

Box 4

Domestic banks' offshore banking units: Retrospect and prospect

1. Progress in the development of offshore banking units in Taiwan

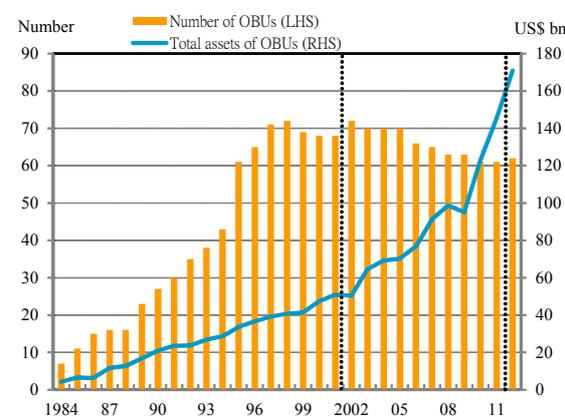
With a view to establishing a regional financial center, the government promulgated the Offshore Banking Act in December 1983, authorizing banks to set up offshore banking units (OBUs) within the territory of the Republic of China (Taiwan) and engage in offshore financial activities. OBUs were granted special treatment in terms of foreign exchange transactions, financial operations and taxes.

The first OBU commenced its operations in June 1984, with the total number increasing to its highest number of 72 in 1998 and slowly declining to 62 at the end of 2012 (including 37 run by domestic banks and 25 by foreign banks in Taiwan) in the wake of banks' mergers and acquisitions. Nevertheless, owing to the opening up of lines of business, the total assets of all OBUs recorded accelerated growth, amounting to US\$170.9 billion (Chart B4.1), of which domestic banks' OBUs accounted for 81.1%, while foreign banks' OBUs accounted for 18.9%. Progress in the development of OBUs can be generally separated into three stages:

1.1 Opening up of offshore banking activities in December 1983

Since the government opened up offshore banking activities for OBUs to conduct business in December 1983, the Offshore Banking Act has been revised four times, successively expanding the scope of activities and revising the relevant taxation rules for OBUs. The major businesses conducted with natural persons, juridical persons, government agencies or financial institutions outside the territory include: accepting foreign currency deposits; extending credit in foreign currency; selling foreign currency financial debentures or other certificates of debt issued by their head offices; conducting import/export-related foreign exchange business; processing foreign currency remittances; engaging in foreign currency transactions, borrowing or lending of funds; and other foreign currency

Chart B4.1 Number and total assets of OBUs



Source: CBC.

businesses approved by the relevant authorities.

1.2 Opening up of cross-strait financial activities in June 2001

Aiming at developing OBUs into a funding center for Taiwanese firms operating overseas and in Mainland China, the government gradually liberalized the direct remittance business undertaken by OBUs to financial institutions in the mainland, expanded the counterparties and scope of cross-strait financial activities, and eased the credit limitations in seven steps from June 2001. The authorities took a further step to revise the Regulations Governing the Banking Activity and the Establishment and the Investment by Financial Institution between the Taiwan Area and the Mainland Area in September 2011, allowing OBUs to do business with natural persons, juridical persons, groups, other agencies, and with the branches or subsidiaries that are set up by Mainland China-based financial institutions but located in jurisdictions or areas outside Mainland China. Meanwhile, the legal requirements regarding the scope of cross-strait financial activities were put back under the governance of the Offshore Banking Act.

1.3 Opening up of RMB business in July 2011

In order to further expand the breadth for the development of OBU business, the FSC and the CBC issued the Regulations Governing the Conduct of RMB Business for the OBUs and Overseas Branches of Taiwan's Domestic Banks in July 2011, authorizing OBUs to conduct RMB business. Subsequent to the signing of the Memorandum on Cross-Strait Currency Clearing Cooperation by the two respective central banks across the Taiwan Strait, the government repealed the above Regulations in September 2012. The administration of RMB business conducted by OBUs was also placed back under the Offshore Banking Act as its legal basis.

2. The current condition and performance of domestic banks' OBUs

Since the deregulation of cross-strait financial activities and RMB business, the asset scale of domestic banks' OBUs has been significantly augmented, with total assets amounting to US\$138.6 billion at the end of 2012, growing by 21.3% year on year. As deposits, loans and cross-strait remittances grew remarkably, profits also rose noticeably. All of these positive factors greatly contributed to the operational performance of the domestic banks as a whole.

2.1 The balances of deposits and loans grew rapidly

In recent years, the balances of both deposits and loans have increased quite quickly. Among them, deposits amounted to US\$39.7 billion at the end of 2012, with most of the annual growth rates standing at over 12% during recent years, while loans reached US\$59.1 billion, growing much faster than deposits, with most of the annual growth rates lying between 20% and 40% (Chart B4.2).

2.2 Cross-strait remittance business expanded noticeably

After the relaxation of OBU's cross-strait financial activities in 2001, the cross-strait remittance business conducted by domestic banks' OBUs increased gradually. With cross-strait communication becoming more frequent from 2010, the remittance business processed by domestic banks' OBUs grew vastly, with inward remittances and outward remittances registering a total of US\$203 billion and US\$66 billion, respectively, in 2012 (Chart B4.3).

