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Market Segment Outlook: Taiwan Non-Life Insurance

The outlook for the segment stands at Negative, owing primarily to rising reinsurance costs and declining investment assets

AM Best is maintaining a Negative outlook on Taiwan's non-life insurance segment. Key factors supporting the outlook include the following:

- Rise in reinsurance costs
- Decline in investment asset base, as some assets were liquidated to pay pandemic claims

Factors partially offsetting the Negative outlook include:

- More selective underwriting to ensure profitability
- Moderate increase in demand for insurance

Demand for Insurance Rises Moderately

The Taiwan non-life insurance market continues to see steady demand for certain lines of business since the onset of the COVID-19 pandemic. Direct premiums written (DPW) grew by 7% in 2022, albeit down from 10% in 2021. Still, positive momentum extended into the first half of 2023, driven mainly by high demand for motor and fire coverage, as well as liability and marine products, and partially counterbalanced by shrinkage in other insurance lines. The five-year (2018-2022) compound annual growth rate was 8%.

The non-life segment remains competitive and dominated by domestic companies, which accounted for 97% of overall DPW in 2022, with the three largest players accounting for more than 47% of DPW. Non-life companies have similar underwriting portfolios, which have been stable the past five years. Motor was again the largest line of business, accounting for 52% of DPW, followed by fire (15%), accident (9%), and liability (7%). Motor consists of voluntary motor, accounting for 84%, and compulsory motor, accounting for 16%, of the segment's DPW. Both compulsory and voluntary motor businesses have expanded the last five years. However, voluntary motor insurance has expanded at a faster rate owing to consecutive premium rate hikes for voluntary third-party liability coverage and continuous growth in new car sales, particularly imported, higher-value vehicles.

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Volatile Profitability in 2022 and 2023 Due to Pandemic-Related Losses

The non-life segment suffered a huge net loss of TWD173 billion (USD5.4 billion) in 2022 due to the pandemic, which outstripped the cumulative earnings of the last decade. Some non-life insurers continued to see unfavourable claims development and reported net losses in the first quarter of 2023, but the majority remained in the black or had returned to operating profitability as of the second quarter of 2023. The performance was attributed to good underwriting margins in traditional, non-pandemic products during a benign natural catastrophe loss year. Full-year 2023 operating performance is likely to be bolstered by the recovery in the capital markets as well as reserve releases, given that pandemic policies have all matured, and ultimate claims should be close to fully developed.

One counterbalancing factor to the favourable operating performance is heightened reinsurance costs due to the current hardening cycle in the global reinsurance market. The January 2023 renewal season was described as one of the toughest in the past decade, and the market expects that reinsurance rates will again increase in the 2024 renewals.

Modest Improvement in Expense Ratio

Although the combined ratio deteriorated to over 200% in 2022 due to a surge in the loss ratio, the non-life segment recorded a modest decline in the operating expense ratio, as insurers continue to promote the use of digital technologies to improve operational efficiency. The commission cost ratio has been stable these past few years.

Challenges To Achieving Pre-Pandemic Investment Returns

The investment results of the non-life insurers remain a main driver of the segment's overall operating performance. In 2022, the total investments shrank 19%, to TWD270 billion, as insurers sold off investments to pay pandemic-related claims. As a consequence, insurers have adopted more conservative investment strategies and de-risked their portfolios. The proportion of domestic equities fell from 20% in 2021 to 11% in 2022; exposures to both domestic and foreign fixed-income investments also decline.

Non-life insurers continue to grapple with a number of challenges, including the low interest rate environment in Taiwan and heightened capital market volatility since 2022, which resulted in volatility in capitalisation and operating results through capital gains and losses. After a slump of more than 20% in 2022, however, the local stock market has recovered strongly, up 16% in the first nine months of 2023.

In tandem with rate hikes by the US Federal Reserve since the second half of 2022, the USD appreciated by about 10% against the TWD in 2022 and a further 5% in the first nine months of 2023. In recent years, non-life companies have maintained stable investment allocations that include approximately 20% of foreign investments (mainly fixed-income securities) with moderately high hedging ratios. Any volatility in foreign exchange rates is likely to pose a limited and manageable risk to non-life insurers' investment results.

Weaker Industry Capitalisation the New Norm

In AM Best's view, weaker capitalisation will become the new normal, following the segment's huge pandemic insurance losses. Despite shrinking materially at year-end 2022, the industry's average capitalisation has rebounded strongly thus far in 2023 but remains materially below pre-pandemic levels. The improvement in capitalisation is attributable to capital injections from non-life insurers' parent companies to absorb losses arising from pandemic policies.

Special reserves, treated as a capital buffer, have been reduced materially to support capitalisation and stabilise the bottom line in the event of large losses. Prior to 2022, accumulated special reserves helped support capitalisation and stabilise underwriting results in the event of large losses. According to statistics published by the Taiwan Insurance Institute, special reserves booked under liabilities declined substantially, by approximately TWD10 billion, from TWD30 billion-plus in 2021 and before. The decline was due mainly to insurers' releasing reserves to offset pandemic insurance claims. The diminished special reserve buffer weakens the segment's ability to absorb potential future losses from major catastrophe events, which has resulted in an increase in demand for catastrophe reinsurance, especially at the upper layers. However, AM Best expects that most insurers will focus on improving capital efficiency and sourcing for profitable (re)insurance policies in the aftermath of COVID-19.

GUIDE TO BEST'S MARKET SEGMENT OUTLOOKS

Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months. Typical factors we would consider include current and forecast economic conditions; the regulatory environment and potential changes; emerging product developments; and competitive issues that could impact the success of these companies.

A Best's Market Segment Outlook can be Positive, Negative, or Stable.

Best's Market Segment Outlook	
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We update our market segment outlooks annually but may revisit them at any time during the year if regulatory, financial, or market conditions warrant.

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