

# 金融展望月刊

## Financial Outlook Monthly

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Advisor Yung-Chin Hsu  
Jean Chiu  
Kai-Yuan Chen

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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《Chinese version please refer to page 1》

# No. 195

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

- Legislative Yuan passes third reading of amendment to the “Act Governing Electronic Payment Institutions”
- FSC coordinates with banks to extend personal debt workout mechanism through end-June 2021
- FSC asks banks and insurers to conduct 2021 supervisory stress tests

### Policy and Law

#### *Legislative Yuan passes third reading of amendment to the “Act Governing Electronic Payment Institutions”*

On 25 December 2020 the Legislative Yuan passed the third reading of the amendment to the “Act Governing Electronic Payment Institutions.” The amended Act will: (a) unify the formerly dualistic legal framework governing electronic payments and electronic stored value cards; (b) enhance the convenience of consumer payments; (c) build a friendly environment for the development of electronic payments and mobile payments in Taiwan; and (d) accelerate efforts to promote financial inclusion. The passage of this amendment marks a major milestone in our government’s effort to develop stored-value payments facilities. The amendment is designed to achieve the following four main benefits:

1. Integrating regulations governing stored-value facilities, and bringing their provisions in line with the trend toward integration of virtual and physical payment facilities.
2. Expanding the permissible business scope of electronic payment institutions, and creating a payments ecosystem with electronic payment institutions at the core.
3. Permitting inter-institution payment services to meet demand for inter-institution funds transfers and convenient sharing of channels.
4. Creating a regulatory environment that is friendly to development of industry, making Taiwan’s financial institutions more competitive, and preserving the competent authority’s regulatory flexibility.

By late-June 2021 the FSC will complete amendments of the related regulations and rules so that the amended Act and related regulations can be implemented in July 2021, thus ensuring that the public enjoys safe and convenient payment services, and promoting further development of Taiwan’s digital economy.

#### *FSC coordinates with banks to extend personal debt workout mechanism through end-June 2021*

To mitigate the economic impact of COVID-19 on individuals, the FSC had asked banks earlier during the pandemic to provide deferral or rescheduling of payments for 3 to 6 months for people having repayment difficulties due to the pandemic. These relief measures applied to home loans, auto loans, unsecured consumer loans, and credit card debts. As of the closing date of the application period, 31 December 2020, the pandemic was still affecting many people’s debt repayment ability, so the FSC coordinated with banks again to extend the debt workout mechanism for credit card debts and other personal loans until end-June 2021.

#### *FSC asks banks and insurers to conduct 2021 supervisory stress tests*

To understand how the financial resilience of domestic banks will be affected by low interest rates and the continuing impact of the COVID-19 pandemic, the FSC is planning to ask domestic banks and insurers to conduct their 2021 supervisory stress tests. The stress tests will be based on financial reports’ capital adequacy data of the end of 2020. Employing consistent stress test scenarios, banks and insurers will calculate the degree to which capital adequacy ratios, bank leverage ratios, and insurer net worth ratios have changed.

This round of domestic bank stress tests will adopt both mild and severe scenarios. The overall stress scenario will measure whether banks have sufficient risk bearing capacity



to withstand: (a) increased losses resulting from a number of stress factors (e.g. falling economic growth rates in Taiwan, the US, the eurozone, mainland China, and Japan; rising domestic unemployment; and declining real estate prices) which result in increased credit risk and sharper volatility on bond, stock, exchange, and commodity markets, which in turn cause increased losses; and (b) the impact on earnings caused by a narrowing in net interest rate spreads and a decline in fee incomes. In addition, this round of stress tests will be the first time to test capital adequacy under operational risk stress scenarios (both mild and severe) which assume that a bank is subject to an enforcement action and has been required to increase its operational risk capital. Banks have also been reminded to strengthen their internal controls and reasonably assess the potential risk of losses due to employee malfeasance.

The scenarios for insurer stress tests focus on various factors that might affect insurer solvency, including the impact on investment position volatility and underwriting risks. The various scenario factors focus principally on the possible impact on economic and financial market volatility as reflected by increased volatility in domestic and overseas interest rates, stock prices, and exchange rates. Different underwriting risk scenarios are also considered. These stress tests measure whether an insurer has sufficient risk bearing capacity under a variety of different scenarios.

