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Publisher Tien-Mu Huang

Advisor Tsuey-Ling Hsiao
Jean Chiu
Kai-Yuan Chen

Executive Editor
Department of Planning

Publishers & Editorial Office
Financial Supervisory
Commission

Add 18F., No.7, Sec. 2, Xiamin
Blvd., Banqiao Dist., New
Taipei City 22041, Taiwan,
Republic of China

Tel 8968-0899
Fax 8969-1271
E-mail planning@fsc.gov.tw
Website <http://www.fsc.gov.tw>

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- FSC announces details of 2022 TCF performance assessment system
- FSC adopts stronger supervisory measures for high-yield bond funds and their risk disclosures

Policy and Law

Overview of FSC efforts to promote microinsurance

At a Cabinet meeting on 21 October 2021, the FSC delivered a report on its efforts to promote microinsurance. Key points of the report include the following: (a) To enable the economically disadvantaged and people with special status to obtain basic insurance protections for lower premiums, and to encourage insurers to fulfill their corporate social responsibilities, the FSC in 2009 allowed insurers to engage in microinsurance business. (b) Since then, the FSC has continued to review related legislation, and has adopted a number of regulatory incentives. For example: certain products ordinarily subject to a prior approval requirement can instead be changed to use-and-file system; for insurers that perform well with their microinsurance business, the cap on total foreign investments by a single enterprise can be raised, and they can be allowed to make lower contributions to the Life Insurance Guaranty Fund; and top-performing insurers receive public commendation. In addition, the FSC cooperates with local government agencies to promote such products. There were a total of 489,000 in-force microinsurance contracts as of June 2021, and these have helped to strengthen Taiwan's social safety net.

Moving forward, the FSC will continue to encourage insurers to develop the microinsurance business in order to make microinsurance more available, and to ensure that people from all walks of life can enjoy the insurance protections they need.

FSC announces details of 2022 TCF performance assessment system

To continue pushing financial services enterprises to implement the Treating Customers Fairly (TCF) principles, assessments of financial service enterprises' performance in implementing the TCF principles will be conducted again in 2022 (covering the period from 1 January to 31 December of 2021). The key focal points of the assessments will be changed as follows:

1. To make financial services enterprises attach more importance to fair treatment of senior citizens, persons with disabilities, and members of other disadvantaged groups, attaching a high degree of importance to fair treatment of senior citizens, persons with disabilities, and other such customers is now treated (in line with the "Principle of Suitable Products and Services" and the "Principle of Protection of the Right to Complain") as an extra credit indicator for financial services enterprises. Conversely, unfair treatment is treated as a point deduction indicator.
2. Extra credit indicators under the "ways in which the board of directors has attached importance to fair treatment or taken concrete action" category of the assessment include (but not limited to) financial service enterprises' actions as follows: More streamlined procedures for the handling of customer complaints or disputes have been adopted to allow for more efficient dispute resolution and better protection of financial consumers; major customer complaints are categorized and put to boards of directors for discussion, and follow-up monitoring is exercised in order to track the implementation of decisions; effective resolution methods or optimization measures are suggested, or codes of conduct are formulated.
3. When an assessed enterprise fails to take corrective action to address deficiencies identified in the previous year's assessment, this failure will be treated as a point deduction indicator in the "scoring based on financial examination and routine supervisory findings" category of the assessment. This approach is intended to ensure that the TCF performance assessment system prompts financial services enterprises to truly correct deficiencies identified in the course of assessments.

In order to bring more attention to financial services enterprises that treat customers fairly and show what they have achieved through their implementation of the TCF principles, enterprises that finish among the top 25% in the 2022 assessments will receive public recognition, which is a higher percentage than before. In addition, fair treatment of senior citizens, persons with disabilities, and members of other disadvantaged groups has been added to the list of points that will receive attention in the 2022 TCF assessments. The goal is to get financial service

enterprises to focus more firmly on the essence of their business, which is to serve the customer.

