

金融展望月刊

Financial Outlook Monthly

Publisher Tien-Mu Huang

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GPN 2009305443

ISSN 1992-2507

*The Chinese version rules if
any contradiction in meaning
exists between the Chinese
version and English versionl.

April 2023

《Chinese version please refer to page 1》

No. 221

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- FSC commences a period of public comment for adjusting the outsourcing management of financial institutions based on the risk-based approach and amendments to the outsourcing regulations
- FSC amends Articles 44-9 and 44-21 of the "Regulations Governing the Administration of Shareholder Services of Public Companies"
- FSC amends "Regulations Governing Foreign Investments by Insurance Companies"

Policy and Law

FSC commences a period of public comment for adjusting the outsourcing management of financial institutions based on the risk-based approach and amendments to the outsourcing regulations

To guide financial institutions to establish a comprehensive risk management framework for outsourced operations (outsourcing), as well as to review relevant application procedures and reporting contents, the FSC announced the draft amendments to the "Regulations Governing Internal Operating Systems and Procedures for the Outsourcing of Financial Institution Operation" (hereinafter referred to as the "Regulations") on 8 March 2023. The FSC considered the opinions of financial institutions and international practices, and proposed the amendment to the Regulations, which will be oriented towards the risk-based approach (RBA) supervision, as well as "simplifying of procedures," "deepening of governance" and "aligning with international practices." During the public comment period, a public hearing will also be held to collect opinions on the draft amendment from external parties.

The main points of the amendment to the Regulations are as follows: establish a risk-based outsourcing management framework; strengthen financial institutions' ability to respond to emergency events; simplify the outsourcing application procedures and documents; adjust the scope of cross-border and cloud outsourcing applications; establish a comprehensive reporting mechanism for outsourcing; and strengthen the supervisory measures of the competent authority. This amendment of the Regulations will achieve three benefits: strengthen operational resilience; promote digital transformation; and enhance supervisory efficiency.

FSC amends Articles 44-9 and 44-21 of the "Regulations Governing the Administration of Shareholder Services of Public Companies"

To comply with the proviso under Paragraph 1 of Article 172-2 of the "Company Act," and Paragraph 5 of Article 44-9 of the "Regulations Governing the Administration of Shareholder Services of Public Companies" (hereinafter, the "Regulations"), which provide that if a natural disaster, an unforeseen event, or other force majeure events happened, and the competent authority announces that companies may hold their shareholders' meetings by means of video conferencing within a certain period of time without being stipulated in the articles of incorporation, there must be coordinated measures for companies to hold such meetings. In addition, when a company holds a virtual-only shareholders' meeting, shareholders are only able to attend a virtual meeting but not a physical meeting, so in order to better safeguard the rights and interests of shareholders, the FSC on 6 March 2023 amended the aforementioned Regulations, which will help considerably to enhance shareholder activism. The main points of the amendment are summarized as follows:

1. The pre-amendment version of the Regulations required that a company intending to convene a virtual-only shareholders' meeting had to be approved by a resolution of the shareholders' meeting and specified in its Articles of Incorporation, and obtained a resolution of its board of directors. Therefore, the threshold for the board of directors' resolution to convene a virtual-only shareholders' meeting has been increased that the resolution had to be approved by a majority vote of a meeting of the board of directors attended by two-thirds or more of all the directors.
2. In order to provide alternate attendance methods for any shareholders who would have difficulty attending a virtual-only shareholders' meeting, and to help them make use of network equipment to take part in the shareholders' meeting, the Regulations require that

a company convening a virtual-only shareholders' meeting must, except under the circumstances contemplated under Paragraph 6 of Article 44-9, at least provide shareholders with network equipment and needed assistance, and must clearly note in the shareholders meeting notice the period in which the shareholder may apply to the company, and other matters requiring attention.

