

The Growth and Challenges of Taiwan's Insurance Industry

Jennifer L. Wang
Chairperson
Financial Supervisory Commission,
Chinese Taipei (Taiwan)



Top 5 Challenges of Taiwan Insurance Market

- 1. Population Change**
- 2. Climate Change and Natural Disasters**
- 3. Low interest rate and negative spreads**
- 4. Lack of long-term bond market and appropriate investment vehicles in local capital market.**
- 5. Adoption of International Financial Reporting Standards (IFRSs).**



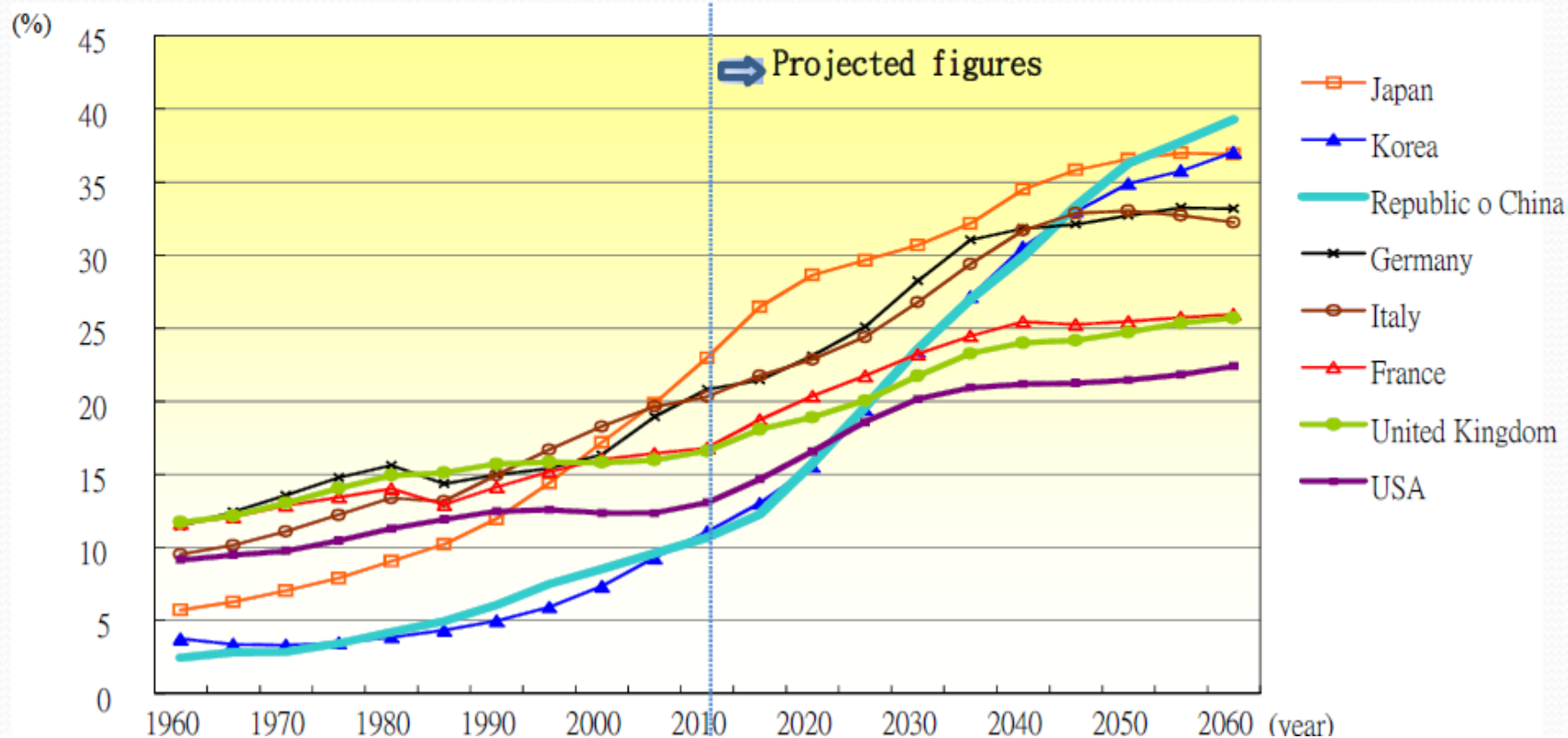
Challenges of Population Change

- ❑ Current life expectancy: total population: 79.98 years; male: 76.85 years; female: 83.33 years in 2015
- ❑ The fertility rate has dropped to 1.12% in 2015.
- ❑ Taiwan working population start to begin declining in 2015.
- ❑ Seniors people accounted for 12.5 percent of total population in 2015. This figure is expected to rise to 20% in 2025, and 38% in 2050.
- ❑ By 2030, every 2.7 working persons will have to support one elderly person, which is triple the burden of working persons today.
- ❑ The future will see more and more reliance on financial market, especially annuities, long-term care and other retirement protection products from the life insurers.