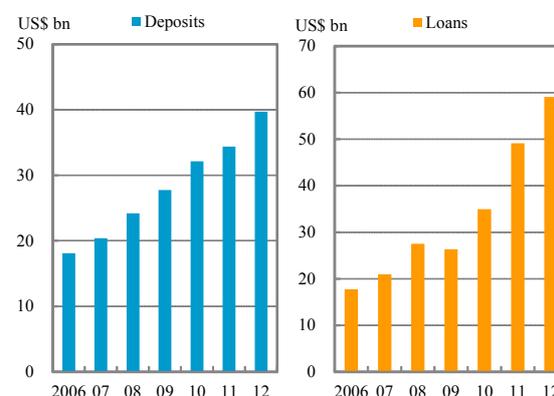
2.3 RMB deposit balances continued hitting fresh record highs

As of the end of April 2013, there were 38 domestic banks' OBUs that launched RMB business. RMB deposit balances totaled US\$29.4 billion, growing by 1.39 times compared to the end of the same month in 2012 (Chart B4.4).

2.4 Profits ascended to a new record

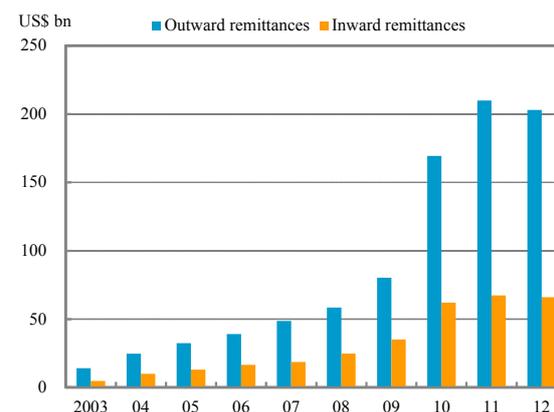
Benefitting from the fast-growing RMB business, the net income before tax earned by domestic banks' OBUs reached US\$1.9 billion (NT\$55.4 billion) in 2012, a record high. Furthermore, the return on assets (ROA) rose to 1.48% (Chart B4.5).

Chart B4.2 Deposit & loan balances of domestic banks' OBUs



Source: CBC.

Chart B4.3 Cross-strait remittance undertaken by domestic banks' OBUs



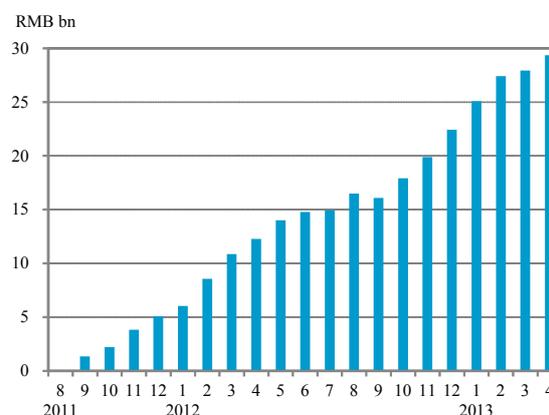
Source: CBC.

3. The future development of offshore banking activities

To expand participation in offshore banking activities, the FSC and the CBC jointly proposed a draft on revisions to some articles of the Offshore Banking Act that would authorize securities firms to set up offshore securities units (OSUs) within the territory, allowing them to engage in lines of business that pertain to the securities firms' professional practices, including brokerage, proprietary dealing, and underwriting activities of foreign currency securities. The revised draft has been submitted to the Executive Yuan and forwarded to the Legislative Yuan for deliberation. The Legislative Yuan embarked on the review in March 2013.

Going forward, when securities firms conduct offshore securities business, banks can help deal with the flow of funds to meet the firms' demands for foreign currency funding. For banking institutions and securities firms, both can complement each other in their business functions. This not only broadens the scope and scale of offshore banking activities but also helps Taiwan develop into a regional financial center and concurrently achieves the goal of fostering a Taiwan-centric wealth management platform.

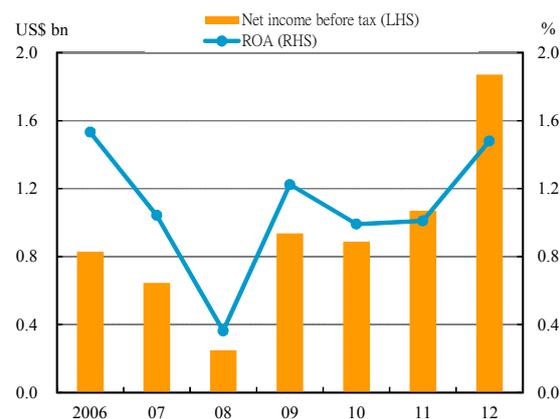
Chart B4.4 RMB deposits with domestic banks' OBUs



Note: The OBUs were authorized to launch RMB deposit business beginning July 2011.

Source: CBC.

Chart B4.5 Profitability of domestic banks' OBUs



Source: CBC.