Business of Investment-linked Insurance

In 2020H1, 139,700 new business investment-linked insurance policies were issued, a decrease of 32.32% compared with the figure of 206,400 in 2019H1. Among those, variable life insurance represented 11,200 policies, a decline of 71.43%; variable universal life insurance accounted for 50,300 policies, a decrease of 8.55%, and variable annuities made up 78,200 policies, a decline of 30.30% over the same period in the previous year.

The sum assured for the new policies issued totaled NTD 83.3 billion in 2020H1, down by 11.33% in comparison with NTD 94 billion in 2019H1. Of these new policies, the sum assured for variable life insurance policies fell by 58.80% to NTD 6.5 billion; the sum assured for

variable universal life insurance slid by 0.23% to NTD 66.3 billion, and the sum assured for variable annuities declined by 10.46% to NTD 10.5 billion.

In summary, investment-linked insurance products recorded decline in the number of new policies issued, sum assured, and FYP income from the levels achieved in 2019H1.

5. Group Insurance and Individual Insurance

In 2020H1, 26.14 million new business insurance policies were issued, down 21% from the 2019H1 figure of 33.09 million. The number of newly issued individual insurance policies totaled 6.3 million, a decrease of 16.89% from 7.58 million in 2019H1. A further breakdown by product type indicates the following: life insurance accounted for 1.45 million policies, down by 11.04%; accident insurance constituted 1.9 million policies, a decline of 37.09%; health insurance represented 2.85 million policies, an increase of 2.52%, and annuity insurance amounted to 0.1 million policies, a decrease of 33.33%. The number of insured protected by group insurance totaled 19.84 million people, down by 22.23% from 25.51 million people reported in 2019H1.

The sum assured of the newly issued policies totaled NTD 13.72 trillion, a decline of 43.07% compared with NTD 24.1 trillion in 2019H1. The sum assured for newly issued individual insurance policies amounted to NTD 6.52 trillion, down by 56.15% from NTD 14.87 trillion recorded in the same period in the previous year. A breakdown by product type shows the following: the sum assured for life insurance stood at NTD 0.97 trillion, down by 6.73%; accident insurance reached NTD 4.72 trillion in sum assured, down by 62.75%; the sum assured for health insurance amounted to NTD 0.69 trillion, a decrease of 33.01%; and the sum assured for annuity insurance was NTD 0.14 trillion, an increase of 7.69%. The sum assured for newly issued group insurance saw a decline of 21.99%, falling from NTD 9.23 trillion in 2019H1 to NTD 7.2 trillion in 2020H1.

In summary, life insurance and accident insurance saw a decrease in the number of new policies issued, levels of sum assured, and FYP income in 2020H1; health insurance recorded an increase in FYP income but a decline in the number of new policies issued and levels of sum assured, while annuity insurance saw a decrease in the number of new policies issued and FYP income but an increase in the level of sum assured.

6. Policies in Force

As of the end of June 2020, there were 230.22 million policies in force, up by 2.08% compared with 225.54 million policies in force as of the end of June 2019. The number of life insurance policies in force totaled 59.27 million, an increase of 2.7%; accident insurance policies in force came to 63.93 million, a growth of 1.06%; health insurance policies in force stood at 105.31 million, a rise of 2.27%, and annuities in force totaled 1.71 million, up by 6.87%. The sum assured for policies in force totaled NTD 106.56 trillion, a slight increase of 1.72% from the figure of NTD 104.76 trillion at the end of June 2019. A breakdown of the total sum assured by product type shows that life insurance grew by 4.84% to NTD 47.91 trillion; accident insurance saw an increase of 0.1% to NTD 40.36 trillion; health insurance was down by 2.21% to NTD 16.41 trillion, and the sum assured for annuities fell 4.08% to NTD 1.88 trillion.

