

# 金融展望月刊

## Financial Outlook Monthly

Publisher Lee Ruey-Tsang

Advisor Cheng Cheng-Mount  
Huang Tien-Mu  
Jean Chiu

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](mailto:planning@fsc.gov.tw)

Website <http://www.fsc.gov.tw>

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Anti-Corruption Hotline 0800-088-789

- The FSC has amended some provisions of the Regulations Governing Foreign Investments by Insurance Companies
- The FSC will introduce deregulatory measure for applications to set up domestic branches by financial institutions
- The FSC revises regulation to allow qualified offshore funds approved by FSC to invest in Mainland China up to 30% of their total investments
- The FSC has amended regulation regarding cap limit on order placement with a single securities firm for stock trade by Securities Investment Trust Fund
- The FSC has adjusted RBC measurement scheme for insurance companies for the first half of 2017

### Policy and Law

#### *The FSC has amended some provisions of the Regulations Governing Foreign Investments by Insurance Companies*

On June 14, 2017, the FSC introduced the amendments to the Regulations Governing Foreign Investments by Insurance Companies in order to improve insurers' risk control for investments in foreign financial bonds, international bonds, real estate in foreign countries and Mainland area, and overseas insurance-related enterprises, to enhance their capabilities to manage assets and liabilities, and to increase performance and flexibility of their investments in foreign corporate bonds and private equity funds. The main points of the amendments are as follows:

1. The issuers or the guarantors of foreign financial bonds which the insurance company invests in shall have credit ratings of BB+ or above. The FSC has also set the criteria for the insurers' investments in senior financial bonds with credit ratings of BBB to BB+ and imposed the limit for concentration risk of investments in one single bank.
2. Currently, investment ceilings are imposed on the insurers' investments in foreign bonds with credit ratings of BBB+ to BB+. Now the insurance companies investing in foreign corporate bonds with BBB+ credit rating of the issuer or the guarantor can exclude from that investments ceilings imposed. The FSC has also revised the investment ceilings for investments in foreign corporate bonds with credit ratings of BBB to BB+ by insurance companies.
3. Insurance companies are now allowed to invest in foreign private debt funds and private real estate funds. The wording of "private equity funds" used in the Regulations is amended to "private funds", which are clearly defined as private funds with investments in private equity, private debt, and real estates.
4. The regulation requiring that the assets managed by domestic fund management institutions be worth over USD 100 million was removed. Now insurance companies are allowed to invest in any domestic fund management institutions meeting the criteria approved by their Board of Directors.
5. The FSC has changed the issuance requirements for callable international bonds that the insurance industry is allowed to invest in. Now insurance companies may invest in callable international bonds that may be redeemed by the issuers within a

specific period of time, which has to be no less than 5 years from the issue date. For such callable bonds traded in the secondary market, insurance companies can only purchase those that will be redeemed no less than 3 years after the settlement date.

6. According to the amendment, insurance companies shall disclose in notes of their annual financial reports whether their ownership of real estate in a foreign country or Mainland area is subject to related regulatory restrictions.
7. When insurance companies acquire real estate or invest in foreign insurance-related enterprises in a foreign country or Mainland area by investing in real estate investment business for special purpose or through trust arrangements, the insurance companies shall report material matters about such investments to the competent authority. The deadline for such reporting is stipulated in the amendment.

### **The FSC will introduce deregulatory measure for applications to set up domestic branches by financial institutions**

As financial institutions have reduced their branches in recent years because of the developments of digital financial technology, the FSC will plan to amend the "Regulations Governing Domestic Branches of Financial Institutions" in the directions listed below based on the consideration of financial inclusion and encouraging financial institutions to provide financial services in remote areas. The Regulations will be amended and promulgated according to the applicable procedures as soon as possible. Once the amendments are promulgated, financial institutions may submit their applications to establish new branches according to the amended Regulations.

#### 1. Adjustment to ROE indicators:

In order to encourage small and medium sized banks operated soundly and willing to provide financial services (through bank branches) to adequately set up new branches, the FSC plans to relax the ROE requirement for establishing new branches by reducing from 1.5 times the average ROE of domestic banks and credit cooperatives in the three years prior to application to the average of such ROE.

#### 2. Increasing the number of application within a year to twice a year and remove the limit for the number of new branches that can be set up:

Considering that financial environment changes rapidly in recent years and financial institutions need to make flexible adjustments to their operation strategies, the FSC plans to accept applications of financial institutions to establish new branches in May and November annually, in order to provide better services to the public.

#### 3. Removing limitation on application time for establishing new branch(es) in remote areas:

Financial institutions can submit their applications to set up a new branch in a remote area any time in a year. Such measure is designed to encourage financial institutions to provide service in remote areas step by step and promote financial inclusion.

