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Advisor Chang Chuang-Chang
Huang Tien-Mu
Kai-Yuan Chen

Executive Editor

Department of Planning

Publishers & Editorial Office

Financial Supervisory
Commission

Add 18F, No.7, Sec. 2, Xianmin
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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Anti-Corruption Hotline 0800-088-789

- The FSC introduced the guidelines on enhancement of internal control measures related to credit and deposit activities of banks concurrently operating insurance brokerage and agency businesses
- The FSC granted approval for the extension of residential fire insurance coverage
- Amendments to the “Directions for Insurance Enterprises Engaging in Online Insurance Business”
- Amendments to the “Regulations Governing Insurance Agents” and the “Regulations Governing Insurance Brokers”

Policy and Law

The FSC introduced the guidelines on enhancement of internal control measures related to credit and deposit activities of banks concurrently operating insurance brokerage and agency businesses

In order to protect consumer rights and interests, the FSC introduced the aforementioned guidelines on October 5, 2019 to lay down the requirements on internal control measures and auditing mechanism related to insurance products sold by a bank to its customers through the loan or cancellation of their time deposit arrangements, especially insurance products with considerable saving element and investment-linked products. The key points of the guidelines are as follows:

1. The banks shall implement “Know Your Customer” process to make sure that they understand the risk bearing capability of their customers and enhance the “Know Your Product” process for providing appropriate products to their customers based on the assessment of product features.
2. The commission plan shall align with the “Principle of balanced remuneration structures” of the Treating Customers Fairly Principles. If the financial advisors do not abide by the Treating Customers Fairly Principles, the banks shall recover the bonuses that have been granted to them and introduce appropriate punishment policy.
3. The guidelines for enhancement of internal control measures for the aforementioned two types of insurance products purchased by customers who pay the premiums with loan extended by the credit department of banks:
 - (1) Control measures before loan extension: the banks shall confirm whether their customers purchase the aforementioned two types of insurance products based on their own will. In addition, the banks are required to obtain customers’ declaration for such consent and preserve related referral records.

Notification of E-journal of Financial Outlook Monthly

Thank you for reading the Financial Outlook Monthly. We will stop printing and sending the paper-form journal since January 2021 (No.194), and still provide E-journals on our website. If you would like to receive E-journal every month, please send your E-mail address to yhhsu@fsc.gov.tw. You may also download E-journal files from our website through the QR code as the following or the URL (<https://www.fsc.gov.tw/en/home.jsp?id=55&parentpath=0,4>). Many thanks,
Financial Supervisory Commission, Republic of China (Taiwan)



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- (2) Management practices after loan extension: the banks shall establish a system audit mechanism, which shall use the client's ID to check the information regarding a customer's loan(s) extended by the banks' credit department and insurance policies he/she has purchased from the bank's insurance brokerage or insurance agency department. The banks shall introduce a punishment scheme for the staffs who do not correctly record the information of loan purpose and income of their customers.
4. The bank shall review the appropriateness of its branch's authority to waive the penalty of interest forfeiture for early-termination of time deposits denominated in NTD and foreign currencies and impose proper restrictions to such authority.
5. The banks shall not use their customer's deposit information to solicit businesses in a misleading or inappropriate way. The defects in different categories discovered by examination of the FSC shall be incorporated into the key issues of the bank's self-checking and general audit activities of its internal audit operation.

The banks shall introduce all of the enhancement measures in the guidelines by the end of January 2020, except the aforementioned system audit mechanism, which shall be established by the end of June 2020.

The FSC granted approval for the extension of residential fire insurance coverage

In order to provide more sufficient coverage to the public to protect residential safety and to reduce the economic impacts on families affected by related residential risks, the FSC approved the extension of residential fire insurance coverage proposed by the Non-Life Insurance Association of the Republic of China. Starting from January 1, 2020, the maximum benefit cap on damage of buildings, personal property, loss of theft incident, residential third party liability coverage will be raised with premium unchanged. In addition, the extended coverage will include additional expense caused by fire and damage of residence caused by typhoon and flood.