FSC adopts stronger supervisory measures for high-yield bond funds and their risk disclosures

With an eye to the rapid pace of recent changes in the global economy, the FSC — in an effort to better protect investors and increase investors' risk awareness — has adopted stronger supervisory measures for high-yield bond funds, as follows:

1. Changed the term "high-yield bond fund" to "non-investment grade bond fund": With an eye to the fact that the bonds purchased by high-yield bond funds are essentially non-investment grade, in order to prevent misunderstandings among investors, the FSC has switched to calling them non-investment grade bond funds.
2. Strengthened the disclosure of fund risks and provided more reference data for risk assessments: Considering that the Debt Fund Risk-return Rating Standards use the standard deviation of a fund's returns to measure the past volatility of that fund's net value, a fund operator is required to explain how its risk-return ratings are calculated, why each fund has received its particular risk-return rating, and any restrictions that may result from the rating. In addition, when an investor intends to buy into a fund that touts its investments in non-investment grade bonds the FSC requires that the risk disclosure statement signed by the investor must also disclose that the investor bears the exchange rate risk of a foreign currency investment fund when its original transaction amount is converted from NT Dollars. The Securities Investment Trust and Consulting Association of the R.O.C has set up special section on its website that visitors can use to find information on fund performance and assessment indicators. Information provided includes annualized standardized deviation, beta, and Sharpe.
3. Strengthened sub-distributors' fund suitability assessments: When fund sub-distributors conduct Know Your Product (KYP) assessments, they must comprehensively assess the risks associated with investment policies, investment regions, and investment portfolios. They are not allowed to rely on just one indicator (e.g. risk-return ratings) to determine a product's risk level. Sub-distributors are also required to factor KYP assessments and mis-selling activity into their employee compensation reviews, and must establish a system for punishment of mis-selling.

In order to promote a proper way of thinking about investing in funds, the FSC has asked financial industry trade associations to work with fund operators and sub-distributors in conducting outreach activities designed to better familiarize investors with funds and how to invest in them.

FSC announces 2022 policy reserve rates for new life insurance policies denominated in specific foreign currencies

To ensure that Taiwanese life insurers are operated in a safe and sound manner, and to ensure that new contract policy reserves reflect market interest rates in a timely manner, the FSC announced that the policy reserve rates that applied to new life insurance policies in 2021 will remain unchanged in 2022. This decision: (a) was based on the fact that government bond yields in 2021 differed little from the previous year; and (b) reflected the FSC's overall thinking regarding premium rate stability, consumer interests, and the operating costs of insurers. The FSC will continue to monitor market rates moving forward and discuss the possibility of adjustments if the need arises.

FSC grants 2021 awards to securities enterprises for excellence in implementing Treating Customers Fairly (TCF) principles

On 3 November 2021, the FSC held the "2021 Awards Ceremony for Excellence in Implementing the Treating Customers Fairly Principles among Securities Enterprises." FSC Chairman Tien-Mu Huang personally presided over the ceremony and presented the awards, which were granted to enterprises ranking among the best for performance in implementing the TCF principles. Integrated securities enterprises were included in the TCF performance assessment for the first time in 2019, and 2021 was the second. To encourage securities

enterprises to continuously improve their TCF performance, the FSC held this award ceremony to confer public recognition upon six securities enterprises that have compiled an outstanding TCF performance record and one other securities enterprise that has achieved significant improvement. Awards were conferred upon the following enterprises:

1. Enterprises ranked in top 20% (listed in no particular order): Yuanta Securities, Chinatrust Securities, E.Sun Securities, Taiwan Cooperative Securities, Mega Securities, First Securities
2. Award for significant improvement: President Securities

The award winning securities enterprises all had one point in common — their board of directors attaches considerable importance to the TCF principles. Concrete actions that they've taken include the following: (a) when there is a customer complaint or dispute, they discuss possible response measures and monitor the situation; (b) they have used mystery shoppers to understand how well their enterprises are implementing the TCF principles out on the front lines; (c) where customer complaints spike upward by more than a prescribed percentage, risk alerts are transmitted in real time to senior management; (d) renew the salesperson incentive remuneration scheme with non-financial indicators such as legal and TCF principles compliance; (e) at board meetings, directors have made very constructive comments and feasible proposals (including a proposal to add a reminder function to the trading system in order to help customers avoid mistakes), and the minutes of board meetings have been very complete. All of this has done much to shape a corporate culture that values the TCF principles.

FSC declares that migrant worker foreign remittance companies are "financial services enterprises" as defined in Article 3, Paragraph 1 of the "Financial Consumer Protection Act"

Article 4, Paragraph 4 of the "Act Governing Electronic Payment Institutions" and the "Regulations Governing Small Amount Remittance Services for Foreign Migrant Workers" provide that foreign migrant workers are allowed to make small remittances via migrant worker foreign remittance companies. To better safeguard the interests of foreign migrant workers in Taiwan, and to implement its policies on financial inclusion, the FSC has declared that migrant worker foreign remittance companies are "financial services enterprises" as defined in Article 3, Paragraph 1 of the "Financial Consumer Protection Act." While it takes measures to accelerate fintech development and make Taiwan's financial services enterprise more competitive, the FSC also works to protect consumer interests and bring about responsible innovation.

