

# 金融展望月刊

## Financial Outlook Monthly

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### Policy and Law

#### *Promulgation of the Operation Directions Governing Banks' Applications for Pilot Programs*

The FSC promulgated the aforementioned Directions on June 19, 2019 to encourage banks to develop new financial products and services through pilot programs under the precondition of controlling risks. The business activities which banks can apply for the pilot program must be as follows: (1) extension of approved business activities of a bank; (2) other relevant business activities which may be approved by the competent authority under the regulations; or (3) business activities related to under-development technical operations which characteristics are similar to electronic banking businesses and still have no related guidelines in place. The pilot business activities may be the same as those involved in innovation experiments that are approved in accordance with the Financial Technology Development and Innovative Experimentation Act. However, banks shall apply for innovation experiments instead of pilot programs if the business activities involve anything prohibited by laws and regulations.

#### *Banks are required to fairly and reasonably collect default interest and penalties of home and consumer loans*

To protect the rights and interests of consumers, the FSC laid down reasonable and uniform requirements on collections of default interest and penalties of home and consumer loans. All banks are required to comply with the following requirements from July 1, 2019.

1. When a borrower fails to repay by the payment due date and has not defaulted for consecutive billing periods (for example, he/she occasionally forgets to make repayment for a foreign trip or busywork), his/her outstanding principal is not immediately due for repayment. Hence, banks shall charge default interest and variable default penalties based on the "scheduled principal repayment of current period."
2. If the borrower who experiences financial difficulty has not been able to make timely repayment every month and the bank declares the

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Financial Supervisory Commission, Republic of China (Taiwan)



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principal immediately due and payable according to the acceleration clause, the bank may charge interest during the default period and default penalties according to the “outstanding principal balance”.

3. The bank may waive its charge of operation costs or charge such fees in a way more favorable to the borrower according to the agreement.
4. All banks shall review whether their current calculation and collection practices for the default interest and penalties meet the requirements above. Any modifications of related information systems and agreement terms needed for compliance with the new requirements shall be carried out by the end of September, 2019. However, banks shall follow the new rule of default penalties from July 1, 2019, in the cases that the acceleration clause has not been invoked. All other rules mentioned above will be applicable after banks' modification of the IT systems and related agreement term(s).

### **Amendments to the Rules Governing the Application of Banks Concurrently Conduct the Underwriting and Trading of Bonds, Beneficiary Securities and Asset-Backed Securities**

The FSC amended the aforementioned Rules on July 10, 2019. The limitation on banks' (including OBU) holding single bond will be relaxed and changed from the existing limit of their 20% concurrent operation capital to 10% of calculation basis of the commercial bank which means the bank's net worth. The amendment allows banks to establish bond positions of scale under their risk management policies to satisfy customers' needs and facilitates the internationalization of the domestic bank debenture market.

### **Amendments to the Rules Governing the Administration of Electronic Payment Business**

To address needs of electronic payment institutions for business expansion, increase service completeness of electronic payment institutions and convenience for users to store value in their e-payment accounts, and strengthen risk control for fund recipients, the FSC amended the aforementioned Rules on July 2, 2019. Key points of the amendments are as follows: (1) electronic payment institutions are allowed to offer information conveyance service to users and issue physical “store-value cards specifically for e-payment accounts”; (2) a database for transactions between electronic payment institutions and fund recipient users shall be created; (3) electronic payment institutions are allowed to collect and make payments for charges, fees, taxes, utility bills and other service fees via e-accounts of financial institutions, convenience stores and supermarkets which are commissioned by all levels of government agencies or public utilities; (4) electronic payment institutions are allowed to make one-time advance payment for fees that their users shall pay for public transportation or parking lot services.

### **Defining securities tokens as securities specified in the Securities and Exchange Act**

To address the needs of the blockchain enterprises to raise funds through offering cryptocurrencies that have securities nature, the FSC makes it clear that cryptocurrencies having investment nature and liquidity will be considered as securities regulated by the Securities and Exchange Act. It then issued an order in accordance with Paragraph 1, Article 6 of the Securities and Exchange Act on July 3, 2019, which defines that cryptocurrencies with securities nature (securities tokens) as securities regulated by the aforementioned Act.

According to the definition provided by the aforementioned order, the securities tokens refer to those that utilize cryptography and decentralized ledger technology or other similar technology to reveal their value digitally stored, exchanged or transferred, and that have liquidity and the

following investment nature:

1. The capital providers make the contribution of funding.
2. Funding is to a common enterprise or project.
3. The capital providers expect to make a profit.
4. The profit depends on the efforts of the issuer or third party/third parties.