Amendments to the "Directions for Insurance Enterprises Engaging in Online Insurance Business"

In order to encourage insurance companies to promote FinTech and meet practical needs of their e-commerce activities, the FSC published the amendments to the aforementioned Directions on October 30, 2019. According to the amendments, the text of "insurance services approved by the competent authority" is added to the Paragraph 4 of Article 4 of the Directions, which defines the scope of online insurance services, to increase flexibility of the provision. Moreover, the text of "method(s) approved by the competent authority" is added to the Paragraph 1 of Article 8 and Paragraph 1 of Article 9 of the Directions, which specify identity verification methods, to make the provision flexible.

Amendments to the "Regulations Governing Insurance Agents" and the "Regulations Governing Insurance Brokers"

The FSC amended the aforementioned 2 Regulations on November 18, 2019. Key points of the amendments include (1) simplifying the documentation requirement for signature procedures of insurance brokers and insurance agents; (2) introducing the requirements for banks to create a mechanism for ensuring consistency of the sources of customer's premium payment and their transaction records with the bank and to contact their customers by non-sales personnel by telephone (for verification of aforementioned consistency) to enhance the protection of consumers interests and rights; (3) prohibiting banks from authorizing their personnel in their credit, deposit and remittance departments to sell investment-linked insurance products and insurance products with surrender benefits (not including the injury insurance which has insurance period of less than 3 years and the mortgage life insurance with surrender value) and charge commission for such sale activities; (4) allowing insurance broker companies to apply for operation of reinsurance broker business alone or apply for concurrent operation of both broker business and reinsurance broker business to meet their practical needs; (5) introducing the requirements that insurance broker companies are required to preserve all reinsurance contracts and documents for their delivery to the original insurer within 60 days, and incorporating the current self-regulations for insurance broker companies operating reinsurance brokerage business into the related regulatory framework in order to enhance the management of reinsurance broker business.

Amendments to Article 3 and 4 of the "Regulations Governing the Establishment and Compliance Matters of Offshore Banking Branches" and Article 11 of the "Offshore Banking Act Enforcement Rules"

The FSC amended Article 3 and 4 of the aforementioned Regulations along with the Central Bank of the Republic of China (Taiwan) on November 11, 2019 in order to align with the amendments to the Company Act that removed the provisions governing the criteria for recognition of foreign companies in Taiwan, which were introduced on November 1, 2018. According to the amendments, the text "the agents designated for litigious and non-litigious matters in the R.O.C." in Articles 3 and 4 of the Regulations is replaced by "responsible person designated as the representative in the R.O.C." and the text "(shall) apply for recognition according to the Company Act" is removed. Meanwhile, the FSC has also introduced the amendment to Article 11 of the aforementioned Enforcement Rules for removal of the text about the requirement for recognition of the R.O.C. government.

International Activities

Madam Viviane Reding, Member of the Luxembourg Parliament, was warmly received by FSC on October 25, 2019

Madam Viviane Reding, Member of the Luxembourg Parliament, was warmly received by the FSC Vice Chairman

Huang on October 25, 2019. The two sides exchanged a wide range of opinions on topics including enhancing Taiwan-Luxembourg financial cooperation.

Industry Updates

FSC agreed Taishin International Bank to apply to set up a Labuan branch in Malaysia

On October 17, 2019, the FSC agreed Taishin International Bank to apply to the competent authority in Malaysia to set up a Labuan branch (including Kuala Lumpur marketing service office). Taishin plans the new branch to further take advantage of ASEAN business opportunities, expand its financial services network and increase overseas profits, and also to support the government's New Southbound policy. At the same time, as the Labuan branch is established, the Kuala Lumpur marketing service office will also be set up to tap potential financial business opportunities and expand international financial businesses.

The FSC stated that at present there are 3 domestic bank branches and 1 representative office in Malaysia.

