

# **Regulatory Reforms in Financial Sector--- Case of Chinese Taipei**

# **I. Background(1)**

## **1. The Financial (Banking) Sector**

### **i. State Owned Financial Institutions**

- Public financial institutions left over from Japanese ruling**
- National financial institutions resumed operations in Taiwan**
- Newly established state owned financial institutions**

# **I. Background(2)**

## **ii. Private Owned Financial Institutions**

- **Local capital**
- **Oversea Chinese capital**
- **Foreign capital**

## **iii. Community Financial Institutions**

- **Credit Cooperative Associations**
- **Credit Department of Farmers' Associations**
- **Credit Department of Fishermen's Associations**

# **I. Background(3)**

## **2. Highlights of The Financial Market before 1990**

### **i. Financial Depress in 1960's**

- Regulations over interest rates**
- Regulations over foreign exchange**
- Credit rationing**

# **I. Background(4)**

## **ii. Excess Savings in 1970's**

- **Accumulation of foreign reserves**
- **Surge in money supply**
- **Hiking up of general prices**

## **iii. Liberalization in 1980's**

- **Removing control over foreign exchange**
- **Let go of interest rates**
- **Amendment to laws and statues regarding financial sector regulations**

# I. Background(5)

## 3. Regulations of Financial Sector

### i. Reasons for Regulation

- Political
- Economical
- Structural

### ii. Levels of Regulations

- Various laws governing financial sector
- National policies
- Constitutional level

# **I. Background(6)**

## **iii. Scopes of Regulations**

- Establishment of both head offices and branch offices**
- Items of operations**
- Both quantity and price controls**
- Entry of foreign firms**

# I. Background(7)

## iv. Consequences of Regulations

- **Distortion of funds toward production and away from consumption**
- **Stressing mortgage warranty rather than profitability of loans**
- **Skewing of loans toward public-run, large scale, and exporting industries**
- **Emergence of financial duality**



# **II. Financial Deregulations(1)**

## **1. Deregulation of Interest Rates and Foreign Exchange Rates**

### **i. Interest Rates**

- Beginning in 1976, the liberalization process was undertaken in a progressive manner.**
- In July 1989, restrictions on interest rates of bank loans and deposits were totally abolished.**
- To date, interest rates are determined by the market.**

# **II. Financial Deregulations(2)**

## **ii. Foreign Exchange Rates**

- From fixed rate system to managed floating rate system**
- In April 1989, exchange rate determination based on free negotiation .**
- In February 1990, the reference exchange rate system for inter-bank trading was abolished.**

# **II. Financial Deregulations(3)**

## **2. Liberalization in the Establishment of Financial Institutions**

- i. securities industry**
- ii. banking industry**
- iii. insurance industry**

# **II. Financial Deregulations(4)**

## **3. Liberalization in the Establishment of the Foreign Financial Institutions**

### **i. Foreign Banks**

- the first foreign bank branch was established in 1959.**
- In 1994, in accordance with the GATS, entry of foreign banks into the local market was liberalized**
- National treatment granted to foreign banks.**

# **II. Financial Deregulations(5)**

## **ii. Foreign Securities Firms**

- In 1989, the Reviewing of Foreign Securities Firms' Application for the Establishment of Branch Offices**
- In 1993, revised Regulation Governing the Standards for Incorporation of Securities Firms**
- At present, regulation based on the principle of national treatment.**

## **II. Financial Deregulations(6)**

### **iii. Foreign Insurance Companies**

- Prior to 1994, only U.S. insurance companies were allowed to enter the local market.**
- Beginning in 1994, qualified foreign insurance companies were allowed to establish a subsidiary or a branch office.**

## **II. Financial Deregulations(7)**

### **4. Privatization of State-Owned Banks**

**i. Dissemination of equity**

**ii. Privatization**

**iii. Banks**

# **III. Financial Management Reforms(1)**

## **1. Establishing a Banking Supervisory System**

### **i. Amendment to the Banking Law**

- **The Law has been revised many times since its promulgation in 1931**
- **An ad hoc committee was established. It recommended that there should be revisions of the Banking Law in four major areas**