FSC strengthens both risk assessment and control mechanisms of investment trust funds and risk disclosure of offshore funds regarding political and economic risks of the regions where they invest in

To strengthen both risk assessment and control mechanisms of investment trust funds and risk disclosure of offshore funds sold in Taiwan regarding political and economic risks of the regions where they invest in, the FSC recently took the following measures:

1. The FSC reminded securities investment trust enterprises (SITEs) that, in order to implement stewardship principles and company policies, and to safeguard investor interests, they must take note of the status of corporate governance at the companies in which they invest.
2. The FSC instructed SITEs that they are required to: (a) adopt a mechanism for assessment and control of political and economic risks; (b) incorporate this mechanism into their internal control system; (c) submit the mechanism to their board of directors for approval; and (d) disclose such risks in their investment prospectuses as well as marketing and sales documents. In addition, the FSC asked the Securities Investment Trust and Consulting Association of the R.O.C. (SITCA) to amend the "SITCA Risk Management Best-Practice Principles for Securities Investment Trust Enterprises" to expressly list political and economic risks among the types of risk that must be measured.

3. In the future, the FSC will, depending on international political and economic conditions, increase the scrutiny of its examinations when SITES apply for approval (or registration) of investment trust funds they are planning to offer.
4. As for offshore funds sold in Taiwan, the FSC has instructed the master agents of offshore funds to examine the offshore funds they represent and make fuller disclosure in investor information leaflets of risks arising from any controversial weapons-related investments.

Industry Updates

FSC approved E.Sun Commercial Bank to apply to establish a representative office in Ho Chi Minh City, Vietnam

On 22 October 2021, the FSC approved an application by E.Sun Commercial Bank to apply with the local competent authorities in Vietnam to establish a representative office in Ho Chi Minh City. The opening of an office in Ho Chi Minh City is part of E.Sun Commercial Bank's plan to expand its presence in the ASEAN market. E.Sun will be able to use this office to better understand local legislative developments and stay abreast of the latest conditions in markets and industry. Currently, Taiwanese banks have established 14 affiliates including 13 representative offices, 12 branches, and 1 subsidiary in Ho Chi Minh City, Hanoi, and Dongnai.

FSC approved Mega International Commercial Bank to apply in Cambodia to set up Ta Khmau Sub-branch under the Phnom Penh Branch

On 9 November 2021, the FSC approved an application by Mega International Commercial Bank to apply with the local competent authorities in Cambodia to set up a Ta Khmau Sub-branch under the Phnom Penh Branch. After assessing economic and financial conditions in Cambodia as well as the state of bilateral trade and investment ties between Taiwan and Cambodia, Mega International decided to apply to set up a Ta Khmau Sub-branch in order to increase the business volume and profits of its Phnom Penh Branch. Currently, Taiwanese banks have established 6 affiliates including 1 representative office, 3 branches and 2 subsidiaries in Cambodia.

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

The total outstanding loans extended by the current 38 domestic banks increased by NT\$179.7 billion (US\$6.46 billion) as compared to the figure of previous month and amounted to NT\$33.32 trillion (US\$1,197.8 billion) at the end of October 2021. Meanwhile, the NPLs of these banks totaled at NT\$62.8 billion (US\$2.26 billion) which decreased by NT\$1 billion (US\$0.04 billion) from NT\$63.8 billion (US\$2.29 billion) as of the end of the previous month. The average NPL ratio of the 38 banks remained at 0.19% compared to previous month, but was down by 0.06 percentage points compared to the same month last year.

The coverage ratios of allowances for NPLs increased by 14.46 percentage points and therefore rose to a figure of 718.45% from 703.99% of the previous month.

NPL situation of credit cooperatives at the end of October 2021

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.429 billion as of the end of October 2021, generating an NPL ratio of 0.08%, down by 0.01 percentage points from the end of September 2021. The NPL coverage ratio was 2,608.03%, up by 292.24 percentage points from 2,315.79% at the end of September 2021.