Elderly Population as Proportion of Total Population

- From 1960 to 2015, the proportion of Taiwan's total population aged 65 years and over has been similar to that of Korea, and less than that in the other countries listed in the graph
- In 2060, the proportion of the total population that is elderly in Taiwan, Japan, and Korea will be higher than that in the other countries listed in the graph





Challenges of Natural Disasters

- ❑ The frequency of typhoons in Taiwan has been increased dramatically, Especially after 2000. Since 2000, the average number of typhoons each year has been rise up from 3.3 to 5.7.
- ❑ The temperature has been increasing regardless whether the observation period.
- ❑ Taiwan now has fewer average rainy days per year, but heavy rains are much more frequent.
- ❑ Nature catastrophic have become server and usually are beyond the government budget
- ❑ The future will need to more reliance on financial market, especially weather related products from non-life insurers.

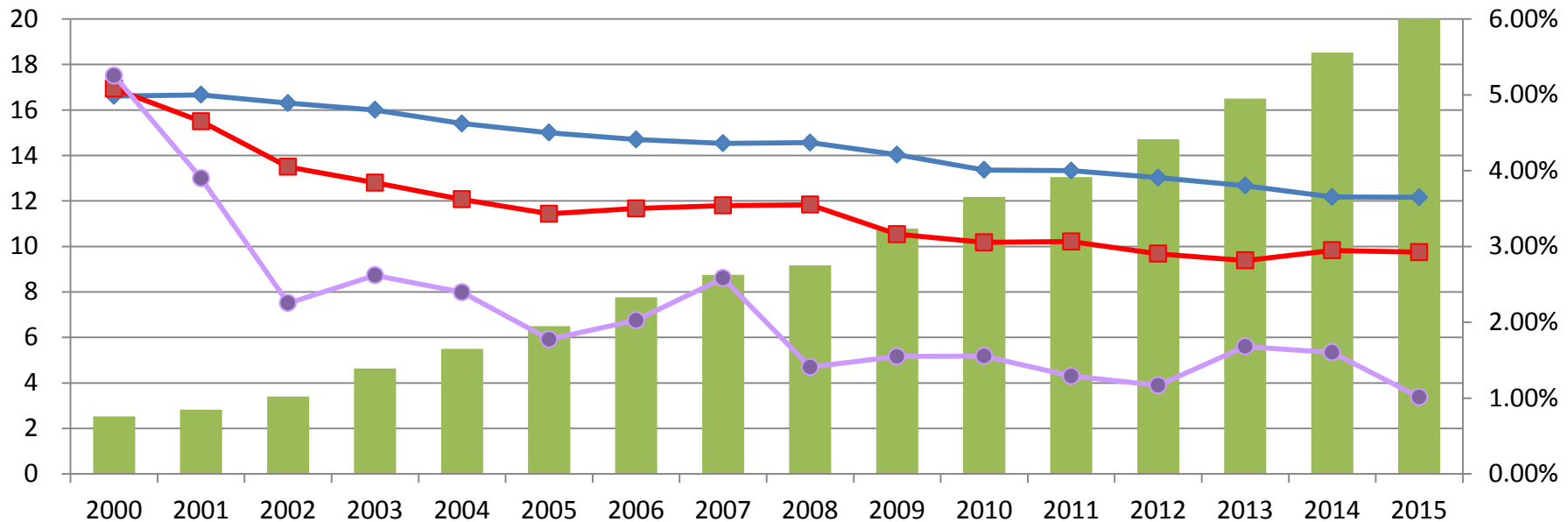


Low Interest Rate and Negative Spreads

Taiwan Dollar,
Trillion

Industry Total Assets(NT\$trillion, LHS)
Industry Investment Recurring Yield

Industry Weighted Average Cost of Liability
Taiwan 10Y Gov't Bond Yield



Source: Central bank of Taiwan, Taiwan insurance Institute, Cathay Life Insurance Company

Since 2000, the average liability cost of insurance companies in Taiwan has declined 140 bps, and the investment yield has decreased 220bps. In 2015, the investment recurring yield was only 2.9%, whereas its gap between the cost of liability (3.6%) is still significant.



