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- FSC amends Articles 3, 5, and 13 of "Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance"
- Life insurers required from 2020 to set aside to a special reserve account for all current-year net profit after tax on disability income insurance

Policy and Law

FSC amends Article 4 of "Criteria for Transaction Limits between Credit Cooperatives and Non-Members"

To help credit cooperatives expand their credit business, diversify credit risks, create more room for cooperation within the credit cooperative sector, and increase available financing channels to SMEs and NPOs, the FSC added a proviso to Article 4, paragraph 1, subparagraph 4 of the aforementioned Criteria. The newly added proviso states that when credit cooperatives join together to make syndicated loans to SMEs and NPOs, syndicated loan participants are not subject to the restriction on authorized business area that is set out in that Subparagraph. The purpose of this amendment is to afford credit cooperatives more opportunities to take part in syndicated loans.

FSC amends Articles 3, 5, and 13 of "Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance"

To reduce the possibility of benefit reductions for the holders of residential earthquake insurance policies, and to safeguard the interests of consumers, the FSC on 12 March 2021 issued an amended version of the aforementioned Enforcement Rules that entered into force on 1 April 2021. The key points of the amended provisions are as follows:

1. Non-life insurance enterprises are required to underwrite residential earthquake risk, and to reinsure the risk with the Taiwan Residential Earthquake Insurance Fund (TREIF). Under the amended Article 3, the limit on first-tier residential earthquake liabilities that can be assumed by TREIF has been raised to NT\$4.2 billion, and the limit on TREIF assumption of second-tier residential earthquake liabilities has been raised to NT\$95.8 billion. Combined, the aggregate limit on residential earthquake liabilities that can be assumed by TREIF is NT\$100 billion.
2. In coordination with the amendments to the Article 3 limits on the liabilities that can be assumed by TREIF, the amended Enforcement Rules require that risk up to NT\$51.8 billion and between NT\$65.8 billion and NT\$95.8 billion be assumed by the TREIF, which must then either retain the risk or reinsure it on the domestic and/or international reinsurance market, as necessitated by business conditions. Meanwhile, the government is required to assume the portion of risk that falls between NT\$51.8 billion and NT\$65.8 billion.

Life insurers required from 2020 to set aside to a special reserve account for all current-year net profit after tax on disability income insurance

In recognition of the fact that disability income insurance products are affected by the dual uncertainties of the disability incidence rate (especially the incidence rate of disability due to illness) and the disabled mortality rate in future years, the FSC on 26 March 2021 announced that life insurers are required from 2020 forward to set aside to a special reserve account all current-year net profit after tax on disability income insurance. Any life insurer that sets aside to the special reserve account an insufficient portion of current-year net profit after tax on disability income insurance will be required to make up for the shortfall the following year. An insurer in any subsequent year that has a loss on disability income insurance will be allowed to reverse from the special reserve account within the original amount mentioned.

2021 Taiwan Standard Ordinary Experience Mortality Table (2021 TSO) to be implemented from 1 July 2021

Taiwan's national life expectancy has been rising steadily due to improving public health measures and progress in medical science. In order to reasonably reflect the operating conditions of the life insurance industry, the FSC on 29 March 2021 issued the 2021 TSO to serve as a provisioning standard for life insurer policy reserves. The 2021 TSO will take effect from 1 July 2021.

International Activities

FSC Vice Chairperson Jean Chiu attends "Climate Risks Workshop for Financial Sector" on 24 March 2021

On 24 March 2021, FSC Vice Chairperson Jean Chiu and Deputy Representative Andrew Pittam of the British Office Taipei jointly attended a "Climate Risks Workshop for Financial Sector" held by the British Office Taipei by teleconference. The two sides engaged in deep discussions on the disclosure of climate change risks and the experience of financial institutions with climate change stress tests.

Industry Updates

FSC holds "Experience Sharing Meeting for Financial Institutions on Cybersecurity, Business Continuity, and Responses to Recent Cybersecurity Incidents"

On 15 March 2021 the FSC held an "Experience Sharing Meeting for Financial Institutions on Cybersecurity, Business Continuity, and Responses to Recent Cybersecurity Incidents" at the Taiwan Academy of Banking and Finance. Commenting on the meeting's purpose, the FSC stated that in a time of pandemic, in addition to taking disease control measures, it is even more important that financial institutions maintain cybersecurity and business continuity, and ensure secure financial transactions under the situation that cyber fraud has become a concern.

