

金融展望月刊

Financial Outlook Monthly

Publisher Tien-Mu Huang

Advisor Tsuey-Ling Hsiao
Jean Chiu
Fu-Longe Tsai

Executive Editor
Department of Planning

Publishers & Editorial Office
Financial Supervisory
Commission

Add 18F, No.7, Sec. 2, Xianmin
Blvd., Banqiao Dist., New
Taipei City 22041, Taiwan,
Republic of China

Tel 8968-0899
Fax 8969-1271
E-mail planning@fsc.gov.tw
Website <http://www.fsc.gov.tw>

GPN 2009305443

ISSN 1992-2507

*The Chinese version rules if
any contradiction in meaning
exists between the Chinese
version and English versionl.

March 2023

《Chinese version please refer to page 1》

No. 220

Ministry of Justice Anti-Corruption Hotline 0800-286-586
Anti-Corruption Hotline 0800-088-789

- FSC amends Articles 19, 20, and 22 of the "Regulations Governing the Public Offering of Securities Investment Trust Funds by Securities Investment Trust Enterprises"
- FSC adopts "Directions Governing the Scope of Material Contingencies to be Reported by Insurance Enterprises, Required Reporting Procedures, and Other Compliance Matters"
- FSC continues enhancing new innovation boards to support development of the Six Core Strategic Industries

Policy and Law

FSC amends Articles 19, 20, and 22 of the "Regulations Governing the Public Offering of Securities Investment Trust Funds by Securities Investment Trust Enterprises"

To respond to market conditions, and to coordinate with a recent amendment to the "Company Act," the FSC on 1 March 2023 amended the "Regulations Governing the Public Offering of Securities Investment Trust Funds by Securities Investment Trust Enterprises" to adjust the scope and the qualification requirements of fund distributors. Key points of the amended provisions are as follows:

1. Credit cooperatives, futures brokerage merchants, and Chunghwa Post Co., Ltd. have been already allowed to act as fund distributors, but in order to align with practical business conditions and to meet the need for regulatory clarity, the amended Regulations expressly provide that a securities investment trust enterprise may also mandate credit cooperatives, futures brokerage merchants, and Chunghwa Post Co., Ltd. to act as fund distributors.
2. With respect to the situation that companies issuing no-par-value shares in accordance with Article 156 of the "Company Act" act as fund sub-distributors, the amended Regulations set out a list of qualification requirements that the company must meet. Also, to coordinate with amendments to the "Banking Act" and the "Futures Trading Act" as well as the addition of new provisions to the "Credit Cooperatives Act," the "Postal Savings and Remittances Act," and the "Financial Consumer Protection Act," the FSC has modified disqualification criteria that bar a party from acting as a fund distributor. In addition, the amended Regulations allow a bank to rely on its capital adequacy ratios as its financial qualification for acting as a fund distributor.

The buffer periods provided when the Regulations were amended on 12 December 2006 has been eliminated considering that they are no longer applicable.

FSC adopts "Directions Governing the Scope of Material Contingencies to be Reported by Insurance Enterprises, Required Reporting Procedures, and Other Compliance Matters"

To elevate the legal status of the regulations on reporting material contingencies in the insurance industry, the FSC referred to the "Scope of Material Contingencies to be Reported by Financial Institutions, Required Procedures, and Other Compliance Matters" and established the "Directions Governing the Scope of Material Contingencies to be Reported by Insurance Enterprises, Required Reporting Procedures, and Other Compliance Matters" on 4 January 2023. Key aspects include the following:

1. To ensure the FSC to be promptly informed of the occurrence of cybersecurity incidents in the insurance industry, the Directions state that if an insurance enterprise confirms a cybersecurity incident and determines it to be a material contingency that has impacted the rights and interests of customers, the responsible person of the insurance enterprise must report the incident within 30 minutes of confirmation to the FSC.
2. To ensure a comprehensive and clear scope of material overseas contingencies that must be reported by insurance companies, the Directions specifies that material contingencies must be reported when an insurer experiences a significant credit risk incident in overseas or mainland China with assessed losses of its claims or investments equivalent to or

greater than US\$10 million.

