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- FSC announces application documents and review procedure for bank applications to adopt the IRB approach for credit risk to calculate capital
- FSC amends "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and "Regulations Governing Approval of Certified Public Accountants to Audit and Attest to the Financial Reports of Public Companies"
- FSC amends interpretive order based on Article 11 of "Enforcement Rules for the Insurance Act"
- FSC initiates Fintech campaign focused on "Preventing Fraud and Financial Crimes"

Policy and Law

FSC announces application documents and review procedure for bank applications to adopt the IRB approach for credit risk to calculate capital

To enhance banks' internal risk management capability and enable them to adopt more precise methods to measure and manage credit risk and credit assets, the FSC allows banks to apply to use the internal ratings-based (IRB) approach for credit risk to calculate capital. Banks that meet the criteria of asset size, financial soundness, and proper compliance may file an application to the FSC by the end of June 2024. The FSC's review procedure and key points are described as follows:

- 1.The review procedure will include multiple phases, including preliminary review phase, the secondary review phase, the on-site review phase, and the trial implementation phase (one year in principle). The review is expected to be finished within a year and 10 months (including the trial implementation phase), and the applicant will be notified of the review decision in writing.
- 2.An applicant bank must meet the criteria of having assets over NT\$2.5 trillion, financial soundness, and proper compliance. It must also meet the minimum operational requirements set out in the "Methods for Calculating Banks' Regulatory Capital and Risk-Weighted Assets." The key focal points of the FSC's review include the accuracy of data systems, the reasonableness of risk models, and the appropriateness and state of implementation of the applicant's corporate governance and monitoring mechanisms.

FSC amends "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and "Regulations Governing Approval of Certified Public Accountants to Audit and Attest to the Financial Reports of Public Companies"

To update the classification and reference numbers of auditing standards mentioned in the Accounting Research and Development Foundation's "Preface to the Pronouncements Issued by the Auditing Standards Committee", the FSC on 2 February 2024: (a) amended the reference numbers of the auditing standards cited in the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" declared that an auditor may increase or reduce audit procedures and state their reasons in the audit documentation after considering the materiality and audit risk, and renamed the regulations as the "Regulations Governing Financial Statement Audit and Attestation Engagements of Certified Public Accountants" in order to distinguish them from regulations of the Ministry of Economic Affairs; (b) amended the "Regulations Governing Approval of Certified Public Accountants to Audit and Attest to the Financial Reports of Public Companies" to in line with the classification

of applicable standards outlined in the aforementioned Preface, and the fact that a CPA firm's quality management is subject to quality management standards issued by the Accounting Research and Development Foundation.

FSC amends interpretive order based on Article 11 of "Enforcement Rules for the Insurance Act"

To ensure that after Taiwan's insurance industry adopts IFRS 17 in 2026, insurers have rules to comply with in performing policy value calculations, the FSC amended an interpretive order based on Article 11 of the "Enforcement Rules for the Insurance Act" to make it easier for insurers to continue performing policy value calculations in the same manner they do now.

FSC amends "Regulations Governing Appointed Actuaries and External Reviewing Actuaries of Insurance Companies"

In order to strengthen qualification requirements for and management of external reviewing actuaries, the FSC has amended Article 4 of the "Regulations Governing Appointed Actuaries and External Reviewing Actuaries of Insurance Companies" (hereinafter, "the Regulations"). A newly added provision requires that only a person who has previously served as the appointed actuary of an insurance enterprise for at least five years may serve as an external reviewing actuary, provided that this restriction does not apply to anyone who already served as an external reviewing actuary prior to this amendment. A newly added provision in Article 5 of the Regulations also stipulate that an insurer may not employ any person who has reviewed that insurer's certified reports two consecutive times, or has served as its appointed actuary within the past three years to serve as its external reviewing actuary. In addition, to coordinate with an amendment to the "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises," the FSC has amended the "description of the calculations of various reserves" as set out in Article 7 of the Regulations, and to further coordinate with the fact that since 2019 Taiwan has included net worth ratio among the indicators that are used to evaluate solvency of insurance companies, the FSC has amended Article 8 provisions regarding relevant conditions for insurers to conduct review work.

FSC amends "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises"

In order to enhance the transparency of disclosures on the remuneration of directors at listed insurance enterprises, and to help bring about reasonable director remuneration and employee salaries, the FSC has expanded the range of circumstances under which listed insurance companies are required to disclosure information on the remuneration of individual directors. Also, considering the fact that Taiwan's insurance industry is preparing to adopt the TW-ICS capital standards in 2026, capital adequacy ratios will be subject to statutory requirements, so the place where the pre-amendment Regulations mention an certain ratio has been amended to read "statutory standard."

