

# 金融展望月刊

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- FSC encourages bills finance firms to introduce concept of ESG in their business operations
- FSC issues "Principles for Effective Financial Examination" to build an objective & professional, risk-based, and openly communicative organizational culture for financial examinations
- FSC announces results of 2021 assessment of the implementation of Treating Customers Fairly Principles (TCF Principles) by financial institutions

### Policy and Law

#### *FSC encourages bills finance firms to introduce concept of ESG in their business operations*

Bills finance companies are financial market participants that serve the function of allocating credit resources, so they should introduce environmental, social, and governance (ESG) concept in their business operations. The FSC on 7 July 2021 issued a letter to the R.O.C. Bills Finance Association and requested the Association to amend the "Credit Assessment Guidelines for Members of the R.O.C. Bills Finance Association" and the "Corporate Governance Best-Practice Principles for Bills Finance Companies". Bills finance company conducting lending or investment business need to consider the corporate governance performance of its client and the invested company, and whether its client or investee properly protects the environment and fulfills its corporate social responsibilities. The FSC hopes to spur bills finance companies to use the power of financial markets to: (a) guide and support the development of real industry and take environmental protection into account; (b) create a sustainable finance ecosystem with positive cycles; and (c) create benefits for the financial industry, the real economy, society, and the environment.

#### *FSC issues "Principles for Effective Financial Examination" to build an objective & professional, risk-based, and openly communicative organizational culture for financial examinations*

In response to the rapid liberalization and development of financial markets in recent years, the FSC is endeavoring to enhance the effectiveness of financial examinations to fulfill current supervisory needs. The first priority then is to build an objective & professional, risk-based, and openly communicative organizational culture for financial examinations. Therefore, the FSC has drawn up the "Principles for Effective Financial Examination," which will stand as the highest-level examination rules and as the guidepost for examiners as they conduct financial examinations.

The document setting out the Principles is composed of eight articles. It incorporates the FEB's important concepts and the key requirements outlined in the BCBS's "Core Principles for Effective Banking Supervision" regarding regulators' examination functions and mechanisms. These Principles clearly outline the goals and culture for financial examinations, which include: (1) a risk-focused and significance-oriented examination approach that targets higher-risk financial institutions and puts top priority on catching the big violators; (2) an atmosphere that allows for open communication and harmonization of views across bureaus; and (3) a plan to introduce innovative technology tools that will enable examinations to yield better results.

By issuing these Principles, the FSC seeks to integrate financial examination work into the other aspects of its financial supervisory operations. And by adopting supervisory goals and risk-focused financial examinations, the FSC seeks to ensure that financial examinations can contribute to the achievement of supervisory goals while simultaneously helping outside observers to better understand examination priorities and to recognize the value of financial examinations.

#### *FSC announces results of 2021 assessment of the implementation of Treating Customers Fairly Principles (TCF Principles) by financial institutions*

In order to ensure that Taiwan's financial institutions have properly implemented the TCF Principles, the FSC conducted off-site assessments of 35 banks, 30 full-licensed securities

firms, 22 life insurers, and 19 non-life insurers on their performance of TCF Principles in 2020. The assessments have been completed, and firms scoring in the top 20% include 7 banks, 6 securities firms, 4 life insurers, and 4 non-life insurers. These top performers are listed as follows:

1. Banks: The Shanghai Commercial & Savings Bank, Ltd., Taiwan Cooperative Bank, DBS Bank (Taiwan) Ltd., Cathay United Bank, Hua Nan Commercial Bank, Ltd., HSBC Bank(Taiwan) Ltd., and Land Bank of Taiwan.
2. Securities firms: Yuanta Securities Co., Ltd., CTBC Securities Co., Ltd., E.Sun Securities Co., Ltd., Taiwan Cooperative Securities, Mega Securities Co., Ltd., and First Securities Inc.
3. Insurers:
  - (1) Life insurers: AIA International, Taiwan Branch, China Life Insurance, Prudential Life Insurance and Cathay Life Insurance.
  - (2) Non-life insurers: CTBC Insurance, Taian Insurance, Cathay Century Insurance and AIG Asia Pacific Insurance Pte. Ltd., Taiwan Branch.

Apart from recognizing the aforementioned top 20% firms, the FSC, for the first time, presents the Best Progress Awards to the firms which, as compared with the prior assessment result, have significantly improved their performance on TCF Principles. The Best Progress Awards winners for this year are Union Bank of Taiwan, President Securities Corporation, Shin Kong Life Insurance and Nan Shan General Insurance.