### **The FSC revises regulation to allow qualified offshore funds approved by FSC to invest in Mainland China up to 30% of their total investments**

The FSC revises regulation on investments in securities listed or issued in Mainland China by offshore funds on June 3, 2017. Now offshore funds are allowed to invest in China Interbank Bond Market. And the Offshore fund institutions that meet qualifications of "Plan to Encourage Stronger Business Ties in Taiwan for Offshore Funds" may raise the ceiling proportion of securities investments in Mainland area by offshore fund

institutions up to 30%.

### **The FSC has amended regulation regarding the cap on order placement with a single securities firm for stock trade by Securities Investment Trust Fund**

On June 13 2017, the FSC introduced the amendment to paragraph 1 of Article 10 of the Regulations Governing Securities Investment Trust Funds, in order to increase operation flexibility of investment trust enterprises with regard to their foreign stock investment. According to the amendment, when a Securities Investment Trust Enterprise invests in foreign stock with fund assets, it may not be subject to the restriction that authorized stock trading of a fund through a securities firm shall not exceed 30% of the total trading value of the fund's stock trades in a given year.

### **The FSC has adjusted the RBC measurement scheme for insurance companies for the first half of 2017**

On June 28, 2017, the FSC announced the calculation method for the adjusted net capital and risk-based capital of the insurance companies for the first half of 2017 with following changes:

1. Given the nature of life insurance company's liabilities and their current asset allocation, the method for calculating asset concentration is adjusted in order to reasonably reflect operation risks of life insurance companies and to encourage insurance companies to adjust their asset allocation for lower risk capital. Foreign bonds are divided into three categories based on their credit ratings. Meanwhile, a new risk coefficient was introduced as well.
2. In order to reasonably reflect operation risks of insurance companies, the calculation method of forex risks is changed, with the forex risks calculated by "NTD conversion" and by "Foreign Currency Conversion", while investment in the developed countries or emerging market is no longer a relevant factor.

### **Amendments of the Directions for Premiums Collection Authorized by Insurance Enterprises**

In order to enhance management of premium collection authorized by the insurance company and to cope with practical needs of such activities, the insurance company may use "prepaid premium receipt" as the proof of collection given to their customers, according to the amendment. In addition, insurance companies are responsible for supervising matters that they entrust to the insurance agents. The insurance companies should require the insurance agents to establish related control and management mechanism. According to the amendment, the insurance agents that are authorized by insurance company to collect premiums and establish the control and management mechanism according to the insurance agency agreement between the insurance companies and the insurance agents may prepare and print premium receipts/collection documents by themselves.

### **The FSC introduced amendment of the Regulations for Operation and Administration of the Special Reserves of Financial Enterprises and announced the engagement of Central Deposit Insurance Corporation for utilizing and managing special reserves of financial enterprises**

On May 15, 2017, the FSC introduced amendment of the Regulations for Operation and Administration of the Special Reserves of Financial Enterprises and announced in line with the engagement of Central Deposit Insurance Corporation for utilizing and managing special reserves of financial enterprises,

which took effect on May 17, 2017, in order to utilize and manage such funds and to expand the scope of utilization of special reserves of financial enterprises.

## Industry Updates

### **The FSC approved the application of First Commercial Bank to establish a Siem Reap sub-branch under its Phnom Penh branch, Cambodia**

On May 19, 2017, the FSC granted permission for First Commercial Bank to apply with the competent authority in Cambodia to establish a Siem Reap sub-branch under its Phnom Penh branch in Cambodia. The First Commercial Bank plans to establish the Siem Reap sub-branch under its Phnom Penh branch in Cambodia because the bank's assessment concludes that the Siem Reap sub-branch will not only be able to do business with local Taiwan-owned enterprises, but also facilitate the bank's business development in Southeast Asia. So far, the FSC has granted its permission for several banks to establish branches/subsidiary/ share ownership in Cambodia, including a subsidiary of Cathay United Bank; branches of First Commercial Bank, Mega International Commercial Bank, and Taiwan Cooperative Bank; a representative office of the Shanghai Commercial Savings Bank; and 75% shareholding of the Union Commercial Bank Plc by E.Sun Commercial Bank.

### **The FSC granted permission for Bank of Taiwan to establish two representative offices in Silicon Valley, USA, and Manila, the Philippines**

On June 8, 2017, the FSC granted permission for Bank of Taiwan to apply with the US and Philippine authorities to establish two representative offices in Silicon Valley, USA and Manila, the Philippines, respectively. Bank of Taiwan plans to establish one representative office in Silicon Valley in order to take advantage of local economic and technology development and another representative office in Manila in order to continue facilitating business development in the ASEAN market.

