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Financial Outlook Monthly

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- FSC implements the “Financial Cyber Security Action Plan” in pursuit of secure, convenient, reliable and resilient financial services
- FSC issues the “Regulations Governing Banks Conducting Financial Products and Services for High-asset Customers”
- FSC will implement BCBS standard for IRRBB from 2021
- FSC announces timetable for adoption of the New Generation Insurance Solvency Regime
- MyData platform to provide greater convenience in applying for financial services

Policy and Law

FSC implements the “Financial Cyber Security Action Plan” in pursuit of secure, convenient, reliable and resilient financial services

To strengthen the cyber defense capabilities of financial institutions and achieve secure, convenient, reliable and resilient financial services for customers, the FSC published the “Financial Cyber Security Action Plan” on 6 August 2020. This Plan is expected to serve as a guide for financial institutions as they work to build up their cyber defense capabilities. The Action Plan will run for a period of four years, will seek to enhance the competent authority’s cyber security supervision, strengthen financial institutions’ cyber security governance and cyber security resilience, and implement cyber security joint defense, and will include 36 cybersecurity measures. The key approaches to implement the action plan include public-private partnership, differentiated regulatory treatment, resource sharing, compliance incentives, and international cooperation. The FSC will review the Plan’s performance once each half-year and adjust its content in response to cybersecurity trends and business needs.

FSC issues the “Regulations Governing Banks Conducting Financial Products and Services for High-asset Customers”

To spur upgrading of the wealth management business in Taiwan, and to exercise prudential supervision of banks’ provision of products and services to high-asset customers, the FSC issued the aforementioned Regulations on 7 August 2020. The Regulations allow banks to provide a more diverse range of financial products and services to high-asset customers. These relaxation measures will help banks achieve stronger product development capability, and will enhance the depth and breadth of Taiwan’s financial markets. At the same time, the Regulations introduce related supervisory measures designed to ensure robust development of Taiwan’s wealth management business, which is expected to make our banks more internationally competitive in this market and propel Taiwan’s wealth management industry to a more sophisticated level.

FSC will implement BCBS standard for IRRBB from 2021

In order to strengthen the ability of domestic banks to withstand the risks associated with the possibility of sharp interest rate volatility, and to bring Taiwan more closely in line with international practices, the FSC on 6 August 2020 asked the ROC Bankers Association inform domestic banks that they will be expected to comply with “The Standard of Interest Rate Risk in Banking Book (IRRBB)” issued by the Basel Committee on Banking Supervision (BCBS) in April 2016. The IRRBB is a part of Pillar 2 of the Basel

Notification of E-journal of Financial Outlook Monthly

Thank you for reading the Financial Outlook Monthly. We will stop printing and sending the paper-form journal since January 2021 (No.194), and still provide E-journals on our website. If you would like to receive E-journal every month, please send your E-mail address to yhhsu@fsc.gov.tw. You may also download E-journal files from our website through the QR code as the following or the URL (<https://www.fsc.gov.tw/en/home.jsp?id=55&parentpath=0,4>).

Many thanks,
Financial Supervisory Commission, Republic of China (Taiwan)



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capital framework, so beginning from 2022, when banks report information related to the Pillar 2 supervisory review process, they will be required at the same time to report the 9 qualitative principles they use to control IRRBB (including measurement methods, governance framework, risk appetite controls, and information systems management) as well as 2 quantitative principles (year-on-year changes each quarter in net interest rate income and economic value of equity).

FSC announces timetable for adoption of the New Generation Insurance Solvency Regime

Taiwan expects to adopt “IFRS 17: Insurance Contracts” in 2026, which will require evaluation of insurance liabilities at fair value. In the Insurance Capital Standard (ICS) 2.0 issued by the International Association of Insurance Supervisors (IAIS) in November 2019, assets and liabilities are both measured at fair value. Using the same basis of measurement in accounting systems and solvency systems helps companies to carry out comprehensive asset-liability management. Therefore, by making reference to the ICS, the FSC develops the new generation insurance solvency regime, which can better reasonably reflect insurers’ overall risks, safeguard the interests of policyholders, maintain financial stability, and make Taiwan’s insurers more internationally competitive.