3. In response to the certain circumstances announced by the competent authority mentioned above, a company may take any of the following actions:

- (1) If a company has approved a resolution to use an alternative meeting method, but has already mailed out meeting notices, it may announce on the Market Observation Post System the switch to an alternative meeting method and need not again mail out revised meeting notices.
- (2) If a company convenes a virtual-only shareholders' meeting and also provides paper voting as an alternative voting method for shareholders who suffer from a digital divide, the company may mail the paper ballots and proposal documents only to those shareholders who apply for paper ballots, notwithstanding Article 5, Paragraph 2 of the "Regulations Governing Content and Compliance Requirements for Shareholders' Meeting Agenda Handbooks of Public Companies," which provides that where voting rights at a shareholders' meeting are to be exercised in writing, the paper voting materials shall be sent to all shareholders.
- (3) Considering the circumstances leading to the sort of announcement mentioned above are changeable, and the coordinated measures required are dependent upon the situation at the time, therefore the provision "other necessary emergency measures as prescribed by the FSC" are added to timely safeguard shareholders' rights.

FSC amends "Regulations Governing Foreign Investments by Insurance Companies"

In order to strengthen the risk control mechanisms of insurers investing in overseas insurance-related enterprises, and to broaden the definition of the term "foreign credit rating agencies" as used in the Regulations, the FSC amended the aforementioned Regulations on 16 February 2023. Key points of the amendment include the following:

1. The definition of the term "foreign credit rating agencies" is broadened to include "other credit rating agencies as recognized by the competent authority."
2. New items have been added to the list of qualification criteria that must be met by any insurer applying to invest in an overseas insurance-related enterprise, and the amended Regulations provide for a differential management mechanism, depending on whether an investee enterprise is engaged in insurance as its core business.
3. The amended Regulations set out control mechanisms that an insurer must implement after investing in an overseas insurance-related enterprise, and also sets out a differential management mechanism that will be implemented. With respect to all insurance-related enterprises, the differential management mechanism is exercised on the basis of "relationships of control and affiliation" and "appointment of directors and supervisors." As for an insurance-related enterprise that is not engaged in insurance as its core business, the threshold for exercising differential management mechanism is based on whether or not the investing insurer's ownership interest reaches 10%.

FSC promotes stronger cyber security management at listed companies

In order to strengthen the cyber security management mechanisms of listed companies, the FSC has approached the task from the following three aspects:

1. Information disclosure: The FSC, the Taiwan Stock Exchange (TWSE), and the Taipei Stock Exchange (TPEX) have amended related regulations that require any TWSE- or TPEX-listed company to promptly release material information when a major cyber incident occurs, and to describe its cyber security policies and plans, resource inputs, the impact of cyber risk and its

response, and the impact of any major cyber security incidents it has experienced in its annual reports and prospectuses.

2. Corporate governance: On the basis of capital scale, market capitalization, nature of business, and operating conditions, the FSC classifies TWSE- and TPEX-listed companies into three levels and requires them to allocate cyber security manpower resources in phases. The 115 level 1 companies had all appointed a chief information security officer (CISO), a cyber security supervisor, and cyber security personnel as of the end of 2022, while the 1,387 level 2 companies are scheduled to have appointed a cyber security supervisor and cyber security personnel by the end of 2023. Also, in order to assist listed companies in improving their cyber security protection and management mechanisms, the TWSE and TPEX have published cyber security management guidelines to serve as references for companies.
3. Supervisory assistance: The FSC encouraged listed companies to join the Taiwan Computer Emergency Response Team / Coordination Center (TWCERT/CC) in stages based on their risk levels in order to share cyber intelligence. Additionally, the adoption of ISO 27001, CNS 27001, and other cyber security management system standards, or the obtaining of other third-party certification of listed companies are included as extra credit indicators in the 2022 corporate governance evaluations.

Industry Updates

FSC to launch Green FinTech thematic campaign

Green finance and FinTech have recently become key focal points of international financial market development, and their promotion has also been an important policy objective for the FSC in recent years. The FSC has observed that FinTech has considerable potential to assist with the development of green finance. In particular, technology can be used to resolve the problem of insufficient data. By combining consumer needs, supervisory policies, and related cooperative networks, new application fields can be created. Therefore, the FSC intends to launch Green FinTech thematic campaign this year in hopes of spurring development of Taiwan's Green FinTech ecosystem. Making reference to the Green Digital Finance Alliance's Green Fintech Classification, the scope of Green FinTech will include: green digital payment and account solutions; green digital investment solutions; digital ESG data collection and analytics solutions; green insurtech solutions; green lending solutions; green digital asset solutions; and green regtech solutions, covering every aspect of the financial industry's march toward sustainability. The FSC intends to launch a series of Green FinTech activities, including domestic and international conferences, business matching and proof-of-concept activities, and events for outcome showcase. Recent activities include the UK-Taiwan Green FinTech Forum held on 8 March 2023, participation in the Global Financial Innovation Network (GFIN) Cross Border Testing Cohort 2.0, and provision of resources to encourage firms to take part in Green FinTech sandbox experiments, business trials, and proof-of-concept (PoC) tests.