### **FSC amends Article 7 of the “Regulations Governing Anti-Money Laundering and Countering the Financing of Terrorism for Certified Public Accountants” and adds new Article 8-1**

Acting in response to recommendations from the Asia/Pacific Group on Money Laundering (APG), the FSC on 24 December 2020 amended the aforementioned Regulations in order to subject CPAs to stronger due diligence requirements. Key points of the amended provisions are as follows:

1. Timetable for the performance of customer due diligence: Newly added provisions expressly state that before a CPA completes customer due diligence, the CPA shall not establish a business relationship or conduct a transaction with that customer, provided that this restriction does not apply when a CPA verifies the existence of the following conditions: (1) the customer's ML/TF exposures are being effectively managed; (2) the business relationship will not interfere with normal conduct of the customer's business; and (3) the CPA will promptly verify the identities of the customer and the customer's beneficial owners as quickly as possible after establishment of the business relationship.
2. Mechanism for screening of surnames and entity names: Newly added provisions require a CPA to use a risk-based approach to establish a set of policies and procedures for screening the surnames and/or entity names of a customer's transaction counterparties, to record screening results, and to keep the results on file.

### **FSC amends the incidence rate used for calculating personal accident insurance premiums**

In order to ensure that the actual experience of insurers is reasonably reflected in premium rates, the FSC has amended the incidence rate used in calculating premiums for personal accident insurance (not including travel accident insurance). The previous method set the maximum incidence rate for the main contract and supplemental contracts at 65.448‰ (i.e. 80% of 81.81‰), but this has been lowered to 57.267‰ (i.e. 70% of 81.81‰), effective as of 1 July 2021. This lowering of the pricing incidence rate will provide consumers with a choice between a lower premium burden or a higher insured amount, and will help them to plan out insurance protection on the basis of their own needs. Also, with personal accident insurance policies (not including travel accident insurance) for which prior approval, file-and-use approval, or use-and-file approval is received from the FSC before the amended incidence rate comes into effect, lower premiums shall apply across the board, provided that if an insurance company notifies a policyholder

and receives the latter's consent, the insurer may provide a higher insured amount.

### **FSC amends the “Directions for Encouragement by the Financial Supervisory Commission of Public Reporting of Illegal Financial Activities”**

In order to encourage the public to report illegal financial activities, increase the incentive to whistle blow, and maintain financial market order, the FSC on 11 January 2021 amended the aforementioned Directions. Key points of the amended provisions are as follows:

1. A newly added provision specifies that one of the purposes of the Directions is to maintain financial market order.
2. In order to increase the incentive to whistle blow, the rewards for reporting serious illegal financial activities were increased tenfold, and the rewards for reporting minor illegal financial activities were increased fivefold.
3. Given that various financial industry self-regulatory organizations (SROs) have also adopted measures to encourage public reporting of illegal activities, a new article provides that with respect to a single case for which both the FSC and a SRO offer whistleblower rewards, if the formulas for calculating the awards result in a combined amount that exceeds the maximum reward amount as set out in these Directions, the whistleblower will not receive that part of the reward which exceeds the maximum amount.
4. To prevent the public from making frivolous whistleblower reports, to avoid false claiming of whistleblower rewards, and to confirm the veracity of reported information, a new article provides that the FSC will not grant a reward when a whistleblower report is provided anonymously or by a person who uses a false name. Also, original Article 9 (1) requires a whistleblower to provide as many items of evidence as possible. Considering that it is the agency which accepts a whistleblower report should determine in certain cases whether it is necessary to supplement the information originally provided (provided, however, that a whistleblower is never compelled to furnish their name), the provisions governing when an agency that accepts a whistleblower report should notify the whistleblower to provide supplementary information have been deleted from the amended Directions.

## **Industry Updates**

### **FSC designates First Commercial Bank as Taiwan's 6th systemically important bank**

After calculating 2019 systemic importance scores for Taiwan's domestic banks, the FSC recently designated First Commercial Bank as Taiwan's sixth domestic systemically important bank (D-SIB). The FSC had previously designated five other banks (CTBC Bank; Cathay United Bank; Taipei Fubon Commercial Bank; Mega International Commercial Bank; and Taiwan Cooperative Bank) as D-SIBs in December 2019.

