

# 金融展望月刊

## Financial Outlook Monthly

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《Chinese version please refer to page 1》

# No. 235

Ministry of Justice Anti-Corruption Hotline 0800-286-586  
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- Special act is drafted to combat financial fraud
- FSC amends "Incentive Policy for Onshore Funds" to encourage balanced development of SITE product strategies
- FSC enhances regulations of participating life insurance products by amending legislation related to the review of insurance products

### Policy and Law

#### *Special act is drafted to combat financial fraud*

To prevent and combat the harm of fraud, the Executive Yuan recently formulated a draft Act to Prevent the Harm of Fraud (hereinafter, "the special act") to enhance fraud prevention measures, increase criminal penalties, and combat fraudulent activity. The Executive Yuan approved the draft Act on 9 May 2024 and forwarded it to the Legislative Yuan for deliberations. The FSC cooperated by formulating seven articles involving financial institutions. The key points are as follows:

1. Two entities subject to regulation: The special act incorporates "financial institutions" and "enterprises or persons who provide virtual asset services" into a consistent anti-fraud framework, building a more secure cash flow protection network.
2. Four regulatory focal points: Deposit accounts, electronic payment accounts, credit cards, and virtual asset accounts will all be regulated to prevent protection gaps.
3. Mechanism for direct verifications among peer institutions: By consulting among each other, the remitting institution (the one sending funds) may contact the receiving institution (the one receiving funds) to verify information regarding any irregularities in the remittance, allowing for the early interception of illegal funds.
4. Establishment of a reporting system: With respect to deposit accounts, electronic payment accounts, credit cards, or virtual asset accounts suspected of being used for fraudulent purposes, a financial institution may take necessary control measures and report such matters to law enforcement authorities, and may, as instructed by law enforcement authorities, conduct follow-up control measures or discontinue previously commenced control measures, thereby assisting investigations and preventing illegal transactions.
5. Cooperative anti-fraud measures involving financial institutions & law enforcement: The proceeds of fraud often get forwarded onward to a secondary account. In the future, financial institutions will act, as directed by law enforcement authorities, to handle certain accounts as watch-listed or to discontinue previously commenced control measures, thereby helping to interrupt the cash flows of crime organizations.
6. Return of funds obtained by fraud: Banks may, if instructed by law enforcement authorities, return the account or the remaining funds/virtual assets remaining in an account as soon as possible in order to protect the rights and interests of the victim.
7. Duty of fraud prevention and waiver of confidentiality: For the sake of corporate social responsibility, the special act: (a) expressly sets out the duty of financial institutions, telecommunications operators, online advertisement platform operators, and third-party payment service operators to prevent fraud and conduct outreach activities to familiarize consumers with how to identify scams; and (b) for enterprises that have implemented certain fraud prevention measures specified in the special act, waives their duty of confidentiality and any indemnification liability that may arise from losses suffered by customers or third parties as a result.

The FSC supervises efforts by financial institutions to intercept illegal cash flows at various points throughout the system, including service counters, online or mobile banking services, and early warning mechanisms. By having personnel ask probing questions at service counters, financial institutions in 2023 prevented 11,300 fraudulent transactions, up by 3,321 (42%) from 2022. The total value of the prevented transactions was NT\$7.589 billion, up by NT\$3.348 billion (79%) from 2022, bringing the combined value of fraudulent transactions prevented at service counters in the past two years to more than NT\$10 billion. The FSC hopes to use the special act to further enhance the legal basis for fraud prevention measures, and to encourage financial institutions to do everything possible to prevent fraud and reduce the losses suffered by members of the public.

*FSC amends "Incentive Policy for Onshore Funds" to encourage balanced development of SITE product strategies*

To encourage securities investment trust enterprises (SITEs) to add more asset management personnel and technology, increase their assets under management, and expand their business internationally, the FSC amended the "Incentive Policy for Onshore Funds" on 30 April 2024. Considering that the development of actively managed funds is relatively conducive to enhancing the investment research capabilities of asset management personnel in Taiwan, and that passively managed fund products have rapidly developed and grown in scale in recent years, the FSC amended the aforementioned Policy to encourage balanced development of product strategies and active improvement of investment research capabilities among SITEs. The main points of the amendment were to treat actively managed funds as the bases used for calculating evaluation indicators, and to eliminate passively managed funds from those targeted by the Incentive Policy.