### **Transactions at e-banks for corporate accounts are allowed to be authorized using one-time passwords generated by mobile APP**

To encourage banks to provide customers with more convenient financial services by using fintech, the Bankers Association of the Republic of China submitted the amendment to the “Regulations Governing the Standards of Security Management of Financial Institutions Providing Electronic Banking Service” which was recognized by the FSC on February 18, 2019. This amendment aims to double confirm that high-risk transactions such as transfers are certainly authorized by enterprise customers by allowing adoption of one-time passwords generated by mobile APP with enhanced protection when banks conduct e-banking business for their corporate accounts. Banks' adoption of the stated mechanism for identity verification shall comply with the “Regulations Governing the Mobile Applications Provided by Financial Institutions.”

### **Promulgation of the Direction Governing 7 Types of Entrusted Collection of Payment by Credit Cards at Convenience Stores**

In order to enhance the convenience of credit card payment as well as control money laundering risk, the FSC promulgated the aforementioned Direction on June 25, 2019. Convenience stores and supermarket enterprises are allowed to accept the following credit card payments:

1. Six types of collections: tuition and fees of public or private schools, gas bills, cable TV bills, phone bills, building maintenance fees, and brokerage fees of foreign workers.
2. Payments on delivery for online shopping: payments are limited to the type of entrusted collectors' directly selling products to the buyers and with each collected amount no more than NT\$5000 for sake of anti-money laundering and risk management.

### **Announcement of the order for securities and futures industries to allocate a budget to protect employees' rights and expand the use of appropriated retained earnings in response to the development of financial technology**

In order to align with the development of financial technology, and protect the rights of employees of securities firms, securities investment trust enterprises (SITES) and futures enterprises, the FSC announced the order on July 10, 2019 that requires securities firms, SITES and futures enterprises to allocate a certain amount of annual budget to support employee transformation and training to protect their rights.

Furthermore, the FSC required the securities firms, SITES and futures enterprises to expand the use of the special surplus reserve set aside from fiscal years 2016 to 2018 in response to the development of financial technology. The applicable scopes of the special surplus reserve include the expense of employees' transfer, pension and severance payment that exceed the amount in accordance with labor-related regulations, and the training expenditure that can enhance or cultivate employees' professional competences to meet the requirements of the development of financial technology or securities and futures businesses.

### **Amendments to the Regulations Governing Futures Trust Funds**

The FSC announced the order on July 1, 2019 that stipulated that additional raising cases of futures trust funds shall take effect by declaration, and set an effective

deadline of declaration, documents to be attached, review process, regulations of additions and corrections for futures trust businesses, and other matters for compliance. Furthermore, the amendments added circumstances for the competent authority to terminate additional futures trust fund-raising taking effect through declaration, regulations of the futures trust funds' application to terminate the declaration, principles to cope with major changes of futures trust funds' financial business or alterations in document contents, and causes for the competent authority to reject the additional raising declaration cases and to revoke or rescind them.

### **Promulgation of the interpretation order of Subparagraph 6, Paragraph 1, Article 146-1 of the Insurance Act**

The FSC announced the aforementioned interpretation order on June 21, 2019 that specified that the exchange traded notes (referred to as ETNs) issued by securities firms in Taiwan in accordance with the "Regulations Governing the Issuance of Exchange Traded Notes by Securities Firms" are classified as "other insurance-related businesses as recognized by the competent authority" in Subparagraph 6, Paragraph 1, Article 146-1 of the Insurance Act.

### **Promulgation of the interpretation order of Paragraph 2, Article 145-1 of the Insurance Act**

In order to make the financial structure of domestic life insurance companies sound and robust, and respond to the potential impacts when aligning with IFRS 17 "Insurance Contracts", the FSC announced the aforementioned interpretation order on June 25, 2019. This interpretation order stipulated that life insurance businesses shall, with regard to derecognition of the income of unmatured debt instruments, set allowance (reversal) for special reserve based on the amount after 20% nominal tax rate starting from January 1, 2019. Except for the debts with uncertain maturity that can be recognized for amortization in 10 years, other derecognized instruments shall be amortized by year based on their maturity and released as distributable surplus earnings.

### **Amendments to the related reports and filled-in manuals for calculating total adjusted capital and risk based capital of insurers for the first half of 2019**

The FSC published the Scope and Formula for Calculating Total Adjusted Capital and Risk Based Capital of Insurance Companies for the first half of 2019 on June 28, 2019. The adjusted items include: (1) incorporating counter-cyclical measures into insurance companies' calculation of risk based capital for stocks; (2) amending the requirements for recognition of the issuance of corporate bonds as capital instruments or preferred stocks as debt by insurance companies as own capital, excluding "a step-up interest rate or other incentive to redeem the instrument"; (3) aligning with IFRS 16 "Lease Accounting" implemented on January 1, 2019 to adjust the relevant reports and filled-in manuals for calculating total adjusted capital.