FSC continues enhancing new innovation boards to support development of the Six Core Strategic Industries

To coordinate with the Asia Silicon Valley Development Plan 2.0, and to support development of green and renewable energy and other Six Core Strategic Industries and the innovative industries, the FSC has urged the Taiwan Stock Exchange (TWSE) and the Taipei Stock Exchange (TPEX) to respectively launch the Taiwan Innovation Board (TIB) and the Pioneer Stock Board (PSB) within its multi-tiered capital market framework. These two boards were formally launched on 20 July 2021. As of end-December 2022 there were 18 companies listed on the PSB, while 10 companies had applied to list on the TIB, one of which is now listed and two of which have gotten their applications approved and will soon list.

To continue building an environment conducive to listings and fundraising for startups, the FSC pushed the TWSE, from August to November of 2022, to ease requirements regarding the underwriter's advisory period prior to application, listing eligibility criteria when applying, and board switching deadlines as well as the period during which an advising underwriter is required to act as a sponsor for a capital raising deal. In addition, the TWSE relaxed some eligibility criteria for qualified investors and launched a securities firm market-maker system in order to increase liquidity of the TIB, help industries to upgrade and transform, and form industrial clusters in green energy and other sectors, thus attracting funds to invest in Taiwan.

The FSC will continue collecting information on new systems in international markets and soliciting the suggestions from outside observers in order to improve the new innovation boards, support development of the Six Core Strategic Industries, help enterprises further upgrade and develop, and expand Taiwan's capital markets to make them more internationally competitive.

FSC explains financial holding companies' distribution of cash to shareholders with legal reserve or capital reserve

The financial soundness of financial institutions is critical for the rights and interests of the public, and their dividend policies should adopt a prudent principle to meet the needs of sustainable development. The legal reserve and capital reserve are long-term and stable sources of capital and are used to bear future operation risks. Therefore, the distribution of cash dividends should, in principle, be based on the profits of the current year. The FSC has established related regulations for the distribution of cash with legal reserve or capital reserve by banks, insurance companies, and securities firms.

Some financial holding companies (FHCs) have recently proposed to distribute cash dividends with legal reserve or capital reserve based on the shareholding ratio of the shareholders. The FSC has required FHCs to fully analyze the reasons why undistributed earnings are insufficient to pay cash dividends, carefully evaluate the necessity and appropriateness of their proposals, properly arrange enhancement plans for their negative impact on financial and capital structure, and submit the plans to their board of directors for full discussion.

The FSC will formulate related regulations and principles to provide consistent guidelines for FHCs' distribution of cash dividends with legal reserve or capital reserve in the future.

Industry Updates

FSC convenes business communication meeting for internet-only banks

On 10 January 2023, the FSC held a business communication meeting for Taiwan's three internet-only banks. Participants at the meeting reached multiple consensus on topics regarding deposit, loan, fund distribution, and online insurance business. The FSC will promote pilot programs or adjust regulations accordingly based on these consensuses.

The FSC hopes internet-only banks can act upon their business models to establish reliable credit analysis mechanisms while making active use of technology and innovation to develop digital financial services. The FSC will also continue helping internet-only banks

to resolve problems encountered due to the special nature of their business operations so that they can achieve stable development to meet the demand for financial services of different customer groups in different consumption scenarios.

FSC approves Taipei Fubon Commercial Bank's merger of Jih Sun International Bank

On 17 January 2023, the FSC approved the merger of Taipei Fubon Commercial Bank (hereinafter referred to as Fubon Bank) and Jih Sun International Bank (hereinafter referred to as Jih Sun Bank) with Taipei Fubon Commercial Bank as the surviving entity. After Fubon Financial Holding Co., Ltd. completed the merger of Jih Sun Financial Holding Co., Ltd. on 11 November 2022, Fubon Financial Holding Co., Ltd. holds 100% of the shares of Fubon Bank and Jih Sun Bank. According to the application documents submitted by the two banks stated that they have complementary strengths in terms of the distribution of business locations and customer management. The merger would facilitate the integration of resources, increase the scale and competitiveness of business operations, and provide customers with more diverse and convenient financial services.

