

# Taiwan Life Insurance Market Report

## 2005 Semiannual

### I. Market Overview

The life insurance market of Taiwan continued its premium growth in the first half-year of 2005. Most of the revenue growth came from new business. In terms of product market share, a tripartite division of investment-linked product, annuity, and traditional life insurance is no longer the case in 2005 due to the ascent of short-term endowment and the descent of interest-sensitive annuity.

The overall profit of the life industry in Taiwan in the first six months only attained NT\$ 2.5bn. Major portion of the profit came from investment instead of underwriting. The profit was much lesser than the record last year because the rise of short-term endowment augmented reserve requirement, and the hedge cost for the expanded foreign investment doubled due to unfavorable currency exchange risk.

### II. Life Insurance Operation

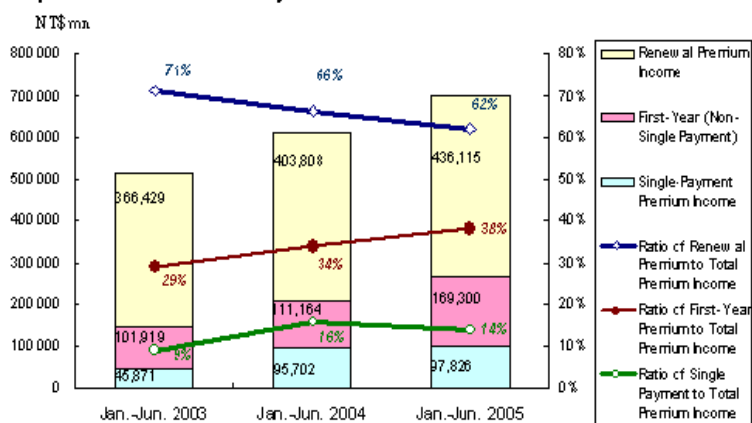
#### Economic Environment

The economic growth rate of Taiwan in the first six months of 2005 was 2.78% (1Q was 2.54%, and 2Q was 3.06%), which was lower than expected. Unemployment rate decreased further to 4.14%, and the average income per capita equaled to NT\$ 109,627 in first quarter and NT\$ 97,195 in second quarter. However, the income growth rate did not catch up with the price index growth rate. On top of that, the newly implemented labor pension system<sup>1</sup> has an unknown impact on future salary growth, thus hindering the public's willingness to purchase insurance products.

#### Premium Income

The total premium income earned during the first half year of 2005 by life insurance industry in Taiwan equaled to NT\$ 703.2bn, an increase of 15.16% from same period last year. Attaining 37.98% of the total premium, first-year

Graph 1: Premium Income Analysis



<sup>1</sup> For details, please see Labor Pension Act <http://laws.cla.gov.tw/Eng/FLAW/FLAWDAT0201.asp> and Implementation Regulations of the Labor Pension Act <http://laws.cla.gov.tw/Eng/FLAW/FLAWDAT0201.asp>

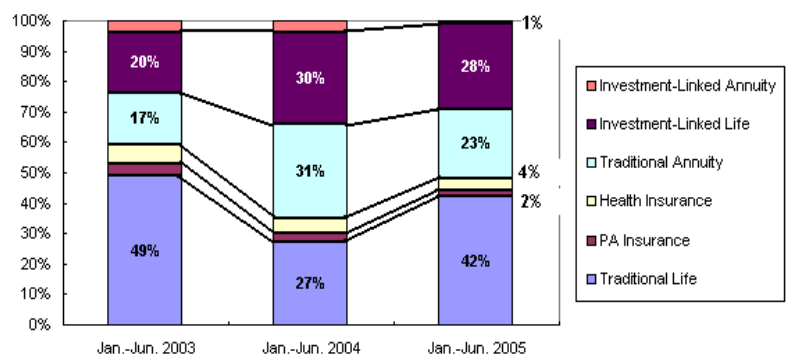
premium summed up to NT\$ 267.1bn with a growth rate of 29.13%. Meanwhile, renewal premium amounted to NT\$ 436.1bn, reaching only 8% growth rate from last year. The ratio of renewal premium to total premium fell from 2003's record of 71.26% to 66% of last year and to 62.02% of this year as the result of high concentration of single payment policies sold and the flexible payment terms of the investment-linked products.

### Products Market Share

Several changes could be detected when comparing the product market share by first-year premium (FYP) between 2004 and 2005 as depicted in Graph 2. First, the FYP of traditional life insurance (NT\$ 111.8bn) hiked 86% from same period last year because of high volume of short-term endowment sold, thus capturing 41.9% of the market share. Secondly, although the FYP of investment-linked life product (NT\$ 74.1bn) grew 21%, the market share slid slightly.

