

COUNTRY PROFILE – TAIWAN

Protection for Taiwan's fast-ageing population



Some might view Taiwan's insurance market as less than lively, but opportunities are by no means lacking.

Mr Shih-Nin Low of **RGA Global Reinsurance Company, Ltd, Taiwan Branch**, explains.



Like most developed countries around the world, Taiwan's population growth has slowed precipitously and its average age is rising fast. Indeed, in 2015's fourth quarter, Taiwan became one of the globe's fastest-ageing nations – equal to Japan and lagging only behind Singapore and South Korea.

With Taiwan's birth rate below replacement and lifespans increasing rapidly, its population is projected to begin contracting before 2020. By 2025, those aged 65 or older, right now 12% of the population, will make up 20%, and by 2051, if current birth and longevity trends continue, over-65 individuals will be 40% of a population that would have shrunk from 23.5 million to 18.6 million.

Infrastructure for locally-based long-term care

As Taiwan's elder population increases, so too will elders with disabilities. Right now, about 20% (500,000) of Taiwan's disabled elderly cannot care for themselves – a figure expected to rise to nearly 1.2 million in 2031.

Taiwan's government has sought to meet the rising demand for a better elder social safety net by moving to strengthen long-term care and day-to-day healthcare for this population.

It is now approximately midway into a 10-year plan to build a nationwide infrastructure that will provide locally-based long-term care, both in-home and facility-based, to individuals, aged 65 and older, who have lost the ability to care for themselves, as well as to physically and mentally handicapped individuals aged 50 and over, and members of Taiwan's mountain indigenous population who are aged 55 and older.

Fast-evolving trends

On the other hand, like in many other Asian nations, the cultural norm of younger family members caring for their elders is vanishing quickly. Taiwan's citizens are well educated and highly literate and the younger generation is more mobile and open to travel abroad for better work opportunities as per capita incomes are relatively low (approximately US\$21,500) compared to neighbouring countries. China alone is

now home to 1 million Taiwanese – nearly 5% of the country's population.

What we foresee is a combination of an ageing population, fast-increasing longevity, growing lack of family support, and the need to pay higher medical costs as population ages. The situation is worsened by the low interest rate environment in Taiwan (one year fixed deposit rate at 1.04%; 20 year Government bond yield at 1.22%), making it more challenging for people to save.

Taken together, all of these fast-evolving trends will lead to a larger need for life, health and asset protection for Taiwan's market.

Still insufficient life protection cover

Although Taiwan already has the highest level of life insurance penetration worldwide (2014 premium as a percent of GDP was nearly 19%, according to the Insurance Information Institute), a substantial majority of this premium is in short-term savings products.

There are several reasons for this, from the country's strong cultural tradition of saving to the ease of selling savings products and the low interest rate environment's deleterious impact on bank-issued savings instruments.

Cost-conscious buyers have been and continue to be more likely to purchase lower-cost, higher-earning savings products from life insurers as an alternative investment vehicle to build their assets. As a result, while insurance penetration is high, most families do not have sufficient insurance protection.

Several strong opportunities

The growing elder cohort and their increasing lifespans are shaping an environment with several strong potential opportunities for insurers to develop the products that will meet an increasingly broad range of care needs into the future.

We have seen similar trends in other Asian countries and observed that those markets are aggressively developing products with design innovations that can serve emerging needs.

Insurers in Hong Kong and Singapore, for example, are successfully offering high sum assured life coverage for their mass affluent populations. Several Southeast Asian countries are providing living benefits cover around

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cancer, critical illness and medical expenses, and Japan has been innovating its long-term care coverage. Wellness programmes are another innovation which has been leveraged successfully by insurers in Hong Kong, Singapore, South Africa and the US, and which has potential within Taiwan's market.

Opportunities in Taiwan's market also include providing life protection for younger individuals and mass affluent markets, developing and selling products that provide financial support upon diagnosis of critical illness and disability to supplement that provided by the country's National Health programme, products providing supplemental long-term care, disability and health care coverage for seniors, and health insurance products for all ages that incorporate wellness programmes.

Underwriting innovations

Underwriting innovations can also strengthen the ability of insurers to provide income and asset protection. Life insurance products with simplified underwriting which are designed to accept most applicants including those with common old age impairments as standard risk have been introduced successfully into Taiwan's market.

However, to take underwriting innovation one step further to, for example, lifestyle underwriting, regulations on underwriting would need to be relaxed. Currently, there is a standard set of underwriting questions, there is also an industry standard for financial underwriting and medical underwriting which most life companies have to follow.

Product innovations

Over the past several years, Taiwan's insurance regulator has attempted to promote product innovation and shift

the market's emphasis from savings to protection, but protection offerings by the country's insurers are still limited compared to other markets.

From the experience in other Asian countries, a key driver to selling protection products is product innovation. However, the product innovation cycle in Taiwan is relatively long compared to other Asian countries, as evidenced by only less than 10 new health products having been approved in Taiwan over the past three years.

The market might experience significant shift to protection if an environment could be cultivated that may motivate life insurance companies to innovate and differentiate their product offerings. Some regulatory keys to doing so might include taking steps to expedite the new product approval process, reconsidering the upcoming new requirement that definition of a new coverage would need to be approved by Life Insurance Association, and further deregulating the online distribution platform.

Facilitating life insurers to go regional

Looking at international competitive landscape, facilitating life companies in Taiwan to be on a level playing field with peers in neighbouring countries would be key to enabling the establishment of units focused on overseas sales, which might potentially pave the way for Taiwan life companies to become regional players.

We look forward to a day where we see a different level of industry growth, where more consumers in Taiwan will have real protection insurance from the solutions offered by the local insurance companies. ■