### **FSC amends Article 23 of the "Regulations Governing Securities Firms Accepting Orders to Trade Foreign Securities"**

On 8 May 2024 the FSC amended Article 23 of the "Regulations Governing Securities Firms Accepting Orders to Trade Foreign Securities" to expressly provide that a securities firm may deposit securities with a depository in the locale of the site of a transaction, and may also deposit securities with the Taiwan Depository & Clearing Corporation. This amendment provides securities firms with a greater range of choice.

### **FSC enhances regulations of participating life insurance products by amending legislation related to the review of insurance products**

The FSC has prepared draft amendments to the "Regulations Governing Pre-sale Procedures for Insurance Products," the "Directions for the Review of Life Insurance Products," and the "Directions for Life Insurance Enterprises To Engage in Participating Life Insurance Business." The amended directions will be issued at the end of June 2024, and the key points of the amended provisions are as follows:

1. Proposed amendment to the "Regulations Governing Pre-sale Procedures for Insurance Products": In response to alignment by insurers with Taiwan's New Generation Insurance Solvency Regime (TW-ICS), the FSC has prepared a draft amendment to the conditions (i.e. solvency) for special treatment in the product review process.
2. Proposed amendment to the "Directions for Life Insurance Enterprises to Engage in Participating Life Insurance Business": Proposed amendments address the following matters: (1) management of segregated accounts for insurance products; (2) product design and post-sales management; (3) disclosures and sales behavior; (4) the duties of related personnel; and (5) enhanced supervision of participating policies by addressing education and training for insurance solicitors. These amendments strengthen the supervision of participating policy to safeguard consumer interests from various aspects such as product designing, pre- and post-sale controls, and information disclosures.
3. Proposed amendment to the "Directions for the Review of Life Insurance Products": Amended provisions would expressly provide that, unless the competent authority provides otherwise, life insurance death benefits shall not be lower than the insured amount as stipulated in the insurance policy, and they would require that a cost reimbursement-type medical product claim settlement would have to satisfy the principle of indemnity. At the same time, where a participating life insurance product is designed as comprehensive insurance, it would have to be reviewed subject to prior approval rules.

### **Phase 3 Localization and Transitional Measures, and Differentiated Management Measures of new generation solvency system**

To assist domestic insurers in adopting the new generation solvency regime (TW-ICS) in 2026, and to encourage them to continue improving companies' financial and business development as well as their asset-liability management ability, the FSC—after considering international regulations, the practices of neighboring countries, and the particular characteristics of Taiwan's insurance market, and having communicated with insurance companies—has drafted transitional measures and

differential regulatory approaches for Taiwan's insurers to adopt the third phase of the TW-ICS insurance capital standard.

1. Third phase of localized and transitional measures:

(1) Localization measures—including callable bonds in eligible assets: For callable bonds (not including structured bonds) held prior to 31 December 2023, the cash flow from the most recent callable date (interest portion) can be included as eligible assets; for callable bonds acquired in 2024 and thereafter, must comply with ICS provisions to mitigate the impact on the industry and maintain bond market stability.

(2) Transitional measures—15-year transitional measure for emerging risks: The FSC has adopted a 15-year transitional measure for specific emerging risks (including longevity risk, lapse risk, expense risk, and catastrophe risk) that involves a gradual increase in target capital requirements from 0% to 100% over a 15-year period, to give insurers time to make a gradual adjustment.

2. Differentiated management measures: Embracing the spirit of "helping those who help themselves," the FSC has introduced support measures to "increase insurers' asset allocation flexibility" and an incentive measure to "decrease the risk factor" for insurers who endeavor to carry out a "capital increase" and maintain a "contractual service margin" (CSM) without increasing their foreign investment limit. These measures aim to encourage insurance enterprises to implement the new generation solvency system as soon as possible.

The FSC will conduct a systemic review of the aforementioned differentiated management measures and phase 3 localization and transitional measures based on the actual implementation status of insurance enterprises once every five years after the adoption of the new generation solvency system. In addition, the FSC will continue to watch the latest development of the ICS published by IAIS and make necessary adjustments to the new generation solvency system. If the overall financial situations change significantly following the adoption of a new generation solvency system, the FSC will also review the relevant systems in a timely manner.