How to Build a Better Future





Measures to Enhance Insurers' Competitiveness

Main Strategies

In 2015, FSC implement "Insurance Market Enhancement Project" to increase the competitiveness of Taiwan insurance industry.

- 1. Enhance operating and investment efficiency**
- 2. Improve capital adequacy**
- 3. Strengthen Risk Management and Development of ERM**
- 4. Encourage insurers to expand stronger Asian presence**
- 5. Encourage more demand of retirement market**
- 6. Meet Internet era insurance needs**
- 7. Promote innovative insurance products**



Loosen Investment Restrictions to Enhance Investment Returns

Increase the flexibility of Asset Allocation
Loosen investment limitations for qualified insurers

Investment limits

2001 : Real Estate limits
19%→30%
2007 : Overseas Investment limits to 45%
2012 : Policy paid in foreign currency can be excluded from the 45% limit
2014 : Overseas acquisition can be excluded from the 45% limit

Investment Category

1992 : special projects, public utilities
2002 : Agency MBS
2008 : REITs, Hedge Fund, CDO, MBS, ETF
2013 : Investment overseas real estate through SPV or Trust structure
2015 : Secured foreign currency syndicated Loans

Investment Area

1992 : Overseas Investment
2010 : China

Reserve

2012 : Foreign-exchange reserve



Build Better Investment Environment

- “Formosa Bond” was launched to spur local bond market
 - Insurers are allowed to invest local foreign-denominated bonds (including RMB bond) without being included in the overseas investment ceiling
 - as of 2015, 274 bonds had been issued with an amount of NT\$2.14 trillion. It is estimated that insurers’ investment income has increased by NT\$37.6 billion.
- Encourage insurers to invest high-quality growth enterprises in order to effectively help economic growth.
- Encourage insurers to participate in government infrastructure projects and long-term care industry.
 - Insurers can invest in the long-term care infrastructure, including both physical facilities and nursingsystems
 - Encourage insurers to invest in long-term care industry and use such investments to support development of their long-term care insurance products.



Change Insurance Product Mix

Taiwan Stock Market Trend



Balance investment risk

- Create natural hedging or liability hedging by changing product mix
- Control the mortality and expense margin

Regulation measures

1. Sell more investment-linked products :

Lower the liability cost , increase the expense margin benefit for insurance companies.



2. Promote some insurance-protection products :

Stabilize the mortality margin benefit for insurance companies.

EX: Non-participating insurance products; Health and accident policies



Strengthen Capital adequacy

Strengthen Insurers' Capital



Insurers are required to calculate the RBC Ratio semi-annually
→ **Ensure solvency & Safeguard the interests of policyholders**
《Taiwan is the first three countries adopting RBC regulations in Asia》

【Strengthen Total Adjusted Capital】

Annual
Review

【Enhance Risk-Based Capital】

Risk based insurance premium of Insurance Guaranty Fund
Adopt differential contribution rates for Insurance Guaranty Fund
to encourage insurers to strengthen capital



Strengthen Market Discipline

- ❑ Due to the capital adequacy ratio below the legal standard, two insurance companies were takeovered in August 2014, in order to safeguard policyholders' interests and maintain a stable insurance market.
- ❑ The Taiwan Insurance Guaranty Fund (TIGF), appointed by the FSC as the receiver and successfully closed the deal through public auction on March 2015.
- ❑ Prompt Corrective Action was added into Insurance Act. When capital adequacy ratio is categorized as seriously inadequate capital, and the insurer fails to increase capital, the FSC shall assume receivership over the insurer, order the insurer to suspend and wind up business, or liquidate the insurer within 90 days.