D-SIBs are banks that occupy a dominant position in financial markets. The FSC hopes that Taiwan's six D-SIBs can shoulder more responsibility for financial stability, and show a greater sense of mission on this front. In terms of business expertise, ethical behavior, and corporate governance, D-SIBs are called upon to set an example that leads the entire banking industry toward greater stability and soundness. Taiwan continues working to bring its bank capital adequacy requirements more closely in line with international rules. Increasing the loss-absorbing capacity of the D-SIBs should do much to ensure greater financial stability in Taiwan.

### **FSC announces results of reviews of applications by banks and securities firms for permission to provide financial products and services to high-asset customers**

On 7 August 2020, the FSC issued the “Regulations Governing Banks Conducting Financial Products and Services for High-Asset Customers,” which allow eligible banks to provide a wider variety

of financial products and consulting services to meet the financial needs of high-asset customers with assets exceeding NT\$100 million. The FSC decided to handle the applications of banks in two batches. For the first batch, applications were accepted until 15 September 2020. A total of nine banks in that first batch filed applications. After the completion of document reviews, bank personnel in charge of the business under application were called in for interviews, and three banks (CTBC Bank, Mega International Commercial Bank, and Shanghai Commercial & Savings Bank) received approvals. The FSC hopes that allowing banks to conduct this type of business will expand their capacity for financial product development, strengthen their risk management information systems and risk management mechanisms, and increase the competitiveness of banks in the international market for wealth management services.

Also, to address the high-asset customers' demands for wealth management services so as to enhance securities firms' international competitiveness, the FSC amended a set of related regulations on 8 September 2020. The amendment allows securities firms to provide wide-ranging financial services and products to high-asset customers with financial capacity of at least NT\$100 million. Six securities firms had applied by end-December 2020 to conduct this type of business, and the FSC has approved the applications of the following four firms: Yuanta Securities; Mega Securities; SinoPac Securities; and Cathay Securities.

#### ***FSC continues to promote Phase 2 (customer information inquiries) of Open Banking Initiative***

The FSC has approved the applications of six banks (Hua Nan Commercial Bank, Yuanta Commercial Bank, CTBC Bank, Mega International Commercial Bank, First Commercial Bank, and Cathay United Bank) to cooperate with the Taiwan Depository and Clearing Corporation -- a third-party service provider (TSP) -- in conducting Phase 2 (customer information inquiries) of Taiwan's Open Banking Initiative. In addition, the FSC has also approved an application by Far Eastern International Bank to conduct Phase 2 open banking in cooperation with a telecom operator also acting as a TSP. A specific consumer with internet banking or mobile banking account services at any of the aforementioned seven banks will be able to use an app issued by the said TSP to apply for open banking services. Once an applicant's identity is verified and the applicant has provided consent for the provision of personal information, the applicant will be able to make inquiries about the balance and transaction data of the applicant's bank accounts via apps of TSPs.

#### ***FSC releases list of approved applications in November 2020 for additional financial institution locations***

To maintain stable development of financial markets and promote financial inclusion, the FSC, in consideration of the overall situation of Taiwan's economy and financial industry, the need for balance between development in urban and rural areas, the financial and business conditions of applicant banks, and recent closures of branch locations, in November 2020 approved an application by Cota Commercial Bank to establish two new branches (in Taoyuan City and Kaohsiung City) and an application by Kaohsiung Third Credit Co-Operative to establish two new branches (in Kaohsiung City). In addition, the FSC also approved an application by Taichung Bank to establish one branch in Yunlin County's Mailiao Township (an area that has been identified as needing more financial institution business locations).

#### ***FSC conducts first inspection visits to pilot bilingual bank branches in southern Taiwan***

FSC Vice Chairperson Yung-Chin Hsu, National Development Council Deputy Minister Chien-Hwa Yu, and National Treasury Administration Director-General Chia-Chi Hsiao proceeded together to southern Taiwan for the first time to conduct visits at two pilot bilingual bank branches there. The branches visited were both in Kaohsiung City -- the Zuoying Branch of E.Sun Commercial Bank and the North Kaohsiung Branch of Hua Nan Commercial Bank. Domestic banks have actively responded to the Bilingual Nation

2030 policy by adopting plans to open pilot bilingual branches in northern, central, and southern Taiwan, and 15 banks have now opened 69 such branches. The FSC urges banks to open more pilot bilingual branches in order to create customer-friendly bilingual services.

