

# 金融展望月刊

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- Granting of Internet-only Bank Approval
- Promulgation of the “Regulations Governing the Financial Investment, Management, and Utilization of Repatriated Overseas Funds”
- Promotion of odd-lot intraday trading by securities market for the convenience of young people and people with limited funds to invest in the Taiwan stock market

### Policy and Law

#### *Granting of Internet-only Bank Approval*

After the policy announcement for internet-only bank establishment last April, the FSC received applications from 3 consortiums in February 2019. Following the completion of the review process by the review panel, the FSC announced on July 30, 2019, that all 3 applicants had been approved to set up internet-only banks. The FSC expects that these 3 banks will drive market innovation and development, exert the catfish effect through new business models and technologies, and hence enhance financial inclusion. Also, the FSC requires that these internet-only banks must build solid risk management and data protection system in place while they develop technology innovation.

#### *Promulgation of the “Regulations Governing the Financial Investment, Management, and Utilization of Repatriated Overseas Funds”*

The Management, Utilization and Taxation of Repatriated Offshore Funds Act (the Act) were promulgated on July 24, 2019. The FSC introduced the Regulations Governing the Financial Investment, Management, and Utilization of Repatriated Overseas Funds (the Regulations), which came into effect on August 15, 2019, according to the authorization specified in Paragraph 6 of Article 6 of the Act. For overseas funds remitted by an individual or a profit-seeking enterprise to a foreign exchange deposit account, the account holder may withdraw up to 25% of the after-tax fund and deposit it in a trust account or discretionary account for investment in financial instrument(s). The key points of the Regulations about the fund management and utilization are as follows:

1. Financial instruments that such funds can invest in and the limitations on such investments: these financial instruments include domestic securities, including government bonds, publicly offered corporate bonds, financial debentures, international bonds, stocks of OTC-listed and exchange-listed companies, emerging stocks, securities investment trust funds (including ETFs), futures ETFs and ETNs. Such investments can also be used in trading of listed warrants, futures or options for hedging purpose. Up to 3% of the after-tax fund remitted by an individual may be used to purchase domestic protection-type and elderly benefits insurance products.

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Financial Supervisory Commission, Republic of China (Taiwan)



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2. The limitations on utilization of such funds in domestic securities and insurance products:

- (1) The fund is subject to limits on its domestic securities investment to avoid portfolio concentration. The investment in stock and bonds of one company shall not exceed 20% and the shares held by such stock investment shall not exceed 10% of the invested company.
  - (2) The fund shall not be used for margin trading, securities lending and borrowing and investments in leveraged ETFs or ETNs, inverse ETFs or ETNs.
  - (3) The fund shall not be pledged as a collateral for borrowing or guarantee. Domestic insurance products purchased with such fund shall not be used for the application of policy loans.
3. Fund retrieval with installment plan after a specific period: 1/3 of the fund for investments in financial instruments may be retrieved in the fifth, sixth and seventh year respectively after the expiration of the term from the date of remittance to the foreign exchange deposit account. According to the second part of Paragraph 2 of Article 6 of the Act, retrieval of the fund that is placed in the aforementioned foreign exchange deposit account and not used in real investment and in financial instrument(s) shall be retrieved according to the aforementioned regulations.

### **Promotion of odd-lot intraday trading by securities market for the convenience of young people and people with limited funds to invest in the Taiwan stock market**

To encourage young people and people with limited funds to invest in Taiwan stock market, and energize odd-lot trading market, the FSC entrusted Taiwan Stock Exchange to draft a program of odd-lot intraday trading which is estimated to be implemented in the second half of 2020. Securities firms may decide at will if they would like to be engaged in the odd-lot intraday trading proposed by Taiwan Stock Exchange, while the current after-hours odd-lot trading remains the same.

### **Domestic futures commission merchants (FCMs) are allowed to conduct foreign futures commission services through indirect engagements with foreign FCMs**

In order to increase business efficiency in foreign futures re-brokerage services, the FSC announced the order on August 19, 2019 which stipulates that the domestic futures commission merchant (FCM) is allowed to conduct trades on a foreign futures exchange through direct business engagement with the foreign futures merchant's worldwide group affiliates. The group affiliates include the holding company by which it is controlled (where such holding company holds more than 50 percent of the merchant's shares), a subsidiary in which the merchant holds more than 50 percent of the shares, or another subsidiary of the same holding company by which the merchant is controlled (where such more than 50 percent of the shares in such other subsidiary are held by the merchant's holding company), provided that the said controlled company and subsidiaries are clearing members of the relevant foreign futures exchange.