7. Insurance Benefit Payments

In 2020H1, insurance benefit payments totaled NTD 889.7 billion, down by 16.36% compared with NTD 1,063.8 billion in 2019H1. Of these, life insurance payments saw the biggest decrease of 18.95%, totaling NTD 714.2 billion; annuity insurance payments came second at NTD 87.3 billion; followed by health insurance payments at NTD 73.9 billion, and accident insurance payments at NTD 14.3 billion. In terms of the number of beneficiaries, a total of 23.59 million people received insurance benefit payments in 2020H1, an increase of 2.7% compared with 22.97 million in 2019H1, and the number of beneficiaries of life insurance benefit payments topped the chart, accounting for 13.21 million, or 56%, of the total number of beneficiaries.

A breakdown of the types of benefit paid indicates that surrender benefits accounted for NTD 392.1 billion, or 44.07% of the total benefit payments in 2020H1, followed by maturity benefits at NTD 195.1 billion (21.93%), and survivor benefits at NTD 119.4 billion (13.42%). Together, the three types made up 79.42% of total benefits paid, and surrender benefits saw a decrease of 4.4% from NTD 410.2 billion in 2019H1. This decline may be attributed to the fact that the policies surrendered were mostly traditional life insurance policies and interest rate-sensitive life insurance policies.

B. Financial Overview and Analysis

1. Assets and Liabilities

As of the end of June 2020, life insurance companies reported NTD 30.23 trillion in assets, up 6.59% compared with NTD 28.36 trillion in the same period in 2019. A breakdown of the assets shows that total assets excluding separate accounts totaled NTD 28.14 trillion, an increase of 7.32%. The value of the separate accounts amounted to NTD 2.09 trillion, representing 6.91% of the total assets, down from 7.55% as of the end of June 2019.

A breakdown of life insurance companies' asset allocation by category indicates the following: 75.36% of the total utilized fund was allocated in securities, 6.91% in separate accounts, 4.53% in loans, 5.09% in cash and cash equivalents, 4.37% in property investment, and 3.74% in other assets. In comparison with the end of June 2019, the most notable growth can be seen in securities (6.90%) and property investment (9.09%). The growth is a result of life insurers' capital utilization and allocation strategies.

As of the end of June 2020, life insurance companies recorded NTD 28.17 trillion in total liabilities, up by NTD 1.58 trillion, or 5.94%, when compared with NTD 26.59 trillion in the same period in 2019. Of these, insurance liabilities accounted for NTD 25.3 trillion, or 89.81% of total liabilities and 83.69% of the total assets.

Also during this period, the owners' equity of the life insurance industry totaled NTD 2,059.2 billion, an increase of NTD 287.3 billion from the figure of NTD 1,771.8 billion at the end of June 2019. The owners' equity to asset ratio grew from 6.25% at the end of June 2019 to 6.81%, which was 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) was at 14 times—slightly

lower than the 15 times at the end of June 2019—indicating that life insurers have a stronger ability to absorb future losses and that their financial standing is robust.

2. Profits and Losses

Life insurance companies recorded NTD 1.95 trillion in aggregated operating revenue as of the end of June 2020, down 13.59% from NTD 2.26 trillion in the same period in 2019. Operating costs at NTD 1.79 trillion, a decrease of 15.08% from the figure of NTD 2.11 trillion at the end of June 2019, accounted for 91.79% of the total revenue. As the result, life insurance companies posted NTD 157.9 billion in business profits.

Operating life insurance companies posted total profits of NTD 97.1 billion as of the end of June 2020, an increase of NTD 14.3 billion on the NTD 82.9 billion from the same period in 2019. Despite a stellar performance in the Taiwanese equity and bond markets in the first half of the year, the strong appreciation of the New Taiwan Dollar led to a significant decrease of NTD 523.5 billion in the comprehensive income for life insurance companies, which fell from NTD 529.4 billion at the end of June 2019 to NTD 68.9 billion at the same point in 2020.