The FSC stated that from the analysis of the assessment results for three consecutive years, the assessment process helps financial institutions to take the improved measures in the process of sales of financial products or services addressing the aspects of 9 TCF Principles that require improvements. Some firms have paid more attention to enhancing satisfactory services, and some firms have introduced measures such as smart customer services to optimize consumers' experiences of financial services. The assessment of implementation of TCF Principles also encourages financial institutions to self-examine the areas where internal control and internal audit should be strengthened to enhance the effectiveness of corporate governance. The FSC will continue to supervise financial institutions' legal compliance following the TCF principles and to strengthen the protection of consumers' rights through reviewing and improving the TCF principles assessment mechanism, as well as amendments to financial laws and regulations.

### ***FSC eases restrictions on banks' concurrent conduct of proprietary trading of bonds***

On 21 July 2021, the FSC amended the "Rules Governing Applications by Banks (Including Offshore Banking Units) to Concurrently Conduct the Underwriting and Trading of Bonds, Beneficiary Securities, and Asset-Backed Securities." The amended Rules expressly require that when a bank engages in proprietary trading of foreign securities with an overseas affiliated enterprise, the bank's "calculation basis for securities investments" will be used to determine transaction limits. The amended Rules also ease the restriction on a bank's acquisition of corporate bonds issued by an overseas banking subsidiary. These changes help Taiwanese banks to build bigger positions in their proprietary bond trades, and allow for the overseas subsidiaries of Taiwanese banks to provide investors in Taiwan with a diverse range of financial products through the parent bank.

### ***FSC issues instructions for banks' response to a lowered COVID-19 alert level***

To coordinate with the Central Epidemic Command Center's decision to lower the COVID-19 alert level from level 3 to level 2 on 27 July 2021, the FSC issued instructions regarding how banks may conduct their operations at the lower alert level. The key points of the instructions are as follows:

1. During the level 3 alert period, which started on 20 May 2021, interbank account transfer service charges were completely waived for transfers made via internet bank (including mobile banking) services, and interbank account transfer service charges for transfers made by physical ATM were reduced. For a seven-day buffer period beginning from the date on which the level 2 alert

level was put in place, these waived or reduced service charges remained in effect, but ordinary service charges were resumed from 00:00 am on 3 August 2021.

2. As for the business hours of banks' branch units and the types of business activities they are allowed to conduct, in light of the fact that some branch units still need to adjust their business hours and types of business in order to respond to the pandemic, decisions on these matters are now being made on a case-by-case basis in response applications filed by banks.
3. Banks were allowed during the level 3 alert period to use flexible methods to provide financial products and services, and this approach will remain in effect whenever a COVID-19 alert level of 2 or higher is in effect in any single county or municipality. A bank may use alternative methods to provide financial products and services so long as those methods are in line with the bank's internal control principles and have been authorized internally. Any adjustment to the aforementioned alternative methods will not be mentioned in financial examination findings.
4. Banks must continue to carry out disease control measures for the benefit of employees (e.g. regular sterilization of business premises, provision of plentiful supplies of personal protective equipment), and they must conduct outreach campaigns to urge the public to make use of online and mobile banking services, ATM machines, and electronic payment methods in order to reduce the risks associated with direct contact among individuals.

In order to pay balanced attention to employee safety as well as to meet the needs of customers, all measures taken in response to the lowering of the COVID-19 alert level will be reviewed from time to time and are subject to adjustment as the need arises. With regard to measures taken to fight the pandemic, the FSC will consider the possibility of making them regular features of the banking system, provided that risks can be properly controlled, so as to provide convenience while also maintaining security.

### ***FSC adjusts shareholder meeting epidemic control measures after lowering of COVID-19 alert level***

To ensure that shareholders' meetings can proceed smoothly even as proper measures are taken to guard against the spread of COVID-19, the FSC announced earlier this year that the number of people allowed in physical shareholders' meeting venues would be limited to 20 or fewer people in any indoor venue and 40 or fewer people at any outdoor venue, and that companies which convene physical shareholders' meetings would be required to comply with the pandemic prevention measures and related guidelines issued by the Central Epidemic Command Center (CECC). More recently, in coordination with a decision by the CECC to lower the COVID-19 alert level, the FSC announced that, beginning from 27 July 2021, if the CDC requirements are more favorable than the aforementioned limits on attendance at physical shareholders' meetings, the more favorable parts shall apply. The FSC has also called on the Taiwan Depository and Clearing Corporation to coordinate with the CECC's announcement to amend its related epidemic control guidelines, thereby preparing the way for public companies to smoothly convene their shareholders' meetings.

