

# **2016 H1 Taiwan Life Insurance Market Overview**

## **I. Life Insurance Industry Business and Financial Overview**

### **A. Business Statistics**

The life insurance industry in Taiwan recorded NTD 1,549.1 billion in total premium income in the first half of 2016, up by 9.84 percent from NTD 1,410.3 billion in the same period in 2015. Of these, first-year premium income accounted for NTD 654.5 billion, a 12.55 percent increase compared with the 2015 H1 figure of NTD 581.5 billion. Renewal premium income stood at NTD 894.6 billion, a growth of 7.95 percent over the same period last year. The data indicate that growth in both first-year and renewal premiums contributed to the increase in total premium income.

#### **1. Breakdown of Premium Income**

First-year premium represented NTD 654.5 billion, or 42.3 percent of the total premium income reported in 2016 H1, up from 41.23 percent in 2015 H1. Single premium stood at NTD 356.9 billion in 2016 H1, an increase of 7.4 percent from NTD 332.3 billion in 2015 H1. Meanwhile, installment premium increased 19.37 percent from NTD 249.3 billion in 2015 H1 to NTD 297.6 billion in 2016 H1. Renewal premium income accounted for NTD 894.6 billion, or 57.7 percent of the total premium income in 2016 H1, up by NTD 65.9 billion from the same period last year, when it accounted for NTD 828.7 billion, or 58.76 percent of the total premium income earned. The figures indicate that both the first-year and renewal premia were on a steady rise in 2016 H1.

A further breakdown of the first-year premium indicates that single premium made up 54.53 percent in 2016 H1. Of this, interest-sensitive life insurance premium stood at NTD 219.3 billion, while interest-sensitive annuity premium came to NTD 63.1 billion, or 61.45% and 17.68% 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 income.

#### **2. Breakdown of Premium Income by Product**

In 2016 H1, premium income generated by traditional insurance policies amounted to NTD 1,421.5 billion, or 91.76 percent of the total premium income. Of these policies, life insurance accounted for NTD 1,159.9 billion, up by 23.87 percent compared with NTD 936.4 billion in 2015 H1; health insurance generated NTD 161.6 billion in premium income, a growth of 4.6 percent over the 2015 H1 figure of NTD 154.5 billion; premium income from accident insurance totaled NTD 31.1 billion, an increase of 2.64 percent from NTD 30.3 billion in 2015 H1; and annuity premium income at NTD 68.9 billion represented a growth of 28.31 percent

compared with NTD 53.7 billion in 2015 H1.

First-year premium income generated from traditional life insurance policies increased significantly by 48.12 percent from NTD 326.7 billion in 2015 H1 to NTD 483.9 billion, and their total share in the market also grew from 56.17 percent to 73.92 percent. Traditional annuity policies also increased 29.78 percent from NTD 50.7 billion in 2015 H1 to NTD 65.8 billion in 2016 H1.

Against a background of persistently low interest rates across Europe, the US, Japan, and Taiwan, the declared interest rates of Taiwanese life insurance companies have remained competitive, thus driving up sales of interest-sensitive insurance policies, which has contributed to the overall impressive performance of traditional insurance policies. However, a number of insurance companies in Taiwan started lowering their declared interest rates around April or May, or replaced old policies with new ones. As the regulator moved to require insurance companies to reduce policy sales commissions paid to distribution channels, banks pushed for the sale of single-premium interest-sensitive insurance policies before the new regulation came into effect, leading to a growth of insurance policy sales in June. The first-year premium income generated by interest-sensitive life insurance policies increased 33.75 percent from NTD 216.1 billion in 2015 H1 to NTD 289 billion in 2016 H1; the first-year premium income of interest-sensitive annuity insurance policies grew 26.72 percent from NTD 50.6 billion in 2015 H1 to NTD 64.1 billion in 2016 H1.

The premium income generated by investment-linked insurance policies totaled NTD 127.7 billion in 2016 H1, accounting for 8.24% percent of the total premium income. However, this was a decline of 45.71% compared with NTD 235.2 billion in 2015 H1. Of the investment-linked insurance policies, premium income from investment-linked life insurance totaled NTD 83.5 billion, a decrease of 37.78 percent from NTD 134.2 billion in 2015 H1, while premium income from investment-linked annuity fell by 56.24 percent from NTD 101 billion in 2015 H1 to NTD 44.2 billion in 2016 H1.