The establishment of branches/subsidiaries in the U.S. and the Philippines by domestic banks is as follows:

1. The Philippines: two subsidiaries have been established by CTBC Bank and Yuanta Commercial Bank, and four branches have been set up by Taiwan Cooperative Bank, Mega International Commercial Bank, First Commercial Bank and Cathay United Bank. Hua Nan Commercial Bank has also gained the permission from the Philippine Central Bank to establish a local branch.
2. The U.S.: 12 banks have established 4 subsidiaries and 23 branches in New York, Los Angeles, Seattle, Guam, Chicago, and Silicon Valley. In addition, CTBC Bank has a representative office in Los Angeles.

### **The FSC approved the application of Feng Long Securities to acquire Fung Der Securities**

On May 24, 2017, the FSC approved the application of Feng Long Securities to acquire Fung Der Securities and assume its securities brokerage and futures introducing brokerage businesses. In order to increase business revenue, the acquisition proposal between Feng Long Securities and Fung Der Securities was approved by the shareholders' meetings of both companies. The business locations of Feng Long Securities will remain unchanged after the acquisition.

### **NPL ratio for domestic banks at 0.31% as of the end of May 2017**

The total outstanding loans of domestic banks stood at NT\$26,423.7 billion as of the end of May 2017, up by NT\$119.2 billion from the previous month, while their total NPLs were

NT\$80.8 billion, up by NT\$0.4 billion from the previous month's figure of NT\$80.4 billion, generating an average NPL ratio of 0.31%, the same figure for the end of previous month. The NPL coverage ratio of Taiwan's domestic banks stood at 440.30% at the end of May 2017, up by 0.56 percentage points from the figure of 439.74% at the end of the previous month.

### **NPL ratio for credit cooperatives at 0.12% as of the end of May 2017**

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$514 million as of the end of May 2017, generating an NPL ratio of 0.12%, the same figure for the end of April 2017. The NPL coverage ratio, in the meantime, was 1,644.32%, up by 54.31 percentage points from 1,590.01%, at the end of April 2017.

### **Net foreign investments in listed shares**

As of the end of May, 2017, foreign and Mainland China investors had bought around NT\$ 2,509.30 billion and sold around NT\$2,261.74 billion worth of shares on the Taiwan Stock Exchange, making for a cumulative net inward investment of around NT\$247.57 billion. Meanwhile, on the Taipei Exchange, foreign and Mainland China investors bought around NT\$ 228.37 billion and sold around NT\$222.14 billion, making for a net inward investment of around NT\$ 6.22 billion. The figure for cumulative net inward remittances by offshore foreign institutional investors, Mainland China investors, offshore overseas Chinese, and offshore foreign nationals as of the end of May 2017 stood at approximately US\$212.10 billion, up by around US\$2.17 billion from the US\$209.93 billion as of the end of April 2017.

## Investor and Consumer Protection

### **Financial assistance measures for households affected by torrential rain**

Recently, affected by the Plum Rains front and southwest monsoon, some areas of Taiwan suffered damage caused by torrential rain. To help suffering people carry out post-disaster reconstruction, the FSC has requested banks to pay attention to related responses measures after the torrential rain has passed and provide their self-owned capital to handle natural disaster related loans with proactive and caring attitude.

At present, 21 domestic banks provide various natural disaster finance schemes with low interest rate, including personal, house loans and business disaster loans. Related information has been posted on the website of FSC's Banking Bureau. People who need finance can go to the website and check the loan terms of each bank and contact telephone numbers. If a business competent authority or local government has other policy type regarding finance measures directed at the disaster situation in place following the recent torrential rain, the FSC will continue to urge banks to actively support such measures in an assisting manner.

### **The situation regarding the FSC's promotion of insurance products in response to an aging society in Taiwan**

In response to the aging trend of Taiwan's society, the FSC is encouraging insurers to develop and sell insurance products and services that are suitable for the elderly, combining with the resources of medical, care and other service institutions, to provide seniors with the funds to live and care services they need in old age, giving them added protection for life in retirement. In addition to continuing to promote long-term care insurance and annuity insurance, the FSC has successively promoted group annuity insurance, in-kind payment insurance,

health management insurance with a spillover effect, micro-whole-life insurance, and other new measures. In the future, the FSC will continue encouraging insurers to design insurance products and services that suit the needs of the elderly and will also enhance related advocacy.

### **The FSC reminds automobile and motorcycle owners that those who have not taken out compulsory automobile liability insurance or have such coverage expire within 30 days will not allowed to reissue license plates, register alterations, or inspect automobiles**

The FSC reminds owners, users or managers of automobiles and motorcycles that they are required to be covered by compulsory automobile liability insurance ("the Insurance") and maintain validity of such coverage according to Article 6 of the Compulsory Automobile Liability Insurance Act. Automobile and motorcycle owners should remember to regularly review their coverage status. Highway supervisory authorities will not issue license plates, or temporary passes, reissue license plates, register alterations, or inspect automobiles for automobile and motorcycle owners who have not entered into agreements for the Insurance or when such Insurance coverage will expire within 30 days, according to Article 16 of the Compulsory Automobile Liability Insurance Act.

