

2020 Overview of Taiwan's Non-Life Insurance Industry

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

A. Premium Growth and Analysis

In 2020, the non-life insurance companies in Taiwan reported a total of NTD 188.1 billion in gross written premium, up by NTD 11 billion or 6.2 percent year over year, mainly due to the premium income growth from Automobile and Fire lines of business.

A breakdown of written premium by product line indicated that automobile insurance premium income grew by 7.3 percent year over year and reaching NTD 101.6 billion and represent 54 percent of the overall non-life insurance market premium income. The year over year growth was mainly credited to the premium rate adjustment for automobile third party liability insurance and the increased sales volume of new vehicle. The premium income from voluntary automobile insurance grew by 8.8 percent year over year, and reaching approximately NTD 83.3 billion and representing 44.3 percent of the overall non-life premium income. Regarding compulsory automobile insurance, the premium income also increased by 1.1 percent in comparison with the same period last year, reaching NTD 18.3 billion and representing 9.7 percent of the overall non-life premium income.

The premium income for fire insurance amounted to approximately NTD 29.1 billion, up by 12.4 percent in comparison with the same period last year and accounted for 15.5 percent of the overall non-life premium income.

For personal accident insurance, the premium income reached approximately NTD 18.5 billion, down by 3.7 percent year over year and accounted for 9.8 percent of the overall non-life premium income.

The premium income for liability insurance totaled approximately NTD 13.3 billion, down by 1.8 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 7.7 billion representing 4.1 percent of overall premium income and had increased by 8.3 percent in comparison to the same period last year. The cargo insurance has attained a premium income of NTD 4.8 billion and has the highest proportion within marine category.

The industry overall recorded NTD 7.1 billion of premium income through engineering insurance, which was up by 6.2 percent year over year ; recorded NTD 900 million through guarantee insurance, which was down by 6.4 percent year over year and recorded NTD 2.7 billion through health insurance, which had decreased by 7.8 percent in comparison with same

period last year. Finally, the premium income from aviation insurance increased by 14.2 percent year over year and totaled NTD 800 million.

To better manage the risk, every non-life insurance company spreads the risk assumed by means of reinsurance. The business performance of non-life insurance companies usually depended heavily on their reinsurance strategies, and therefore, 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 2020, the non-life insurance industry posted NTD 142.3billion in net written premium, up by 5.5 percent year over year. The retention ratio was 71.1 percent, down by 0.5 percentage points in comparison with 71.6 percent recorded in the same period last year.

B. Claims Payout and Claims Breakdown

The overall claim payout made by the Taiwan non-life insurance companies amounted to NTD 89.9 billion, up by NTD 1.9 billion or 2.1 percent year over year and is mainly contributed by automobile insurance.

A further study on the claims payout for 2020 indicated that automobile insurance claims accounted for NTD 61.3 billion of the overall non-life insurance market claims payout, up by NTD 1.6 billion or 2.7 percent year over year. The increase in auto claims payout is mainly tied to the increasing business volume, and among the total automobile insurance claims paid, voluntary automobile insurance claims represented NTD 47.6 billion, up by NTD 2.2 billion or 5.5 percent in comparison with same period last year. Meanwhile, compulsory automobile liability insurance claims amount to 13.8 billion, which was down by 4.5 percent or NTD 600 million year over year.

For fire insurance, the claims payout totaled NTD 4.8billion, decreased by 14.8 percent or NTD 800 million in comparison with same period last year.

The payout for personal accident insurance claims amounted to NTD 9.3 billion, which had increased by NTD 1.1 billion or 13.4 percent year over year.

The payout of marine insurance claims totaled NTD 3.9 billion and had decreased by 3.4 percent or NTD 100 million year over year.

As for other lines of insurance, the total claims payout had decreased by 9 percent for liability insurance, had increased by 10 percent for health insurance, had increased by 29% for engineering insurance, had decreased by 58% for guarantee insurance, and had increased by 53% for aviation insurance year over year.

In 2020, the non-life insurance companies reported an earned net loss ratio of 56.6 percent, which had increased by 0.3 percentage points in comparison with 56.3 percent reported in the same period last year. The net loss ratio on earned basis for aviation insurance and health insurance had increased the most, which had reported a 80 percentage points and 12 percentage points increase respectively year over year.

The overall expense ratio reported for the industry in 2020 was 37.2 percent, slightly decreased by 0.4 percentage points in comparison with same period last year, and the combined ratio reached 93.8 percent, down by 0.1 percentage points year over year.

C. Financial Overview and Fund Utilization

1. Assets and Liabilities

In 2020, non-life insurance companies in Taiwan recorded a total of NTD 411.4 billion in assets, up by 7 percent in comparison with the NTD 384.5 billion reported in the same period last year.