The FSC has asked banks to set up dedicated information security units, establish the position of chief information security officer, ensure that such units have a proper level of staffing and equipment, and include cybersecurity among the matters to be addressed at the level of the board of directors so as to urge that the highest levels of management will attach due importance to cyberdefense. Moreover, in order to achieve the purpose of early warning, joint defense, and contingency of cybersecurity, the FSC has established the Financial Information Sharing and Analysis Center (F-ISAC), and continues to ask the ROC Bankers Association to amend information security regulations in due course and improve the cyberdefense capabilities of Taiwan's financial industry. Also, a number of financial institutions have recently upgraded their information systems. In order to strengthen the stability of the core system, the FSC has asked the ROC Bankers Association to draft up the "Necessary Procedures and Related Requirements for Banks During the Advance Preparations Phase, Implementation Phase, and Post-Implementation Phase of Core System Upgrades" for the reference of financial institutions. In addition, by observing international cybersecurity conditions and financial supervisory trends, the FSC has adopted the "Financial Cyber Security Action Plan", aiming to implement a comprehensive financial cybersecurity policy by pursuing the following four major strategies: strengthening cybersecurity supervision; enhancing cybersecurity governance; improving cybersecurity resilience; and implementing cybersecurity joint defense.

The FSC will continue requiring financial institutions to implement related information security regulations and enhance their cyberdefense capabilities, and will continue overseeing financial institutions to actively develop diversified financial services in a manner to meet the needs of the public, that accords balanced attention to the competing needs for protection of personal information, cybersecurity, and consumer right.

NPL Ratio for Domestic Banks as of the End of March 2021

The total outstanding loans extended by the current 38 domestic banks increased by NT\$250.1 billion (US\$8.77 billion) as compared to the figure of previous month and amounted to NT\$32.07 trillion (US\$1,123.95 billion) at the end of March 2021. Meanwhile, the NPLs of these banks totaled at NT\$72.5 billion (US\$2.54 billion) which increased by NT\$1.8 billion (US\$0.06 billion) from NT\$70.7 billion (US\$2.48 billion) 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 0.23% from 0.22% of the previous month, but was down by 0.01 percentage points compared to the same month last year.

The coverage ratio of allowances for NPLs stood at 598.83%. While the ratio decreased by 15.7 percentage points from 614.53% of the previous month, it still remained stable at a higher level.

NPL situation of credit cooperatives at the end of March 2021

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$562 million as of the end of March 2021, generating an NPL ratio of 0.11%, down by 0.01 percentage points than that of the end of February 2021. The NPL coverage ratio was 1,895.90%, up by 157.56 percentage points from 1,738.34% at the end of February 2021.

Net foreign and Mainland China investment in listed shares

As of the end of March 2021, foreign investors had bought around NT\$4,832.7 billion and sold around NT\$5,161.8 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of around NT\$329.1 billion. In addition, foreign investors had bought around NT\$583.7 billion and sold around NT\$588.3 billion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$4.6 billion. Meanwhile, mainland China investors had bought around NT\$2.2 billion and sold around NT\$2.7 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of NT\$500 million; and mainland China investors had bought around NT\$28 million and sold around NT\$313 million worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$285 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 March 2021 stood at approximately US\$213.1 billion, down by around US\$300 million from US\$213.4 billion at the end of February 2021. The figure for cumulative net inward remittances by mainland China investors was US\$37 million, up by around US\$2 million from US\$35 million at the end of February 2021.

Sales statistics of foreign-currency denominated products by life insurance industry as of the end of January 2021

The sales statistics of foreign-currency denominated products by life insurance industry as of the end of January 2021 were as follows: premium revenues from new foreign-currency denominated policies amounted to around NT\$60.276 billion, up by 3% from NT\$58.732 billion year-on-year. Within these figures, investment-linked insurance products accounted for NT\$30.414 billion (around 50% of the total), up by 106% from NT\$14.792 billion year-on-year, and the sales of traditional insurance products totaled NT\$29.862 billion (around 50% of the total), down by 32% from NT\$43.94 billion year-on-year.