Strengthen Risk Management Development of ERM

Mitigate Business Risks of Insurers

To improve risk management

- ❑ Set up ERM system and Asset-liability management committee
- ❑ Implement Own Risk and Solvency Assessment (ORSA)
- ❑ Develop better reinsurance and hedging strategies

Differentiate Contribution Rates of Insurance Guaranty Fund

Insurance Guaranty Fund

- Safeguard the interests of policyholders
- Maintain financial stability

Differentiate
Contribution
Rates

RBC Ratio

Operating Performance

Risk Management

Financial Structure

Business Indicator

Compliance

- ✓ Deepen differentiated supervision
- ✓ Establish a solid risk management system and an internal control system
- ✓ Guide insurers to mitigate business risks



Expand Stronger Asia Insurance Market Presence

- ❑ Munich Re Insurance Market Outlook: “Asia will be the dominant driver of world insurance growth by 2020.”
“Especially, the emerging Asian countries will see the highest increases, with their share of global premium volume being expected to rise at least by 5 %.
- ❑ FSC deregulate to encourage insurers for more overseas investment and M&A activities in the Asia market.
- ❑ Overseas M&As: From 2013 to 2015, 12 deals of M&As were completed in insurance industries.
- ❑ By the end of 2015, Taiwanese insurance companies have 41 foreign offices, representing a 7.9% increase compared to the end of 2013. Among the foreign establishments, 39 of them are located in Asia, up by 8.3%.



Foreign Currency Insurance Products

The Pros of foreign currency products

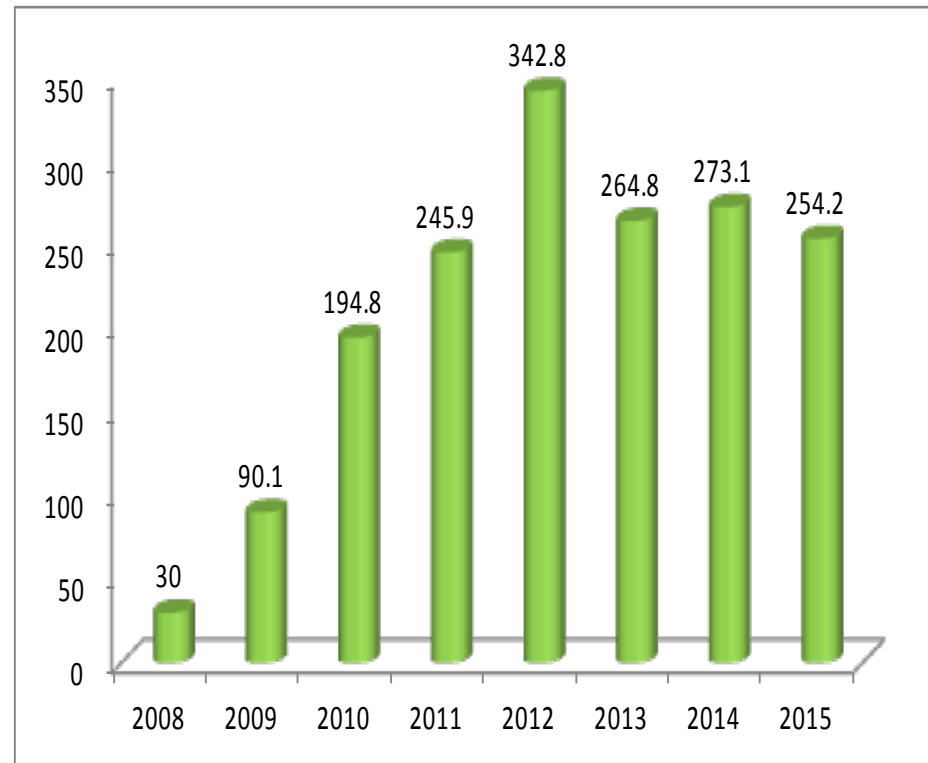
- **Insured side :**
 - High pricing interest rate
 - ➔ cheaper premium.
- **Insurers side :**
 - Hedge currency risk and Provide better benefits.
 - ➔ Good for ALM and improve the investment return.

Open USD 、 EUR 、 AUD from 2008
Open RMB from 2012

➔ The sales volume keeps improving for foreign currency products.

FYP of foreign currency products

(NTD : Billion)



Source: The Life Insurance Association



Future Potential Market in Taiwan

- ☐ **Develop Offshore Insurance Unit (OIU) Business**
- ☐ **Develop Micro insurance market**
- ☐ **Develop e-commerce insurance market**
- ☐ **Increase demand for retirement products**
- ☐ **Increase demand for weather related products**
- ☐ **Increase demand for agricultural insurance products**



Develop Offshore Insurance Business

- To increase internationally competitive, in 2015 the FSC allow insurers to establish an offshore insurance unit (OIU) to conduct offshore life, non-life and reinsurance business denominated in foreign currency by granting tax exemption and relaxing regulations.
- Under OIU, FSC will allow insurance firms to provide a wider range of products and services beyond the limitation of current insurance law and regulations.
- As of November 30, 2015, the FSC has approved 18 insurance companies to engage in OIU business.
- In the future, the FSC will continue to review relevant regulations to constantly expand insurers' business opportunities and strengthen their competitiveness.



