Content

Title：	Regulations Governing Use of Insurer's funds in Special Projects, Public Utilities and Social Welfare Enterprises Ch
Date：	2016.02.03
Legislative：	Amended on February 3, 2016.
Content：	Article 1 These Regulations are formulated in accordance with the provisions of Paragraph 1 of Article 146-5 of the Insurance Act (hereinafter referred to as the "Act"). Article 2 Use of Insurer’s funds for special projects shall be restricted to investments in or extension of loans for the following projects: 1. Emerging and key strategic projects or venture investment projects approved by the government. 2. Industrial zone or regional development projects approved by the government. 3. Purchase of houses by the houseless. 4. Cultural and educational conservation and construction. 5. Funeral facilities not distributed as public utilities listed in Article 3. 6. Other use in line with the government policies. Article 3 Use of Insurer’s funds for public utilities shall be restricted to the following utilities: 1. Transportation facilities of highways, railroads, harbors, parking lots and airports. 2. Facilities of public utilities, such as water, electricity, telecommunications, etc. 3. Public housing construction, social housing and elderly residence projects. 4. Environmental protection facilities, including river, sewerage, garbage and waste disposal, and funeral facilities. 5. Construction of public-welfare facilities for public recreation. 6. Other public utilities as promoted by the government or in line with the government's construction projects. Article 4 The insurer’s investment in social welfare business is limited to the business for social welfare operation that is established in accordance with the authorization of the competent authorities and the necessary facilities, including social assistance, welfare services, employment, social insurance, and healthcare. Article 5 The investment targets of an insurer, either special projects, public utilities and social welfare enterprises, shall be profitable and restricted to such companies limited by shares that are incorporated and registered in accordance with the Company Act, with the exception of such

development and construction projects, loans and investments as are in line with the government policies.

Article 6 An insurer, which intends to invest in a special projects, public utilities and social welfare enterprises, shall formulate a procedure, which, as well as the amendment thereof, shall be submitted to the board of directors and shareholders' meeting for approval and to the competent authority for reference. The said procedure shall set forth the following information:
1. Assessment and operational procedures (including the investment limit, management level, implementation department authorized by the board of directors)
2. Procedure for determination of transaction terms (including method and bases for determination of the prices)
3. Internal control system (including risk management measures, regular assessment method, analysis of performance, etc.).
4. Internal audit system (including internal audit structure, audit frequency, audit scope, the submission procedure of the audit report, and improvement tracking;)
5. Regular reports by designated senior executives to the board of directors on the performance of projects.
6. Other information specified by the competent authority.

Article 7 The limits for an insurer engaging in investment on special projects, public utilities, and social welfare enterprises is set forth as follows:
1. The total amount shall not exceed 10% of its total funds.
2. The total amount of an insurer invested in one and the same entity shall not exceed 5% of its total funds, and the following shall be complied with:
(1) Where the invested entity is a venture investment enterprise, such amount shall not exceed 25% of the paid-in capital of the invested entity.
(2) Where the investment is made onto an enterprise with the items enumerated under Article 3 and 4, such amount shall not exceed 45% of the paid-in capital of the invested entity. The foregoing is not applied to the insurer which is qualified with the following conditions and obtains the approval of the competent authority:
(i) The insurer’s risk-based capital ratio as of the end of most recent period shall comply with Paragraph 1, Article 143-4 of the Act;
(II) The investment shall be approved by the board of directors, and an independent director shall be appointed. In addition, except for the insurer entirely held by a financial holding company, an audit committee shall be established.
(III) There have been no major violations of the internal control procedure governing various applications of funds in the immediately preceding year, or the violations have been rectified and the rectification has been affirmed by the competent authorities with relevant supporting document.
(iV)There have been no major sanctions or accumulated fines exceeding NT$3 million imposed by the competent authority in the most recent year, however, this does not include violations that have been rectified and