### **Announcement of the order for insurance industry to allocate a budget to protect employees' rights and expand the use of appropriated retained earnings in response to the development of FinTech**

In response to the development of FinTech, and to protect the rights of insurance personnel, the FSC announced the order on July 30, 2019 that requires insurance enterprises to allocate a certain amount of annual budget to support employee transformation and training to protect their rights.

Furthermore, the FSC required the insurance enterprises to expand the use of the special surplus reserve set aside from fiscal years 2016 to 2018 in response to the development of FinTech. 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 training expenditure that can enhance or cultivate employees' professional competences to meet the requirements of the development of FinTech or insurance businesses.

### **Promulgation of the "Directions for Insurance Entities, Insurance Agents or Insurance Brokers to Jointly Promote Associated Insurance Products with Other Business Entities"**

The FSC stipulated the aforementioned Directions on July 31, 2019. Insurance entities, insurance brokers, and insurance agents are allowed to "jointly promote tourism-related insurance products through online platforms or mobile APPs that sell travel-related products" and "jointly promote mobile devices-related insurance products through the manufacturers' official websites, direct sales store or franchise store" in order to meet people's needs and expand business scale for the insurance industry.

### **Amendments to the "Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises"**

To strengthen the governance of insurance enterprises, increase the support for directors, and enhance the efficacy of board of directors, the FSC announced the amendments to Article 36-2 of the aforementioned Regulations on August 5, 2019. According to the amendments, insurance enterprises are required to assign appropriate number of qualified corporate governance officers, subject to the scale of the companies, business development, and management requirements. Furthermore, a chief officer of corporate governance shall be the highest position for corporate governance-related matters.

## **International Activities**

### **Deputy Assistant Secretary of the U.S. Treasury visited FSC on August 6, 2019**

Mr. Robert Kaproth, Deputy Assistant Secretary of the U.S. Treasury, was warmly received by FSC Vice Chairman Tien-Mu Huang on August 6, 2019. The two sides broadly exchanged views on economic and financial issues of mutual interest.

## **Industry Updates**

### **Investments in FinTech development by financial industry are expected to grow over 80% in 2019**

Since 2018, the FSC has engaged the Taiwan Financial Services Roundtable for the survey of the investments in Fintech development by domestic financial industry in the preceding year. The results of 2019 survey are as follows:

1. FinTech investments by financial industry: total

investments by financial industry was NT\$11.73 billion in 2018, which banking sector invested NT\$7.93 billion, securities and futures sectors invested NT\$0.82 billion, insurance sector invested NT\$2.71 billion and associated organizations invested NT\$0.27 billion. According to the forecast, FinTech investments by financial industry in 2019 will reach NT\$21.93 billion, which banking sector will invest NT\$14.3 billion, securities and futures sectors will invest NT\$1.11 billion, insurance sector will invest NT\$6.15 billion and associated organizations will invest NT\$0.36 billion.

2. The percentage of employees responsible for FinTech-related businesses: in 2018, the number of employees responsible for FinTech-related activities in financial industry accounted for 2.44% of total number of employees, up 0.13% compared with 2017.
3. Cooperation between financial institutions and FinTech enterprises: 107 financial institutions collaborated with FinTech enterprises over FinTech projects in 2018, including 27 banks, 49 securities firms and futures commission merchants, 25 insurance companies and 6 associated organizations. The most of business cooperation types was Big data, followed by information security, AML/KYC, artificial intelligence, cloud services, payment, robo-advisor, others, blockchain, biometrics, RegTech, insurance technology, loans and IoT in order.
4. FinTech patents: 590 applications were submitted in 2018 and 501 of them have been approved. The average approved patents by one FinTech enterprise are 1.68, up from 1.12 in 2017.

#### ***NPL ratio for domestic banks at 0.24% at the end of July 2019***

The total outstanding loans extended by the current 36 domestic banks at the end of July 2019 increased by NT\$150.2 billion (US\$4.83 billion) as compared to the figure of the previous month and amounted to NT\$29.33 trillion (US\$943.21 billion). Meanwhile, the NPLs of these banks totaled at NT\$69.8 billion (US\$2.24 billion) which increased by NT\$1.9 billion (US\$61.10 million) from the end of the previous month. The average NPL ratio of the 36 banks increased by 0.01 percentage points from the end of the previous month to 0.24%, but was down by 0.03 percentage points compared to the same month last year. The coverage ratio of allowances for NPLs stood at 582.44% at the end of July 2019. While it decreased by 13.43 percentage points from 595.87% of the previous month, the ratio still remained stable at a higher level.