Further analysis indicate that first-year premium income generated from investment-linked insurance policies decreased by 54.15 percent to NTD 83.5 billion in 2016 H1 over the same period last year. Of these, first-year premium income from investment-linked life insurance fell from NTD 92.1 billion in 2015 H1 to NTD 44.4 billion in 2016 H1, and that from investment-linked annuity saw a significant decline of 56.56 percent from NTD 90 billion in 2015 H1 to NTD 39.1 billion in 2016 H1.

### **3. Industry Channel Mix**

In 2016 H1, bancassurance and agency channels generated NTD 326.7 billion (49.92 percent) and NTD 285.5 billion (43.62 percent) of the life insurance industry's total first-year premium income, respectively. The two distribution channels represented 93.54 percent of the total market share, while other channels accounted for merely 6.46 percent. Based on further analysis, first-year premium income from the bancassurance channel grew 6.74 percent from NTD 306.1 billion in 2015 H1 to NTD 326.7 billion in 2016 H1, but the channel's market share slid from 52.63 percent to 49.92 percent. The agency channel, on the other hand, generated

NTD 41.5 billion more in first-year premium income than the same period last year, increasing from NTD 244 billion in 2015 H1 to NTD 285.5 billion in 2016 H1, and its market share also grew 1.66 percent from 41.96 percent to 43.62 percent. The bancassurance channel's share of first-year premium income is still larger than that of the agency channel in 2016 H1.

#### **4. New Investment-linked Insurance Policies**

In 2016 H1, life insurance companies issued 79,500 new investment-linked insurance policies, a decline of 50.44 percent compared with the figure of 160,400 in 2015 H1. Among the new investment-linked insurance issued, variable life insurance represented 8,200 policies, plunging by 58.79 percent; variable universal life insurance accounted for 36,700 policies, a decrease of 47.65 percent, and variable annuity made up 34,500 policies, a decline of 50.99 percent over the same period last year.

The sum assured for the new policies issued totaled NTD 49.7 billion in 2016 H1, down by 30.65 percent in comparison with NTD 71.7 billion in 2015 H1. Of these new policies, the sum assured for variable life insurance policies dropped by 64.39 percent to NTD 5.5 billion; the sum assured for variable universal life insurance declined by 24.26 percent to NTD 40.6 billion, and the sum assured for variable annuity increased by 37.04 percent to NTD 3.6 billion.

In summary, investment-linked insurance products posted decline in the number of new policies issued, sum assured, and first-year premium income from the levels achieved in 2015 H1.

#### **5. Group Insurance and Personal Insurance**

In 2016 H1, 22.25 million new insurance policies were issued, down 10.61 percent from the 2015 H1 figure of 24.89 million. The number of new personal insurance policies issued totaled 7.20 million, an increase of 1.55 percent from 7.09 million in the same period last year. A further breakdown by product type indicates the following: health insurance accounted for 2.11 million policies, down by 6.22 percent; annuity insurance constituted 0.09 million policies, a decline of 25 percent; accident insurance represented 3.01 million policies, a decrease of 0.33 percent, and life insurance amounted to 1.99 million policies, an increase of 17.06 percent. The number of insured protected by group insurance totaled 15.05 million people, down by 15.45 percent from 17.80 million people reported in 2015 H1.

The sum assured of the newly issued policies totaled NTD 23.18 trillion, a decline of 10.36 percent compared with NTD 25.86 trillion in 2015 H1. The sum assured for newly issued personal insurance policies amounted to NTD 16.30 trillion, up by 2.64 percent from NTD 15.88 trillion recorded in the same period last year. A breakdown of the sum assured for the newly issued personal insurance by product type shows the following: the sum assured for life insurance stood at NTD 1.05 trillion, up by 10.53 percent; accident insurance reached NTD 14.42 trillion in sum assured, up by 2.63 percent; the sum assured for health insurance amounted to NTD 0.75 trillion, an increase of 2.74 percent; and the sum assured for annuity insurance was NTD 0.08 trillion, a decline of 46.67 percent. The sum assured for newly issued group insurance saw a significant decrease of 31.06 percent, dropping from NTD 9.98 trillion

in 2015 H1 to NTD 6.88 trillion in 2016 H1.

In summary, life insurance, accident insurance, and health insurance saw growth in the sum assured and premium income in 2016 H1 compared with the same period last year. By contrast, annuity insurance posted decline in the number of new policies issued, sum assured, and premium income compared with 2015 H1.