Profit/loss, net value and exchange gains/losses of the insurance industry in February 2021

The pre-tax profit of insurance enterprises at the end of February 2021 was NT\$121.3 billion, up NT\$68.7 billion, or 130.6%, from the year-ago period; the pre-tax profit of life insurance enterprises was NT\$117.3 billion, an increase of NT\$67.6 billion, or 136%, compared with the same period in 2020; the pre-tax profit of non-life insurance enterprises was NT\$4 billion, up by NT\$1.1

billion or 37.9% compared with the same period in 2020. The owners' equity of all insurance enterprises at the end of February 2021 was NT\$2,496.4 billion, up NT\$364.3 billion, or 17.1%, from the year-ago period. Breaking down that figure, the owners' equity of life insurance enterprises was NT\$2,348.9 billion, an increase of NT\$352.6 billion, or 17.7%, compared with the same period in 2020, and the owners' equity of non-life insurance enterprises was NT\$147.5 billion, up by NT\$11.7 billion or 8.6% compared with the same period in 2020.

As of the end of February 2021, the NT Dollar had appreciated by 0.7% versus the US Dollar from the end of 2020, and the cumulative balance of the foreign exchange valuation reserves of life insurance enterprises was NT\$36.9 billion, down by NT\$9.3 billion from the end of 2020. 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\$47.8 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\$151 billion.

Investor and Consumer Protection

FSC reminds investors to be wary of risks associated with high-yield bond funds

A high-yield bond fund is a type of bond fund that invests 60% or more of its net asset value in non-investment grade high-yield bonds (commonly referred to as "junk bonds"), while the term "high-yield bond" means a bond that has been assigned a rating below BBB-/Baa3, or has not been rated at all. Risk of default is relatively high, which is why high-yield bond funds are not suitable investments for investors that are unable to assume the associated risk. Investors that invest in high-yield bond funds are advised to carefully evaluate their own risk tolerance.

Because high-yield bond funds are riskier than other bond funds, the FSC has adopted a rule requiring that the name of a high-yield bond fund must be suffixed with the following warning (printed in boldface, in an eye-catching color, and with the entire text in the same font size): "This fund invests primarily in non-investment grade high-risk bonds." A risk warning must also be disclosed in prominent lettering on the prospectus and in all advertising. In addition, an investor that is not a qualified institutional investor must sign a risk disclosure statement before subscribing. Signature of this statement confirms the investor's understanding that the risks of a high-yield fund include, without limitation, the following:

1. Credit risk: Because a high-yield bond is rated at below investment grade, or is unrated, the issuer could default on principal or interest, or go bankrupt.
2. Interest rate risk: Bond prices are easily affected by interest rate movements. A sharp interest rate spike could cause a bond's price to plummet. This same risk also applies to high-yield bonds.
3. Liquidity risk: A high-yield bond can lose liquidity due to low-volume trading in the market, which means that an investor faces the risk of being unable to sell the bond quickly at a reasonable price.

FSC urges securities firms to participate in the "Treating Customers Fairly" Principles Assessment Program

To enhance the overall financial consumer interest protection, the FSC set out the "Principle for Financial Service Industries to Treat Customer Fairly" (the TCFP) in 2015. To further ensure the implementation of the TCFP, the FSC launched the TCFP Assessment Program in 2019.

The FSC finalized the assessment and hosted a public ceremony to award the top 20% performing securities firms for their

excellence in implementation in 2019 and 2020. The awarded firms were invited to speak and share experience for peer learning. The FSC announced that the thirty full-licensed securities firms will be subject to the TCFP assessment in 2021. This will be their second round assessment since 2019. They shall submit their self-evaluation reports to the FSC by the end of April, and the FSC is expected to release the assessment result and host a ceremony to award the top 20% performers in July 2021. Notably, the best progress awards will be added to honor no more than three firms with extraordinary advances.