Develop Microinsurance Market

- Encourage insurers to provide microinsurance for economically disadvantaged people since 2009.
- With active promotion by the FSC, microinsurance insurance premium has significant growth.

Policy Guidance and Incentive

**Well Performance
Company**



1. Increase approval of new products.
2. Priority review for the application of insurance products.
3. Lower rate of insurance guaranty fund.

- As of December 31, 2015, the number of individuals covered by micro insurance reached 220,949. The total insured amount are more than NT\$75.8 billion.



Develop E-commerce Market

- In response to the digital trend in financial services, the FSC has continued to implement measures to allow insurers to engage in online sales of insurance at different stages.
- As of December, 2015, there are 9 life insurers and 12 non-life insurers engaging in online sales of insurance. The accumulated premium reaches NT\$218 million with 207,000 policies.

Future Directions

Method	Noninsurance financial electronic signature certificate, or apply a set of ID and password at the insurance company's counter, or even the company's exist customer can directly apply the ID and password online.
Type	Travel insurance, Personal injury insurance, Residential Earthquake Insurance ,Homeowner Insurance, Automobile Insurance , Annuity, Endowment
Payment	Credit card, eATM, Bank tranfer, Convenient store(7-11)



Respond to old-age Insurance Needs

Longer life

- The average lifespan in Taiwan increases by an average of 0.13 years annually.

Higher medical costs

- Average annual medical expenses for the elderly in Taiwan are triple the national average.

Greater need for long-term care

- Disabled population rising by 20% per year. Long-term care will become increasingly important.

Current retirement market is very limited

- ❑ Annuities only account for **8.71%** of total life insurance premium income.
- ❑ Total long-term care insurance premium only account for **0.56%** of total life insurance premium income.



Increase Demand for Retirement Market

□ **Group Annuity and Retirement Saving Market**

Member investment choices under employer DC pension plans

- ✓ Private university DC pension
- ✓ New Labor Pension DC Scheme
- ✓ Government Employees' and School Staffs' Insurance (GESSI) second-tier DC schemes

□ **Individual Retirement Saving Market**

- ✓ Demand for individual annuity is raising significantly.

□ **Long-term Care insurance Market**

- ✓ With active promotion, individual annuity contracts in force rose from 250,000 in 2007 to 560,000 in 2014. The size is more than double and expected to grow 10% annually.



Tax Incentives for Retirement Products

- ❑ The Financial Supervisory Commission and the Ministry of Finance have established a Joint Task Force on Financial Sector Taxation to devise suitable tax incentives to encourage consumers to buy more insurance for retirement.
- ❑ By offering more tax incentives of annuity and long-term care insurance products, FSC encourages consumers to start their retirement savings as early as possible.
- ❑ The tax incentives includes:
 - ❑ Provide long-term care Insurance premium deduction.
 - ❑ Establish qualified deferred annuity advantage system.