## **6. Policies in Force**

As of the end of June 2016, there were 202.22 million policies in force, up by 0.49% percent compared with 201.23 million policies in force as of the end of June 2015. The number of life insurance policies in force totaled 54.54 million, an increase of 2.23 percent; accident insurance policies in force came to 58.58 million, a decrease of 2.33 percent; health insurance policies in force stood at 87.92 million, a growth of 1.30%, and annuities in force totaled 1.18 million, up by 6.31 percent. The sum assured for policies in force totaled NTD 95.98 trillion, a slight increase of 0.83 percent from the figure of NTD 95.19 trillion at the end of June 2015. A breakdown of the total sum assured by product type shows that life insurance grew by 2.97 percent to NTD 41.30 trillion; accident insurance saw an uptick of 0.44 percent to NTD 36.12 trillion; health insurance declined by 3.19 percent to NTD 17.32 trillion, and the sum assured for annuities climbed 0.81 percent to NTD 1.24 trillion.

## **7. Insurance Benefit Payments**

In 2016 H1, insurance benefit payments totaled NTD 788 billion, down by 0.69 percent compared with NTD 793.5 billion in 2015 H1. Of these, health insurance payments saw the biggest growth of 9.98 percent, totaling NTD 52.9 billion; accident insurance payments came second at 7.14%, reaching NTD 11.6 billion; followed by life insurance payments at 0.31% (NTD 637.5 billion), and annuity payments at -13.11% (NTD 86.1 billion). In terms of the number of beneficiaries, a total of 16.12 million people received insurance benefit payments in 2016 H1, an increase of 9.81 percent compared with 14.68 million in 2015 H1, and the number of beneficiaries of life insurance benefit payments topped the chart, accounting for 9.23 million, or 57.26 percent, of the total number of beneficiaries.

A breakdown of the types of benefit paid indicates that maturity benefits accounted for NTD 311.3 billion, or 39.50 percent of the total benefit payments in 2016 H1, followed by surrender benefits at NTD 262.5 billion (33.31 percent), and survivor benefits at NTD 85.8 billion (10.89 percent). Together, the three types made up 83.69 percent of the total benefits paid. However, although making up the lion's share of total benefits paid, maturity benefits decreased 2.87 percent from NTD 320.4 billion in 2015 H1 to NTD 311.3 billion in 2016 H1. This decline is mainly attributable to a decrease in maturity benefit payments for investment-linked products by comparison with the same period last year.

## **B. Financial Overview and Analysis**

### **1. Assets and Liabilities**

As of the end of June 2016, life insurance companies reported NTD 21.23 trillion in assets, up 14.82 percent compared with NTD 18.49 trillion in the same period in 2015. A breakdown of the assets shows that total assets excluding separate accounts totaled NTD 19.68 trillion, an increase of 15.83 percent. The value of the separate accounts amounted to NTD 1.55 trillion, representing 7.30 percent of the total assets, down from 8.11 percent as of the end of June 2015.

A breakdown of life insurance companies' asset allocation by category indicates the following: 72.30 percent of the total utilized fund was allocated in securities, 7.30 percent in separate accounts, 7.11 percent in loans, 4.24 percent in cash and bank deposits, 4.52 percent in property investment, and 4.52 percent in other assets. In comparison with the end of June 2015, the most notable growth can be seen in investments accounted for using the equity method (55.56 percent) and securities (17.35 percent). The growth is likely a result of life insurers' capital utilization and allocation strategies.

As of the end of June 2016, life insurance companies recorded NTD 20.11 trillion in total liabilities, up by NTD 2.64 trillion, or 15.11 percent, when compared with NTD 17.47 trillion in the same period in 2015. Of these, insurance liabilities accounted for NTD 17.93 trillion, or 89.16 percent of total liabilities and 84.46 percent of the total assets.

Also during this period, the owners' equity of the life insurance industry totaled NTD 1,117.2 billion, an increase of NTD 100.9 billion from the figure of NTD 1,016.3 billion at the end of June 2015. The owners' equity to asset ratio fell from 5.50 percent at the end of June 2015 to 5.26 percent, which was still higher than the pre-European Debt Crisis level (the ratio stood at 4.03 percent at the end of 2009). In the meantime, liability-to-owners' equity ratio (leverage) increased from 17-fold at the end of June 2015 to 18-fold, indicating that life insurers now have higher tolerance for future losses and that their financial standing is robust.

### **2. Profits and Losses**

Life insurance companies recorded NTD 1.89 trillion in aggregated operating revenue as of the end of June 2016, up 15.70 percent from NTD 1.63 trillion in the same period in 2015. Operating costs at NTD 1.79 trillion, an increase of 20.96 percent from the figure of NTD 1.48 trillion at the end of June 2015, accounted for 94.71 percent of the total revenue. As the result, life insurance companies posted NTD 101.2 billion in business profits.