### ***After lowering of COVID-19 alert level, insurers will continue implementing pandemic control measures that had been in place during the level 3 alert***

In light of the need to reduce face-to-face interactions during the pandemic, and to meet the need of consumers for all types of insurance services, the FSC has announced that various temporary measures taken when the level 3 COVID-19 alert went into effect will remain in place now that the COVID-19 alert has been downgraded to level 2. These measures include the following: (a) the ROC Life and Non-Life Insurance Associations as well as the Professional Insurance Brokers and Agents Association of R.O.C. have all issued "temporary principles for the conduct of face-to-face interactions and the handling of hardcopy documents during the COVID-19 pandemic" which allow for transmission of photographed, scanned, or faxed documents to eliminate the need for face-to-face interactions; (b) comprehensive insurance which covers vaccinations and statutory infectious diseases can now be

sold as group insurance; (c) for comprehensive insurance which covers vaccinations and statutory infectious diseases that are sold online, the requirement to conduct a telephone interview has been temporarily waived; (d) auto insurance premium payments may be deferred or made on installment; and (e) life insurance premium payments may be deferred. This approach has been taken in order to safeguard the health of both consumers and persons working in the insurance industry, and to facilitate the efforts of insurers to continue promoting their business.

In addition: (a) the application deadline for participation in the "Preferential-Rate Policy Loan Stimulus Program" remains the end of September 2021; and (b) insurers that invest in real estate are being provided temporary relief from regulatory requirements that such real estate be used immediately and with reasonable benefit, and the period of this temporary relief has been extended until 30 June 2022 (when the implementation period of the "Special Act for Prevention, Relief and Revitalization Measures for Severe Pneumonia with Novel Pathogens" comes to an end). The FSC has reminded those interested in benefitting from these measures to be sure and file applications before the deadlines.

## International Activities

### *FSC releases list of approved applications in May 2021 for additional domestic branches*

To maintain the steady development of financial markets and promote financial inclusion, the FSC, in consideration of the overall situation of Taiwan's economy and financial industry, the balanced development of urban and rural areas, the financial business situation of each applicant, and recent closures of branch locations, granted approval in May 2021 to an application by Taichung Bank to establish one new branch (in Miaoli County).

To afford financial institutions greater flexibility for the establishment of branch units, and to promote financial inclusion, the FSC allows financial institutions to file applications in May and November of each year respectively for setting up additional branch units. Applications for new branch units in areas that have been identified as needing more financial institution business locations can be submitted to the FSC at any time, without any eligibility restrictions regarding the applicant institution's financial condition. The current qualification to apply for additional domestic branch units can spur the development of financial institution locations, and facilitate achievement of the vision of financial inclusion.

As of end-April 2021, domestic banks had 3,403 branches, which means 17 branch locations per 100,000 domestic population, and domestic financial institutions have actively utilized fintech innovation in recent years in order to: (a) gradually increase service penetration and strengthen the content of digital financial services; (b) better accommodate consumer habits; and (c) expand service scope. Overall, financial services have become more inclusive and are growing increasingly diverse.

### *NPL Ratio for Domestic Banks as of the End of July 2021*

The total outstanding loans extended by the current 38 domestic banks increased by NT\$18 billion (US\$0.64 billion) as compared to the figure of previous month and amounted to NT\$32.82 trillion (US\$1,173.74 billion) at the end of July 2021. Meanwhile, the NPLs of these banks totaled at NT\$68.8 billion (US\$2.46 billion) which increased by NT\$0.7 billion (US\$0.03 billion) from NT\$68.1 billion (US\$2.43 billion) as of the end of the previous month. The average NPL ratio of the 38 banks remained at 0.21% compared to previous month, but was down by 0.04 percentage points compared to the same month last year.

The coverage ratio of allowances for NPLs stood at 644.03%. While the ratio decreased by 3.42 percentage points from 647.45% of the previous month, it still remained stable at a higher level.