## **International Activities**

### **FSC signed a FinTech cooperation agreement with its French counterpart**

FSC Chairman Wellington L. Koo signed a FinTech cooperation agreement with the Autorité de Contrôle Prudentiel et de Résolution (ACPR) in Paris, France on July 9, 2019. The agreement with the ACPR is the third FinTech cooperation agreement the FSC has completed since 2018 and will promote bilateral supervisory cooperation in the area of FinTech, create more opportunities for FinTech businesses in Taiwan and France, and promote the development of the international market for financial innovation on both sides.

### **The delegation of the U.S. Treasury visited the FSC on July 18, 2019**

Mr. Mitchell A. Silk, Acting Assistant Secretary of the U.S. Treasury, was warmly received by FSC Chairman Wellington L. Koo on July 18, 2019. The two sides broadly exchanged views on economic and financial issues of mutual interests.

### **U.S. Delegation from California State Assembly visited the FSC on July 31, 2019**

U.S. Delegation from California State Assembly was warmly received by FSC Chairman Wellington L. Koo on July 31, 2019. The two sides broadly exchanged views on economic and financial issues of mutual interests.

## **Industry Updates**

### **List of approved financial institutions applying for new domestic branches in 2019**

The FSC received applications for setting up new branches from Hualien 2nd Credit Cooperative and the Credit Cooperative of Lu Kang in 2019. Taking into account the overall economic and financial development situation, balanced urban-rural development, and the financial and business situation of the two applying credit cooperatives, the FSC approved the addition of one branch by each of the applicants within their area of business operation.

### **NPL ratio for domestic banks at 0.23% at the end of June 2019**

The FSC has announced that total outstanding loans extended by the current 36 domestic banks decreased by NT\$14.7 billion (US\$0.47 billion) as compared to the figure of previous month and amounted to NT\$29.18 trillion (US\$939.11 billion) at the end of June 2019. Meanwhile, the NPLs of these banks totaled at NT\$67.9 billion (US\$2.19 billion) which decreased by NT\$2.3 billion (US\$74.02 million) from NT\$70.2 billion (US\$2.26 billion) as of the end of the previous month. With a slight decrease of 0.01 percentage point, the average NPL ratio of the 36 banks fell to 0.23% down from 0.24% at the end of the previous month, and was down by 0.05 percentage points compared to the same month last year.

The coverage ratios of allowances for NPLs increased by 22.33 percentage points and therefore rose to a figure of 595.87% from 573.54% of the previous month.

### **NPL situation of credit cooperatives at the end of June 2019**

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.61 billion at the end of June 2019, generating an NPL ratio of 0.13%, down by 0.01 percentage points from 0.14% at the end of May 2019. The NPL coverage ratio was 1,591.46%, up by 127.15 percentage points from 1,464.31% at the end of May 2019.

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

As of the end of June 2019, foreign investors had bought around NT\$3,737.8 billion and sold around NT\$3,685.4 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-buy of around NT\$52.4 billion. In addition, foreign investors had bought around NT\$445.6 billion and sold around NT\$433.6 billion worth of shares listed on Taipei Exchange, amounting to a net-buy of around NT\$12 billion. Meanwhile, Mainland China investors had bought around NT\$10,473 million and sold around NT\$10,538 million worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of NT\$65 million; Mainland China investors had bought around NT\$1,506 million and sold around NT\$1,444 million worth of shares listed on the Taipei Exchange, amounting to a net-buy of around NT\$62 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 June 2019 stood at approximately US\$209.2 billion, up by around US\$1.8 billion from US\$207.4 billion at the end of May 2019. The figure for cumulative net inward remittances by Mainland China investors was US\$185 million, down by around US\$4 million from US\$189 million at the end of May 2019.

### **Sales situation of foreign-currency denominated products by life insurance industry as of the end of April 2019**

The sales situation of foreign-currency denominated products by life insurance industry as of the end of April 2019 (accumulated) was as follows: the premium revenue from new foreign-currency denominated policies was equivalent to around NT\$202.768 billion, down by 16% from NT\$242.463 billion compared with the same period last year. Among them, investment-linked insurance products accounted for NT\$62.978 billion (around 31% of the total), down by 37% from NT\$99.832 billion compared with the same period last year, and the sales of traditional insurance products accounted for NT\$139.79 billion (around 69% of the total), down by 2% from NT\$142.631 billion compared with the same period last year.

### **Profit/loss, net value and exchange gains/losses of the insurance industry in May 2019**

Pre-tax profit of insurance enterprises at the end of May 2019 was NT\$84.3 billion; pre-tax profit of life insurance enterprises was NT\$77.3 billion, an increase of NT\$32.6 billion, or 72.9%, compared with the same period in 2018; pre-tax profit of non-life insurance enterprises was NT\$7 billion, down by NT\$700 million or 9.1% compared with the same period in 2018.