Operating life insurance companies posted total profits of NTD 39.6 billion as of the end of June 2016, a decrease of NTD 50.7 billion on the NTD 90.2 billion from the same period in 2015. This significant deterioration is attributable to Brexit-triggered fluctuations in financial markets and declining interest rates. The market is also expecting the US to delay its rate hike schedule, leading to persistent low interest rates. All of the aforementioned factors mean that the

comprehensive income for life insurance companies suffered a whopping decrease of NTD 114.4 billion—from NTD 126.9 billion at the end of June 2015 to NTD 12.5 billion in the same period in 2016.

### **3. Utilization of Funds**

As of the end of June 2016, the life insurance industry recorded NTD 19.07 trillion in available funds, up by 15.23 percent from NTD 16.55 trillion in same period in 2015. Among the fund utilization categories, securities investment accounted for NTD 4.53 trillion, or 23.75 percent of the total utilized funds (government bonds and treasury bills making up NTD 2.03 trillion or 10.64 percent), and foreign investment totaled NTD 11.61 trillion, or 60.88 percent. The combination of the two categories represented as high as 84.64 percent of the total utilized funds.

The life insurance industry's overseas investment grew from NTD 8,835 billion in 2015 H1 to NTD 11,608.3 billion in 2016 H1. Overseas investment as a share of the total utilized funds also increased 31.39 percent from 53.39 percent in 2015 H1 to 60.88 percent in 2016 H1, indicating that overseas 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 increased by NTD 27.3 billion, or 109.84 percent, from NTD 24.9 billion in 2015 H1 to NTD 52.2 billion in 2016 H1.

## **II. Conclusion and Outlook**

### **A. Conclusion**

In 2016 H1, life insurance companies recorded NTD 1,549.1 billion in premium income, up by 9.84 percent compared with the same period last year, while first-year premium income increased by 12.55 percent to NTD 654.5 billion. First-year premium income generated from traditional products grew 42.95 percent from 2015 H1 to NTD 571.1 billion. On the other hand, first-year premium income from investment-linked products dropped 54.15 percent to NTD 83.5 billion. Overall, the increase in premium income was a result of growth in premium income generated from traditional products.

In 2016 H1, 22.25 million new insurance policies were issued with a total sum assured of NTD 23.18 trillion. Personal insurance saw growth in both the number of new policies issued and the sum assured, while group insurance recorded decline in both. The total number of policies in force was 202.22 million and the total sum assured came to NTD 95.98 trillion, a slight increase over the same period last year. Meanwhile, life insurers paid a total of NTD 788 billion in benefits, of which life insurance and annuities accounted for 91.82 percent. A further analysis of the benefit payments shows that surrender benefits (NTD 262.5 billion), maturity benefits (NTD 311.3 billion), and survivor benefits (NTD 85.8 billion) made up 83.69 percent

of the total benefit payments. Of these three, maturity benefit payments fell 2.87 percent from 2015 H1 possibly owing to a decrease in maturity benefit payments for investment-linked products.

Life insurance companies posted a net investment profit of NTD 364.5 billion, down 1.71 percent from NTD 370.9 billion in 2015 H1. The significant decline in 2016 H1 was mainly a result of uncertainties in global economy and interest rate policies. Net profits from continuing operations in the life insurance industry were NTD 39.6 billion.

## **2. Outlook**

Against a background of persistently low interest rates across Europe, the US, Japan, and Taiwan, the declared interest rates of Taiwanese life insurance companies remained competitive in 2016 H1, thus driving up sales of interest-sensitive insurance policies and traditional endowment insurance policies, which contributed to the overall performance of traditional insurance policies. However, a number of insurance companies in Taiwan started lowering declared interest rates around April or May, or replaced old policies with new ones. In addition, the new regulatory requirement that insurance companies reduce policy sales commissions paid to distribution channels will prove challenging for the insurance industry if it is to generate a higher premium income in 2016 H2 over the 2015 H2 figure.

By contrast, investment-linked products lost their allure in 2016 H1 owing to dampened investor confidence stemming from fluctuations in global financial markets. Among these products, first-year premium incomes for investment-linked life insurance and for investment-linked annuities were comparable, at approximately NTD 40 billion. However, these figure indicate a decline of more than 50 percent from 2015 H1. Thus, the prospect for first-year premium income hitting another high in 2016 will depend on the performance of traditional life insurance.