### *NPL situation of credit cooperatives at the end of July 2021*

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$500 million as of the end of July 2021, generating an NPL ratio of 0.09%, same as that of the end of June 2021. The NPL coverage

ratio was 2,177.62%, down by 5.24 percentage points from 2,182.86% at the end of June 2021.

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

As of the end of July 2021, foreign investors had bought around NT\$13,424.6 billion and sold around NT\$13,927.4 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of around NT\$502.8 billion. In addition, foreign investors had bought around NT\$1,845.9 billion and sold around NT\$1,846.1 billion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$200 million. Meanwhile, mainland China investors had bought around NT\$7.7 billion and sold around NT\$9.0 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of about NT\$1.3 billion; and mainland China investors had bought around NT\$300 million and sold around NT\$500 million worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$200 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 2021 stood at approximately US\$215.9 billion, down by around US\$3.5 billion from US\$219.4 billion at the end of June 2021. The figure for cumulative net inward remittances by mainland China investors was US\$39.53 million, down by around US\$4.79 million from US\$44.32 million at the end of June 2021.

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

The sales statistics of foreign-currency denominated products by life insurance industry as of the end of May 2021 were as follows: premium revenues from new foreign-currency denominated policies amounted to around NT\$254.824 billion, up by 31% from NT\$195.091 billion year-on-year. Within these figures, investment-linked insurance products accounted for NT\$125.45 billion (around 49% of the total), up by 145% from NT\$51.119 billion year-on-year, and the sales of traditional insurance products totaled NT\$129.374 billion (around 51% of the total), down by 10% from NT\$143.972 billion year-on-year.

### *Sales of spillover-effect insurance products and provision of in-kind benefits by life insurers in 2021 through Q2*

As of the second quarter of 2021, the performance of life insurers in selling spillover-effect insurance products and providing in-kind benefits was as follows: The FSC has approved or accepted registrations of 76 spillover-effect insurance products from 8 life insurance companies. In total, 323,950 new contracts for such products have been sold as of the second quarter of 2021, up by 507% from 53,397 compared to the second quarter of 2020. The first-year premium income was NT\$3,008.52 million, up by 261% from NT\$834.20 million compared to the second quarter of 2020. The FSC has approved or accepted registrations of 23 in-kind payment insurance products from 6 life insurance companies. In total, 5,234 new contracts for such products have been sold as of the second quarter of 2021, down by 82% from 28,421 compared to the second quarter of 2020. The first-year premium income was NT\$33.21 million, up by 217% from NT\$10.47 million in the second quarter of 2020.

### *Profit/loss, net value and exchange gains/losses of the insurance industry as of end-June 2021*

The pre-tax profit of insurance enterprises at the end of June 2021 was NT\$271.4 billion, up by NT\$162.2 billion, or 148.5%, year-on-year. Breaking down that figure, the pre-tax profit of life insurance enterprises was NT\$259.2 billion, up by NT\$157.9 billion, or 155.9% over the corresponding period, while the pre-tax profit of nonlife insurance enterprises was NT\$12.2 billion, up by NT\$4.3 billion or 54.4%.

The owners' equity of all insurance enterprises at the end of June 2021 was NT\$2,784.4 billion, up by NT\$591.0 billion, or 26.9% over the corresponding period. Breaking down that figure, the owners' equity of life insurance enterprises was NT\$2,633.0 billion, an

increase of NT\$571.2 billion, or 27.7%, and the owners' equity of nonlife insurance enterprises was NT\$151.4 billion, up by NT\$19.8 billion or 15.0%.

As of the end of June 2021, the NT Dollar had appreciated by 2.2% against the US Dollar since the end of 2020, and the cumulative balance of the foreign exchange valuation reserves of life insurance enterprises was NT\$31.9 billion, down by NT\$14.3 billion. 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\$135.4 billion. Over the same period of 2021, 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\$416.6 billion.

## Investor and Consumer Protection

### 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 21 financial literacy events in August 2021 at Yunlin County Veterans' Home, attracting a total of 845 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.

### FSC urges investors to exercise caution and be alert for scams

The FSC recently reminded the public that before investing in domestic or overseas securities it is wise to "look before you leap," note the associated risks, and make sure that the investment or transaction will be made via a licensed financial institution in order to safeguard their investment rights and interests. Otherwise, in the event of a transaction dispute, an investor might have no recourse to effective remedy. The FSC Securities and Futures Bureau has a special section on its website (Investors Information/Preventing Illegal Securities and Futures Practitioners) that an investor can use to check lists that give the names of FSC-approved securities firms, futures enterprises, securities investment trusts enterprises, and securities investment consulting enterprises. This website section also provides investor alerts and sets out information on various signs of possible illegal activity.