International Activities

India Taipei Association pays a visit to the FSC

A delegation led by Mr. Manharsinh Laxmanbhai Yadav (fourth from the left), Director General of the India Taipei Association, was warmly received by the FSC Chairperson Tien-Mu Huang (fifth from the right) on January 16, 2024. The two sides broadly exchanged views on major financial cooperative issues such as Fintech and banking services.

Industry Updates

FSC accepts for recordation rules filed by BAROC and FISC on phase three (Transaction Information) of the Open Banking policy

The Taiwan government encourages banks to voluntarily implement opening banking in three phases. As of 31 December 2023, 27 banks and 6 third-party service providers (TSPs) had taken part in the Open Information Inquiry phase (phase 1) of the program, and 17 banks and 2 TSPs had taken part in the Consumer Information Inquiry phase (phase 2) of the program. In total, 24 collaborative projects have been approved by the FSC.

To ensure that financial institutions have consistent operating procedures and protect the interests of consumers when they provide open banking services, and considering the fact that startups participating in the first two phases of the Open Banking program have achieved operations of stable size, the FSC has agreed to accept for recordation a set of self-regulatory rules as well as technical and information security standards filed by the Bankers Association of the ROC (BAROC) and the Financial Information Service Co. (FISC) governing the third phase business operation on Open Banking policy. The third phase of Open Banking will cover five categories of business: "deposits," "credit cards," "loans," "payments," and "mobile banking transfers" for a total of 35 items. Banks that wish to enter into phase 3 cooperating with TSPs may file an application to the FSC together with the required documents.

FSC initiates Fintech campaign focused on "Preventing Fraud and Financial Crimes"

With financial scam incidents occurring frequently in recent years, the FSC has taken active measures to combat constantly evolving fraud challenges. In 2024 the FSC has initiated a Fintech thematic campaign focused on "Preventing Fraud and Financial Crimes." In this campaign, the FSC will tap into the power of technology to detect, prevent, and punish fraudulent activity with increased efficiency. The goal is to crack down more effectively on financial crime, protect the financial assets of the public, and create a safer and more reliable financial environment.

The thematic activities to be carried out under this campaign include conferences, collaborative Innovation Validations, co-creation workshops, and encouragement for enterprises to conduct innovative experiments, business trials, and proofs of concept (PoC). Expected benefits include encouraging financial institutions and tech firms to cooperate in joint development of tools and strategies that can prevent financial crime more effectively, and encouraging them to share information on the latest applications of financial technology, thus enhancing the professional ability of the financial industry to prevent financial fraud. In addition, these activities will also facilitate the establishment of a platform for partnerships between different government agencies and different industries so that they can work together to fight scams and financial crime, improve the public's ability to identify and prevent scams, and help people avoid falling victim to scams.

Sustainable Finance Certificates to be launched in Q1 2024

Sustainable finance professionals are critically important to the ability of financial services firms and other types of enterprises to achieve the goal of sustainability. In response to this, the FSC in September 2022 launched the Green Finance Action Plan 3.0 which includes five key implementation aspects, one of which is "empowerment." A

Sustainable Finance Certification will be launched under the Green Finance Action Plan 3.0 in the first quarter of 2024.

The Sustainable Finance Certification framework will distinguish between basic competency and advanced competency:

1. Certificate of Basic Competency: The basic competency certification system offers a choice between: (a) attending a course for the Certificate of Basic Competency in Sustainable Finance and receiving a certificate upon successful completion of the course and a final examination; or (b) proceeding directly to passing the Examination for the Certificate of Basic Competency in Sustainable Finance without presenting any qualifications for taking the examination.
2. Certificate of Advanced Competency: The advanced competency certification system offers only a single method for obtaining a certificate. A person seeking a Certificate of Advanced Competency must complete a prescribed set of courses, and to attend the courses must furnish one of the five following proofs of qualification: (1) a Certificate of Basic Competency in Sustainable Finance; (2) a certificate showing successful completion of the Examination for the Certificate of Basic Competency in Sustainable Finance; (3) a comparable international certificate in the field of sustainable finance; (4) proof of work experience in the field of sustainable finance in a financial institution; or (5) proof of having completed a prescribed training program and a prescribed set of courses within a prescribed time period.