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

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.62 billion as of the end of July 2019, generating an NPL ratio of 0.13%, the same as the ratio at the end of June 2019. The NPL coverage ratio was 1,582.07%, down by 9.39 percentage points from 1,591.46% at the end of June 2019.

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

As of the end of July 2019, foreign investors had bought around NT\$4,389.5 billion and sold around NT\$4,349.9 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-buy of around NT\$39.6 billion. In addition, foreign investors had bought around NT\$531.5 billion and sold around NT\$513.5 billion worth of shares listed on Taipei Exchange, amounting to a net-buy of around NT\$18 billion. Meanwhile, Mainland China investors had bought around NT\$12,377 million and sold

around NT\$12,401 million worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of NT\$24 million; Mainland China investors had bought around NT\$1,669 million and sold around NT\$1,558 million worth of shares listed on the Taipei Exchange, amounting to a net-buy of around NT\$111 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 2019 stood at approximately US\$205.8 billion, down by around US\$3.4 billion from US\$209.2 billion at the end of June 2019. The figure for cumulative net inward remittances by Mainland China investors was US\$187 million, up by around US\$3 million from US\$184 million at the end of June 2019.

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

The sales situation of foreign-currency denominated products by life insurance industry as of the end of May 2019 (accumulated) was as follows: the premium revenue from new foreign-currency denominated policies was equivalent to around NT\$247.591 billion, down by 17% from NT\$297.956 billion compared with the same period last year. Among them, investment-linked insurance products accounted for NT\$73.552 billion (around 30% of the total), down by 39% from NT\$120.548 billion compared with the same period last year, and the sales of traditional insurance products totaled NT\$174.039 billion (around 70% of the total), down by 2% from the NT\$177.408 billion compared with the same period last year.

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

Pre-tax profit of insurance enterprises at the end of June 2019 was NT\$101 billion; pre-tax profit of life insurance enterprises was NT\$92.7 billion, an increase of NT\$27.9 billion, or 43.1%, compared with the same period in 2018; pre-tax profit of non-life insurance enterprises was NT\$ 8.3 billion, down by NT\$1 billion or 10.1% compared with the same period in 2018.

Owners' equity of insurance enterprises at the end of June 2019 was NT\$1.8541 trillion; owners' equity of life insurance enterprises was NT\$1.7272 trillion, an increase of NT\$355.7 billion, or 25.9%, compared with the same period in 2018; owners' equity of non-life insurance enterprises was NT\$126.9 billion, an increase of NT\$9.8 billion or 8.4% compared with the same period in 2018.

Up to the end of June 2019, depreciation of the NT\$/US\$ exchange rate was 1.10%, and the balance of foreign exchange valuation reserve of life insurance enterprises was NT\$83.7 billion, decreasing NT\$18.3 billion from last month. Pre-tax profit of life insurance enterprises at the end of June 2019 including the exchange gains/losses, hedging gains/losses, and the net effects of foreign exchange valuation reserve was NT\$92.7 billion.

#### ***Sales situation of spillover-effect products and in-kind payment insurance products by life insurance companies as of the second quarter of 2019***

As of the second quarter of 2019, the sales situation of spillover-effect products and in-kind payment insurance products by life insurance companies was as follows:

1. The FSC has approved and filed for reference 21 spillover-effect insurance products of 8 life insurance companies. As of the second quarter of 2019, 13,302 new policies have been sold, up by 548% from 2,051

compared to the second quarter of 2018. The first-year premium revenue was NT\$148.55 million, up by 1339% from NT\$10.32 million compared to the second quarter of 2018.

2. The FSC has approved and filed for reference 11 in-kind payment insurance products of 6 life insurance companies. As of the second quarter of 2019, 80,171 new policies have been sold, up by 6% from 75,984 compared to the second quarter of 2018. The first-year premium revenue was NT\$17.16 million, down by 22% from NT\$22 million compared to the second quarter of 2018.

## Investor and Consumer Protection

### *FSC held the Awarding Ceremony and Conference on "Evaluation of Handling of Property Trusts for Seniors and People with Disabilities by Trust Enterprises"*

The FSC held the Awarding Ceremony and Conference on "Evaluation of Handling of Property Trusts for Seniors and People with Disabilities by Trust Enterprises" at the Lecture Hall of the Taiwan Academy of Banking and Finance on July 18, 2019. Tseng-Chang Su, Premier of the Executive Yuan, was invited to give his opening remarks and act as a presenter. More than 200 people attended, including government agencies, social welfare organizations, and financial institutions.