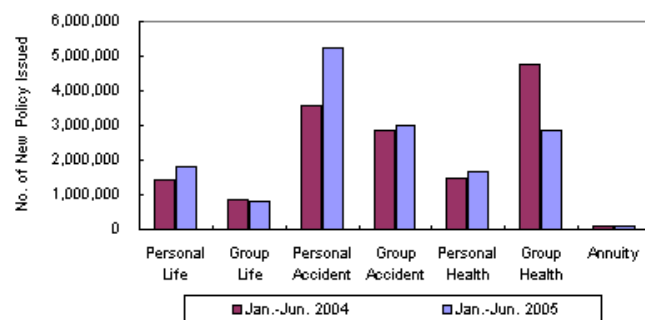
Thirdly, the FYP of traditional annuity merely increased 9%, and investment-linked annuity plummeted 79% due to changes in insurers' product strategy to promote interest-sensitive products and investment-linked life product. As the result, semiannual market share for annuity dropped down to 24%.

**Graph 2: Product Market Share by FYP, 2003-2005**



Our analysis also showed that group insurance in general was not performing as well as personal insurance. Based on the 15.52 million new policy issued during the first semiannual 2005, personal insurance boosted by 34.25% and group insurance plunged 21.36%. Highest growth was attained by personal accident insurance (47%)

**Graph 3: New Business, 2004 and 2005**



Source: Life Association of R.O.C.

and the largest decrease was found in the sales of group health insurance. It could have been the side affects of industry migration. In addition, the implementation of the Labor Pension Act (LPA) could have augmented company cost, thus leading to a budget reduction on group insurance. It was still too early to tell whether the LPA would open the opportunities for life insurance companies on group annuity and pension or would bring disadvantage to the group insurance market in the long run.

## Market Concentration

The life insurance market in Taiwan continued to be dominated by five largest life insurers, which seized 64.1% of the total premium income and 57.9% of the total first-year premium income of the industry during the first semiannual of 2005.

Top 10 life insurers, based on premium income ranking, had an average growth rate of total premium income of 14.59% and first-year premium income of 31.73%. Most companies revealed steady growth. Larger volatility was found in the performance of the non-top 10 companies. With 17.82% average growth rate on total premium income and 20.47% on first-year premium income, most companies improved their revenue by selling investment-linked insurance product that links to structured-notes, interest-sensitive annuity, and compound interest increasing whole life insurance.

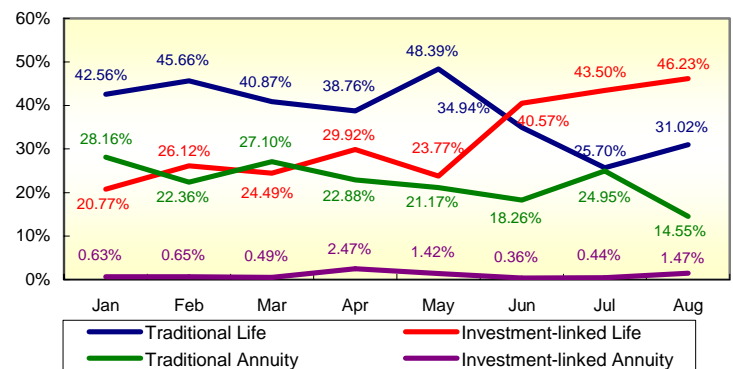
## Product Analysis

The product filing data and sales records received by TII between January to June 2005 indicated that product lines continued to expand, offering diverse services to consumers. New products included universal life insurance, interest-sensitive life insurance, term life insurance or mortgage insurance. In addition, participating insurance is on the rise as interest rate is expected to increase.

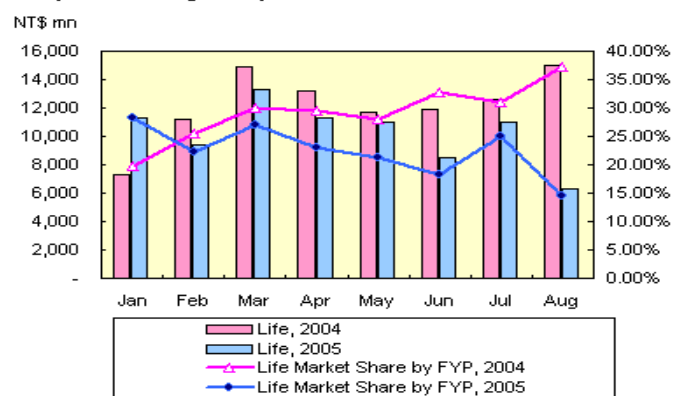
Analyzing the product market trend (see Graph 4), traditional life product reached its sales climax by May, taking almost 50% of market sales. The number did not decline until the short-term endowment was ceased from selling after the sales cap was met. By June, investment-linked life insurance took the lead in the market because of the introduction of structured-notes investment linked insurance. On the contrary, sales of traditional annuity appeared to be decreasing every month.