By holding a series of such events, the FSC seeks to increase the utilization of technology in the realm of green finance, not only to raise public awareness of the importance of green sustainability, but also to encourage startups and financial institutions to engage in research and development of related technologies so that green technology can yield even greater benefits.

FSC holds first liaison meeting for Chief Information Security Officers (CISOs) of financial institutions

On 23 February 2023, the FSC held the first liaison meeting for Chief Information Security Officers (CISOs) of financial institutions, inviting the CISOs of 79 banks, securities firms, insurance companies, and peripheral organizations to exchange views on important cyber security policy measures, the focus of cyber security supervisory, cyber security conditions, and cyber security joint defense exercises.

CISOs stand on the front line and are accountable for planning, integrating, and implementing cyber security matters, and they must understand that the core elements of cyber resilience and business continuity are to reassure the public in order to achieve sustainable management. For that reason, the FSC especially reminds the following three points:

1. Cyber security must reassure the public: Individuals' personal information, and information on their deposits, transactions, and insurance policies must be protected.
2. For the use of new technology, there must be corresponding equipment: For a financial institution to make use of new technology, it must have corresponding equipment and proper risk controls, and its internal controls must be well designed.
3. Enhancing overall cyber resilience of the financial industry is necessary: Financial institutions must implement information sharing among themselves, strengthen cyber security joint defense mechanisms, cooperate with each other, and share information to jointly combat cyber threats.

CISO liaison meetings are an important platform for face-to-face communication between the competent authorities and financial institutions. The FSC hopes that financial institutions to cooperate with the FSC's cyber security enhancement measures and work together through the efforts of CISOs to strengthen financial cyber security capabilities, thereby providing secure, convenient, and uninterrupted financial services that reassure the public.

FSC reminds enterprises to appreciate the importance of cyber risk management, and assess the purchase of cyber insurance

The FSC recently reminded enterprises that, in addition to strengthening cyber risk management and improving their cyber resilience, they should also assess the purchase of cyber insurance to fully build out their cyber security risk management.

There are currently two types of cyber insurance products. The first type of products is customized for the cyber security needs of large enterprises, and the other is designed for small and medium-sized enterprises. To help small and medium-sized enterprises transfer cyber security risks, the FSC has asked the Non-life Insurance Association of the R.O.C. (NLIA) to assist non-life insurers to develop cyber insurance products, which can basically be divided into the following three types:

1. Cyber crime insurance: This type of insurance protects the insured party from the losses of money or other property incurred due to illegal intrusion by a third party (i.e. someone other than the insured or an employee of the insured) into their information system.
2. Data liability insurance: This type of insurance protects the insured party against indemnification liability to third parties arising from the leak of personal information.
3. Cyber security comprehensive insurance: This type of insurance provides relatively comprehensive coverage. It protects the insured party against property damage due to a cyber attack, a ransomware attack, or administrator error, and against indemnification liability to third parties arising from the leak of personal information.

Responding to the development of digital technologies and implementing cyber risk management are now an important part of sustainable business operations of an enterprise. Accordingly, the FSC recommends that enterprises act in a timely manner to acquire cyber insurance and ensure their safe and sound operations.

NPL Ratio for Domestic Banks as of the End of February 2023

The total outstanding loans extended by the current 39 domestic banks increased by NT\$82.2 billion (US\$2.7 billion) as compared to the figure of previous month and amounted to NT\$36.8 trillion (US\$1,207 billion) at the end of February 2023. Meanwhile, the NPLs of these banks totaled at NT\$58.98 billion (US\$1.94 billion) which

increased by NT\$1.61 billion (US\$0.05 billion) from NT\$57.37 billion (US\$1.88 billion) as of the end of the previous month. The average NPL ratio of the 39 banks remained at 0.16% compared to previous month, but was down by 0.02 percentage points compared to the same month last year.

