

# Reinsurance – no seven year itch



*Asia Insurance Review* does a stock take of reinsurance in Taiwan, where three's company – and a crowd with ample global competition – since 2010.

By Chia Wan Fen



The Taiwan reinsurance market has counted a grand total of three players since 2010. Central Reinsurance Corporation (Central Re) is the sole domestic reinsurer, engaged in non-life and life reinsurance for both domestic and offshore firms, while two foreign reinsurers operate through branch offices. RGA Global Reinsurance (RGA) deals exclusively in life insurance globally, and General Reinsurance AG's (GenRe) Taiwan branch focuses on life and health.



While Swiss Re was the first international reinsurance company to be granted a licence in Taiwan in 2004, it exited the market as part of its efforts to reduce its global workforce by 10% a mere five years later, after reporting an annual net loss globally in 2008. Close to a decade later, a handful of foreign reinsurers – Munich Re, Hannover Re, Toa Re, Scor and Asia Capital Re – maintain representative offices in Taipei, but do not write business in the territory, and may only 'conduct market research and survey, information gathering and other business related correspondence'.

## Recent performance

Taiwan retains a majority of its premiums, with non-life ceding about 30% of its premiums (31.4% in 2015 and 30.0% in 2016), followed by the personal accident and health segment with 1.5% and the life segment with 0.7% in 2015. The territory has traditionally been vulnerable to natural catastrophes. As cited in Timetric's 'Reinsurance in Taiwan, Key Trends and Opportunities to 2020', exposure to natural hazards, which include earthquakes, floods and typhoons, and economic losses caused by frequent typhoons will drive growth in reinsurance.

The non-life insurance industry posted NT\$108.9bn (\$3.67bn) in net written premiums (retained premiums) in 2016, up by 7.6% y-o-y, according to the Taiwan Insurance Institute. That year, Taiwan suffered several natural disasters, including the Meinong earthquake in February and numerous typhoons, which led claims payouts to soar to NT\$78.5bn and break its 13-year record, mainly due to the fire claims triggered by Meinong.

Despite some expectation that reinsurance premiums would, as a consequence of 2016's events, rise in 2017, *Asia Insurance Review* understood from a Taiwan

participant last year that reinsurance renewals remained quite soft overall, though they increased by 10-15% for the property class due to the CAT losses.

Globally, 2017 saw record high insured Nat CAT losses, but reinsurance capacity provided through alternative risk transfer facilities funded by the capital market quickly recovered, noted Central Re's 2017 annual report. "As such, dynamics of demand and supply has been delicately maintained. It's expected that the market trend is to continue for a period of time," it said.

### Domestic reinsurer looking abroad

Central Re has had a relatively stable market share in recent years, which stood at 19% for non-life business and 20% for life business in 2017. It reported remarkable annual results last year, with a growth of 3.7% in GWP, revenue up 9% to NT\$14.6bn and after tax profit up 81% to NT\$1.39bn. Underwriting performance exceeded its expectations due to below average CAT losses and favourable loss development. It also achieved robust growth (393%) in investment income due to the strong gains in global equity markets last year, its senior vice president and appointed actuary Yu-Te Lin told *Asia Insurance Review*.

The high retention ratio maintained by domestic insurers has led to the slowdown of the domestic reinsurance market. However, the abundant global reinsurance capacity means pricing remains competitive. Thus the reinsurer, whose portfolio comprises 90% local business, still faces a challenging business environment and is looking beyond Taiwan's shores.

"We are expanding overseas business, mainly in the Asia region and Europe to well diversify our portfolio and increase efficiency of capital utilisation," said Mr Lin. China, Japan and South Korea form Central Re's core international business, which is primarily non-life, though the reinsurer is also exploring other potential new markets besides 'prudently' expanding business in these three.

Some other strategies Central Re will undertake include looking at new product trends and InsurTech opportunities on the domestic front,

and on the international front, increase direct business and design suitable retrocession programs on areas or portfolios with higher catastrophe risks to reduce business fluctuations.

### Challenges and opportunities

Liability insurance is an important growth driver, noted Mr Lin. "There is no doubt that implementation of new regulations and awakening of self-consciousness of personal rights have increased demand, court practice and social inflation have further raised the insurance amount needed for protection," he said.

In terms of new opportunities for the general insurance sector, cyber insurance is receiving more attention in Taiwan due to recent cases of cyber attacks and existing personal data protection, said Mr Lin, though the lack of loss data for pricing and technical service support would be hurdles to underwrite cyber.

Foreign life and health reinsurer RGA has found the insurance market for accident and health (A&H) products rather flat, according to its Taiwan general manager Amy Tsai. "There has been little to no growth in terms of new business premium for A&H products in the past three years," she said.

There are chances that this may change, however. In April 2018, Taiwan's Ministry of the Interior announced that the territory had officially become an 'aged society' – according to the World Health Organisation's (WHO) definitions if those over 65 surpass 14% – as 14.05% of the population was aged 65 and older - which means one out of seven is a senior citizen. Taiwan's National Development Council estimates that within eight years, the elderly population will exceed 20% of the total population and Taiwan would join the ranks of other hyper-aged societies then such as Japan, South Korea and Singapore.

Central Re's Mr Lin noted that the ageing population trend and low birth rates have driven up demand for medical and long-term care insurance products and envisages that product development and sales for health-related products for the ageing segment will increase. He sees a challenge, however, in pricing these products with uncertain future

incident rates. Many of them are long term with guarantee rate features. "It is also challenging to build proper risk management measures corresponding to this pricing risk," he said.

Some of the recent protection products in the Taiwan market RGA has worked with insurers to launch in the past few years are a critical illness product for the 'three highs' and a new generation multi-pay CI product, and a market-first wellness programme. With Taiwan remaining a market that attracts many reinsurers, RGA has differentiated its offerings through efficient execution leveraging local knowledge, underwriting services and product innovations with a team dedicated to the latter.

### Regulations drive opportunities

Ms Tsai said that RGA sees opportunities in the adoption of the IFRS 17 insurance contract standard, whose effective date is 1 January 2021.

"It should provide an incentive for insurance companies to focus on protection products as they will need to report the saving component within an insurance product separately, which in turn, should lead to growth for the reinsurance market for protection products," she said.

One of the reinsurer's key strategies is to develop new protection products in line with the regulator's direction to promote protection products for the Taiwan population. She noted that an opportunity still exists for the regulator to work with companies to promote development of innovative protection products and improve the speed at which such products are able to get to the market.

RGA's view is that regulators could consider ways to streamline the product approval process for certain protection products, in order to further the goal of ensuring that there are products available to meet the needs of different segments.

"We also suggest that care might be taken to eliminate any differential treatment that may exist amongst filings for substandard products, preferred products, and non-substandard and non-preferred products so that a common filing and review process might exist for all three categories of products," said Ms Tsai. ■