Last year's popular product, interest-sensitive annuity, was bonded by new restrictions on declared interest and lost its attraction in the

**Graph 4: Product Market Trend by F-Y Premium, Jan-Aug 2005**



**Graph 5: Annuity Comparison, 2004 vs. 2005**



market, thus causing the FYP market share for life annuity to fall from 38% in August 2004 down to 15% in August 2005. Besides the life insurers' own strategy of not to follow interest raise by the Central Bank<sup>2</sup>, the regulator also made product promotion more difficult by promulgating a new guideline in May to restrict the declared interest of interest-sensitive annuity from exceeding the ten-year secondary market government bond yield rate for policy issued after May 2005.

Meanwhile, personal accident insurance continued its growing trend from latter half year of 2004 to the first half year of 2005. First year premium was NT\$ 6.53bn (+8.9%) and total premium income was NT\$ 28.8bn (+2.6%).

### Marketing Channels

As of the end of June 2005, registered life insurance salesperson totaled to 318,234 people, a decrease of 15,647 people from the beginning of the year. Life insurance company salesperson reduced 17,647 people; insurance brokers increased by 1,152; and insurance agency also increased 875 salespersons.

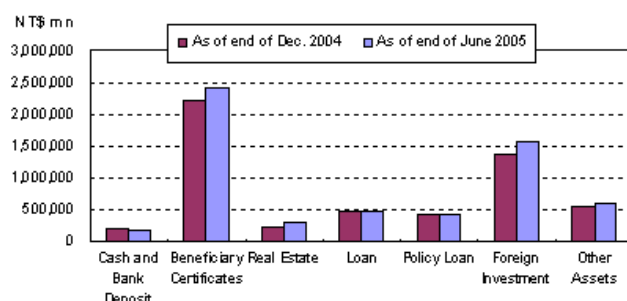
The Labor Pension Act implemented in July may have exacerbated the elimination of less productive workers from the sales force. But, a more essential trigger could have been the transformation of product structures in the market. Not only that the popular products of recent years offered lower sales commission, they were mainly sold through banks prompting the fast development of bancassurance, therefore simultaneously, decreasing the retention ratio of life insurance salesperson.

## III. Financial Overview of the Industry

### Asset and Liability

As of end of June 2005, the total asset of life insurance companies summed up to NT\$ 5,988.5bn, increasing NT\$ 487.5bn since the beginning of the year. Asset portfolio of the life insurers includes securities, bonds, and beneficiary certificate (40.1%), foreign investment

**Graph 6: Changes of Assets of Life Insurance Industry**



(26.3%), collateral loan (8.2%), policy loan (7.1%), real estate (4.8%), cash and bank deposit (3.0%). Compared to the beginning of the year, the biggest increase was the investment in real estate (24%) and foreign investment (15%); the biggest decrease was in cash and bank deposit (-11%).

The ratio of liability to asset was 96.1%. The reserves amounted to NT\$ 5263.9bn. The ratio of reserve to asset was 87.9% and the policyholder's surplus to total assets was 3.9%. Net

<sup>2</sup> The Central Bank increased interest rate five times since September 2004.

increase of reserves to premium income came to 66.03%, implicating a stabile financial structure for the life industry.

## Profits and Losses

The pre-tax profit of semiannual 2005 for the life industry came to NT\$ 2.54bn. While 13 life insurers had profit that summed to NT\$ 15.14bn, 15 other companies had loss that amounted to NT\$ 12.57bn. The pre-tax profit plunged 56% (NT\$ 3.296bn) when compared to the record from last June.

The financial gains (NT\$ 126.6bn), which surged 23% from last year, continued to be the main source of the industry's profit. On the other hand, policy underwriting aggregated to a loss of NT\$ 40.4bn chiefly caused by the increase of reserve to match the short-term endowment product requirement. Other operating loss also amplified NT\$ 9.1bn from last year due to mountable hedging cost in 2005.