The first Examination for the Certificate of Basic Competency in Sustainable Finance will be held in April 2024, while the first courses for persons seeking the Certificate of Basic Competency in Sustainable Finance or the Certificate of Advanced Competency in Sustainable Finance are scheduled to begin in July 2024. The FSC hopes that persons and entities with an interest in the field of sustainable finance will take maximum advantage of this certification system to cultivate sustainable finance professionals, build a better environment to accelerate the development of the culture and the skills needed to bring about sustainable financial markets.

Joint Credit Information Center launches Climate Change Physical Risk Information Integration Platform for Financial Institutions

Raw climate data in Taiwan are scattered among a number of different government agencies, in order to help financial institutions access such data more easily, the FSC has coordinated with other central government agencies and gained their consent to allow the Joint Credit Information Center (JCIC) to employ a data interface solution to provide integrated access to the scattered information via a Climate Change Physical Risk Information Integration Platform for Financial Institutions (which went online on 31 January 2024). Financial institutions can use this platform to access and download climate change physical risk information to facilitate climate change risk management.

The aforementioned climate data are provide free of charge to financial institutions regulated by the FSC. The data fall into the following eight categories of physical risk: temperatures; heatwaves; cold fronts; sea levels; floods; droughts; and slopeland disasters. These data distinguish between differing degrees of hazard and vulnerability, and depending on the source, some data may be accompanied by jpeg images. In total, the platform provides more than 140 types of physical risk data that financial institutions can use to develop models, make disclosures, conduct scenario analysis and stress testing, and handle other risk assessment tasks. The platform also provides a special section with links to transition risk information.

Any financial institution that wishes to use this platform may apply directly to the JCIC.

NPL Ratio for Domestic Banks as of the End of January 2024

The total outstanding loans extended by the current 38 domestic banks increased by NT\$337.5billion (US\$10.78billion) as compared to the figure of previous month and amounted to NT\$38.8trillion (US\$1,240billion) at the end of January 2024. Meanwhile, the NPLs of these banks totaled at NT\$57.79billion (US\$1.85billion) which increased by NT\$2.85billion (US\$90.92million) from NT\$54.94billion (US\$1.76billion) as of the end of the previous month. The average NPL ratio of the 38 banks increased by 0.01 percentage points and therefore rose to a figure of 0.15% from 0.14% of the previous month, and was down by 0.01 percentage points compared to the same month last year.

The coverage ratios of allowances for NPLs decreased by 40.43 percentage points and therefore declined to a figure of 928.31% from 968.74% in the previous month. The asset quality of domestic banks continuously remained manageable according to the above figures as of the end of January 2024. 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 2024

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.595 billion as of the end of January 2024, generating an NPL ratio of 0.10%, up by 0.02 percentage points from 0.08% at the end of December 2023. The NPL coverage ratio was 2,372.62%, down by 408.05 percentage points from 2,780.67% at the end of December 2023.

Net foreign and mainland China investment in listed shares

As of the end of January 2024, foreign investors in the year to date had bought around NT\$2.109 billion and sold around NT\$2,105.1 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-buy of around NT\$3.9 billion. In addition, foreign investors in the year to date had bought around NT\$321.6 billion and sold around NT\$319.3 billion worth of shares listed on the Taipei Exchange, amounting to a net-buy of around NT\$2.3 billion. Meanwhile, mainland China investors had bought around NT\$0.086 billion and sold around NT\$0.253 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of about NT\$0.167 billion; and mainland China investors had bought NT\$0.003 billion and sold around NT\$0.034 billion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$0.031 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 2024 stood at approximately US\$248.9 billion, up by around US\$3.4 billion from US\$245.5 billion at the end of December 2023. The figure for cumulative net inward remittances by mainland China investors was US\$0.04047 billion, down by roughly US\$0.028 million from US\$0.040498 billion at the end of December 2023.

Sales statistics of foreign-currency denominated products by life insurance industry as of the end of November 2023

The sales statistics of foreign-currency denominated products by the life insurance industry as of the end of November 2023 were as follows: premium revenues from new foreign-currency denominated

policies amounted to around NT\$244.936 billion, down by 38% from NT\$392.615 billion year-on-year. Within these figures, investment-linked insurance products accounted for NT\$60.257 billion (around 25% of the total), down by 51% from NT\$121.788 billion year-on-year, and the sales of traditional insurance products totaled NT\$184.679 billion (around 75% of the total), down by 32% from NT\$270.827 billion year-on-year.