### **ii. Updating the Capital Adequacy Requirement**

### **iii. Reinforcing the Information Disclosure Requirement**



# **III. Financial Management Reforms(2)**

- 2. Promoting the Expansion of the Asset Management Industry**
- 3. Strengthening the Financial Structure of Foundation for Guaranteeing the Credit Extension to SMEs**
- 4. Improving the Risk and Operational Management of Community Banking Institutions**

# **III. Financial Management Reforms(3)**

## **5. Establishing the Legal Compliance System in Financial Institutions**

- i. Financial institutions were required to comply with banking law and regulations**
- ii. A legal compliance program was established in every banking institution**
- iii. A self-evaluation report should be submitted to the supervisory agency**

# **III. Financial Management Reforms(4)**

- 6. Developing an Optimal Arrangement for Securitization**
  - i. Indirect financing v.s. direct financing**
  - ii. The liquidity of indirect financing assets of financial institutions increased.**
  - iii. Mortgage-back assets securitization as a first priority**
  - iv. Law Governing Trust Enterprises**
  
- 7. Broadening the Scope of Investment Business of Local Bank**

# **IV. Financial Market Structure and Performances(1)**

## **1. Concentration Ratio of Bank Industry**

### **i. Concentration Ratio of Deposits**

- **CR4: 46.07(1991)→36.80(2000)**
- **CR8: 72.18(1991)→54.06(2000)**
- **HHI : 804.21(1991)→532.27(2000)**

### **ii. Concentration Ratio of Loans**

- **CR4: 41.14(1991)→29.36(2000)**
- **CR8: 70.40(1991)→47.28(2000)**
- **HHI: 713.13(1991)→379.84(2000)**

# **IV. Financial Market Structure and Performances(2)**

## **2. Barriers to Entry**

### **i. Common Domestic Banks**

- **Number of Head Offices:**  
***33(1993)→48(2001)***
- **Number of Branch Offices:**  
***1,030(1993)→2,712(2001)***

### **ii. Branch Offices of Foreign Banks**

- **Number of Head Offices:**  
***37(1993)→38(2001)***
- **Number of Branch Offices:**  
***55(1993)→69(2001)***

# IV. Financial Market Structure and Performances(3)

## 3. Average Interest Rates

### i. Common Domestic Banks

- **Deposits:**  
*7.13%(1991)→4.09%(2001)*
- **Loans:**  
*10.18%(1991)→6.99%(2001)*

### ii. Branch Banks of Foreign Banks

- **Deposits:** *6.38%(1991)→3.34%(2001)*
- **Loans:** *10.31%(1991)→9.14%(2001)*

# **IV. Financial Market Structure and Performances(4)**

## **4. Performances of Domestic Banks**

**i. Rate of Returns (as percentage of assets): *0.6%(1991)→0.4%(2001)***

**ii. Rate of Returns (as percentage of net worth) :**

***14.6%(1991)→5.1%(2000)***

**iii. Pre-tax Net Profit Rate (as percentage of revenue):**

***9.5%(1991)→4.7%(2000)***

# **V. Financial Restructuring in the past two years**

- 1. Merger Law of Financial  
Institutions**
- 2. Financial Holding Company  
Law**
- 3. Statue for the Establishment  
and Management of the  
Financial Restructuring Fund**



# **VI. FTC in Regulatory Reform(1)**

## **1. Handling of cases**

**i. Preventing and Penalizing Restrictive Practices**

**ii. Promoting Transparency and Information Disclosure**

# **VI. FTC in Regulatory Reform(2)**

## **2. Task Forces**

- i. Liberalization of regulatory Rules (461 Task Force)**
- ii. Task Force to Deregulation and Promote Competition**
- iii. Competition for Knowledge-Based Economy**

## **3. Recommendations made to various agencies**

## **4. Competition Advocacy**

# **VII. Conclusions**

- 1. It takes times to achieve and observe a meaningful regulatory reform.**
- 2. Advocacy of competition policy is indispensable.**
- 3. The competition authority plays an important role.**
- 4. Regulatory reform never comes to an end.**
- 5. High quality re-regulation is called for in the future.**