

Overview of Taiwan's Non-Life Insurance Industry in the first half of 2020

I. Business and Financial Overview of the Taiwan's Non-Life Insurance Industry

A. Premium Growth and Analysis

In the first half of 2020, the non-life insurance companies in Taiwan reported a total of NTD 95.9 billion in gross written premium, up by NTD 5.3 billion or 5.8 percent year over year, mainly due to the premium income growth from motor lines of insurance.

A breakdown of written premium by product line indicated that automobile insurance premium income grew by 4.9 percent year over year, and reaching NTD 49 billion and represent 51.1 percent of the overall non-life insurance market premium income. The growth was mainly credited to the premium rate adjustment for automobile third party liability insurance and the growth of physical damage automobile insurance premium volume. The premium income from voluntary automobile insurance grew by 6% percent year over year, and reaching approximately NTD 40.1 billion and representing 41.8 percent of the overall non-life premium income. With regard to compulsory automobile, the premium income also increased by 0.2 percent compared to the same period last year, reaching NTD 8.9 billion and representing 9.3 percent of the overall non-life premium income.

The premium income for fire insurance amounted to approximately NTD 16.8 billion, up by 8.2 percent in comparison with the same period last year, and accounted for 17.5 percent of the overall non-life premium income.

For personal accident insurance, the premium income reached approximately NTD 9.2 billion, down by 3.1 percent year over year and accounted for 9.6 percent of the overall non-life premium income.

The premium income for liability insurance totaled approximately NTD 6.5 billion, down by 6.8 percent year over year, and accounting for 7 percent of the overall non-life premium income.

The premium income generated by marine insurance reached NTD 4.2 billion representing 4.4 percent of overall premium income and has slightly increased in comparison with the same period last year. Within which, the cargo insurance premium income accounted for NTD 2.6 billion, which had increased by 3.8 percent compared to the same period last year.

The industry overall recorded NTD 4.5 billion of premium income through engineering insurance, which was up by 37.3 percent year over year. The high growth rate was associated with offshore wind farm and other mega construction project. The industry overall also recorded NTD 500 million through guarantee insurance, which was down by 9.4 percent year over year and recorded NTD 1.6 billion through health insurance, which has increased by 9.6 percent in comparison with same period last year. Finally, the premium income from aviation insurance increased by 44.9 percent year over year and totaled to NTD 500 million. The premium for aviation hull insurance was received and booked in the first half of 2020, and therefore resulted in a jump in growth rate.

To better manage the risk, every non-life insurance company spreads the risk assumed through reinsurance. Therefore, the business performance of non-life insurance companies usually depends heavily

on their reinsurance strategies, thus it is important to take a closer look at the growth of retained premium. The retained premium is the underwriting premium income that the non-life insurers keep after ceding part of risks to reinsurers or assuming risk from reinsurers for risk spreading purpose. In the first half of 2020, the non-life insurance industry posted NTD 70.5 billion in net written premium, up by 4.1 percent year over year. The retention ratio was 68.9 percent, down by 1.3 percentage points in comparison with 70.3 percent recorded in the first half of 2019.

B. Claims Payout and Claims Breakdown

The overall claim payout made by the Taiwan non-life insurance companies amounted to NTD 44.7 billion, up by NTD 2.5 billion or 6 percent year over year, and is mainly contributed by automobile insurance.

A further study on the claims payout during first half of 2020 indicated that automobile insurance claims accounted for NTD 30.6 billion of the overall non-life insurance market claims payout, up by NTD 1.5 billion or 5.2 percent year over year. The increase is naturally tied to the growth of automobile insurance business volume. Among the total automobile insurance claims paid, voluntary automobile insurance claims represented NTD 23.3 billion, up by NTD 1.7 billion or 7.9 percent in comparison with same period last year. Meanwhile, compulsory automobile liability insurance claims amount to 7.2 billion, which went down by 2.6 percent or NTD 200 million year over year.

For fire insurance, the claims payout totaled NTD 2.2 billion, decreased by 14.8 percent or NTD 400 million in comparison with same period last year.

The payout for personal accident insurance claims increased by NTD 700 million or 17.9 percent, reaching up to NTD 4.6 billion.

The payout of marine insurance claims decreased by 11.3 percent or NTD 200 million year over year and totaled NTD 1.7 billion.

In comparison with same period last year, liability insurance claims payout was increased by 3 percent. Health insurance claims payout was up by 15 percent. Engineering insurance claims payout was up by 45 percent. Guarantee insurance claims payout decreased by 80 percent. And aviation insurance claims payout increased by 9 percent.

