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Taiwan Regulatory Efforts in Fintech Developments

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FINTECH OFFICE OF TAIWAN FINANCIAL SUPERVISORY COMMISSION

To proactively deal with swift development in Fintech globally, Taiwan Financial Supervisory Commission (FSC) officially announced the establishment of its Fintech Office (Fintech Office) on September 24, 2015. The purpose for the FSC to set up Fintech Office is to have an office exclusively in charge of planning and promotion of Fintech developments, such as collection, research and analysis of Fintech developments in Taiwan and other jurisdictions and coordination with other Taiwan government agencies. The Chairman of the FSC concurrently acts as the Director of Fintech Office. The scope of Fintech services as provided in the Guidelines for Establishment of Fintech Office of Financial Supervisory Commission includes, but not limited to, digitalization of financial environment, mobile payment, third party payment, Internet financing (P2P lending), online investment, Cloud service, crowdfunding, Internet of things, Big Data, risk management and information security. Fintech Office now also has 18 consulting commissioners, who are the leaders and experts in Fintech area, to provide Fintech Office with their suggestions and advice. The Director of the Fintech Office convenes and chairs a meeting on a quarterly basis attended by consulting commissioners to review the FSC's Fintech policies.

FINTECH DEVELOPMENT FUND AND FINTECHBASE IN TAIWAN

Another new development in Taiwan in Fintech is to set up a fund, named "Fintech Development Fund" (Fund), by the FSC exclusively for Fintech developments in Taiwan. The total scheduled amount of the Fund is NT\$1 billion with donations from Taiwan government, Taiwan Stock Exchange, Taipei Exchange, financial services associations and financial institutions in Taiwan. The Fund could be raised by the FSC in instalments. The Fintech Fund aims to promote Fintech innovation, provide assistance to Fintech start-ups and information service industries, develop Fintech talent, and provide assistance in other Fintech related projects.

The Fund engages Data Analytics Technology & Applications Research Institute (DATA) of Institute for Information Industry to promote Fintech innovation, entrepreneurship and talent development in Taiwan. DATA set up FinTechBase in 2015 for these purposes. FinTechBase may inject up to NT\$2 million of funds into one single Fintech start-up and the Fintech company may contribute no more than 5% of its total shares to the Fund for operation and sustainable development of the Fund.

ONLINE OPENING OF CURRENT ACCOUNTS

The FSC permits local banks to offer online current account opening services to their customers without requiring them to be physically present in banking branches since October 2015. This new development has provided extreme convenience to local customers, especially the younger generation and office workers. Taiwan Bankers Association therefore issued the Templates for Banks' Acceptance of Opening Virtual Current Accounts through Internet by Customers to facilitate this new policy. The Template requires the identity verification process of local banks for applicants for each of three types of virtual

current accounts. It also requires local banks to adopt certain measures required for "Know Your Customers" (KYC) and anti-money laundering rules. This new alternative further facilitates local customers' online trading and online transactions.

FSC'S FINTECH WHITE PAPER IN MAY 2016

Another ground-breaking news for Fintech in Taiwan is that the FSC announced its Fintech Development Strategy White Paper (White Paper) on May 12, 2016. This is the first time for the FSC to publicly disclose its vision of "Fintech Innovation, Smart Financing" and its directions in Fintech field in Taiwan with the proposed landscape of Taiwan Fintech society in 2020.

The FSC also highlighted the following key policy directions in the White Paper:

1. **E-Payment:** The FSC proposes within 5 years to doubly increase either the percentage of e-payment amount to the total amount of private sector's consumption expenditures from 26% to 52% or the number of e-payment transactions from 3 billion to 6 billion. In order to meet this target, the FSC will discuss with the Ministry of Finance (MOF) on e-payment of all government fees and charges. The FSC also plans to suggest the MOF providing tax benefits for e-payment transactions. The FSC will further discuss with the MOF and Ministry of Economic Affairs (MOEA) the use of e-payment solutions by vendors in night markets and small shops. The registration fees charged by hospitals may also be paid using an e-payment mechanism.
2. **Blockchain:** The FSC encourages banking service providers to study blockchain technology. A task force under Taiwan Bankers Association focusing on blockchain development has been formed. In addition, the Ministry of Science and Technology (MOST) will urge university professors to participate in Fintech research projects.
3. **Investment in Fintech companies:** The FSC lifted the restrictions on investments in Fintech companies by financial institutions in September 2015 and they are permitted to 100% own Fintech entities now. The FSC not only has set up the Fund to provide assistance in Fintech start-ups and talent training but also is planning to set up Fintech innovation incubation centres in collaboration with the MOEA and MOST.
4. **Banking industry:** The FSC encourages banks to use tokenization technology for credit card transactions in order to secure electronic transactions. It will also study the possibility of including P2P lending in the scope of financial supervisory environment.
5. **Securities industry:** Another project for the FSC in the local securities industry is to expand the online services of securities firms. The FSC reckons the percentage of Internet securities trading in Taiwan could reach 70% in 2020. It is studying the introduction of automated trading mechanism, such as robotadvisory services and consolidated Internet sale platform of mutual funds, in securities services. It also encourages the Cloud services in securities and futures business for investors. Big Data application is another area the FSC is focusing on in order for local securities firms to provide better services to their customers.
6. **Insurance industry:** The FSC aims to increase online insurance purchase amount to NT\$5.86 billion in 2020. It also encourages insurance companies to invest in Fintech innovation and new insurance products. How to leverage Big Data in insurance sector is another policy attention area of the FSC in the insurance industry development plan.
7. **Virtual and physical branches:** The FSC emphasizes the development in both virtual and physical branches of local financial institutions. Multi-channel model would be a direction with optimization of the services in physical banking branches. It also encourages local financial institutions to introduce Big Data application for customer risk assessment and credit scoring for better credit risk

management.

8. Identity verification mechanism: The FSC plans to establish the consolidated identity verification mechanism in Taiwan to reduce the needs for customers to physically visit the branches of financial institutions for identity verification purpose.
9. Regulatory updates: The FSC will establish the regulatory update mechanism for virtual financial services to establish a more Fintech-friendly environment in Taiwan.
10. Risk management: The FSC will continuously implement its “Two-pronged” (liberalization and discipline) supervisory policy in Fintech development. It also plans to set up a financial security information sharing and analysis centre to identify and successfully deal with potential Fintech security issues in financial service industry.

SPECIAL RESERVE FOR FINTECH IMPACT ON EMPLOYEES IN BANKS

One of the most significant issues in recent Fintech discussions is the possible unemployment issue in the banking sector. In order to encourage local banks to provide assistance to its employees surfing the huge Fintech wave, the FSC in a ruling dated May 19, 2016 required each local bank to allocate 0.5%-1% of its after-tax profits in 2016 to 2018 as a special reserve exclusively for the relevant costs and expenses for employee training and transformation to deal with Fintech impact on its employees. The FSC expanded the same special reserve requirement to cover local insurance companies’ employees on July 12, 2016.

CONCLUSION

Fintech is one of the most significant paradigm shifts in the financial sector in decades, and would have great impact on not only the business models in financial industry but also daily life of customers globally. Financial service providers in Taiwan are facing fundamental changes in their management philosophy and current business structure. The Fintech trends bring both opportunities and challenges to Taiwan financial institutions. Only those who can keep pace with this new development would be the winners in the extraordinary fierce market competition.

The financial regulators in various jurisdictions also encounter numerous challenges in their regulatory environment because of rapid development in Fintech area. The establishment of the Fintech Office demonstrates the FSC’s commitments to promotion of Fintech in financial sector in Taiwan. The White Paper issued by the FSC sheds light on the policy directions of the FSC to guide local financial institutions to deal with the sudden growth in Fintech. It is expected that the FSC will carefully and closely monitor Fintech development in Taiwan and the impact on local financial environment and provide assistance to local financial institutions by announcing further advanced policies in the near future to support Fintech innovation in Taiwan.

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