FSC approves mergers between Fubon Securities Co. and Jih Sun Securities Co., and between Fubon Futures Co. and Jih Sun Futures Co.

On 14 February 2023, the FSC approved proposed mergers between Fubon Securities Co. and Jih Sun Securities Co., and between Fubon Futures Co. and Jih Sun Futures Co. After the Fubon Financial Holding Co. completed its merger of Jih Sun Financial Holding Co., in order to increase the size of its business and integrate resources, it merged its securities and futures subsidiaries, and the surviving companies after the mergers were Fubon Securities Co. and Fubon Futures Co., while the non-surviving companies were Jih Sun Securities Co. and Jih Sun Futures Co. After the merger, the number of Fubon's securities brokerage business locations increased to 76.

Foreign banks in Taiwan post stable growth

Promoting the internationalization and liberalization of Taiwan's financial markets has always been the policy objective of the FSC. At this time, 28 foreign banks have branches in Taiwan. Bank Rakyat Indonesia established its Taiwan branch in 2021, and Hana Bank from Korea established a Taiwan branch in 2022, which shows that the connection between Taiwan's financial market and the international market has become closer in recent years. Moving forward, the FSC will continue to pay close attention to the financial and operating status of the Taiwan branches of foreign banks, and will urge them to maintain strong asset quality and sound financial structure. The FSC will also continue working to build a business environment conducive to financial market operations, to promote internationalization and liberalization of Taiwan's financial markets, and to bring Taiwan more closely in line with international supervisory regulations. The FSC welcomes eligible foreign banks to participate in Taiwan's financial markets.

NPL ratio for domestic banks as of the end of January 2023

The total outstanding loans extended by the current 39 domestic banks increased by NT\$42.7 billion (US\$1.42 billion) as compared to the figure of previous month and amounted to NT\$36.7 trillion (US\$1,221 billion) at the end of January 2023. Meanwhile, the NPLs of these banks totaled at NT\$57.37 billion (US\$1.91 billion) which increased by NT\$2.68 billion (US\$0.09 billion) from NT\$54.7 billion (US\$1.82 billion) as of the end of the previous month. The average NPL ratio of the 39 banks increased by 0.01 percentage points and therefore rose to a figure of 0.16% from 0.15% of the previous month, and was at the same figure compared to the same month last year.

The coverage ratios of allowances for NPLs decreased by 43.66 percentage points and therefore declined to a figure of 866.8% from 910.46% of the previous month. The asset quality of domestic banks continuously remained manageable according to the above figures as of the end of January 2023. The FSC will request banks to undertake measures to improve asset quality and financial structure on an ongoing basis.

NPL situation of credit cooperatives at the end of January 2022

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.486 billion as of the end of January 2023, generating an NPL ratio of 0.08%, same as the end of December 2022. The NPL coverage ratio was 2,605.81%, down by 225.88 percentage points from 2,831.69% at the end of December 2022.

Net foreign and mainland China investment in listed shares

As of the end of January 2023, foreign investors in the year to date had bought around NT\$970.8 billion and sold around NT\$777.3 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-buy of around NT\$193.5 billion. In addition, foreign investors in the year to date had bought around NT\$152.9 billion and sold around NT\$134.2 billion worth of shares listed on the Taipei Exchange, amounting to a net-buy of around NT\$18.7 billion. Meanwhile, mainland China investors had bought around NT\$0.03 billion and sold around NT\$0.11 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of about NT\$0.08 billion; and mainland China investors had bought NT\$0 and sold around NT\$0.02 billion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$0.02 billion. As for inward remittances by foreign and mainland China investors, the figure for cumulative net inward remittances by offshore foreign institutional investors, offshore overseas Chinese, and foreign nationals at the end of January 2023 stood at approximately US\$223.5 billion, up by around US\$7.5 billion from US\$216 billion at the end of December 2022. The figure for cumulative net inward remittances by mainland China investors was US\$23 million, down by roughly US\$2 million from US\$25 million at the end of December 2022.