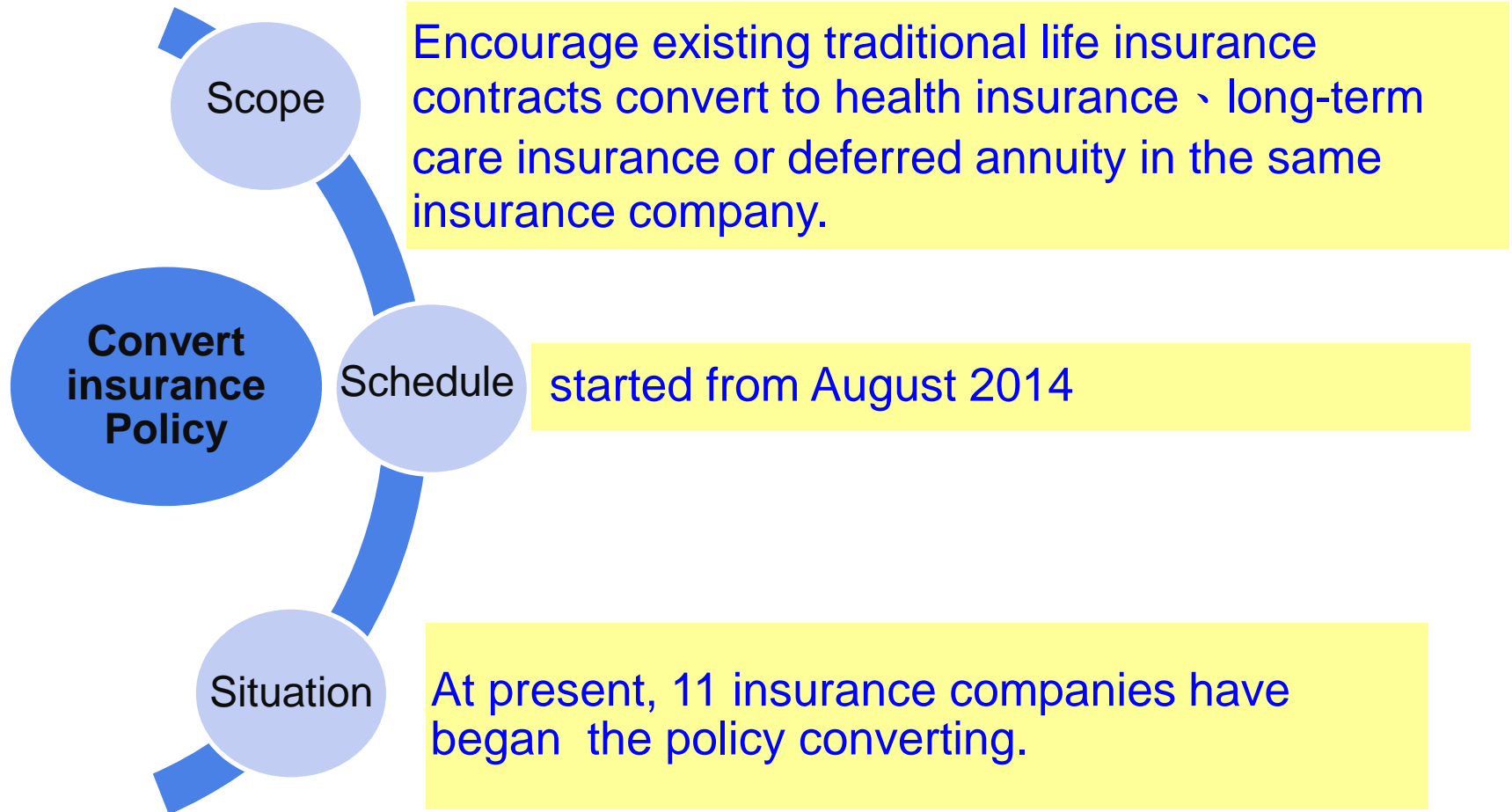


Retirement Protection Products

insurance product Effective contract	Annuity	Long-term care Insurance	medical insurance	Micro- insurance
2011	520,000	380,000	56,010,000	23,000
2012	490,000	420,000	58,760,000	23,000
2013	480,000	460,000	60,800,000	23,000
Sep.,2014	480,000	500,000	62,400,000	62,000
Estimated 2015 Growth Target	530,000 (Estimated growth of 5%)	560,000 (Estimated growth of 10%)	64,500,000 (Estimated growth of 3%)	80,000 (Estimated growth of 15%)



Converting Existing Life insurance to Retirement Protection Products





Innovative Insurance Products

- ❑ New disaster and parametric weather related product**
- ❑ Agricultural insurance**
- ❑ Usage Base Auto Insurance/Pay As You Go Insurance**
- ❑ Foreign currency insurance product**
- ❑ More innovative products for e-commerce market**
- ❑ Encouraging Technological Innovation Products**
- ❑ Group annuity insurance(interest-sensitive)**
- ❑ Variable annuities with guaranteed benefits**
- ❑ Enhanced annuities**
- ❑ Reverse mortgages/annuity**
- ❑ Insurance products providing in-kind payment**