The coverage ratios of allowances for NPLs decreased by 21.62 percentage points and therefore declined to a figure of 845.18% from 866.8% of the previous month. The asset quality of domestic banks continuously remained manageable according to the above figures as of the end of February 2023. The FSC will request banks to undertake measures to improve asset quality and financial structure on an ongoing basis.

NPL situation of credit cooperatives at the end of February 2023

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.573 billion as of the end of February 2023, generating an NPL ratio of 0.10%, up by 0.02 percentage points from 0.08% at the end of January 2023. The NPL coverage ratio was 2,221.30%, down by 384.51 percentage points from 2,605.81% at the end of January 2023.

Net foreign and mainland China investment in listed shares

As of the end of February 2023, foreign investors in the year to date had bought around NT\$2,174.2 billion and sold around NT\$1,947 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-buy of around NT\$227.2 billion. In addition, foreign investors in the year to date had bought around NT\$409.3 billion and sold around NT\$380.5 billion worth of shares listed on the Taipei Exchange, amounting to a net-buy of around NT\$28.8 billion. Meanwhile, mainland China investors had bought around NT\$0.214 billion and sold around NT\$0.214 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of about NT\$0 billion; and mainland China investors had bought NT\$0.103 billion and sold around NT\$0.036 billion worth of shares listed on the Taipei Exchange, amounting to a net-buy of around NT\$0.067 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 February 2023 stood at approximately US\$226 billion, up by around US\$2.5 billion from US\$223.5 billion at the end of January 2023. The figure for cumulative net inward remittances by mainland China investors was US\$0.032 billion, up by roughly US\$0.0094 billion from US\$0.0226 billion at the end of January 2023.

Sales of foreign-currency denominated products by life insurers as of the end of December 2022

Sales of foreign-currency denominated products by life insurers as of the end of December 2022 were as follows: premium revenues from new foreign-currency denominated policies amounted to around NT\$411.164 billion, down by 32% from NT\$600.252 billion year-on-year. Within these figures, investment-linked insurance products accounted for NT\$125.751 billion (around 31% of the total), down by 56% from NT\$285.339 billion year-on-year, and the sales of traditional insurance products totaled NT\$285.413 billion (around 69% of the total), down by 9% from NT\$314.913 billion year-on-year.

Profit/loss, net value and exchange gains/losses of the insurance industry in January 2023

The pre-tax profit of all insurance enterprises at the end of January 2023 was NT\$-20.7 billion, decreasing by NT\$89.7 billion or 130% compared to the previous year; the pre-tax profit of life insurance enterprises was NT\$-21.9 billion, decreasing by NT\$87 billion or 133.6% compared to the previous year, while the pre-tax loss of non-life insurance enterprises was NT\$1.2 billion, decreasing by NT\$2.7 billion or 69.2% compared to the previous year.

The owners' equity of insurance enterprises at the end of January 2023 was NT\$1,928.9 billion, decreasing by NT\$650.8 billion or 25.2% compared to the previous year; the owners' equity of life insurance enterprises was NT\$1,858.2 billion, decreasing by NT\$564.4 billion or

23.3% compared to the previous year, while the owners' equity of non-life insurance enterprises was NT\$70.7 billion, decreasing by NT\$86.4 billion or 55%.

As of the end of January 2023, the NT Dollar had appreciated by 2.20% against the US Dollar since the end of 2022, and the cumulative balance of the foreign exchange valuation reserve of life insurance enterprises was NT\$192.7 billion, decreasing by NT\$36.2 billion compared to the end of 2022. 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 NT\$-56.1 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\$26.3 billion.

Investor and Consumer Protection

FSC conducts 2022 on-site visits on financial institution barrier-free facilities

To promote financial inclusion and enable persons with physical and mental disabilities to enjoy full access to convenient financial services, the FSC conducted on-site visits at CTBC Bank and nine other domestic banks plus the Chunghwa Post Co., Ltd. from 4 November to 9 December of 2022. During the visits, FSC officials focused on whether barrier-free facilities complied with the standards of the Ministry of the Interior and the Ministry of Health and Welfare as well as the provisions of the Bankers Association's "Guidelines for Friendly Banking Services" regarding such details as the width of walkways, ramps, service counter height, and ATM machine specifications. By conducting the aforementioned visits, the FSC hopes to improve the barrier-free facilities and services quality of those banks, so that they can serve as models of best practice for the banking industry and meet the needs of persons with disabilities. The FSC will continue urging financial institutions to provide barrier-free financial services and paying attention to the performance of financial institutions.