NPL Ratio for Domestic Banks as of the End of October 2019

The total outstanding loans extended by the current 36 domestic banks at the end of October 2019 increased by NT\$81.5 billion (US\$2.68 billion) as compared to the figure of previous month and amounted to NT\$29.61 trillion (US\$972.03 billion). Meanwhile, the NPLs of these banks totaled at NT\$69.7 billion (US\$2.29 billion) which decreased by NT\$1 billion (US\$32.83 million) from NT\$70.7 billion (US\$2.32 billion) as of the end of the previous month. The average NPL ratio of the 36 banks remained at 0.24% compared to previous month, but was down by 0.02 percentage points compared to the same month last year.

The average coverage ratios of allowances for NPLs increased by 12.19 percentage points and therefore rose to a figure of 589.24% from 577.05% of the previous month. The asset quality of domestic banks continuously remained manageable according to the above figures as of the end of October 2019.

NPL situation of credit cooperatives at the end of October 2019

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.53 billion as of the end of October 2019, generating an NPL ratio of 0.11%, down by 0.02 percentage points from 0.13% at the end of September 2019. The NPL coverage ratio was 1,883.59%, up by 294.91 percentage points from 1,588.68% at the end of September 2019.

Net foreign and Mainland China investment in listed shares

As of the end of October 2019, foreign investors had bought around NT\$6,569.3 billion and sold around NT\$6,435.8 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-buy of around NT\$133.5 billion. In addition, foreign investors had bought around NT\$752.7 billion and sold around NT\$732.0 billion worth of shares listed on Taipei Exchange, amounting to a net-buy of around

NT\$20.7 billion. Meanwhile, Mainland China investors had bought around NT\$16.1 billion and sold around NT\$16.7 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of NT\$600 million; Mainland China investors had bought around NT\$3.2 billion and sold around NT\$2.5 billion worth of shares listed on the Taipei Exchange, amounting to a net-buy of around NT\$700 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 2019 stood at approximately US\$206.6 billion, up by around US\$4.3 billion from US\$202.3 billion at the end of September 2019. The figure for cumulative net inward remittances by Mainland China investors was US\$188 million, down by around US\$1 million from US\$189 million at the end of September 2019.

Sales situation of foreign-currency denominated products by life insurance industry as of August 2019

The sales statistics of foreign-currency denominated products by life insurance industry as of the end of August 2019 (accumulated) was as follows: the premium revenue from new foreign-currency denominated policies was equivalent to around NT\$369.03 billion, down by 19% from NT\$454.085 billion compared with the same period last year. Among them, investment-linked insurance products accounted for NT\$117.28 billion (around 32% of the total), down by 36% from NT\$183.942 billion compared with the same period last year, and the sales of traditional insurance products totaled NT\$251.75 billion (around 68% of the total), down by 7% from NT\$270.143 billion compared with the same period last year.

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

Pre-tax profit of insurance enterprises at the end of September 2019 was NT\$187.9 billion; pre-tax profit of life insurance enterprises was NT\$174.7 billion, an increase of NT\$58.5 billion, or 50.3%, compared with the same period in 2018; pre-tax profit of non-life insurance enterprises was NT\$13.2 billion, down by NT\$400 million or 2.9% compared with the same period in 2018.

Owners' equity of insurance enterprises at the end of September 2019 was NT\$1.9884 trillion; owners' equity of life insurance enterprises was NT\$1.8576 trillion, an increase of NT\$472.1 billion, or 34.1%, compared with the same period in 2018; owners' equity of non-life insurance enterprises was NT\$130.8 billion, an increase of NT\$10.6 billion or 8.8% compared with the same period in 2018.

Up to the end of September 2019, depreciation of the NT\$/US\$ exchange rate was 1.01% from the previous year, appreciation of the NT\$/US\$ exchange rate was 1.2% from last month, and the balance of foreign exchange valuation reserve of life insurance enterprises was NT\$80.4 billion, decreasing NT\$13.9 billion from last month. Pre-tax profit of life insurance enterprises at the end of September 2019 including the exchange gains/losses, hedging gains/losses,

and the net effects of foreign exchange valuation reserve was NT\$174.7 billion.