Sales statistics of foreign-currency denominated products by life insurance industry as of the end of November 2022

The sales statistics of foreign-currency denominated products by life insurance industry as of the end of November 2022 were as follows: premium revenues from new foreign-currency denominated policies amounted to around NT\$392.615 billion, down by 28% from NT\$547.038 billion year-on-year. Within these figures, investment-linked insurance products accounted for NT\$121.788 billion (around 31% of the total), down by 54% from NT\$263.466 billion year-on-year, and the sales of traditional insurance products totaled NT\$270.827 billion (around 69% of the total), down by 4% from NT\$283.572 billion year-on-year.

Sales of spillover-effect insurance products and provision of in-kind benefits by life insurers in 2022 through Q4

As of the fourth quarter of 2022, the FSC has approved or accepted registrations of 159 spillover-effect insurance products from 11 life insurance companies. In total, 1,228,524 new contracts for such products have been sold as of the fourth quarter of 2022, up by 84% from 668,166 compared to the fourth quarter of 2021. The first-year premium income was NT\$15,560 million, up by 43% from NT\$10,916.4 million compared to the fourth quarter of 2021.

The FSC has approved or accepted registrations of 38 in-kind payment insurance products from 6 life insurance companies. In total, 219,820 new contracts for such products have been sold as of the fourth quarter of 2022, up by 543% from 34,194 compared to the fourth quarter of 2021. The first-year premium income was NT\$3,228.48 million, up by 415% from NT\$626.81 million compared to the fourth quarter of 2021.

The FSC will continue encouraging insurance enterprises to develop health management insurance products with a spillover effect and in-kind payment insurance products to spur citizens to attach proper importance to health management, and to satisfy the diverse needs of policyholders for different types of insurance protection.

Profit/loss, net value and exchange gains/losses of the insurance industry in December 2022

The pre-tax profit of all insurance enterprises at the end of December 2022 was NT\$-18.6 billion, decreasing by NT\$429.7 billion or 104.5%

compared to the previous year; the pre-tax profit of life insurance enterprises was NT\$171.9 billion, decreasing by NT\$216.6 billion or 55.8% compared to the previous year, while the pre-tax loss of non-life insurance enterprises was NT\$-190.5 billion, decreasing by NT\$213.1 billion or 942.9%.

The owners' equity of insurance enterprises at the end of December 2022 was NT\$1,651.8 billion, decreasing by NT\$1,231.2 billion or 42.7% compared to the previous year; the owners' equity of life insurance enterprises was NT\$1,590.4 billion, going down by NT\$1,131.8 billion or 41.6% compared to the previous year, while owners' equity of non-life insurance enterprises was NT\$61.4 billion, going down by NT\$99.4 billion or 61.8%.

As of the end of December 2022, the NT Dollar had depreciated by 9.83% against the US Dollar since the end of 2021, and the cumulative balance of the foreign exchange valuation reserve of life insurance enterprises was NT\$228.9 billion, increasing by NT\$185 billion compared to the end of 2021. Meanwhile, the combined impact of exchange gains/losses, hedging gains/losses and the net effect of volatility on the foreign exchange valuation reserve of life insurance enterprises was NT\$-26.4 billion. Over the same period, the overseas investments of life insurers resulted in net gains (including exchange gains/losses and hedging gains/losses, but not including the net effect of volatility on the foreign exchange valuation reserve) of NT\$993.8 billion.

Investor and Consumer Protection

FSC benefits seniors by increasing micro-whole-life insurance coverage

In order to increase the insurance coverage enjoyed by Taiwan citizens, the FSC has once again relaxed restrictions on the insured amounts and the maximum number of micro-whole-life insurance policies that one person may hold. The maximum insured amount under the main contract of a traditional whole-life insurance policy has been increased from NT\$700,000 to NT\$900,000 while the maximum number of in-force policies that one person may hold has been increased from three to four. The FSC issued the amendments to the "Directions for Micro-Whole-Life Insurance" on 12 January 2023, and the amended Directions will enter into force on 1 May 2023.