With an eye to how this new regime will affect business, insurers will be encouraged to adjust their financial and operational structure as soon as possible and waste no time in directing needed resources to the undertaking so that insurers would improve their financial health. To smoothly promote the new regime and take a gradual approach toward aligning with international practices, the FSC is planning to adopt the new solvency regime in three phases:

1. Phase 1 (on-site field testing phase), 2020 - 2021: This phase will include the conduct of on-site field testing and research projects, and the drafting of localized supervisory rules.
2. Phase 2 (parallel run phase), 2022 - 2024: This phase will include parallel run each year and the drafting of transitional measures and localized supervisory rules, and there will be review and amendments of supervisory legislation.
3. Phase 3 (preparatory phase), 2025: During this period, insurers will review all related process to implement the new regime.
4. Implementation timetable: Implementation of the New Generation Insurance Solvency Regime is scheduled to take place in 2026, to coincide with the adoption of IFRS 17.

MyData platform to provide greater convenience in applying for financial services

To reduce the documentation difficulties faced by individuals when they apply for financial services, the FSC and the National Development Council have launched the MyData platform to simplify the application process of financial services. Once an individual has registered on MyData and authorized the platform to access their personal information and provide it to third parties, personal information previously provided to government agencies can be forwarded by MyData to a bank for the processing of an application for a credit card, a loan, or some other financial service. This arrangement relieves the consumer of the cumbersome process of obtaining hardcopy documentation and delivering it to the bank. As a result, financial services can be obtained much more quickly and conveniently. The first 7 banks to take part in the platform (Taishin International; Far Eastern International; Taichung Bank; Chang Hwa Bank; E.Sun Commercial Bank; CTBC Bank; Taipei Fubon) now provide 15 different types of service via MyData.

FSC amends the “Standards Governing Eligibility of Securities for Margin Purchase and Short Sale”

In response to market demand and the suggestions of outside parties, the FSC on 5 August 2020 amended the aforementioned Standards to relax the eligibility requirements for TPEX-listed shares to be used for margin purchase and short sale. Under the amended provisions, the profit-making capability of a TPEX-listed company with paid-in capital of NT\$600 million or more is no longer subject to minimum standards for operating income and income before tax.

Current standards regarding the eligibility of TPEX-listed shares for margin purchase and short sale include: The issuer must have been listed for at least 6 months; the shares must have a net worth per share of not less than par value; there must not have been

any abnormal prices or trading volumes involving the shares; and the issuer must have been incorporated for at least 3 years, must have paid-in capital of NT\$300 million or more, must have had no accumulated deficit in the most recent fiscal year, and its operating income and income before tax must account for 3% or more of year-end paid-in capital. This amendment will facilitate increased trading on the TPEX, and will help investors make more flexible use of TPEX-listed shares.

FSC amends the “Securities Investor and Futures Trader Protection Act”

An amended version of the “Securities Investor and Futures Trader Protection Act” (hereinafter, “the Protection Act”) was passed by the Legislative Yuan on 22 May 2020 and promulgated by the President on 10 June, then the Executive Yuan agreed to have it enter into force from 1 August. Articles 10-1, 19, and 26 were revised, while two other new articles (Articles 10-2 and 40-1) were added. Key points of the amendments include the following:

1. The amended Act expressly provides that market price manipulation, insider trading, fraud, and other behavior that undermines market order constitute cause for the Securities and Futures Investors Protection Center (the “protection institution” established under the Protection Act) to file derivative suits and discharge suits.
2. The amended Act includes the directors and supervisors of emerging stock companies among the persons against which the protection institution may file derivative suits and discharge suits.
3. Newly added content empowers the protection institution to file a class action suit against a past director or supervisor, and provides that the protection institution may, with respect to the same underlying transaction or occurrence, join a suit as a co-party or file additional claims against those who should duly be held liable for compensation for that transaction or occurrence and who furthermore manage the operation of the company and are authorized to sign relevant business documents for the company.
4. The causes for which a discharge suit may be brought against a director or supervisor will no longer be limited to causes that occurred during the term the director or supervisor was serving at the time of filing of the suit, and a director or supervisor who is discharged from office by a decision of a court shall not be appointed as a director or supervisor of a TWSE-listed, TPEX-listed, or emerging stock company within 3 years after the court decision becomes final and non-appealable.