The FSC expects that, through the yearly TCFP assessment, the securities firms shall develop the "tone from the top" business culture and attach importance to TCFP compliance to enhance overall financial consumer interest protection.

FSC recognizes top performing insurers in campaign to promote mortality products, microinsurance, and investments in the "five plus two" key innovative industries and public infrastructure projects

To ensure that insurance properly fulfills its protection function and provides citizens with adequate insurance products, and to encourage insurers to develop microinsurance business, the FSC has conducted the "Program for Improving Insurance Protection for the People" and has issued a set of "Directions for Insurance Companies to Engage in Microinsurance Business." For insurers that have performed especially well, product reviews that would normally be subject to prior approval rules are handled instead by use-and-file rules as an incentive, and the FSC periodically releases the names of top-performing insurers. In addition, to encourage insurers to invest in domestic infrastructure projects and the "five plus two" key innovative industries, thus helping to stimulate domestic economic development, insurers whose investment performance in these areas is especially good are also rewarded by a switch from prior approval rules to use-and-file rules for product reviews. As part of its 2020 "Program for Improving Insurance Protection for the People," the FSC singled out 11 life insurance companies to receive rewards for outstanding performance in the conduct of microinsurance business, as follows: Cathay Life Insurance Co., Nan Shan Life Insurance Co., Shin Kong Life Insurance Co., Mercuries Life Insurance Co., Chunghwa Post Co., First Life Insurance Co., BNP Paribas Cardif TCB Life Insurance Co., Cigna Taiwan Life Assurance Co., AIA Taiwan, Cardif Taiwan Inc., and Chubb Life. Another 7 non-life insurance companies were honored for their excellent conduct of microinsurance business, as follows: Taiwan Life Insurance Co., Cathay Life Insurance Co., China Life Insurance Co., Nan Shan Life Insurance Co., Shin Kong Life Insurance Co., Fubon Life Insurance Co., Mercuries Life Insurance Co. In addition, a total of 9 life insurance companies were recognized for outstanding performance in investing in domestic infrastructure and the "five plus two" key innovative industries, as follows: Taiwan Life Insurance Co., Cathay Life Insurance Co., China Life Insurance Co., Shin Kong Life Insurance Co., Fubon Life Insurance Co., Mercuries Life Insurance Co., Far Glory Life Insurance Co., Hontai Life Insurance Co., and TransGlobe Life Insurance.

FSC reminds consumers to exercise caution when authorizing a bank to act as agent in purchasing insurance

Most people, when taking out a home mortgage loan from a bank, will agree in the loan contract to authorize the bank, if the borrower fails to insure the property, to act on the borrower's behalf in acquiring basic residential fire and earthquake insurance. Because basic residential fire and earthquake insurance has a policy period of one year, the policy has to be renewed once per year, but different insurers charge different premiums for their residential fire and earthquake insurance policies, the FSC reminds consumers upon receiving an insurance policy to carefully note the

type of product, the scope of coverage, the insured amount, and the premium amount. Consumers should also note whether any of these details has been modified, and whether the policy meets their needs. If a person has any questions, he or she should contact the bank or insurer.

FSC urges consumers to provide accurate health information when purchasing health insurance

The FSC recently reminded consumers that when they purchase health insurance, they need to carefully evaluate their insurance needs and financial ability, note the type of product they are buying, and check how disease names and medical terms are defined, the length of the waiting period, exclusions, benefit caps, and other important stipulations. But beyond that, they must also provide factual responses to questions posed by the insurance company on the application form (in the "health disclosures" section) so that the subsequent discovery of non-disclosures or false disclosures will not prompt the insurer to rescind the contract, thus leading to possible disputes.

FSC explains insurance matters connected with the crash of Taroko Express No. 408

As soon as possible after the tragic train crash of 2 April 2021 involving the Taroko Express No. 408, in which many lives were lost, the FSC expressed its deepest sorrow and, in order to assist with claim settlement matters and help provide care to the victims of the accident, it instructed insurance companies to act on their own initiative to show concern and assist those affected. In addition to identifying policyholders involved in the accident and assisting them with the handling of claim settlements, the FSC also announced related service measures that will be taken.