Owners' equity of insurance enterprises at the end of May 2019 was NT\$1.6949 trillion; owners' equity of life insurance enterprises was NT\$1.5687 trillion, an increase of NT\$218.7 billion, or 16.2%, compared with the same period in 2018; owners' equity of non-life insurance enterprises was NT\$126.2 billion, an increase of NT\$8.5 billion or 7.2% compared with the same period in 2018.

Up to the end of May 2019, the depreciation of NT\$/US\$ exchange rate was 2.86%, and the net effects of exchange gains/losses of life insurance enterprises was about negative NT\$82.9 billion. The balance of foreign exchange valuation reserve of life insurance enterprises was NT\$102 billion, increasing NT\$32.1 billion from the previous month.

## **Investor and Consumer Protection**

### **FSC revealed the evaluation results of Treating Customers Fairly Principle**

In order to find out if financial institutions have implemented the "Treating Customers Fairly Principle", the FSC carried out written evaluation of 36 banks, 31 integrated securities firms, 22 life insurance companies and 19 non-life insurance companies in 2019 to review the 2018 implementation situation. It is the first year the evaluation has been conducted. It is mainly intended to encourage financial institutions and the evaluation results were revealed only the names of the top 20% of financial institutions, ranked in order of Chinese character stroke number, including 7 banks, 6 securities firms, 4 life insurance companies, and 4 non-life insurance companies.

1. Banks: The Shanghai Commercial & Savings Bank Ltd., CTBC Bank, Bank SinoPac, Cathay United Bank, Land Bank of Taiwan, Taiwan Business Bank and HSBC Bank (Taiwan) Limited.
2. Securities firms: CTBC Securities, E.Sun Securities, Taiwan Cooperative Securities, Mega Securities, Fubon Securities and KGI Securities.
3. Insurance companies: (1) life insurance companies: China Life, Transglobe Life, Taiwan Branch of Chubb Tempest Life Reinsurance Ltd., and Cathay Life; (2) non-life insurance companies: MSIG Mingtai Insurance, Taian Insurance, Fubon

Insurance and Tokio Marine Nawa Insurance.

### **FSC reminds people to carefully select insurance products that meet their own insurance needs before buying insurance products from a bank**

The FSC reminds consumers of the following things when buying insurance products from a bank:

1. Given that the insured has to bear profits and losses and there is no guaranteed profit or principle protection function, before buying investment-linked insurance products, consumers must carefully read the content of product fees and investment risks, and retain the product brochures and related solicitation documents, and should carefully assess their own risk-bearing capability and avoid buying policies through loan financing.
2. When buying foreign currency denominated policies, as the collection and payment of premium, insurance benefit, policy loan, and fees are all denominated in foreign currency, consumers should be aware of exchange rate risk.
3. When buying insurance, the policyholder must provide the address for payment collection which he/she can promptly receive the mail to ensure that the insured can receive important notifications relating to insurance contract rights and interests sent by the insurance company.
4. Consumers can obtain information about the types and purchase channels of insurance products from the webpages of insurance companies, the Non-life Insurance Association of the R.O.C., Life Insurance Association of the R.O.C. and the Taiwan Insurance Institute to plan their suitable insurance policies after realizing the content of insurance products each insurer provides.

### **2019 School and Community Financial Literacy Campaign**

As part of 2019 School and Community Financial Literacy Campaign, in July 2019 the FSC held 48 financial literacy promotion sessions at schools and organizations, including Miaoli District Prosecutors Office in Miaoli County, with a total of 4,768 participants attending. The sessions are free and have struck a chord with many people since their inception in 2006. As of the end of June 2019, in all 6,068 sessions have been held and over 980,000 people have attended. The target participants include students at all levels of schools, communities, women's groups, indigenous people, immigrants and military service personnel.

The Banking Bureau of the FSC will continue the financial literacy campaign in 2019. Schools or community groups interested in the campaign are invited to register on the website of the Banking Bureau; for more information, please call (02)8968-9709.

## **Major Enforcement Actions**

### **Farglory Life Insurance Inc. was fined**

When handling real estate investments, Farglory Life Insurance Inc. did not act in accordance with the sales plan it had reported, and was in violation of the requirements that real estate investment by an insurance enterprise shall be limited to real estate that can be used immediately and from which benefit may be derived in Paragraph 1, Article 146-2 of the Insurance Act. The FSC imposed a fine of NT\$1 million on the insurer in accordance with Subparagraph 3, Paragraph 5, Article 168 of the Insurance Act. The FSC also issued a reprimand in accordance with Paragraph 1, Article 149 of the same act and ordered the company to dispose of or lease out the real estate involved in the case within one year to meet the aforementioned requirements.