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The Status of Financial Services in Taiwan

(I) Supply & Demand

As the financial industry is developing globally while the boundaries among banks, securities houses and insurance companies came to be vague on segmentation and differentiation. Financial holding corporations are in the trend of evolution and integration among international financial conglomerates. As the Financial Holding Company Act successfully passed the third reading in the Legislative Yuan (Congress), financial businesses may operate across own business lines in the form of a holding corporation. The subsidiaries of holding corporations may operate banks, insurance, securities and other related financial lines. The enactment of the Financial Holding Company Act enables Taiwan's financial houses to swim with the global tide and to boost competitive edge to a larger scale. Currently in Taiwan, there are fifteen financial holding corporations, i.e., Hua Nan Financial Holding Corporation, Fubon Financial Holding Corporation, China Development Financial Holding Corporation, Cathay Financial Holding Corporation, Chinatrust Financial Holding Corporation, SinoPac Financial Holding Corporation, E-Sun Financial Holding Corporation, Yuanta Financial Holding Corporation, Taishin Financial Holding Corporation, Sinkong Financial Holding Corporation, Mega Financial Holding Corporation, First Financial Holding Corporation, Sunrise Financial Holding Corporation, International Financial Holding Corporation and Taiwan financial holding corporations.

Below is the brief background of the development and status quo of those lines in Taiwan, in the categories of banks, securities houses, insurance and the like:

(II) The status of financial service
1.Banks

By November 30, 2007, there were total 39 local banks in Taiwan, decreasing by three in number compared with the same period in 2006. As for the local bank branches, by November 30, 2007, there were 3,294 in number, increasing by 55 compared with 2006.

In terms of the gross balances of deposits of all local banks, including headquarters and branches, by November 30, 2007, the grand balance came to NT\$21.45 trillion, increasing by NT\$3.08 trillion compared with the end of 2006, showing signs of significant growth. In terms of the gross balances of loans granted by all local banks, including headquarters and branches, by November 30, 2007, the grand loan balance came to NT\$17.36 trillion, a small increase by NT\$11.5 billion compared with 2006, demonstrating signs of expanding gaps between deposits and loans.

The Financial Supervisory Commission under Executive Yuan has taken positive means to urge local banks to put forth maximum possible efforts to clear off overdue loans in an attempt to enhance asset quality and financial structure. Therefore, by November 30, 2007, the local banks showed NT\$377.6 billion overdue loans, at an overdue rate of 2.13%, staying at the same level over the past three years.

By the end of November in 2007, local banks in Taiwan showed Return On Equity (net profit before tax/averaged net worth, known as ROE) and Return On Asset (net profit before tax/average assets, known as ROA) at 3.72% and 0.23% respectively. In comparison with the rate of -0.43% and -0.03% amidst the double-card storms (credit cards and cash cards) in 2006,

these figures suggest a significant improvement of local banks in their business performance.

Key indices concerned of banks

Descriptions	Unit	2007*	2006	2005
Number of headquarters of local banks	No. of banks	39	42	45
Number of branches of local banks	No. of banks	3,294	3,239	3,285
Deposit balances of local banks, including both headquarters and branches	NT\$100 million	214,458	183,622	175,886
Loan balances of local banks, including both headquarters and branches	NT\$100 million	173,607	160,553	157,761
Overdue loan amounts of local banks	NT\$100 million	3,776	3,661	3,705
Overdue loan rates of local banks	%	2.13	2.13	2.14
Shareholders' equity return rate of local banks (ROE)	%	3.72	-0.43	4.81
Asset return rate of local banks (ROA)	%	0.23	-0.03	0.30

Note: Data of 2007 indicate figures as of November of the year.

Source: Financial Supervisory Commission, Executive Yuan, organized for the present study, 2008/01

In 2006, foreign investors invested significantly into Taiwan's financial services, bringing new momentum to the financial markets for merger and integration. Those foreign investors who invested in local banks including American G. E. Financing Group into Cosmos Bank, Taiwan, American Newbridge Capital and Nomura Holdings, Inc. and Malaysian QE International into Taishin Financial Holding Corporation, Singapore Temasek Bank into E-Sun Financial Holding Corporation, Japan Shinsei Bank and Integral into Sunrise Financial Holding Corporation, Japan First Life Insurance into Shinkong Financial Holding Corporation, and Standard Chartered Bank Limited into Hsinchu International Bank. Among those merger/acquisition (M&A) cases, Standard Chartered Bank merging Hsinchu International Bank represents the first and largest precedent that a foreign bank directly acquires a local bank. In April 2007, Citibank and Bank of

Overseas Chinese reached covenants for merger/acquisition. In June 2007, ABN AMRO Bank acquired Hualian Business Bank.