These micro-whole-life insurance products are insurance products promoted to popularize basic insurance protection for the elderly, and characterize by low insured amounts and low premiums. Elderly persons face relatively high insurance premiums due to age and health conditions, which may affect their willingness to buy insurance. To enable the elderly to use the insurance system to transfer risk and enjoy relatively inexpensive premiums, the FSC on 28 December 2016 adopted the "Directions for Micro-Whole-Life Insurance" to promote micro-whole-life insurance.

As of the end of 2022, a total of 16 life insurers have offered micro-whole-life insurance, with new-policy premium income amounting to NT\$5.512 billion, up by 54.6% from NT\$3.566 billion in 2021; there were 888,000 in-force contracts, up by 30% from 682,000 in 2021, and more than 40% of the policyholders are at the age of 55 and older. Therefore, micro-whole-life insurance has proven very effective in providing basic insurance protection for the elderly.

FSC makes recommendations regarding the BNPL services

In response to the growing scrutiny recently directed toward Buy Now, Pay Later (BNPL) services, the FSC stated that BNPL service is an installment payment service that has existed in the market for many years and is not a chartered financial service. In recent years, BNPL operators and e-commerce platforms have been working together and growing, but their quick credit background checks have led to worries of over-consumption or excessive credit growth. Moreover, disclosure of the methods used for charging fees and interest, and how BNPL operators collect and utilize personal information, have an important bearing upon the rights and interests of consumers, and these matters are thus attracting concerns.

The FSC views the issues from the following three perspectives:

(1) BNPL services are similar to unsecured loans and installment purchase arrangements, so banks are allowed to provide such services, and BNPL operators can make reference to banks' risk control and information disclosure practices; (2) if an enterprise in which a financial institution holds an ownership interest provides BNPL services, the FSC will require the financial institution to oversee the enterprise to strengthen its internal controls and risk management; and (3) the FSC is aware that there are also non-financial institutions with ownership interests in BNPL operators that are willing, for the sake of market development, to strengthen their risk management and consumer protection measures.

Accordingly, the FSC has proposed the following two recommendations for BNPL operators: (1) Establishment of an appropriate risk control mechanism: including credit management for consumers and cooperative merchants, financial risk assessment, cybersecurity risks management and fraud prevention. (2) Adoption of comprehensive consumer protection measures: including protection of personal information, proper handling of customer complaints and disputes, customer financial risk warning and a mechanism for debt workouts, fairness and good faith in the conclusion of contracts, full disclosure of information, and a means for ensuring that false or misleading information is not used in marketing, advertising, or solicitation activities.

In addition, consumers are reminded to beware of risks, spend within their means, and avoid over-consumption when using BNPL services. Besides clearly understanding the terms of product delivery, payment terms, and the charging of fees, consumers also need to understand borrowing expenses and make advance preparations for themselves to protect their rights and interests.

FSC continues overseeing efforts by electronic payment institutions to help the public avoid scams

Fraud rings claiming to be government agencies have recently been sending out massive quantities of text messages to people's mobile phones. Anyone mistakenly clicking into a link has been routed to a phishing site that asks them to provide personal information, bank account numbers, and other sensitive data. The fraud rings then use the information to impersonate the victims in opening electronic payment accounts. To avoid this sort of situation, the FSC, the National Police Agency, the ROC Bankers Association, and electronic payment institutions have held numerous meetings to discuss the matter. In order to reduce the incidence of fake accounts being created in this manner, electronic payment institutions have been asked to share red flags of possible fraud, to strengthen their customer due diligence measures, and to establish joint defense mechanisms, while the Bankers Association has been asked to amend its self-regulatory rules.

The FSC will continue overseeing efforts by electronic payment institutions to help the public avoid falling victim to scams, and urging the public to check the authenticity of unsolicited messages and properly protect highly sensitive personal information, and to call the 165 Anti-Fraud Hotline if they have suspicions about a particular message.