FSC amends the “Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises”

To improve insurers’ legal compliance, the FSC on 20 August 2020 issued an amendment to Articles 30 and 41 of the aforementioned Regulations. Key points of the amendments include the following:

1. A head office chief compliance officer must hold only this one position and shall not take any concurrent positions other than those which are specifically allowed and do not pose any conflict of interest (i.e. the head office chief compliance officer of an insurance enterprise having assets of NT\$1 trillion or more may act concurrently as the supervisor of the AML/CFT compliance unit, and the head office chief compliance officer of any other insurance enterprise may act concurrently as the supervisor of the legal affairs unit or the AML/CFT compliance unit).
2. The phrase “shall not take any concurrent positions” means positions at other profit-seeking enterprises (including other members of the same corporate group), and the phrase “must hold only this one position” does not exclude the possibility of concurrently holding another position outside of working hours at a non-profit organization that poses no conflict of interest.

This amendment may require adjustments involving head office chief compliance officers, and will therefore not be implemented until 31 December 2020.

FSC supports government’s “Salute to the Seas” policy by promoting insurance products for maritime activities

In support of the Executive Yuan’s “Salute to the Seas” policy, the FSC promotes insurance products that cover maritime activities. For both individuals and companies, there are many products available to meet all types of maritime insurance needs. In addition, the FSC has instructed the Non-Life Insurance Association of the Republic of China (NLIA) to help insurers develop specialized comprehensive maritime insurance, and has

also amended related provisions in the “Directions for Insurance Enterprises Engaging in Online Insurance Business” to allow comprehensive maritime insurance business to be conducted online. Individuals can visit the Ocean Affairs Council website and use the one-stop maritime leisure activities insurance platform to link to the special “maritime insurance” section on the NLIA website. There they can quickly find information on related insurance products, and then use this special section to link to an insurance company website’s special webpage for online insurance enrollment. In effect, consumers receive the benefit of one-stop service. Members of the public are advised to make frequent use of this channel to plan for their insurance needs.

International Activities

Director of the Bureau François de Taipei visits the FSC

Mr. Jean-François Casabonne-Masonnave, the Director of the Bureau François de Taipei, paid a visit to FSC Chairperson Dr. Tien-Mu Huang on July 23, 2020. The two sides shared experiences regarding financial industry development, financial technology, and other supervisory policies.

American Chamber of Commerce in Taipei meets with FSC’s Chairperson Huang

American Chamber of Commerce in Taipei was warmly received by FSC Chairperson Dr. Tien-Mu Huang on August 5, 2020. The two sides broadly exchanged views on outsourced operations involving cloud-based services.

Industry Updates

FSC holds ceremony to recognize banks that have performed well in implementing the “Program for Encouraging Domestic Banks to Expedite Processing of Relief and Stimulus Loans”

On 29 July 2020, the FSC held a ceremony to recognize banks that have performed well in implementing the “Program for Encouraging Domestic Banks to Expedite Processing of Relief and Stimulus Loans.” Selection of award winners was based on the performance of banks in providing relief and stimulus loans as of 30 June 2020. The following 14 banks were singled out for recognition: Export-Import Bank of the Republic of China; CTBC Bank; E.Sun Commercial Bank; Taipei Fubon Commercial Bank; Taiwan Cooperative Bank; Mega International Commercial Bank; Bank of Kaohsiung; Cathay United Bank; Hua Nan Bank; First Commercial Bank; Chang Hwa Bank; Bank of Taiwan; Land Bank of Taiwan; and Taiwan Business Bank.