Statistical of foreign investment in 2006

#	Foreign investors	Local banks	Shareholding ratio		Amounts of investment (NT\$)
			Common shares	Preferred shares	
1	American G. E. Financing Group	Cosmos Bank, Taiwan	10%	0%	2.755 billion
2	American New Bridge	Taishin Financial Holding Corporation	6.61%	9.92%	27 billion
3	Nomura Holdings, Inc.	Taishin Financial Holding Corporation	1.65%	1.65%	4 billion
4	Singapore Temasek Bank	E-Sun Financial Holding Corporation	6.3%	0%	4.313 billion
5	Japan Shinsei Bank	Sunrise Financial Holding Corporation	26.58%	15.51%	1.134 billion
6	Integral	Sunrise Financial Holding Corporation	1.55%	0.9%	660 million
7	Japan First Life Insurance	Shinkong Financial Holding Corporation	6.34%	0%	7 billion
8	Standard Chartered Bank Limited	Hsinchu International Bank	95.39%	0%	38.665 billion
9	Malaysia QE International	Taishin Financial Holding Corporation	3.97%	0%	4 billion

Source: Financial Supervisory Commission, Executive Yuan, 2007/12

2. Securities

By the end of 2007, there were 39 securities head offices in Taiwan, decreasing by 4 in number from 2006, and there were 1,024 securities branches by the end of 2007, down by 26 in number compared with the corresponding period of the preceding year. As of December 31, 2007, Taiwan had 39 securities investment trust firms, decreasing by 2 in number from 2006, and had 149 securities investment consulting houses, down by 22 in number compared with 2006. By the end of 2007, there were 18 futures dealers, decreasing by 5 in number compared with the corresponding period of the preceding year. Meanwhile, there were 38 firms dealing with both securities and futures, increasing by 3 over 2006. Overall, the securities services industry has shown a declining trend over the past three years.

By the end of 2007, there were a total of 698 firms listed in the centralized securities exchange, increasing by 10 compared with the number in 2006. The total capitals held by the listed firms amounted to NT\$5.60 trillion, increasing by NT\$79 billion over 2006. The total market value of the listed firms came to NT\$21.53 trillion, growing by NT\$2.15 trillion over 2006. The gross turnover value came to NT\$33.53 trillion, increasing by NT\$9.32 trillion over 2006. The closed trading by foreign investors accounted for 19.7% of the total turnover, up by 1.2% over 2006. In an overview of the centralized markets, the listed companies have shown no significant change in number of firms and gross capital but have shown a growth in market values and closed trading turnover. The ratio held by foreign investors in the closed trading has increased as well.

By the end of 2007, there were 547 firms listed in the GreTai Securities Market ("GTSM"), increasing by 16 in number compared as of December 31, 2006,. The total capitals held by the OTC listed firms amounted to NT\$715 billion, decreasing by NT\$11 billion from 2006. The total market value of

OTC listed firms came to NT\$1.87 trillion, down by NT\$30 billion from 2006. The gross closed turnover came to NT\$142.02 trillion, decreasing by NT\$39.75 trillion from 2006. The total trading by foreign investors in OTC accounted for 4.2%, down by 1.0% from 2006. In terms of the overall performance in OTC, the OTC listed firms showed signs of a decline in capitals, market worth, closed turnover and rate of trading by foreign investors, except the number of OTC listed firms which has increased.

As of December 31, 2007, Taiwan futures market had 115 million units in closed deals, incorporating by 548,000 units over as of December 31, 2006. The number of 501,000 units of futures deals is not settled as of December 31, 2007, decreasing by 182,000 units compared with December 31, 2006.

Major securities related indices

Descriptions	Units	2007	2006	2005
Securities firms as head offices	No. of firms	133	137	143
Securities firms as branches	No. of firms	1,024	1,050	1,065
Securities investment trust firms	No. of firms	39	41	45
Securities investment consultatgion firms	No. of firms	149	171	213
Futures dealers	No. of firms	18	23	24
Securities/futues dealers	No. of firms	38	35	37
No. of firms listed in the centralized stock exchange	No. of firms	698	688	691
Capitals of firms listed in the centralized stock exchange	Billion NT\$	5,602	5,523	5,416
Market worth of firms listed in the centralized stock exchange	Billion NT\$	21,527	19,377	15,634
Gross closing deal worth in the centralized stock exchange	Billion NT\$	33,527	24,205	19,074
Amounts of securities traded in the stock exchange by foreign investors	NT\$100 million	---	5,549	7,194
Ratio of securities traded in the stock exchange by foreign investors	%	19.7	18.5	17.9
No. of firms listed in OTC	No. of firms	547	531	503
Capital of firms listed in OTC	Billion NT\$	715	726	643
Market worth No. of firms listed in OTC	Billion NT\$	1,869	1,899	1,312
Gross trading turnover in OTC	Billion NT\$	142,023	181,768	213,517
Amounts of securities traded in the	NT\$100	---	-67.7	710