#### ***NPL Ratio for Domestic Banks as of the End of December 2020***

The total outstanding loans extended by the current 37 domestic banks increased by NT\$80.6 billion (US\$2.83 billion) as compared to the figure of previous month and amounted to NT\$31.47 trillion (US\$1,103.9 billion) at the end of December 2020. Meanwhile, the NPLs of these banks totaled at NT\$69.2 billion (US\$2.43 billion) which decreased by NT\$3.7 billion (US\$0.13 billion) from NT\$72.9 billion (US\$2.56 billion) as of the end of the previous month. With a slight decrease of 0.01 percentage point, the average NPL ratio of the 37 banks fell to 0.22% down from 0.23% at the end of previous month, and was rose by 0.01 percentage points compared to the same month last year.

The coverage ratios of allowances for NPLs increased by 34.22 percentage points and therefore rose to a figure of 623.24% from 589.02% of the previous month.

#### ***NPL situation of credit cooperatives at the end of December 2020***

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.48 billion as of the end of December 2020, generating an NPL ratio of 0.09%, down by 0.01 percentage points from 0.1% at the end of November 2020. The NPL coverage ratio was 2,226.47%, up by 134.25 percentage points from 2,092.22% at the end of November 2020.

#### ***Net foreign and mainland China investment in listed shares***

As of the end of December 2020, foreign investors had bought around NT\$12,605.4 billion and sold around NT\$13,211.4 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of around NT\$606 billion. In addition, foreign investors had bought around NT\$1,459 billion and sold around NT\$1,448.3 billion worth of shares listed on the Taipei Exchange, amounting to a net-buy of around NT\$10.7 billion. Meanwhile, mainland China investors had bought around NT\$16.5 billion and sold around NT\$19.5 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of NT\$3 billion; and mainland China investors had bought around NT\$3.7 billion and sold around NT\$5.3 billion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$1.6 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 December 2020 stood at approximately US\$208.5 billion, up by around US\$4.5 billion from US\$204 billion at the end of November 2020. The figure for cumulative net inward remittances by mainland China investors was US\$46 million, down by around US\$11 million from US\$57 million at the end of October 2020.

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

The sales statistics of foreign-currency denominated products by life insurance industry as of the end of October 2020 were as follows: premium revenues from new foreign-currency denominated policies amounted to around NT\$406.804 billion, down by 3% from NT\$421.004 billion year-on-year. Within these figures, investment-linked insurance products accounted for NT\$115.219 billion (around 28% of the total), down by 15% from NT\$135.912 billion year-on-year, and the sales of traditional insurance products totaled NT\$291.585 billion (around 72% of the total), up by 2% from NT\$285.092 billion year-on-year.

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

The pre-tax profit of insurance enterprises at the end of November 2020 was NT\$224 billion; the pre-tax profit of life insurance enterprises was NT\$208.1 billion, an increase of NT\$39.1 billion, or



23.1%, compared with the same period in 2019; the pre-tax profit of non-life insurance enterprises was NT\$15.9 billion, up by NT\$0.6 billion or 3.9% compared with the same period in 2019.

The owners' equity of all insurance enterprises at the end of November 2020 was NT\$2,608.3 billion. Breaking down that figure, the owners' equity of life insurance enterprises was NT\$2,465.5 billion, an increase of NT\$551.5 billion, or 28.8%, compared with the same period in 2019, and the owners' equity of non-life insurance enterprises was NT\$142.8 billion, up by NT\$8.9 billion or 6.6% compared with the same period in 2019.

As of the end of November 2020, the NT Dollar had appreciated by 4.3% versus the US Dollar from the end of 2019, and the cumulative balance of the foreign exchange valuation reserves of life insurance enterprises was NT\$42.9 billion, down by NT\$11.6 billion 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 a negative NT\$260.3 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\$585.3 billion.

## Investor and Consumer Protection

### *FSC reminds persons with disabilities to use formal grievance procedure when suffered unfair treatment by insurers*

Persons with disabilities who have suffered unfairly when seeking to purchase insurance may file complaints by any of the following methods:

1. Call the "1998 Financial Service Hotline" or contact the FSC via email or the postal service to state a complaint, which will be forwarded to the FSC Insurance Bureau.
2. Call the ROC Non-Life Insurance Association or the ROC Life Insurance Association, which has a complaint hotline for persons with disabilities.
3. If, a person with disabilities encounters a situation in which an insurance solicitor peremptorily refuses to accept an application, refuses to assist with the submission of an application, or urges a person not to apply, the aggrieved party may report the matter to the customer service unit of the solicitor's insurance company. In addition, besides buying insurance through a solicitor, a person with disabilities may also make a purchase by going directly to a service counter at an insurance company, or may call the insurer's customer service center and ask them to assign a staff member to provide help with the purchase of insurance.