3. Utilization of Funds

As of the end of June 2020, the life insurance industry recorded NTD 27.39 trillion in available funds, up by 7.71% from NTD 25.43 trillion in same period in 2019. Among the fund utilization categories, securities investment accounted for NTD 5.76 trillion, or 21.03% of the total utilized funds (mostly equities, which made up NTD 1.68 trillion or 6.13%), and foreign investment totaled NTD 18.14 trillion, or 66.23%. The combination of the two categories represented as high as 87.26% of the total utilized 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 thinning. Thus, the life insurance industry is gradually shifting capital allocation to higher-yielding assets such as domestic real estate with steady rent income and dividends, and foreign investments. As of the end of June 2020, the life insurance industry invested NTD 1,677.5 billion in domestic equities, which comprised 6.12% of total investments, down from the 6.57% at the same point in 2019, but the absolute investment amount grew by 0.41%. At NTD 1,294.7 billion, investment in real estate in terms of total investment share climbed from 4.48% to 4.73% at the end of June 2020. Foreign investments totaled NTD 18,138.6 billion, or 66.21%, down from 68.38% at the end of June 2019, but the absolute investment amount grew by 4.33%.

II. Conclusion and Outlook

In 2020H1, life insurance companies recorded NTD 1,601.6 billion in premium income, down by 8.96% compared with the same period last year, and FYP income also decreased by 33.52% to NTD 471.3 billion. FYP income generated from traditional products fell by 35.22% to NTD 324.1 billion. FYP income from investment-linked products declined by 29.4% to NTD 147.2 billion. Meanwhile, renewal premium income totaled NTD 1,130.3 billion, an increase of 7.62% over the figure recorded in 2019H1. Owing to the FSC's implementation of a mechanism

to keep the declared interest rate stable and the impact of the Covid-19 pandemic, the 2020H1 premium income is the lowest compared with the same period in the previous three years.

In 2020H1, 26.14 million new insurance policies were issued with a total sum assured of NTD 13.72 trillion, both lower than the figures recorded in 2019H1. The total number of policies in force was 230.22 million and the total sum assured came to NTD 106.56 trillion, indicating a steady upward trend in both the number of policies issued and the sum assured. Meanwhile, life insurers paid a total of NTD 889.7 billion in benefits, of which life insurance and annuities accounted for 90.09%. A further analysis of the benefit payments shows that surrender benefits (NTD 392.1 billion), maturity benefits (NTD 195.1 billion), and survivor benefits (NTD 119.4 billion) made up 79.42% of the total benefit payments.

Life insurance companies posted a net investment profit of NTD 514 billion, up 4.41% from NTD 492.3 billion in 2019H1. The 2020H1 growth was mainly a result of substantial rallies in financial assets. Net profits from continuing operations in the life insurance industry climbed to NTD 97.1 billion.

2. Outlook

While a number of new measures, including the lowering of policy reserve interest rates, a new threshold for death benefits, and a mechanism to stabilize declared interest rates, will kick off in 2020H2 (starting July 1), this did not lead to a broad-based phasing out of certain insurance policies. In fact, insurers announced that only a small number of health insurance policies would no longer be offered. In 2020H1, the FYP income generated by health insurance policies increased by about 10% over the same period last year, but the momentum declined considerably. By contrast, the FYP income from other insurance products decreased, particularly interest-rate sensitive insurance, which makes up the largest share of the FYP income. In 2020H1, interest rate-sensitive insurance generated NTD 212.9 billion in FYP, a massive decline of 46.78% over the level of NTD 400 billion in 2019H1.

In the second half of this year, traditional insurance products will face many headwinds: policy reserve interest rates will be cut by 25 basis points, declared interest rates on interest rate-sensitive insurance products will decline, and a mechanism to stabilize declared interest rates will enter into force in July, requiring the setting of declared interest rates to take fixed income yield into account and stay closer to the actual bond market returns. In addition, under the new rule, the CSM of policies can no longer fall below zero. In the area of investment-linked products, the Insurance Bureau devised new measures to tighten sales of insurance policies linked to target-maturity bond funds, requiring all bonds invested by the funds to be rated BBB+ or above and setting a limit of 40% on BBB+ bonds as a share of the fund's net asset value. As a result, sales of investment-linked products recorded a significant decline. These new measures will have an impact on the premium income generated by both traditional and investment-linked insurance products. A major challenge for the life insurance industry is therefore to reverse the decline of premium income recorded in the first half of this year.