OTC by foreign investors	million			
Ratio of securities traded in the OTC by foreign investors	%	4.2	5.2	5.9
Total number of contracts closed in futures deals	Thousand contracts	115,151	114,603,	92,660
Total number of contracts of futures deals not settled as of end of the term	Thousand contracts	501	683	858

Source: Financial Supervisory Commission, Executive Yuan, organized for the present study ,
2008/01

3. Insurance

By the end of 2007, Taiwan had 39 local insurance companies, equivalent to the number in 2006, and total of 13 foreign insurance companies, decreasing by 3 from 2006. As of December 31, 2007, there were three local/foreign reinsurance firms, increasing by 1 in number from 2006. There were 29 overseas branches operated by the local insurance companies, increasing by 4 in number from 2006; and 12 liaison offices in Taiwan operated by foreign insurance companies, decreasing by 1 from 2006. Overall, there were signs indicating a increase in number of local insurance business' overseas branches, while foreign insurance businesses were decreasing.

As of the insurance premium revenues vs. GDP (known as insurance penetration) the world ratio of insurance penetration came to 7.5% in 2006 with United Kingdom ranking the top at 16.5% followed by South Africa at 16.0% while Taiwan ranked the third with 14.5%, and South Korea and Japan ranked as the 4th and 7th. As for the gross net profit/gross revenue of the entire insurance industry, Taiwan was 1.6% in 2006, up by 0.3% from 2005. In comparison with the average rate of 5.3% in 2006 among the insurance counterparts within Fortune Global 500, there is a significant room for improvement for Taiwan's insurance service industry.

Major indices of the insurance industry

Descriptions	Units	2007	2006	2005
Local insurance companies	No. of firms	39	39	37
Foreign insurance companies	No. of firms	13	16	18
Local and foreign reinsurance firms	No. of firms	3	2	2
Number of overseas branches operated by the local insurance companies	No. of firms	29	25	25
Taiwan liaison offices operated by foreign insurance companies	No. of firms	12	13	15
Gross assets of the insurance industry	NT\$100 million	---	79,607	67,846
Ratio of the assets possessed by the insurance industry vs. the gross assets of entire financial institutions	%	---	20.0	18.1
Insurance premium revenues	NT\$100 million	---	16,775	15,761
Insurance indemnity and payments	NT\$100 million	---	7,037	5,647
Insurance density	NT\$	---	73,328	69,220
Insurance penetration	%	---	14.5	14.1
Average bonus ratio of life insurance	%	---	2.2	1.8
Gross turnover of the insurance industry	NT\$100 million	---	27,548	24,826
Gross net profit of the insurance industry	NT\$100 million	---	429	323
Gross net profit/gross revenue of the entire insurance industry	%	---	1.6	1.3

Source: Financial Supervisory Commission, Executive Yuan, organized for the present study , 2008/01

(III) Major Suppliers in Taiwan

1. Bank

In accordance with the irresistible trends of financial liberalization and globalization, Taiwan's local banks have set up overseas strongholds one after another. As of September 30, 2007, local Taiwan banks had set up a total

of 231 branch banks/branch offices, primarily in Asia-Pacific Region, mainly in Vietnam, the Phillipines and Hong kong, and United States.. In terms of number of branches, the total number of branches exceeds ten both in the United States and Hong Kong.

Statistics of overseas branch banks/branch offices set by local Taiwan banks, by regions

Regions	Number of branch banks	Number of representative offices	Number of other branches	Total
Asia-Pacific	45	29	62	136
West Asia	0	1	0	1
Europe	7	2	1	10
North America	24	1	53	78
Latin America	3	2	0	5
Africa	1	0	0	1
Total	80	35	116	231

Source: Financial Supervisory Commission, Executive Yuan, organized for the present study, 2007/09

Local banks in Taiwan have had a hard time for the small market scale and fierce competition. To avoid the inadequate allocation of resources and to boost competitive edge, Taiwan is trying hard to launch merger/acquisition (M&A). In 2006, the Financial Supervisory Commission, Executive Yuan approved a total of six merger/acquisition (M&A) applications, i.e., San Hsin Commercial Bank with Fengyuan Credit Cooperative, Taiwan Cooperative Bank with Farmers' Bank of China; International Commercial Bank of China with Chiao Tung Bank (renamed Mega International Commercial Bank Co., Ltd.), SinoPac Bank with International Bank of Taipei (currently known as SinoPac Bank), Fubon Commercial Bank with Fubon Bills & Finance; E-Sun Commercial Bank with E-Sun Bills & Finance. In May 2007, Chinatrust Commercial Bank obtained Tatung Business Bank by winning the open tender.