As of 27 July 2020, domestic banks had accepted a total of 1,290,144 applications for relief and stimulus loans (either doing so under various government programs, or undertaking relief lending on their own initiative). The applications were submitted by both businesses and individuals, and the total approved amount was NT\$1,596.5 billion. A total of 1,124,858 applications were approved for a total combined loan amount of NT\$1,469.8 billion. By loan amount, the approval ratio was 87%, and by the share of total applications, the approval ratio was 92% – excellent figures in both cases. The point of this ceremony was to use the granting of public recognition to praise banks for their efforts, and to encourage them to use their risk management expertise to continue providing assistance to people in need of relief, so that the economy and society can get back on a positive track as soon as possible.

FSC holds 2020 ceremony to recognize banks and insurers that have performed well in implementing the Treating Customers Fairly Principles

On 10 and 12 August 2020 the FSC held award ceremonies to recognize banks and insurers, respectively that have performed well in implementing the Treating Customers Fairly Principles. FSC Chairperson Tien-Mu Huang personally presided over the ceremonies and handed out awards to banks and insurers. The following banks and insurers finished among the 20% in the performance evaluations (presented in no particular order):

1. 7 banks: The Shanghai Commercial & Savings Bank; CTBC Bank; First Commercial Bank; Cathay United Bank; Standard Chartered Bank (Taiwan); Land Bank of Taiwan; and Taiwan Business Bank.
2. 4 non-life insurers: MSIG Mingtai Insurance; Cathay Century

- Insurance; Fubon Insurance; and Tokio Marine Nawa Insurance.
3. 4 life insurers: China Life Insurance; First Life Insurance; Cathay Life Insurance; and Fubon Life Insurance.

FSC Approves the Establishment of the Taiwan Branch of Bank Rakyat Indonesia

The FSC has approved the application of Bank Rakyat Indonesia (BRI) for the establishment of its branch in Taiwan. Bank Rakyat Indonesia is one of the four major state-owned banks of Indonesia and it was also Indonesia’s first state-owned bank. According to the rankings in The Banker as of the end of July 2019, the Bank’s Tier 1 capital ranked 128th in the world and ranked first in Indonesia. It meets the requirements of Article 2 of the Regulations Governing Foreign Bank Branches and Representative Offices for applicant banks to rank among the top five hundred banks in the world. The Bank thus is the first Indonesian bank to establish a branch in Taiwan. The establishment of the Taiwan Branch of BRI will generate positive effects for bilateral trade and investments between Taiwan and Indonesia.

FSC approves plans by Bank SinoPac to apply for permission to establish Singapore branch

The FSC recently granted Bank SinoPac approval to apply to the Singapore authorities for permission to establish a branch there. The following 12 Taiwanese banks currently have commercial representations in Singapore: First Commercial Bank; Bank of Taiwan; Hua Nan Bank; Mega International Commercial Bank; Chang Hwa Bank; Land Bank of Taiwan; Cathay United Bank; CTBC Bank; E.Sun Bank; Taishin International Bank; Taipei Fubon Commercial Bank; and The Shanghai Commercial & Savings Bank.

NPL ratio for domestic banks as of the end of July 2020

The total outstanding loans extended by the current 36 domestic banks increased by NT\$73.1 billion as compared to the figure of previous month and amounted to NT\$30.9 trillion at the end of July 2020. Meanwhile, the NPLs of these banks totaled at NT\$77.9 billion which increased by NT\$1 billion from NT\$76.9 billion as of the end of the previous month. The average NPL ratio of the 36 banks was 0.25%, same as that of the previous month, and was up by 0.01 percentage points compared to the same month last year.

The coverage ratio of allowances for NPLs stood at 546.79%, which decreased by 2.99 percentage points from 549.78% of the previous month.

NPL situation of credit cooperatives at the end of July 2020

Total NPLs at Taiwan’s 23 credit cooperatives stood at approximately NT\$0.49 billion as of the end of July 2020, generating an NPL ratio of 0.1%, same as that at the end of June 2020. The NPL coverage ratio was 2106.7%, down by 2.44 percentage points from 2,109.14% at the end of June 2020.

