

Taiwan’s supervisory policy: Innovation and sound management

Consumers’ expectations are pushing the insurance industry to embrace innovation and transform itself. As regulator, **Dr Thomas Tien-Mu Huang**, Vice Chairman of **Financial Supervisory Commission, Taiwan**, together with his team, work hard to strike a balance between innovation and sound management.

In response to consumers’ needs, associated with FinTech innovation and the severe damages caused by catastrophic events, the insurance industry has been facing considerable challenges in terms of risk control, asset management and capital utilisation.

Meanwhile, as it is a goal of FSC to strike a balance between “innovation and openness” and “sound management”, the FSC will continue to progress when formulating and implementing supervisory policy.

Tremendous growth in assets and premiums

Looking back at the developments of the insurance industry in Taiwan, we note that the total assets and insurance premium incomes of the insurance industry had experienced a huge growth compared to 15 years ago.

In 1992, the total assets were US\$122.67 billion. Now, the figures have grown to \$753.3 billion, which is approximately five times as much as in 1992. The overall premium incomes have increased about 3.59 times, from \$23.8 billion in 1992 to \$109.3 billion in 2017.

While total assets of the insurance industry have grown rapidly, market interest rates are at its lowest record. Therefore, the FSC continues to review regulations regarding foreign investment, loosens restriction of derivative transactions, and implements the foreign exchange reserve mechanism, ERM and ORSA mechanism to ensure sound solvency of insurers.



TREIF’s success

Due to the comparatively low coverage and insured ratio of earthquake insurance in the past and the devastating damages caused by the earthquake occurring on September 21 in 1999, the FSC had established Taiwan Residential Earthquake Insurance Fund, known as TREIF to manage earthquake risks.

The total risk assumption limit is \$2.3 billion per event, and its risk is assumed by co-insurance pool, TREIF’s reinsurance and the government. It has been 15 years since the mechanism was established in April 2002, and the overall earthquake insurance coverage rate has increased from 0.2% to 33.32%.

As a result, when the earthquake happened in February, 2016 in Kaohsiung, the southern part of Taiwan, the majority of the affected households have been insured and benefits of US\$56,666 were paid to each insured household. The total amount of compensation were about US\$5.66 million, which shows the mechanism is quite helpful.

Strengthening the solvency of insurers

In order to strengthen the solvency of insurers in respect of natural disaster losses, the FSC requires insurance companies to calculate natural disaster insurance premium rate based on its actuarial model. As such, we made amends to the regulations to raise the special reserves for fluctuation of risks and the cumulative period of the special accident reserves to increase the accumulation of natural disaster insurance reserves.

As natural catastrophes are unpredictable, the FSC expects the insurance industry will fully prepare itself to deal with these risks in the future with measures such as cultivating professional talents and enhancing underwriting capability.

The FSC will also encourage the insurance industry to invest in public infrastructure to facilitate the developments of real economy and continue to strengthen supervision on insurers’ asset liability management.■