### In response to COVID-19 pandemic, FSC reminds public companies to announce and file financial reports on schedule, and to make necessary disclosures

The FSC announced that if public companies are unable to file their 2nd quarter financial reports of 2021 on time, the companies may apply for an extension under the condition that the decision is approved by the board with documents such as intended extension period, proposed time frame plan (with a CPA's opinion on its appropriateness), and the unaudited/unreviewed consolidated balance sheet, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the 2nd quarter of 2021. The applicants are required to apply for an extension to the FSC in accordance with the provisions of Article 4 of the "Regulations Governing the Applicable Scope of Special Circumstances for the Public Announcement and Filing of Financial Reports and Operational Status Reports by Public Companies" prior to 12nd August, 2021 (or,

in the case of a company with a primary exchange (or primary OTC) listing, prior to 27th August, 2021.)

The FSC also reminded that those who apply for extension are required to publish relevant material information on the Market Observation Post System (MOPS) website in accordance with the "Securities and Exchange Act" as well as the regulations of the TWSE and TPEX in order to keep investors informed.

## Major Enforcement Actions

### FSC imposes sanctions on Taishin International Bank

The FSC recently imposed sanctions on Taishin International Bank after discovering that its wealth managers had misappropriated customers' funds, engaged in abnormal fund transactions with customers, and conducted improper business activities. The laws and regulations violated were: (a) Article 45-1, Paragraph 1 of the Banking Act and (b) Article 6 and Article 7, Paragraph 1, Subparagraphs 4 & 6 of the "Regulations Governing the Implementation of Internal Control and Audit System and Business Solicitation System of Insurance Agent Companies and Insurance Broker Companies" which were issued by the FSC upon the authority of Article 165, Paragraph 3 of the "Insurance Act." As a result, the FSC imposed an administrative fine of NT\$30 million under Article 24 of the "Administrative Penalty Act" and Article 129, Subparagraph 7 of the "Banking Act." Also, the FSC issued an official reprimand and ordered the bank to suspend the deputy head of the bank's Retail Banking Group for three months in accordance with Article 61-1, Paragraph 1, and Article 61-1, Paragraph 1, Subparagraph 6 of the "Banking Act." In addition, acting in accordance with 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 Ximen Branch and Beida Branch to suspend all conduct of insurance agency business with new customers for three months. This suspension will remain in force until the FSC determines that proper corrective action has been taken.

### FSC imposes sanctions on Shin Kong Life Insurance

The FSC recently imposed sanctions on Shin Kong Life Insurance after discovering during a routine examination of the company's business operations that Shin Kong Life had violated the "Financial Holding Company Act" and the "Insurance Act" in its conduct of transactions with interested parties and substantively interested parties, and in its handling of reimbursements. Acting in accordance with Article 60 of the "Financial Holding Company Act" and Article 171-1, Paragraph 4 of the "Insurance Act," the FSC handed the company administrative fines totaling NT\$2.6 million. Also, acting in accordance with Article 149, Paragraph 1 of the same Act, the FSC issued the company two official reprimands and instructed the company to hold the responsible persons accountable.

### FSC imposes fine on Shin Kong Financial Holding Co.

The FSC recently learned that Shin Kong Financial Holding Co. had violated Article 45, Paragraph 1 and Article 51 of the "Financial Holding Company Act" by engaging in improper transactions with interested parties and substantively interested parties. Acting in accordance with Article 24 of the "Administrative Penalty Act" and Article 60, Subparagraph 16 of the "Banking Act," the FSC imposed an administrative fine of NT\$2 million.

## Personnel Changes

### Personnel changes at the FSC headquarters

Director General Chih-Hsien Lin of the FSC Department of Planning was recently promoted to Deputy Director General of the FSC Insurance Bureau, and was replaced by Brenda Hu, who was promoted from her previous position as the Department's Deputy Director General. Meanwhile, Chief Secretary Chen-Chang Tong of the FSC Banking Bureau was promoted to Deputy Director General of the Banking Bureau. Mr. Tong was replaced by Li-Yang Hou, who was promoted from his previous position as Division Director in the Banking Bureau. All these persons assumed their new positions on 9 August 2021.