Net foreign and Mainland China investment in listed shares

As of the end of July 2020, foreign investors had bought around NT\$6,341.9 billion and sold around NT\$6,942.2 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of around NT\$600.3 billion. In addition, foreign investors had bought around NT\$714.1 billion and sold around NT\$735.2 billion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$21.1 billion. Meanwhile, mainland China investors had bought around NT\$12,314 million and sold around NT\$13,074 million worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of NT\$760 million; mainland China investors had bought around NT\$3,269 million and sold around NT\$4,011 million worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$742 million. 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 July 2020 stood at approximately US\$201.6 billion, up by around US\$900 million from US\$200.7 billion at the end of June 2020. The figure for cumulative net inward remittances by mainland China investors was US\$170 million, down by around US\$6 million from US\$176 million at the end of June 2020.

Sales statistics of foreign-currency denominated products by life insurance industry as of the end of May 2020

The sales statistics of foreign-currency denominated products by

life insurance industry as of the end of May 2020 were as follows: premium revenues from new foreign-currency denominated policies amounted to around NT\$195.091 billion, down by 21% from NT\$247.591 billion year-on-year. Within these figures, investment-linked insurance products accounted for NT\$51.119 billion (around 26% of the total), down by 30% from NT\$73.552 billion year-on-year, and the sales of traditional insurance products totaled NT\$143.972 billion (around 74% of the total), down by 17% from NT\$174.039 billion year-on-year.

Profit/loss, net value and exchange gains/losses of the insurance industry in June 2020

The pre-tax profit of insurance enterprises at the end of June 2020 was NT\$118 billion; the pre-tax profit of life insurance enterprises was NT\$110.1 billion, an increase of NT\$17.4 billion, or 18.8%, compared with the same period in 2019; the pre-tax profit of non-life insurance enterprises was NT\$7.9 billion, down by NT\$0.3 billion or 3.7% compared with the same period in 2019.

Owners' equity of insurance enterprises at the end of June 2020 was NT\$2,200.4 billion; owners' equity of life insurance enterprises was NT\$2,068.8 billion, an increase of NT\$341.6 billion, or 19.8%, compared with the same period in 2019; the pre-tax profit of non-life insurance enterprises was NT\$131.6 billion, up by NT\$4.8 billion or 3.8% compared with the same period in 2019.

As of the end of June 2020, the NT Dollar had appreciated by 1.5% versus the US Dollar from the end of 2019. 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 negative NT\$151.8 billion.

Sales performance of insurance with spillover-effect and in-kind benefits provided by life insurance companies as of the second quarter of 2020

As of the second quarter of 2020, the sales performance of insurance products with spillover effect and in-kind benefits provided by life insurance companies was as follows:

1. The FSC has approved or received filings of 35 insurance products with a spillover effect from 8 life insurance companies. In total, 53,397 new contracts for such products have been sold as of the second quarter of 2020, up by 301% from 13,302 compared to the second quarter of 2019. The first-year premium income was NT\$834.2 million, up by 461% from NT\$148.55 million compared to the second quarter of 2019.
2. The FSC has approved or received filings of 17 in-kind payment insurance products from 6 life insurance companies. In total, 28,421 new contracts for such products have been sold as of the second quarter of 2020, down by 64.5% from 80,171 compared to the second quarter of 2019. The first-year premium income was NT\$10.47 million, down by 39% from NT\$17.16 million in the second quarter of 2019.

Investor and Consumer Protection

FSC advises auto owners to have suitable liability insurance coverage

Compulsory automobile liability insurance provides basic coverage for an auto accident. The FSC reminds the public that they can purchase suitable automobile third party liability insurance and excess liability insurance to transfer the risk of liability for death or injury of others or property damage arising from a traffic accident.