### **The FSC encourages investors to actively exercise their voting rights through e-voting**

As TWSE/TPEX-listed companies are beginning to hold their 2017 shareholders' meetings, the FSC has expanded the range of companies subject to e-voting requirement based on the authority of Article 177-1 of the Company Act, in order to help shareholders exercise their voting right in a more convenient way and improve corporate governance. From 2018, when a listed company holds a shareholders' meeting, it shall accept e-voting as a legitimate way to exercise voting right. As of the end of April, 2017, 1160 of 1636 listed companies have signed contracts with Taiwan Depository and Clearing Corporation. The FSC called on the remaining companies to follow suit and complete the related procedure as soon as possible.

When investors exercise their voting rights for proposals in a shareholders' meeting, they can improve corporate governance with their market supervisory power, making it a positive force for shareholder activism. As e-voting allows the shareholders to cast their votes whenever and wherever the shareholders' meeting is held, the FSC encourages investors to take full advantage of e-voting mechanism and participate in the shareholders' meeting.

### **2017 School and Community Financial Literacy Campaign**

In June 2017, FSC held 74 financial literacy promotion sessions at schools and groups, including New Taipei Municipal Jhangshu International Creative Technical High School in New Taipei City, as part of its 2017 School and Community Financial Literacy Campaign. A total of 9,276 participants attended. These sessions are free of charge and have been very well received since their inception in 2006. As of the end of 2016, 4,771 sessions have been held and attended by over 840,000 persons. Target participants include students from elementary, junior high, high schools and universities, community and women's groups, indigenous people, immigrants, and military service personnel. The FSC's Banking Bureau will continue its financial literacy campaign in 2017. Schools or community groups interested in the campaign are invited to register on the website of the Banking Bureau; for more information, please call (02)89689709.

## **Major Enforcement Actions**

### **Taiwan Life Insurance Co. Ltd. fined NT\$6 million**

When carrying out inspection of CTBC Financial Holding Co., Ltd's general business, the FSC found that its subsidiary CTBC Life Insurance Co., Ltd (now merged with Taiwan Life,) when carrying out real estate investment, did not have a complete real estate appraisal company selection procedure in place, failed to assess the reasonableness of bid price, and failed to properly control the invested real estate income situation, damaging the interests of the company, and was thus in violation of related Insurance Act regulations. A fine of NT\$6 million was imposed on Taiwan Life.

### **Ta Chong Bank and other 13 banks that were found to have shortcomings in conducting financial derivative business were fined NT\$2-4 million, reprimanded and subject to other administrative sanction**

When the FSC carried out special examinations targeting 14 banks that included Ta Chong Bank at the end of 2016, the focus of the examinations was the client's board of directors' meeting minutes obtained by such banks for conducting derivatives business. Shortcomings including failure to properly review board of directors' meeting minutes were found and the following penalties were imposed:

1. Six banks, Ta Chong Bank, Yuanta Commercial Bank, E.Sun Commercial Bank, Cathay United Bank, Jih Sun International Bank and Taiwan Shin Kong Commercial Bank, were found to have failed to have properly established or implemented an internal control system when reviewing client's board of directors' meeting minutes, OBU account opening or the veracity of financial statements etc, in violation of the Banking Act and were thus fined NT\$2-4 million and reprimanded, respectively. They were also prohibited from undertaking new financial derivatives business with foreign exchange put option feature until further notice.
2. Eight banks, CTBC Bank, Taipei Fubon Commercial Bank, KGI Bank, Taishin International Bank, Bank SinoPac, Citibank Taiwan, EnTie Commercial Bank and Far Eastern International Bank failed to properly review client's board of directors' meeting minutes or had shortcomings in the procedure of obtaining client's board of directors' meeting minutes, giving rise to concern about possible impediment to soundness of bank operation, and were reprimanded under Banking Act.

### **Chairman in charge of Concord Securities Corp. disciplined**

When underwriting XPEC Entertainment convertible bonds, Concord illegally worked in concert with the bond issuer during the book building stage and subsequently provided the list of nominee subscribers to Far Eastern Bank for its convertible bond asset swap business. Concord Chairman OO was aware of the aforementioned misconducts and should bear responsibility for failing to supervise properly. Concord Securities Corp. was thus ordered to suspend Chairman from his post for six months under Article 56 of the Securities and Exchange Act.