"The Evaluation and Incentives of Handling of Property Trusts for Seniors and People with Disabilities by Trust Enterprises" is a five-year project launched in 2016. Banks with outstanding performance will be selected and rewarded every year. This year witnessed the third evaluation and awarding ceremony where ten banks were awarded, including Taiwan Cooperative Bank, Taiwan Business Bank, Hua Nan Bank, First Bank, Bank of Taiwan, Lank Bank of Taiwan, Taipei Fubon Bank, E. Sun Bank, Mega Bank, and Chang Hwa Bank.

At the end of March 2019, the number of beneficiaries and the principal amount of elderly care trusts had accumulated to 17,136 people and NT\$ 18 billion respectively, with an increase of 16,273 people, and NT\$ 13.8 billion compared to the end of 2015, showing excellent results.

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

As part of 2019 School and Community Financial Literacy Campaign, in August 2019 the FSC held 29 financial literacy promotion sessions at schools and organizations, including Hsinchu County Service Station of the Central Taiwan Administration Corps, National Immigration Agency, Ministry of the Interior, with a total of 1,958 participants. The sessions are free and have struck a chord with many people since their inception in 2006. As of the end of August 2019, in all 6,145 sessions have been held and over 990,000 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

### *7 banks subject to administrative sanction for deficiencies involving staff's misappropriation of customer funds and abnormal exchange of funds with customers*

7 banks, including Hua Nan Commercial Bank, Union Bank of Taiwan, Taishin International Bank, HSBC Bank (Taiwan) Limited, Taiwan Shin Kong Commercial Bank Co. Ltd., CTBC Bank and Cathay United Bank were found to have deficiencies involving staff's misappropriation of customer funds and abnormal exchange of funds with customers in violation of Paragraph 1 of Article 45-1 of the Banking Act and giving rise to the concern of their sound operation. After taking into account whether the banks' internal control system repeatedly failed, the length of the period of illegal conduct, employees' financial gains from fraudulent activities and the impact, the FSC imposed fines of NT\$2-10 million on the aforementioned 7 banks in accordance with Subparagraph 7 of Article 129 of the Banking Act, issued reprimands in accordance with Paragraph 1 of Article 61-1 of the same act, and ordered the banks to remove the offending employees from their positions. Moreover, two of the branches involved were barred from conducting trust business for 1 to 3 months.

#### *Taipei Fubon Commercial Bank Co., Ltd. was fined*

In a targeted examination, the FSC found that when handling anti-money laundering, counter financing of terrorism and counter proliferation matters, Taipei Fubon Commercial Bank was in violation of Article 7 of the Money Laundering Control Act and Paragraph 1 of Article 45-1 of the Banking Act and gave rise to the concern about its sound operation. The FSC thus imposed a fine of NT\$6 million and issued a reprimand on the bank in accordance with Subparagraph 7 of Article 129 and Paragraph 1 of Article 61-1 of the Banking Act at the time the conduct occurred.

#### *First Commercial Bank was fined*

In a targeted examination, the FSC found that when handling anti-money laundering, counter financing of terrorism and counter proliferation matters First Commercial Bank had deficiencies in violation of Articles 7 and 9 of the Money Laundering Control Act and Paragraph 1 of Article 45-1 of the Banking Act and giving rise to the concern of its sound operation. The FSC issued a fine of NT\$2 million on the bank in accordance with Subparagraph 7 of Article 129 and Paragraph 1 of Article 61-1 of the Banking Act at the time the conduct occurred.

#### *Hontai Life Insurance Co., Ltd. was fined*

Hontai Life Insurance Co., Ltd. was deemed to have violated Paragraph 1 of Article 146-2 of the Insurance Act when investing in real estate in New Taipei City. The FSC issued a fine of NT\$1 million on the company in accordance with Subparagraph 3 of Paragraph 5 of Article 168 of the same act, and issued a reprimand and ordered the company to sell the real estate involved in the case within one year from receipt of the fine notification in accordance with Paragraph 1 of Article 149 of the same act. And in accordance with Subparagraph 1 of Paragraph 1 of Article 149 of the same act, Hontai Life was also prohibited from increasing its real estate investment (except for construction projects that are underway and that have already received a building permission) from receipt of the fine notification until the real estate investment situation of the company has been improved by the FSC.