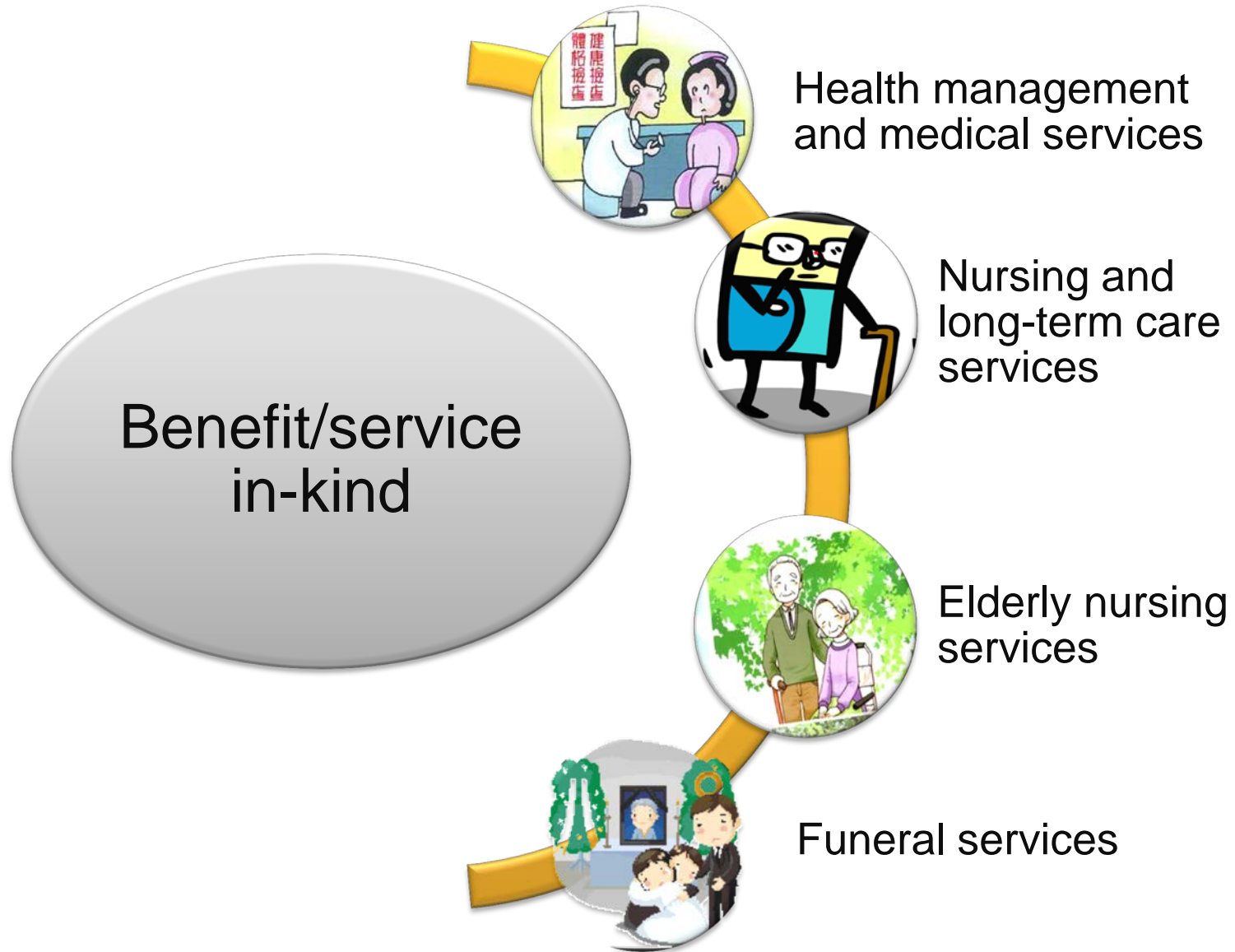


Encouraging Technological Innovation Insurance Products

- ❑ The FSC encouraged insurers to develop insurance products of technological innovation in response to business opportunities that brought by Big Data and Internet of Things.
- ❑ Some insurers have cooperated with banks to issue the “Internet of Things” -concept insurance products, which provide health management platform and functions of uploading physiologic monitoring data by using smart ring to guide insured to better health management.
- ❑ Some non-life insurers have submitted an Usage-Based Insurance (UBI) with the premium rate is set according to different type of driver behavior.



In-kind-benefit LTC Insurance Products





Conclusion

Looking to the future, the FSC will keep refining all the policies and strategies to create a more favorable environment to spur domestic financial and insurance markets.

Through differentiated management, we will simplify the management procedures and provide more elastic control in business for qualified and well performance insurance companies.





***Thank you for
your attention!***