Net foreign and mainland China investment in listed shares

As of the end of October 2021, foreign investors had bought around NT\$18,573.9 billion and sold around NT\$19,116.3 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of around NT\$542.4 billion. In addition, foreign investors had

bought around NT\$2,780.5 billion and sold around NT\$2,808.5 billion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$28 billion. Meanwhile, mainland China investors had bought around NT\$9 billion and sold around NT\$10.6 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of about NT\$1.6 billion; and mainland China investors had bought around NT\$500 million and sold around NT\$900 million worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$400 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 October 2021 stood at approximately US\$218.7 billion, down by around US\$0.2 billion from US\$218.9 billion at the end of September 2021. The figure for cumulative net inward remittances by mainland China investors was US\$29 million, equal to the figure at the end of September 2021.

Sales of spillover-effect insurance products and provision of in-kind benefits by life insurers in 2021 through Q3

The FSC has approved or accepted registrations of 89 spillover-effect insurance products from 8 life insurance companies. In total, 476,657 new contracts for such products have been sold as of the third quarter of 2021, up by 291% from 121,774 compared to the third quarter of 2020. The first-year premium income was NT\$7,097 million, up by 397% from NT\$1,427.02 million compared to the third quarter of 2020. The FSC has approved or accepted registrations of 29 in-kind payment insurance products from 6 life insurance companies. In total, 14,282 new contracts for such products have been sold as of the third quarter of 2021, down by 53% from 30,283 compared to the third quarter of 2020. The first-year premium income was NT\$200.48 million, up by 1,139% from NT\$16.18 million compared to the third quarter of 2020.

Sales statistics of foreign-currency denominated products by life insurers as of the end of August 2021

The sales statistics of foreign-currency denominated products by life insurers as of the end of August 2021 were as follows: premium revenues from new foreign-currency denominated policies amounted to around NT\$389.611 billion, up by 13% from NT\$344.453 billion year-on-year. Within these figures, investment-linked insurance products accounted for NT\$194.426 billion (around 50% of the total), up by 127% from NT\$85.517 billion year-on-year, and the sales of traditional insurance products totaled NT\$195.185 billion (around 50% of the total), down by 25% from NT\$258.936 billion year-on-year.

Profit/loss, net value, exchange gains/losses, hedging gains and losses, and foreign exchange volatility reserves of insurance enterprises as of end-September 2021

The pre-tax profit of insurance enterprises at the end of September 2021 was NT\$378.7 billion, up by NT\$168.7 billion, or 80.3%, year-on-year. Breaking down that figure, the pre-tax profit of life insurance enterprises was NT\$359.7 billion, up NT\$163 billion, or 82.9%, year-on-year, while the pre-tax profit of non-life insurance enterprises was NT\$19 billion, up NT\$5.7 billion, or 42.9%, year-on-year.

The owners' equity of all insurance enterprises at the end of September 2021 was NT\$2,711.7 billion, up by NT\$378.4 billion, or 16.2% over the corresponding period. Breaking down that figure, the owners' equity of life insurance enterprises was NT\$2,558.7 billion, an increase of NT\$362.3 billion, or 16.5%, and the owners' equity of non-life insurance enterprises was NT\$153 billion, up by NT\$16.1 billion or 11.8%.

As of the end of September 2021, the NT Dollar had appreciated by 2.3% 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\$34 billion, down by NT\$12.2 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\$177.5 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\$596.4 billion.

Investor and Consumer Protection

The FSC urges overall regulatory measures on the incident regarding anomalies in the Cathay United Bank's system upgrade

Anomalies in Cathay United Bank's system during certain hours on October 18 and 19, 2021 affected nearly 40,000 interbank transactions in online banking (including mobile bank app) and automatic teller machines (ATM). In response, the FSC requested the Chairman of the bank and other representatives to report on the incident at the FSC on 26 October, 2021.

According to the explanation provided by Cathay United Bank, the anomalies occurred when the bank upgraded its Electronic Funds Transfer (EFT) system and database. There are two aspects that require review and improvement including the system upgrade and the response measures taken after the incident.

The FSC stated that financial institutions may have complexity in handling information system conversions, launches, upgrades and updates. However, financial institutions must carefully evaluate the impact of the system on business operations and customer transactions in advance, and conduct inter-department communication and exercises in IT, information security, business and customer services. The FSC therefore proposes the following overall regulatory measures:

1. The Bankers Association has established the "Information Security Protection Standards for Financial Institutions" (hereinafter referred to as the Protection Standards), which specify the requirements for the management of the operating environment capacity of core information systems, management of system conversions and information security incidents and business continuity management. The Bankers Association was requested to evaluate the feasibility of adopting the same regulations in the Protection Standards in related procedures for the upgrade and update of important software that is not part of the core information and communication system but may affect the rights and interests of customers.
2. Financial institutions should assign units responsible for information security to take part in the conversion of core systems, or in upgrades or updates of important software. The Chief Information Security Officer must also coordinate the implementation of information security policies and relevant resource allocation. The Bankers Association was therefore requested to formulate related self-disciplinary regulations.
3. The cause of the incident, response procedures, and improvement measures will be shared with other financial institutions to prevent the occurrence of similar incidents.