FSC reminds public that persons hit by uninsured drivers, and victims of hit-and-run incidents, can apply to Motor Vehicle Accident Compensation Fund for compensation

For individuals who are hit by drivers that have not purchased compulsory automobile liability insurance, or who fall victim to hit-and-run incidents, where the accident results in injury or death, the "Compulsory Automobile Liability Insurance Act" has established a mechanism to protect the rights and interests of such persons. A victim or their survivors can apply to the Motor Vehicle Accident Compensation Fund for compensation.

2020 School and Community Financial Literacy Campaign

As part of the 2020 School and Community Financial Literacy Campaign, the FSC held 43 financial literacy events in August 2020 at schools and organizations, including the Kinmen County Government, attracting a total attendance of 3,144 participants. The events are free of charge, and have struck a chord with many people since their inception in 2006. As of July 2020, a total of 6,571

events had been held and over 1.03 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, and senior citizens' groups.

The Banking Bureau of the FSC will continue the financial literacy campaign in 2020. Schools or community groups interested in the campaign are welcome to register on the website of the Banking Bureau. For more information, please call (02) 8968-9709.

Major Enforcement Actions

FSC imposes sanctions on Mega International Commercial Bank

The FSC recently ordered Mega International Commercial Bank to complete 2 corrective actions within 1 month, handed the bank an administrative fine of NT\$3.3 million, and issued an official reprimand after learning of the following infractions: (a) a life insurance brokerage merged by the bank had sold products to its customers without first properly confirming product suitability; (b) failure to handle consumer disputes in accordance with its internal rules; (c) failure to properly vet advertising and promotional materials; (d) the bank's rules governing insurance solicitor remuneration had failed to take non-financial benchmarks into account; and (e) failure to provide customers with explanations of the terms and exclusions of its products, or of important contents of product prospectuses. The sanctions were imposed in accordance with applicable provisions of the Insurance Act (Paragraph 1 of Article 164-1, Article 167-2, and Article 167-3) and the Financial Consumer Protection Act (Article 30-1).

FSC imposes sanctions on Taiwan Business Bank

The FSC recently ordered Taiwan Business Bank to complete 2 corrective actions within 1 month, handed the bank an administrative fine of NT\$3 million, and issued an official reprimand after learning of the following infractions: (a) a life insurance brokerage merged by the bank had sold products to its customers without first properly confirming product suitability; (b) failure to handle complaints and establish a review and analysis mechanism in accordance with its internal rules; (c) failure to provide customers with explanations of the terms and exclusions of its products, or of important contents of product prospectuses. The sanctions were imposed in accordance with applicable provisions of the Insurance Act (Paragraph 1 of Article 164-1, Article 167-2, and Article 167-3).

FSC imposes sanctions on First Commercial Bank

The FSC recently ordered First Commercial Bank to complete a corrective action within 1 month, handed the bank an administrative fine of NT\$1.8 million, and issued an official reprimand after learning of the following infractions: (a) sale of products to customers without proper confirmation of product suitability; and (b) failure to provide customers with explanations of the terms and exclusions of its products, or of important contents of product prospectuses. The sanctions were imposed in accordance with applicable provisions of the Insurance Act (Paragraph 1 of Article 164-1 and Article 167-2).

FSC imposes sanctions on Honesty Insurance Brokers

The FSC recently ordered Honesty Insurance Brokers to complete 2 corrective actions within 1 month, handed the company an administrative fine of NT\$1.2 million, and issued an official reprimand after receiving a tip that an insurance solicitor at a mini-branch of Honesty Insurance Brokers had arranged for multiple customers to repeatedly take out policy loans within a short period of time and use the proceeds to buy increased coverage under the original policies, thus engaging in leveraged purchases in violation of insurance legislation. The sanctions were imposed in accordance with applicable provisions of the Insurance Act (Articles 167-2 and 167-3).

Personnel Changes

Personnel changes at the FSC

Chih-Hsien Lin (previously a Counselor at the National Development Council (NDC) who served concurrently as Director of the NCD Regulatory Reform Center) has been transferred to serve as head of the FSC Department of Planning. He assumed his new post on 12 August 2020.