### **FSC issues "Interpretive Rule on Subparagraph 8, Paragraph 1 of Article 146 of the Insurance Act" and "Interpretive Rule on Subparagraph 6, Paragraph 1 of Article 146-1 of the Insurance Act," and amends the "Directions Governing Lending by Insurance Enterprises of Offshore Securities"**

In preparation for insurers' plans to adopt Taiwan's New Generation Insurance Solvency Regime (TW-ICS) in 2026, and to facilitate system transition, the ratio of total adjusted net capital to risk-based capital has been revised from "200%" to "the regulatory standards for capital adequacy set out in subparagraph 1, paragraph 2, Article 143-4 of the Insurance Act."

### **FSC amends "Premium Table of Compulsory Automobile Liability Insurance for Car" and "The Policy Period of Compulsory Automobile Liability Insurance"**

In response to the decision by the Ministry of Transportation and Communications (MOTC) to begin issuing a "class 2 test-drive license plate" to be used exclusively by vehicle dealers, and in view of the fact that the short-term nature of the use of vehicles bearing this type of license plate differs from the use of ordinary vehicles, the FSC set the insurance rate for vehicles bearing a "class 2 test-drive license plate" and set the policy period at one month in order to meet the needs of the public, and to improve the system.

### **FSC amends Articles 8 and 13 of the "Regulations Governing Public Disclosure of Information by Non-life Insurance Enterprises" and Articles 8 and 13 of the "Regulations Governing Public Disclosure of Information by Life Insurance Enterprises," and adopts interpretive rules for Article 8 of the two aforementioned Regulations**

In order to improve disclosures of information on climate change and other related issues, and in coordination with the "Sustainable Development Action Plan for Listed Companies" launched by the FSC on 28 March 2023, the FSC recently amended Articles 8 and 13 of the "Regulations Governing Public Disclosure of Information by Non-life Insurance Enterprises" and Articles 8 and 13 of the

"Regulations Governing Public Disclosure of Information by Life Insurance Enterprises," and adopted interpretive rules for Article 8 of the two aforementioned Regulations, to expressly set out requirements regarding the content of the carbon reduction targets, strategies, and action plans (including greenhouse gas inventories and assurances) that insurers must disclose, as well as the content of the attachments to the amended Regulations.

### FSC amends "Table of Standard Premiums for Accidental Death and Disability Benefits Under Individual Travel Accident Insurance"

To facilitate sound development of the insurance market and safeguard the interests of consumers, the FSC, referring to analyses of relevant empirical statistics, completed a review of standard premiums for "Accidental Death and Disability Benefits" and "Accident Benefits" under travel accident insurance, and reduced standard premium rates for accidental death and disability benefits by 10%. The new rates will apply to policies that take effect on or after 1 July 2024. After the reduced rates take effect, premiums for this type of insurance are expected to fall by an appropriate degree.

## International Activities

### The Ambassador H.E. of Eswatini pays a visit to the FSC



Mr. Promise S. Msibi, Ambassador H.E. of Eswatini, was warmly received by former FSC Vice Chairperson Tsuey-Ling Hsiao on May 2, 2024. During the visit, both sides exchanged views on relevant financial cooperation during the visit.

## Industry Updates

### FSC grants approval for O-Bank to apply to Australian authorities to establish representative office in Sydney

In order to take part in the Australian market, take advantage of development of Taiwan-Australia economic and trade relations, and provide needed international financial services to Taiwanese businesses and local Australian businesses, O-Bank has decided to establish a representative office in Sydney. The FSC reviewed O-Bank's plan and on 19 April 2024 granted approval for the bank to apply with the Australian competent authorities for permission to establish a representative office in Sydney.

### In coordination with the merger plan of UBS AG and Credit Suisse AG, FSC grants approval for Credit Suisse AG, Taipei Securities Branch to terminate operations and dissolve

UBS Group AG, having completed its acquisition of the Credit Suisse Group AG on 12 June 2023, is currently merging the worldwide business locations of UBS AG and Credit Suisse AG. Credit Suisse AG, Taipei Securities Branch currently conducts securities and futures brokerage business, and acts as the issuer of offshore structured products in Taiwan for the Credit Suisse AG London Branch. In coordination with the merger plan of UBS AG and the Credit Suisse AG, the Credit Suisse AG, Taipei Securities Branch applied to terminate operations and dissolve. Its final day in business will be 31 May 2024.