### *2021 School and Community Financial Literacy Campaign*

As part of the 2020 School and Community Financial Literacy Campaign, the FSC held 546 financial literacy events over the course of 2020 at schools and organizations, including Li Hsing Elementary School in Nantou County, attracting a total attendance of 43,479 participants. The events are free of charge, and have struck a chord with many people since their inception in 2006. As of December 2020, a total of 6,865 events had been held and over 1.06 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 the financial literacy campaign in 2021. 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) 8968-9709.

## Major Enforcement Actions

### *FSC imposes sanctions on Cathay United Bank*

The FSC recently imposed sanctions on Cathay United Bank

(the Bank) after discovering that a former wealth manager had misappropriated customers' funds and the Bank had failed to conduct KYC procedures, and failed to properly establish a check mechanism for operations carried out after solicitation and before submission of application documents, thus violating Article 45-1, Paragraph 1 of the "Banking Act" and Article 165, Paragraph 3 of the "Insurance Act" in such a way as to impede sound business operations. The FSC imposed administrative fines of NT\$12 million on the Bank in accordance with Article 129, subparagraph 7 of the "Banking Act." In addition, under Article 164-1, Paragraph 1, Subparagraph 1 of the "Insurance Act" and Article 61-1, Paragraph 1, Subparagraph 2 of the "Banking Act," the FSC also ordered the bank's Banqiao Branch to suspend all conduct of insurance agency business and money trust business for one month.

### *FSC imposes sanctions on Shin Kong Life Insurance*

In a routine examination of Shin Kong Life Insurance's business operations, the FSC discovered deficiencies that represented violations of the "Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises" and the "Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises" (both of which were issued by the FSC upon authorization granted in Article 148-3, Paragraphs 1 and 2 of the "Insurance Act"). Deficiencies discovered included the following: (a) the insurer's failure to properly exercise internal controls over its handling of solicitation, underwriting, and policy conservation procedures had seriously affected the interests of insurance policy participants; (b) insurance solicitors made exaggerated and false claims, offering prospective applicants improper promises and guarantees regarding benefit payouts; (c) during the handling of insurance and lending matters, the sources of funds for premium payments were not properly confirmed; and (d) major unexpected events were not reported to the FSC, as required by the company's own internal rules. The FSC, acting in accordance with Article 171-1, Paragraphs 4 and 5 of the "Insurance Act," handed the company administrative fines totaling NT\$7.2 million. Also, acting in accordance with Article 149, Paragraph 1 of the same Act, the FSC issued the company five official reprimands.

### *FSC imposes sanctions on KGI Securities*

The FSC recently issued KGI Securities a warning and imposed administrative fines totaling NT\$3.36 million after discovering that both the KGI and a branch manager surnamed Chiu had violated securities and futures legislation by failing to properly implement internal controls or fulfill their duty to oversee business operations. The sanctions were imposed in accordance with Article 66, subparagraph 1 and Article 178-1, Paragraph 1, Subparagraph 4 of the "Securities and Exchange Act," and also in accordance with Article 100, Subparagraph 1 and Article 119, Paragraph 1, Subparagraph 2 of the "Futures Trading Act." Also, acting in accordance with Article 56 of the "Securities and Exchange Act," as well as Article 101, Paragraph 1 of the "Futures Trading Act," the FSC ordered KGI to suspend the manager surnamed Chiu from participation in securities- or futures-related business operations for six months.

### *FSC imposes sanctions on CIGNA Taiwan Life*

The FSC, acting in accordance with Article 149, Paragraph 1 and Article 171-1, Paragraph 1, Subparagraph 5 of the "Insurance Act," recently imposed administrative fines totaling NT\$2.4 million on CIGNA Taiwan Life Assurance Ltd. and issued the company an official reprimand after a routine examination revealed the following violations of insurance legislation: (a) the company had failed to properly implement its own telemarketing rules regarding product solicitation via telephone; (b) cases in which persons with disabilities had been denied insurance coverage involved failure by the company to properly implement its own underwriting rules; (c) the company had failed to properly carry out broker performance evaluations; and (d) its criteria for the filtering of personal information in email hindered the company's ability to prevent leaks of personal information.