Sales of spillover-effect insurance products and provision of in-kind benefits by life insurers in 2023 through Q4

The FSC has approved or accepted registrations of 206 spillover-effect insurance products from 13 life insurance companies. In total, 1,129,046 new contracts for such products have been sold as of the fourth quarter of 2023, down by 8% from 1,228,524 compared to the same period of 2022. The first-year premium income was NT\$20,748.19 million, up by 33% from NT\$15,560 million compared to the same period of 2022.

The FSC has approved or accepted registrations of 44 in-kind payment insurance products from 6 life insurance companies. In total, 281,200 new contracts for such products have been sold as of the fourth quarter of 2023, up by 28% from 219,820 compared to the fourth quarter of 2022. The first-year premium income was NT\$3,583.87 million, up by 11% from NT\$3,228.48 million compared to the fourth quarter of 2022.

The FSC will continue encouraging insurers to develop spillover-effect health management insurance products and in-kind payment insurance products, thereby getting the public to attach greater importance to health management, and satisfying the need of policyholders for insurance protection.

Profit/loss, net value, exchange gains/losses, hedging gains and losses, and foreign exchange volatility reserves of insurance enterprises as of end-December 2023

The pre-tax profit of all insurance enterprises at the end of December 2023 was NT\$98.1 billion, up by NT\$116.7 billion or 627.4% from the previous year; the pre-tax profit of life insurance enterprises was NT\$80.6 billion, down by NT\$91.3 billion or 53.1% from the previous year, while the pre-tax profit of non-life insurance enterprises was NT\$17.5 billion, up by NT\$208 billion or 109.2% from the previous year.

The owners' equity of insurance enterprises at the end of December 2023 was NT\$2,373.4 billion, up by NT\$721.6 billion or 43.7% from the previous year; the owners' equity of life insurance enterprises was NT\$2,245.6 billion, up by NT\$655.2 billion or 41.2% from the previous year, while the owners' equity of non-life insurance enterprises was NT\$127.8 billion, up by NT\$66.4 billion or 108.1%.

As of the end of December 2023, the NT Dollar had depreciated by 0.09% against the US Dollar since the end of 2022, and the cumulative balance of the foreign exchange valuation reserve of life insurance enterprises was NT\$92 billion, down by NT\$136.9 billion compared to the end of 2022. 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\$-228.8 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\$515.9 billion.

Investor and Consumer Protection

2024 Financial Literacy Campaign for the Campus and Community

In the month of February 2024, the FSC held 15 activities at different locations, including the Taitung Detention Center of the Agency of Corrections of the Ministry of Justice, as part of the 2024 Financial Literacy Campaign for the Campus and Community, attracting 1,827 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 2023, a total of 8,509 events had been held and over 1.19 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 2024. Schools or community groups interested in the campaign are invited to register on the website of the Banking Bureau. For more information, please contact us at (02) 8968-9708.

Major Enforcement Actions

FSC imposes sanctions on Taichung Commercial Bank

The FSC recently imposed sanctions on Taichung Commercial Bank after discovering that the bank had adopted improper policies on the leasing of aircraft and high-priced company vehicles, had failed to properly establish and sufficiently implement internal controls for tender invitations, had failed to follow internal rules in evaluating business dealings with loan customers. These deficiencies indicate an inadequate establishment and execution of internal control systems within the bank, as well as a failure to effectively manage its subsidiaries. These deficiencies showed that the bank had violated Article 45-1, paragraph 1 of the Banking Act, and also constituted a likely hindrance to sound operations. The FSC imposed an administrative penalty of NT\$12 million under Article 129, subparagraph 7 of the "Banking Act," ordered a correction in accordance with Article 61-1, paragraph 1 of the "Banking Act," and in accordance with subparagraph 7 under that same paragraph, the FSC also ordered that chairperson Wang be suspended from his duties for three months.

FSC imposes administrative penalty on Hua Nan Commercial Bank

Hua Nan Commercial Bank (hereinafter referred to as the Bank) was found to have deficiencies when assisting Financial Information Service Co. to process the transfer of uniform invoice lottery prize money to the accounts of prize winners on 6 June 2023. The deficiencies indicated that the Bank had failed to establish adequate measures to protect customer interests for information system conversion operations, enforce regulations regarding information system conversion, implement reporting procedures for material contingencies, and provide an audit report which fully outlined the incident's progression. These deficiencies showed that the bank had failed to properly establish and rigorously implement internal controls, in violation of Article 45-1, paragraph 1 of the "Banking Act," and provisions in Article 3, paragraph 1 as well as Article 8, paragraph 1 of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" established based on the authorization therein. The FSC therefore imposed an administrative penalty of NT\$4 million upon the Bank in accordance with Article 129, subparagraph 7 of the "Banking Act."