### The situation of overdue loans in domestic banks at the end of April 2024.

Unit: NT\$1 billion / percentage points

	30 April 2024	31 March 2024	Increase/Decrease
Total outstanding loans	39,894	39,591	increased by 303billion
NPL ratio	0.17%	0.16%	increased by 0.01 percentage points
Coverage Ratio	808.07%	825.58%	decreased by 17.51 percentage points

As of the end of April 2024, there were 38 domestic banks in Taiwan, and their asset quality continuously remained manageable according to the above figures. The FSC will require banks to undertake measures to improve asset quality and financial structure on an ongoing basis.

### NPL situation of credit cooperatives at the end of April 2024

Unit: NT\$1 billion / percentage points

	End-April 2024	End-March 2024	Increase/Decrease
NPL	0.59	0.61	Decreased by NT\$ 0.02billion
NPL ratio	0.10%	0.10%	--
Coverage Ratio	2,459.06%	2,358.80%	Increased by 100.26 percentage points

As of the end of April 2024, there were 23 credit cooperatives in Taiwan, and their asset quality continuously remained manageable according to the above figures. The FSC will require credit cooperatives to undertake measures to improve asset quality and financial structure on an ongoing basis.

The overall situation of net purchases and sales of listed stocks by foreign and mainland China investors, as well as the inflow and outflow of funds.

### 1. Net foreign and mainland China investment in listed shares

Unit: NT\$1 billion

	End-April 2024	TWSE-listed shares	TPEX-listed shares
Foreign	Bought	9,705.8	1,597.9
	Sold	9,723.2	1,650.4
	Net bought (sold)	(17.4)	(52.5)
PRC	Bought	1.335	0.109
	Sold	1.546	0.192
	Net bought (sold)	(0.211)	(0.083)

### 2. Cumulative net (outward) inward remittances by foreign and mainland China investors

Unit: NT\$1 billion

	End-April 2024	End-March 2024	Increase (Decrease)
Cumulative net (outward) inward remittances by offshore foreign institutional investors, and offshore overseas Chinese and foreign individual investors	259.4	260.7	(1.3)
Cumulative net (outward) inward remittances by mainland China investors	0.039973	0.044156	(0.004183)

### Sales statistics of foreign-currency denominated products by life insurance industry as of the end of February 2024

Unit: NT\$1 billion

	End- February 2024	End- February 2023	Increase (Decrease) (%)
Investment-linked insurance	4.248	8.375	(49%)
Traditional life insurance	43.56	32.664	33%
New-policy premium income (total)	47.808	41.039	16%

### Profit/loss, net value and exchange gains/losses, hedging gains and losses, and foreign exchange volatility reserves of insurance enterprises as of March 2024

#### 1. Pre-tax profit of insurance enterprises

Unit: NT\$1 billion

	End-March 2024	End-March 2023	Increase (decrease) (%)
Pre-tax profit of life insurers	96	(26.3)	465%
Pre-tax profit of non-life insurers	9.3	(3.2)	390.6%
Pre-tax profit of all insurers (total)	105.3	(29.5)	456.9%

#### 2. Owners' equity of insurance enterprises

Unit: NT\$1 billion

	End-March 2024	End-March 2023	Increase (Decrease) (%)
Owners' equity of life insurers	2,480	1,903	30.3%
Owners' equity of non-life insurers	137.4	74	85.7%
Owners' equity of all insurers (total)	2,617.4	1,977.4	32.4%

3. As of the end of March 2024, the NT Dollar had depreciated by 3.92% against the US Dollar since the end of 2023, and the cumulative balance of the foreign exchange valuation reserve of life insurance enterprises was NT\$160.9 billion, increasing by NT\$68.8 billion. Meanwhile, the combined impact of exchange gains/losses, hedging gains/losses, and the net effect of volatility on the foreign exchange valuation reserve of life insurance enterprises was NT\$-50.2 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\$292.4 billion.

Sales of spillover-effect insurance products and provision of in-kind benefits by life insurers in the first quarter of 2024

		Q1 2024	Q1 2023	Increase (Decrease)(%)
Spillover-effect insurance products	New contracts sold (Unit: contracts)	310,232	272,763	14%
	1st-year premium income (Unit: NT\$ 1 billion)	5.28	4.7	12%
Insurance products with in-kind benefits	New contracts sold (Unit: contracts)	78,181	43,423	80%
	1st-year premium income (Unit: NT\$ 1 billion)	0.769	0.638	21%

The FSC has approved or accepted registrations of 215 spillover-effect health management insurance products from 13 life insurance companies, and 44 in-kind payment insurance products from 6 life insurance companies. In the future the FSC will continue encouraging insurers to develop these two types of insurance products, thereby getting the public to attach greater importance to health management and satisfying the need of policyholders for insurance protection.

