4.2 Measures undertaken by the FSC to maintain financial stability

From 2015 onwards, in order to facilitate financial innovation and enhance financial competitiveness, the FSC continued to implement several measures of deregulation to promote policies including financial import substitution, building up a stronger Asian presence for Taiwan's banking industry, creating a digital financial environment, and boosting securities markets. Additionally, in order to strengthen financial supervision and risk management of financial institutions, the FSC continuously enhanced domestic banks' risk controls over exposures to Mainland China and implemented prompt corrective actions for the insurance industry,[87] as well as undertaking several measures mentioned as follows to maintain financial stability.

4.2.1 Continually reinforcing banks' risk management for complex financial derivatives business

As complex financial derivatives business conducted by banks, such as TRFs and DKOs, has caused numerous investment disputes, the FSC introduced four sets of supervisory measures from April 2014 to the beginning of 2016 (see Chapter 3.3) to protect investors and promote sound development of financial markets.

4.2.2 Establishing an off-site monitoring mechanism to detect material risks of financial institutions

The FSC issued the *Guidelines for Material Risk Detection for Financial Institutions* in November 2015 to build a mechanism for identifying material risks in a timely manner. The scope of risk detection is comprised of capital adequacy, asset quality, management capability, profitability, and liquidity of financial institutions. In addition, source of profit, foreign risk exposure, investment position, off balance sheet exposures and petition of consumers are included as key detecting factors. The FSC also requested financial institutions to establish internal risk detection guidelines for the purpose of controlling material risks and ensuring sound management.

[87] See CBC (2015), *Financial Stability Report*, Chapter IV, May.

4.2.3 Strengthening risk management and enhancing sound operation for the insurance industry

Increasing the risk-bearing capability of insurance companies with respect to real estate mortgage loans

In order to increase the risk-bearing capability of the insurance industry, the FSC, taking bank practices into consideration, amended related regulations in July 2015, which require insurance companies to raise their allowance for bad debts at a ratio of at least 1.5% against loans for home purchase, refurbishment, or construction by the end of 2016.

Reinforcing public disclosure of RBC ratios

With a view to strengthening supervision of the insurance industry, in addition to the prompt corrective action mechanism established in February 2015, the FSC further required insurance companies to disclose their capital adequacy ratios semiannually from the second half of 2015 onwards to enhance market discipline.[88]

Requiring insurance companies to solicit business with reasonable pricing to avoid inappropriate competition

To strengthen sound operation of insurance companies and avoid inappropriate premium competition, the FSC amended the *Regulations Governing Pre-sale Procedures for Insurance Products* in July 2015, requiring that the premiums of both non-life and life insurance products should reasonably reflect their costs and profits. The aforementioned regulations also prohibited insurance companies from soliciting business with unreasonable pricing. Meanwhile, the FSC amended the *Regulations for Establishment and Administration of Insurance Enterprises*, stipulating that insurance companies should set loan prices in consideration of factors such as market rates, operating costs, and reasonable profits, and should not extend loans at unreasonable prices.

4.2.4 Other supervisory measures

1. To conform with international supervisory standards, the FSC amended regulations with respect to the capital adequacy of banks in April 2015, requiring banks to further disclose

[88] Before the second half of 2015, each insurance company only disclosed its RBC ratio with five tiers: above 300%, above 250% but under 300%, above 200% but under 250%, above 150% but under 200%, and under 150%.

leverage ratios and liquidity coverage ratios.

2. In order to enhance the quality of domestic credit rating services and support sound development of credit rating agencies, the FSC introduced amendments to the *Regulations Governing the Administration of Credit Rating Agencies* in December 2015. The key points of the amendments included: (1) relaxing the establishment criteria and abolishing the requirement that at least one of the founders shall be an internationally recognized credit rating institution; (2) requiring the corporate bylaws to include fee policies and complaint handling mechanisms, etc.; (3) requiring credit rating agencies to comply with international financial reporting standards when preparing financial reports; (4) requiring credit rating agencies to disclose their credit rating procedures, the reasons for the change of the credit rating result, and possible conflicts of interest, etc.; (5) enhancing the credit rating methodologies, models, and key assumptions employed in the rating procedures; (6) adding provisions for preventing conflicts of interest.

3. For the purpose of increasing securities market transparency, additional disclosure was introduced to include simulated transaction and bid/ask information prior to market opening and closing (30 minutes before market opening and 5 minutes before closing when trading orders are accepted), beginning 29 June 2015.