FSC reminds citizens to make good use of Online Platform for Protection-Type Insurance Products to plan for basic insurance needs

To provide citizens with simple and affordable insurance products that will enhance people's basic insurance protections, the FSC has asked the Taiwan Depository and Clearing Corporation (TDCC) to draw up plans for a Retirement Planning Platform which combines protections, retirement investment and promotion of public welfare. In this Platform, a "Protection-Type Insurance Products Platform" will be established. The Platform currently provides selections for four types of insurance products, including term life insurance, micro-whole-life insurance, critical illness health insurance, and microinsurance. These products have the following characteristics:

1. Term life insurance: This type of insurance is simple in structure and features relatively inexpensive premiums. It provides coverage for death or full permanent disability with a benefit payout of 1x the

sum insured.

2. Micro-whole-life insurance: This type of insurance is easy to purchase and provides basic insurance protection. While the premiums are less expensive than those of ordinary whole life insurance, a policyholder does enjoy coverage for death or full permanent disability, and can additionally purchase a one-year personal injury rider.

3. Critical illness health insurance: This type of insurance provides protection against seven types of critical illness with a benefit payout of 1x the sum insured. It thus eases the burden of medical expenses and makes up for income lost while the insured recovers from an illness.

4. Microinsurance: This type of insurance features relatively low insured amount and inexpensive premiums, is simple in structure, and enables consumers to obtain micro term life insurance, micro personal injury insurance, or micro personal injury medical insurance that combines basic coverage with affordable premiums. However, microinsurance can only be purchased by persons who qualify as "economically disadvantaged or people with specific status" as defined in the "Directions for Insurance Companies to Engage in Microinsurance Business."

The FSC reminds the public to make good use of the Online Platform for Protection-Type Insurance Products, as it is available at all times no matter where you may be — as long as you have an internet connection, you can visit the Platform and select the products that provide needed basic insurance coverage.

2023 Financial Literacy Campaign for the Campus and Community

In the month of February 2023, the FSC held 8 activities at different locations, including the Kaohsiung City Army Engineer Training Center, as part of the 2023 Financial Literacy Campaign for the Campus and Community, attracting 1,065 participants. The Financial Literacy Campaign is free of charge, and has struck a chord with many people since its inception in 2006. As of the end of 2022, a total of 7,846 events had been held and over 1.14 million people had attended. The target participants include students at all levels, communities, women's groups, indigenous people, immigrants, military service personnel, correctional institutions, social welfare groups, senior citizens' groups, police, fire fighters, coast guard personnel, and taxi drivers.

The Banking Bureau of the FSC will continue to promote the financial literacy campaign in 2023. Schools or community groups interested in the campaign are invited to register through the website of the Banking Bureau. For more information, please contact us at (02) 8968-9710.

Major Enforcement Actions

FSC imposes sanctions on Tokio Marine Nawa Insurance and five other insurers

The FSC conducted a targeted examination and discovered that six insurance companies, including Tokio Marine Nawa Insurance, Cathay Century Insurance, Fubon Insurance, CTBC Insurance, Chung Kuo Insurance, and Hotai Insurance, in launching pandemic-related insurance products, had not fully identified the risk profile of a notifiable disease, nor had they reasonably assessed sales limits or set early warning values, and failed to properly evaluate the underwriting of policies for individual customers. Also, some of these companies had collected incomplete reference information on loss experience, and hadn't properly established or implemented risk management. After launching the products, they hadn't reassessed the retained risks or adjusted their risk management plans on time in response to external conditions. And at meetings of the insurance product evaluation team and the insurance product management team, they did not fully perform their functions of evaluating and controlling risk. These failures constituted violations of the "Regulations Governing Pre-sale Procedures for Insurance Products," and the FSC therefore imposed an administrative fine of NT\$1.8 million on each company in accordance with the provisions of Article 171, Paragraph 1 of the "Insurance Act."