## Investor and Consumer Protection

### 2024 Financial Literacy Campaign for the Campus and Community

In the month of May 2024, the FSC held 110 activities at different locations, including the Chinmen County Armed Forces Finance Section, as part of the 2024 Financial Literacy Campaign for the Campus and Community, attracting 10,851 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 2023, a total of 8,509 events had been held and over 1.19 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, firefighters, coast guard personnel, and taxi drivers.

The Banking Bureau of the FSC will continue to promote the financial literacy campaign in 2024. Schools or community groups interested in the campaign are invited to register on the website of the Banking Bureau. For more information, please contact us at (02) 8968-9708.

## Major Enforcement Actions

### FSC imposes fine on Shin Kong Financial Holding Co.

The FSC recently found that Shin Kong Financial Holding Co. (SKFH) had failed to properly discharge its duty to soundly operate its subsidiary, Shin Kong Life Insurance Co., thereby affecting the overall financial and business soundness of SKFH and possibly impeding the sound operation of SKFH. Moreover, SKFH Chairman Chen had failed to properly discharge his duties as Chairman. The FSC therefore, acting in accordance with Article 54, paragraph 1 of the "Financial Holding Company Act," issued an official reprimand, and in accordance with subparagraph 7 of that same paragraph ordered SKFH to reduce all compensation of Chairman Chen for 2023 by 50% for a period of 1 year.

### FSC imposes fine on Yuanta Commercial Bank

Yuanta Commercial Bank was recently found deficiencies in handling the collection of bad debts, had failed to establish a system of internal checks-and-balances or a proper system for notifications and confirmations, and it was not carefully implementing internal controls. Accordingly, the FSC concluded that the bank failed to establish or properly implement related internal control systems, thus violating the provisions in Article 45-1, paragraph 1 of the "Banking Act" and Article 3 paragraph 1 and Article 8, paragraphs 1 and 3 of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries," established based on the authorization of said provisions of the "Banking Act." The FSC imposed an administrative fine of NT\$4 million upon the Bank in accordance with Article 129, subparagraph 7 of the "Banking Act."

### FSC imposes fine on Cathay Securities Investment Trust

The FSC recently discovered that a discretionary investment manager had violated personal trading rules while employed with Cathay Securities Investment Trust, which revealed that the internal control system was not effectively designed or implemented, and that the company had failed to exercise due care and fiduciary responsibility or observe the principle of good faith in conducting its business. These failures were found to constitute violations of the "Securities Investment Trust and Consulting Act," the "Regulations Governing Responsible Persons and Associated Persons of Securities Investment Trust Enterprises," and the "Regulations Governing Securities Investment Trust Enterprises," so the FSC, acting in accordance with Article 103, subparagraph 1 of the "Securities Investment Trust and Consulting Act," issued a warning to Cathay Securities Investment Trust, acting in accordance with Article 111, subparagraph 7 of the same Act imposed an administrative fine of NT\$1.2 million, and acting in accordance with Article 104 of the same Act ordered Cathay Securities Investment Trust to dismiss the aforementioned discretionary investment manager (surnamed Wu) from his/her position.

### FSC imposes sanctions on Shin Kong Life Insurance

The FSC recently found that because the ratio of regulatory capital to risk-based capital at Shin Kong Life Insurance did not meet the capital adequacy grade called for in insurance legislation, the capital increase plan or corrective action plan for finance or business that Shin Kong put forward was unable to raise Shin Kong's capital adequacy ratio high enough to meet the regulatory standard. The FSC therefore, acting in accordance with Article 143-6, subparagraph 1, item 1 of the Insurance Act, adopted supervisory measures subject to the grading of an insurance enterprise's capital, as follows: (a) ordered Shin Kong not to extend new credit or undertake any new transactions with interested parties; (b) ordered Shin Kong to put forward within one month a concrete and complete plan for capital increase or another corrective action plan for finance or business that would raise the company's capital adequacy ratio high enough to meet the regulatory standard within a reasonable period of time; and (c) ordered Shin Kong to reduce all compensation of Chairman Wei by 30% for one year.