Statistics indicate that by June 2007, the total assets in Taiwan's wealth management market came to NT\$8 trillion. McKinsey pointed out in its Asian Personal Financial Service Survey Report that the fortune held by wealthy Taiwanese would grow by 12% annually, suggesting that Taiwan's wealth management market will be continuously expanding in the foreseeable future. Besides, financial innovation will make wealth management increasingly complicated. Wealth management itself has become a sort of professionalized technology & know-how. Many people have not only concerned about how to accumulate wealth also how to manage it. Demand for wealth management becomes more complex. Property and wealth call for more positive management. All these represent the great momentum for the wealth management market to continuously grow.

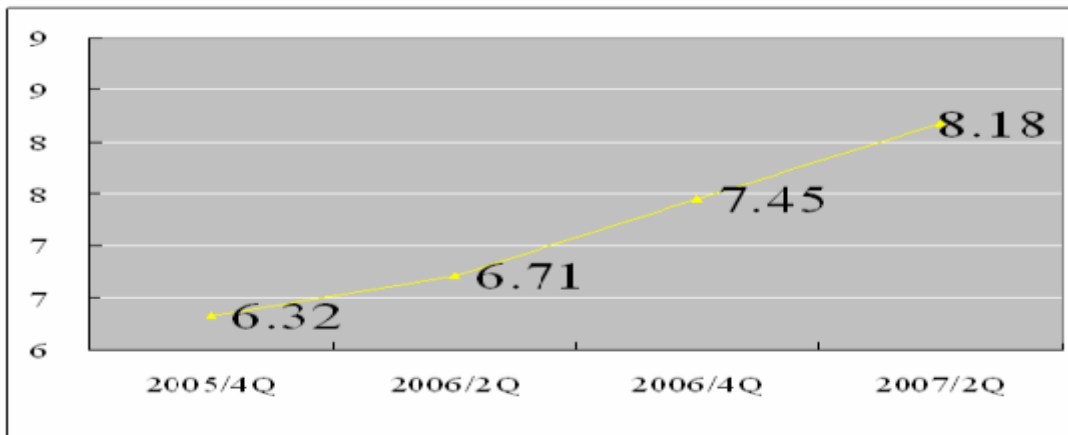
Statistics of merger/acquisition (M&A) 2006

#	Merger/acquisition (M&A) record (base) date	Merging banks	Merged banks
1	2006.01.01	San Hsin Commercial Bank	Fengyuan Credit Cooperative
2	2006.05.01	Taiwan Cooperative Bank	Farmers' Bank of China
3	2006.08.21	International Commercial Bank of China	Chiao Tung Bank
4	2006.11.13	SinoPac	International Bank of Taipei
5	2006.12.25	Fubon Commercial Bank	Fubon Bills & Finance
6	2006.12.25	E-Sun Commercial Bank	E-Sun Bills & Finance

Source: Financial Supervisory Commission, Executive Yuan, organized for the present study , 2008/01

Scale of wealth management market in Taiwan

Unit: NT\$1 trillion



Source: Financial Supervisory Commission, Executive Yuan, organized for the present study , 2008/01

2. Securities

In 2007, the total closed trading turnover in the securities markets in Taiwan exceeded US\$1 trillion, ranking 4th in Asia, next only to Tokyo, Hong Kong, and South Korea. In terms of closed trading value turnover rate, Taiwan was roughly equivalent to South Korea and outperforming stock exchanges in New York, Tokyo, London, Hong Kong and Singapore. In terms of price-earnings (P/E) ratio, Taiwan was significantly surpassed by Tokyo, Hong Kong and was roughly equalling New York, South Korea and exceeding Singapore and London.

Stock exchange performance in comparison in 2007

Unit: US\$1 billion, %; times(multiples)

Descriptions	Amount of closed trading	Closed deal turnover rate	Price-earnings (P/E) ratio
Taiwan	1,008	153.3	15.3
New York	27,052	135.1	18.7
Tokyo	6,035	118.3	28.0
London	9,883	127.2	11.7
Hong Kong	1,974	67.6	23.1
South Korea	1,875	154.5	16.9

Singapore	359	61.5	14.8
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Source: Financial Supervisory Commission, Executive Yuan, organized for the present study, 2008/01

3. Insurance

The total assets possessed by the insurance companies, by the end of 2006, amounted to NT\$7.96 trillion, increasing by NT\$1.18 trillion over 2005. The ratio of insurance firms' assets vs. the gross assets possessed by the entire financial industry was up from 15.1% in 2005 to 20.0% in 2006.

The survey findings by Swiss Reinsurance indicated that the average per capita insurance premium expenditure (institution density) came to US\$555 around the globe in 2006. The top three were United Kingdom (US\$ 6,467), Ireland (US\$5,565) and Switzerland (US\$5,562). In Asia, Japan ranked 1st at US\$3,590, ranking 9th around the world. Hong Kong at US\$2,788 ranked 14th while Taiwan at US\$2,250 ranked 20th.