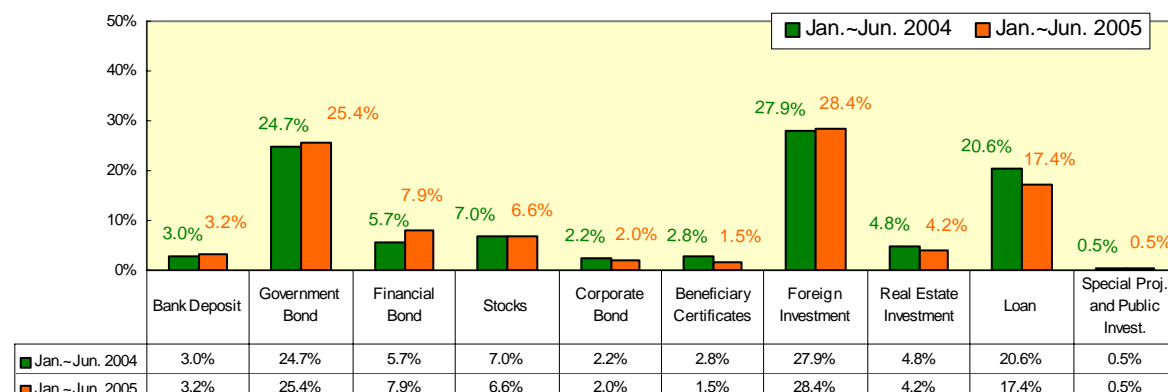
Table: Profit and Loss Accounts for Life Insurance, Jan-Jun '05 Unit: NT\$ bn

| ITEM                            | Jan-Jun 2005   | Jan-Jun 2004   | Change %       |
|---------------------------------|----------------|----------------|----------------|
| Business Revenue                | 895.4          | 801.8          | 11.67%         |
| Financial Revenue               | 268.0          | 251.9          | 6.42%          |
| Misc. Operating Revenue         | 18.6           | 8.1            | 128.0%         |
| Non-Operating Revenue           | 5.7            | 5.2            | 9.37%          |
| <b>Total Income</b>             | <b>1,187.7</b> | <b>1,067.1</b> | <b>11.30%</b>  |
| Business Expenses               | 935.8          | 829.2          | 12.86%         |
| Financial Expenses              | 141.4          | 149.1          | -5.15%         |
| Business Administrative Expense | 41.0           | 37.7           | 8.79%          |
| Misc. Operating Expenses        | 58.8           | 39.3           | 49.65%         |
| Non-Operating Expenses          | 8.2            | 6.0            | 36.32%         |
| <b>Total Expenses</b>           | <b>1,185.1</b> | <b>1,061.2</b> | <b>11.68%</b>  |
| <b>Profit / Loss (Pre-Tax)</b>  | <b>2.5</b>     | <b>5.9</b>     | <b>-56.11%</b> |
| Operating loss/profit           | 5.1            | 6.7            | -23.80%        |
| Other Operating loss/profit     | -40.2          | -31.1          | 29.41%         |
| Non-Operating loss/profit       | -2.5           | -0.8           | 211.19%        |

## Fund Utilization

The amount of life insurance funds available for utilization as of the end of June 2005 was NT\$ 5,555.9bn, in which 97.2% was utilized. The highest proportion of fund was allocated to foreign investment (NT\$ 1,500bn, 28.4%), and followed by government bond and treasury notes at 25.4%. The biggest differences in fund allocation were found in financial bonds (+2.2%), loan (-2.8%), and beneficiary certificates (-1.3%).

Graph 7: Fund Utilization Overview



The efficiency of financial investment improved. The average return on investment for life

industry came to 4.91%, rose from last year's 4.35%. The number of companies with over 30% of fund infused in foreign investment grew from three at the end of last year to seven as of June this year.

#### IV. Future Outlook

Although premium income continued to grow in the first half year of 2005, a high percentage of the business revenue was made of new business, and the products sold were overly concentrated on certain items. It is hopeful that the current reform on reserve and liberalization of filing system initiated by the regulator will stimulate product diversification and the growth of long-term insurance product in the near future. Furthermore, market interest rates are expected to rise, possibly mitigating the pressure of negative spread faced by the industry and creating a strong incentive to develop participating product.

Despite of the industry's suffering of underwriting loss, the forecast on the life industry's profitability for second half year of 2005 is quite positive. Records in July indicated a significant stock dividend income that could push the pre-tax profit up to NT\$ 10.7bn. REIT (Real Estate Investment Trust) is estimated to generate NT\$ 10bn profit to the industry as well. Nevertheless, the financial soundness of the life industry lies on efficient fund utilization and enhancement of underwriting profit. Hence, lacking of long-term fixed income investment instrument in Taiwan's capital market and profitability of product design must be address in order to ensure a healthiness of the industry.

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