Total capital amounts to 368.2 billion, which had increased by 7.9 percent in comparison with the 341.2 billion recorded same period last year. Within which, the shareholder's equity totaled 144.4 billion, up by 6.8 percent in comparison to 135.2 billion recorded same period last year, and the insurance liability amounts to 260.7 billion, which had increased by 7.1 percent in comparison with the amount of 249.4 billion recorded last year. The overall debt-equity ratio for the industry reached 35.1%.

2. Profits and Losses

In 2020, non-life insurance companies rendered NTD 155.8 billion in operating revenue, up by NTD 7.17 billion or 4.8 percent in comparison with the amount of NTD 148.7 billion reported in the same period last year. The operating cost reported was 104 billion, which had increased by 5.5 billion or 5.6 percent from NTD 98.5 billion recorded last year. The net income attained by the industry reached NTD 14.8 billion, which had increased by NTD 1.1 billion or 8.1 percent compared to the net income of 13.7 billion recorded in the same period last year.

3. Fund Utilization

In 2020, the total fund utilized by the non-life insurance industry accumulated to NTD 300.42 billion, mainly in the forms of equity and bond (making up 45 percent of the total utilized fund), overseas investment (20 percent), bank deposit (20 percent), real estate investment (13 percent), and ad hoc & public project investment (1 percent). The industry in whole achieved a 2.93 percent net annualized return on investment, which was slightly increased by 0.19 percentage point year over year.

D. Summary non-life insurance industry for 2020 and outlook for 2021

The non-life insurance overall premium income in 2020 grew by 6.2% year over year. The premium income for automobile insurance grew by 7.3% in 2020, and thus the main driver had shifted from miscellaneous insurance line back to automobile insurance line. This is resulting from a 4% increase in the sales of new vehicles, and the units sold had increased to 457 thousand units from 439 thousand units in the same period last year. With the rising share of Taiwan auto market for import vehicles, and with the higher premium charged, the premium income for automobile insurance line continues to grow. As for Fire insurance line, the increased premium income is due to risen reinsurance rate in the global market and renewal premium booked for major tech companies.

In 2020, the overall claim payout grew mainly with the increase in the business volume of automobile insurance. All in all, the industry had profited from both insurance business side and investment side. The industry had benefited from favorable weather on insurance business operation. The industry had no catastrophic claim payouts booked, as there were no major earthquake and typhoon made landfall during 2020. On the investment side, the financial market is dampened by covid-19 in the first half of 2020. In response, countries around the world rolled out economic relief packages one after another and maintained a low interest rate environment. The quantitative easing policies exercised globally pushed the stock market to record high. Therefore, even though the global economy takes a downturn from the effects of covid-19, Taiwan's insurance industry still rendered an overall investment return of NTD 8.8 billion and boosted the overall comprehensive income to NTD 22.5 billion, which has increased drastically from NTD 6.7 billion recorded last year.

Looking into 2020, many country's economy gradually recovers with the favorable development of covid-19 vaccine. In the automobile insurance line in Taiwan, the vehicle imports tax incentive that made effective in January 8th, 2016 by the Ministry of Finance, was originally expected to be terminated in January 7th of 2021. However, the Executive Yuan decided to extend the termination date of the incentive to January 7th, 2026, an extension period of 5 years, to further developing the vehicle industry, improving air quality, and achieving the goal of energy saving and carbon reduction. This policy is expected to favor the sales of new and electrical vehicle and continues to boost the market volume, and therefore, it is expected that the premium income for automobile insurance will continue to grow in 2021. For other lines of insurance, travel insurance business is expected to continue to be impaired by covid-19. Due to unfavorable terms from the sales channel and the difficulty of having innovative products, the accident and health insurance business expansion will face hardship. It is expected that the premium income of accident insurance line to decline with the lowered

premium rating for travel and accident insurance effective from January 1st and July 1st of 2021 respectively.

On the investment side, in early 2021, the Taiwan stock market index soared more than 8,000 points, an increase of almost 100%, from the lowest point last year. It is expected that the stock market will continue to fluctuate, but with low probability of observing the same climb exhibited in the second half of 2020. Therefore, insurers will have difficulty of outpacing their investment return from the stock market in the second half of last year. On the other hand, the cost of raw material continues to rise leading to a gradual headline inflation, and major raw material exporting countries such as Brazil has increased their interest rate to reining the effect. However, as the covid-19 situation being contained, many country's economy have gradually recovered, and in addition, the quantitative easing monetary policy and financial aid package policies is expected to be sustained in the short run in many countries, the overall investment return in 2021 is expected to be favorable. Overall speaking, the global economy is in the recovering phase under the effect of covid-19, however, with prudent reinsurance strategies maintained by Taiwan's insurer, and with the business growth expectation for automobile, engineering and commercial insurance, the overall performance of insurance industry is expected to grow