FSC holds "Conference on Information Management Mechanisms for Financial Investment Advertising on Social Media"

Social media have become an important source of information for members of the public, however, fraudulent investment ads have come to run rampant on social media. To reduce the occurrence of fraudulent advertising, the FSC held the aforementioned conference on 9 March 2023 and invited online community platform operators such as Google and Meta, as well as the National Communications Commission, the Fair Trade Commission, the Administration for Digital Industries of the Ministry of Digital Affairs, the Taiwan High Prosecutors Office, the Ministry of Justice Investigation Bureau, and the Criminal Investigation Bureau of the Ministry of the Interior to attend. Conference participants reached the following consensus:

1. The government agencies will each set up a point of contact with Google and Meta to facilitate further cooperation and communication, and to provide mechanisms for handling emergency events.
2. Strengthen public-private cooperation and establish a procedure for the collection and reporting of fake investment information. The FSC also set up points of contact with the Ministry of Digital Affairs, the National Communications Commission, the Fair Trade Commission, the Taiwan High Prosecutors Office, the Ministry of Justice Investigation Bureau, and the Criminal Investigation Bureau to facilitate ongoing contacts and coordination.

To implement the Executive Yuan's "New Generation Anti-Fraud Strategy Action Agenda," the FSC, in addition to convening this conference to spur public-private cooperation and cut off fraudulent investment advertising at the source, will also continue using a diverse range of education and awareness activities to enhance and

strengthen the public's abilities to spot scams, and to prevent the disruption and harm to social order and people's property caused by financial investment fraud.

2023 Financial Literacy Campaign for the Campus and Community

In the month of March 2023, the FSC held 102 activities at different locations, including the Chinmen County Chinghu Township Armed Forces Finance Section, and various schools and other groups, as part of the 2023 Financial Literacy Campaign for the Campus and Community, attracting 6,146 participants. The Financial Literacy Campaign is free of charge, and has struck a chord with many people since its inception in 2006. As of the end of 2022, a total of 7,846 events had been held and over 1.14 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 2023. 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.

Major Enforcement Actions

FSC imposes fine on Citibank Taiwan

The FSC recently imposed an administrative fine of NT\$6 million on Citibank Taiwan Limited (the Bank) after discovering that a former wealth management specialist recommended customers to invest in financial products not provided by the Bank and facilitated financial trades on their behalf. These problems were found to constitute violations of Article 45-1, Paragraph 1 of the "Banking Act" as well as Articles 3 and 8 of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries," which were issued upon the authority of Article 45-1, Paragraph 1 of the "Banking Act." The amount of the penalty was set in accordance with the provisions of Article 129, Subparagraph 7 of the "Banking Act."

FSC imposes fine on Concord Securities

The FSC recently discovered in a full-scope examination of Concord Securities Co. that the company had violated corporate governance-related legal requirements and had failed to properly implement internal controls, thereby affecting the operation of its securities business. The FSC therefore imposed a warning sanction and an administrative fine of NT\$1.44 million on the company in accordance with Article 66, Subparagraph 1 and Article 178-1, Paragraph 1, Subparagraph 4 of the "Securities and Exchange Act." Also, acting on the basis of Article 66, Subparagraph 5 of the "Securities and Exchange Act" and Article 33 of the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets," the FSC ordered the company to hire a non-audit CPA to provide a special audit report on the state of implementation of internal controls after corrections have been made.

Also, to urge the responsible persons and managerial officers of Concord Securities to faithfully exercise the due care of a good administrator in conducting the business operation of the company, the FSC, acting on the basis of Article 66, Subparagraph 5 of the "Securities and Exchange Act," ordered Concord Securities to cut the monthly salaries of its chairperson, president, and vice president in charge of compliance by 20 percent for periods of 6 months, 6 months, and 3 months, respectively. In addition, the FSC imposed an administrative fine of NT\$1.2 million on the company's chairperson for improper handling of a whistleblowing case in which the chairperson has been involved. The fine was imposed in accordance with the provisions of Article 178, Paragraph 1, Subparagraphs 5 and 9, and Article 179 of the "Securities and Exchange Act."