Sales performance of insurance with spillover-effect and in-kind benefits provided by life insurance companies as of the third quarter of 2019

As of the third quarter of 2019, the sales performance of insurance products with spillover effect and in-kind benefits provided by life insurance companies was as follows:

1. The FSC has approved and filed for reference 23 insurance products with a spillover effect from 8 life insurance companies. In total, 28,383 new contracts of such products have been sold as of the third quarter of 2019, up by 841% from 3,016 compared to the third quarter of 2018. The first-year premium was NT\$368.62 million, up by 1655% from NT\$21 million compared to the third quarter of 2018.
2. The FSC has approved and filed for reference 15 in-kind payment insurance products from 6 life insurance companies. In total, 122,655 new contracts of such products have been sold as of the third quarter of 2019, up by 8% from 113,758 compared to the third quarter of 2018. The first-year premium is NT\$27.79 million, down by 11% from NT\$ 31.29 million compared to the third quarter of 2018.

Investor and Consumer Protection

FSC reminds people that health insurance does not cover pre-existing conditions and that they should fill in the declaration truthfully

The FSC stated that it occasionally receives reports of disputes between insured people and insurance companies over health insurance claims relating to pre-existing conditions. For this reason, the FSC reminds consumers that the purpose of insurance is that the policyholder pays premium to prepare for the losses caused by an insurance incident in the future. Existing conditions are diseases that already occurred prior to entering into insurance contracts and not unforeseeable or force majeure events and, consequently, cannot be made up by insurance. To avoid claim disputes between consumers and insurance companies, when entering into insurance contracts, consumers should declare in detail existing conditions or current diseases in the written questions of the insurance company.

2019 School and Community Financial Literacy Campaign

As part of 2019 School and Community Financial Literacy Campaign, in November 2019 the FSC held 44 financial literacy promotion sessions at schools and organizations, including Hualien Senior High School, with a total of 5,792 participants. The sessions are free and have struck a chord with many people since their inception in 2006. As of the end of October 2019, in all 6,240 sessions had been held and over 1 million people had attended. The target participants include students at all levels of schools, communities, women's groups, indigenous people, immigrants and military

service personnel, etc.

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 carrying out the special inspection of the Farglory Life's real estate investment businesses, the FSC found that the company was in violation of the regulations with respect to the real estate development and sale operations, related party transactions, the checking operations of its internal audit unit and anti-money laundering operations, and also gave rise to concern over the soundness of company operation. In response, the FSC imposed a fine totaling NT\$8.5 million and issued 16 reprimands on the company in accordance with Articles 149, 168 and 171-1 of the Insurance Act and Article 7 of the Money Laundering Control Act.

Citibank Taiwan Limited was fined

When Citibank Taiwan executed batch operation, some transaction files were not fully transferred to the main machine system from accounts, resulting in errors in its customers' NT\$ account balance. For this major incident, Citibank Taiwan was fined NT\$5 million in accordance with Subparagraph 7 of Article 129 of the Banking Act at the time of conduct.

FSC imposed administration sanction on 9 banks including O-Bank for deficiencies in credit checking and deposit and remittance operations with regard to the Runyu Group

For deficiencies in credit checking and deposit and remittance operations with regard to the Runyu Group, 9 banks were in violation of Article 45-1 of the Banking Act and Paragraph 1 of Article 7 of the Money Laundering Control Act or giving rise to concern about sound operation. The FSC imposed administrative sanctions on the 9 banks, including O-Bank, Taiwan Business Bank, Hua Nan Commercial Bank, First Commercial Bank, Cathay United Bank, Taiwan Cooperative Bank, DBS Bank (Taiwan), Yuanta Commercial Bank and Mega International Commercial Bank. The FSC imposed fines of NT\$0.5 million to NT\$2 million or issued reprimands in accordance with Subparagraph 7 of Article 129 and Paragraph 1 of Article 61-1 of the Banking Act at the time of conduct or Paragraph 5 of Article 7 of the Money Laundering Control Act.

TransGlobe Life Insurance Inc. was fined

In 2018, when carrying out a special inspection of TransGlobe Life's real estate business, the FSC found that the company had failed to promptly use real estate invested in and have an income determination standard and had also failed to apply for special approval from the FSC within the time limit. For these deficiencies, the company was fined of NT\$1 million in accordance with Paragraph 1 of Article 146-2 of the Insurance Act.