In the first half of 2020, the non-life insurance companies reported an earned net loss ratio of 55.4 percent, decreased by 0.3 percentage points in comparison with 55.7 percent reported in the same period last year. The earned net loss ratio for aviation insurance line increased the most, up by 61 percentage points, whilst guarantee insurance came in second with 33 percentage points increase in comparison with same period last year.

The overall expense ratio for the industry was 35.8 percent, slightly decreased by 0.3 percentage points in comparison with same period last year. The combined ratio reached 91.1 percent, down by 0.7 percentage point year over year.

C. Financial Overview and Fund Utilization

1. Assets and Liabilities

In the first half of 2020, non-life insurance companies in Taiwan recorded a total of NTD 394.5 billion in assets, up by 4.6 percent year

over year in comparison with NTD 377 billion in assets reported in the same period last year.

Total capital amounts to 346.7 billion and rose by 4.2 percent in comparison with the 332.7 billion recorded last year. Within which, the shareholder's equity totaled 131.6 billion, up by 3.8 percent in comparison with 126.8 billion recorded same period last year and insurance liability amounts to 215.1 billion, which had increased by 4.5% in comparison with the amount of 205.8 billion recorded last year. The overall debt-equity ratio for the industry reached 33.4%.

2. Profits and Losses

In the first half of 2020, non-life insurance companies rendered NTD 74.79 billion in operating revenue, up by NTD 2.38 billion or 3.3% increase in comparison with the amount of NTD 72.41 billion reported in the same period last year. The operating cost rose by 2.51 billion or 5.3 percent, increasing from NTD 47.56 billion reported in the same period last year to NTD 50.07 billion. The net income attained by the industry reached NTD 6.84 billion, decreased by NTD 130 million or 1.9% in comparison with the net income of 6.97 billion recorded in the same period last year.

3. Fund Utilization

In the first half of 2020, the total fund utilized by the non-life insurance industry accumulated to NTD 280.59 billion, mainly in the forms of equity and bond (making up 45 percent of the total utilized fund), oversea investment (21 percent), bank deposit (19 percent), real estate investment (14 percent), and ad-hoc and public project investment (1 percent). In the first half of 2020, the industry as a whole

achieved a 1.76 percent net annualized return on investment, which was slightly increased by 1.3 percentage points year over year.

D. Summary of the first half of 2020

The non-life insurance premium income in the first half of 2020 continued to grow. The automobile insurance line grew the most in dollar amount, however, aviation and engineering insurance lines have grown the most in terms of ratio, and both of which have grown by more than 35% in the first half of 2020. The growth associated with aviation line of insurance is the premium income received and booked for aviation hull insurance, whereas for engineering insurance line, the continued high growth rate has been owing to offshore wind farm and large construction project consequential to the ongoing green energy transition policy promoted by the government. The offshore wind farm construction contractors required protection such as erection all-risk insurance and business interruption insurance to manage risks association with the specialized construction, which in turn boosted the engineering line and made it the second highest line of business in growth rate in the first half of 2020. Furthermore, following the heightened trade tension between US and China, the oversea Taiwanese businesses continued to return home to invest. According to the statistics of Investment Commission of Ministry of Economic Affairs, the approved investment from emigrants have amounted to NTD 115 billion and 176.81 million in the first half of 2020, and have grown by 9.27% year over year. Recently, increasing inflow of foreign investment has also been observed, and it is expected to provide premium growth drive to the insurance industry.

In the first half of 2020, the non-life insurance industry rendered NTD 778 million in premium income through online channel, and has increased by 20.9% in comparison with NTD 646 million in the same period last year. However, the growth rate was the lowest since the introduction of online channel. Furthermore, the number of policies sold through online channel for the industry as a whole was less than 900 thousand due to a halt on the sales of overseas travel insurance. This has resulted in the number of policies sold for comprehensive travel insurance to decrease by 207 thousand or close to 20 percent drop in comparison with 109 million policies sold in same period last year. It is evident that the decrease in growth rate from approximately 100% in the first half of 2019 to merely 20% in the first half of 2020 for online sales is due to COVID-19.

Overall speaking, the industry has enjoyed steady underwriting performance in the first half of 2020 due to favorable weather condition. As a result, the underwriting profit reached NTD 4.4 billion, which has slightly increased in comparison with same period last year. On the investment side, the investment return in the first quarter for many insurers have been impacted greatly due to COVID-19. However, as the performance for stock and bond price recoup, the investment return has increased for many non-life insurers. As a result of the recovery on investment return, non-life insurance companies were able to reduce their overall loss, and with many turning to an overall profit.