Cathay Century Insurance underwrote a policy for the Taiwan Railways Administration (TRA) which covers TRA's liability to passengers. The policy provisions require Cathay Century to pay compensation of NT\$2.5 million for each person killed in a train crash, NT\$1.4 million for each person seriously injured, and NT\$400,000 for each person who is injured but not seriously, up to a maximum of NT\$200 million in total compensation in connection with any one crash, and a maximum of NT\$800 million in total compensation during the term of the contract. Cathay Century expects to pay out a total of NT\$200 million in connection with the crash of the Taroko Express No. 408. Meanwhile, liability for the crane truck that caused the crash is covered by a compulsory auto liability policy purchased from MSIG Mingtai Insurance, which will pay NT\$2 million per death, up to a maximum of NT\$2 million per disablement, and up to a maximum NT\$200,000 per medically treated injury. MSIG Mingtai Insurance expects to pay out a total of NT\$140 million during the term of the contract. Also, non-life insurers have thus far identified 10 deceased passengers who paid for their train tickets by credit card. The card issuers are expected to provide a total of NT\$230 million in compensation, and efforts to identify other passengers who paid by credit card are still underway. Life insurers, meanwhile, have been working to verify the identities of all policyholders who were killed in the accident. So far, 45 such policyholders have been identified. The national non-life and life insurance associations estimate that total insurance payouts connected with this crash will come to NT\$300 million. Of the persons injured in the crash, 195 have insurance policies but the amount of compensation they are likely to receive is difficult to estimate because their treatment is ongoing.

2021 Financial Literacy Campaign for the Campus and Community

As part of the 2021 Financial Literacy Campaign for the Campus and Community, the FSC held 86 financial literacy events in April 2021 at schools and organizations, including the Keelung Municipal Zhong Zhong Elementary School, attracting a total attendance of 7,376 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 to promote the financial literacy campaign in 2021. Schools or community groups interested in the campaign are invited to register through the website of the Banking Bureau. For more information, please contact us at (02) 8968-9710 or (02) 8968-9711.

Major Enforcement Actions

FSC imposes sanctions on Taiwan Life Insurance

In the course of a full-scope examination and a targeted examination on the securities investment operations at Taiwan Life Insurance, the FSC discovered the following deficiencies, which constituted violations of insurance legislation: (1) In handling interested-party transactions, Taiwan Life failed prior to the transactions to provide the customer with documentary proof that the conditions of the transaction were not more favorable than those for other counterparties of the same kind of transaction. (2) With respect to customers who used policy loans to finance their purchase of investment-linked insurance policies, the insurer failed during both the solicitation and underwriting phases to properly implement mechanisms for verification of customers' sources of funds for premium payments. The FSC handed the company an administrative fine of NT\$3.2 million in accordance with Article 168, paragraph 8 and Article 171-1, paragraph 5 of the Insurance Act, and also issued seven official reprimands in accordance with Article 149, paragraph 1 of the same Act.

FSC imposes sanctions on Allianz Taiwan Life Insurance

During a targeted examination on the financial customer protection operations at Allianz Taiwan Life, the FSC discovered the following deficiencies, which constituted violations of the law or impeded sound business management: (1) In carrying out mandatory redemptions in accordance with contractual provisions, the company deducted funds from policy account value to repay the principal and interest for policy loans on investment-linked policies, but the company deducted the entire policy account value, simply booking any amount in excess of principal and interest as profits instead of returning it to the customer. (2) The company had violated related regulations or done a poor job of assessing the suitability of investment-linked insurance products, handling disclosure of information on investment-linked insurance products, designing its application form for investment of top-up premiums, providing written notification to persons with disabilities who had been denied insurance coverage, and implementing the Consumer Protection Principles. The FSC, acting in accordance with the Insurance Act, handed the company an administrative fine of NT\$1.8 million and issued five official reprimands.

Personnel Changes

Personnel changes at the FSC headquarters

Yao-tung Lin, former Chief Secretary of the Insurance Bureau, retired on April 1, 2021. The vacancy was filled on the same day by Huao-Yen Tsai, who was promoted from the position of Director of the Insurance Bureau's Life Insurance Supervision Division.