Welldone Co. receives permit to provide small-amount remittance services for foreign migrant workers

On 15 October 2021 the FSC granted permission for Welldone Co. (which is currently conducting a "Fintech Sandbox Experiment regarding Remittance Services for Migrant Laborers" with the FSC's approval) to provide small-amount remittance services for foreign migrant workers in accordance with the newly acted "Regulations Governing Small Amount Remittance Services for Foreign Migrant Workers". After establishing Taiwan's fintech sandbox experiment system, the FSC further instituted differential regulatory treatment and a limited licensing scheme. In response to demand for limited licenses to run fintech experiments, the FSC on 1 July 2021 amended the "Act Governing Electronic Payment Institutions" by adding a statutory basis for supervision of the provision of small-amount remittance services for foreign migrant workers. The FSC has granted permission for Welldone Co. to process small-amount outward remittances for foreign migrant workers to Indonesia, the Philippines, and Vietnam. On 29 October 2021, Welldone Co. formally launched this outward remittance service to accommodate legally employed migrant workers from Indonesia, the Philippines, and Vietnam for remitting their pay back to their home countries. This can encourage foreign migrant workers to make remittances via legitimate channels, and thereby more fully achieve the goal of financial inclusion.

2021 Financial Literacy Campaign for the Campus and Community

In the month of November 2021, the FSC held a total of 82 activities around Taiwan (including a women's support organization in Hualien County) as part of the 2021 Financial Literacy Campaign for the Campus and Community, attracting a total of 6,426 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 · 9711.

Major Enforcement Actions

FSC imposes sanctions on Mercuries Life Insurance Co.

The FSC, acting in accordance with Article 171-1, Paragraph 5 of the "Insurance Act," recently imposed administrative fines totaling NT\$2.4 million on Mercuries Life Insurance Co., and also issued the company three official reprimands in accordance with Article 149, Paragraph 1 of the same Act, after discovering the following deficiencies in the company's conduct of its insurance business: (a) With regard to checks on the source of funds to be used by a prospective customer to pay for premiums -- Despite the fact that a single person served as both insurance solicitor and mortgage loan intermediary, and also despite the fact that the policy application was made at about the same time the prospective buyer took out a loan intermediated by the solicitor, the solicitor report failed to explain the source of funds to be used for premium payments, and failed also to question whether the loan in question was the source of funds to be used for premium payments. Moreover, with regard to the possibility that the customer might have used the mortgage loan proceeds to buy an investment-linked policy, the solicitor failed to confirm the source of funds to be used for premium payments, and did not inform the buyer of either the risks or the maximum potential losses. (b) With regard to telephone interviews in connection with the solicitation of new policies -- Even when telephone interviews revealed irregularities in the solicitation of new policies by banks acting as insurance brokers or agents, Mercuries Life provided notification of such irregularities directly to the solicitors rather than providing notification via the solicitors' banks. (c) The company's telemarketing sales pitch guidelines instruct solicitors to terminate a call if a consumer states that they are visually impaired or otherwise physically disabled, hold a Disabled Person Certificate, or have some other proof of disability. (d) In telephone interviews in connection with the solicitation of new policies, even when the person being interviewed about their experiences with the solicitation of new investment-linked policies gave responses that indicated irregular solicitation practices, the company failed to confirm whether the customer understood the problem. Moreover, with regard to an insurance agency whose solicitors were involved in a relatively large number of irregularities, Mercuries Life only dealt with individual solicitors on a case-by-case basis, and never evaluated whether it the agency itself should be subject to more rigorous supervision of its solicitation activities. (e) With regard to the investment-linked policies sold to customers aged 70 or older from January through May of 2020, the company's customary method of recording a sales process, and the "Template for Recording of a Sales Process" that it later adopted, were not conducive to confirmation of product suitability. (f) In handling the underwriting of new policies, Mercuries Life went ahead and underwrote a new policy without notifying customers in cases where they also had the option of simply reinstating an older policy of the same type.