affirmed by the competent authority.
(V) Where this is not the first investment, any invested entities with its shareholding ratio exceeding 45% shall shows no accumulated losses in the financial report as of the end of the most recent period, except for the invested entity is the private institution regulated by the “Act for Promotion of Pri¬vate Participation in Infrastructure Pro¬jects”, the financial report of such invested entity shows no accumulated losses in the most recent period.
(3) Except for the invested entity prescribed in the above two Items, such amount shall not exceed 10% of the paid-in capital of the invested entity.
3. In case of securitization products issued by an insurer aiming at the contents set forth in Article 3 and 4 as the target, such insurer may invest within the limit of 10% of the total amount of the securitization products, free of the restriction of the investment ratio set forth in the preceding Subparagraph.
Where, after an insurer invests in an entity for special projects, public utilities and social welfare enterprises, the said entity is qualified to accept investments under Subparagraph 3 or 4 of Paragraph 1 of Article 146-1 of the Act, the investments in such entity shall be governed by the provisions of the said Subparagraph instead, provided that if the said investment exceeds such limits as are prescribed in Subparagraph 3 or 4 of Paragraph 1 of Article 146-1 of the Act instead, provided that if the said investment exceeds the ratio as prescribed in Subparagraph 3 or 4 of Paragraph 1 or Paragraph 2 of Article 146-1 of the Act, no additional funds shall be invested in the entity unless the additional investment is made to maintain the original equity share in the entity.
Article 7.1 If the total amount of an insurer invested in one and the same invested exceeds half of the paid-in capital or half of the total outstanding voting shares of such invested entity, the followings shall be complied with:
1. The insurer shall ensure that the invested entity has set up an internal audit unit and set out in its internal control system the procedures and methods for self-assessment operation. Compliance with this implementation shall be tracked periodically by the insurer.
2. The insurer shall ensure that the invested entity has agreed to provide at least an annual audit report or self-assessment report to the insurer. The insurer shall also ensure that the invested entity has agreed to submit a report to it within 10 days from the date the invested entity has found any violation or abnormality of the internal control system while conducting a project or annual audit.
3. The insurer shall ensure that the invested entity has agreed it to conduct an on-site audit on the invested entity during the investment period.
4. If the post-tax profit or loss of the invested entity in the most recent accounting year is negative after investing, the insurer shall submit an improvement plan to its board of directors within two months from the date the financial report has been prepared by the invested entity. In addition, the audit unit of the insurer shall submit a quarterly audit report on the implementation of the improvement plan to the board of directors.

5. The internal audit unit of the insurer shall track the improvement status of the invested entity on the flaw or abnormality mentioned in Subparagraph 2 and conduct an on-site audit on the invested entity once every six months. The relevant tracking and audit items shall be included in scope of the internal control and audit of the insurer. If any illegal activity or major violation is detected, the insurer shall immediately inform the invested entity and periodically prepare a tracking report. The completed audit and tracking report shall be submitted to a meeting of the board of directors of the insurer in its latest meeting.
6. The subsidiaries shall comply with the required control procedure according to the "Regulations Governing Implementation of Internal Control and Auditing System of Insurers" and "Regulations Governing Establishment of Internal Control Systems by Public Companies".
7. The insurer shall establish a monitoring and audit management system if its amount invested in an invested entity exceeds half of the paid-in capital or the total outstanding voting shares of such invested entity. Such monitoring and audit system shall at least include the regulations prescribes in Subparagraph 1 to 6 and be submitted to and passed by the board of directors. If the independent directors have objections or reserve their opinions, the meeting minutes shall record the details.

The audit and tracking report prescribed in Subparagraph 5 of previous Paragraph shall be signed by the general manager, the general auditor, and the compliance officer of the headquarter of the insurer. The content of the audit report shall at least include the followings:
(1) Operating status of the invested entity;
(2) Quarterly financial statement of the invested entity;
(3) The meeting minutes and the implementation status of the resolutions passed by the board of directors of the invested entity;
(4) The implementation status of the resolutions passed by the shareholders meeting of the invested entity;
(5) The existence of violation or abnormalities in the internal control system of the invested entity; and
(6) Whether the invested entity has a major violation or has been involved in any illegal activity.

Non-life and life insurers shall comply with Article 11 of the "Regulations Governing Public Disclosure of Information by Non-life Insurers" and "Regulations Governing Public Disclosure of Information by Life Insurers" to disclose the audit report for the implementation of investment improvement plans listed in Subparagraph 4 of Paragraph 1 as well as the complete audit report of the invested entity listed in Subparagraph 5 in the same Paragraph to the public under the notes which shall be made under the information disclosure website. The aforesaid disclosure information shall be updated within ten days after submission to the board of directors.

Article 8 An insurer desiring to use its funds for special projects, public utilities and social welfare enterprises shall apply for approval from the competent authority by submitting the following documents
1. Investment plan and objectives (including objectives, method, market analysis, cost analysis, analysis of long-term and short-term return on investment, composition of shareholders and management team). This

document can be replaced by a letter of opinion on the financial adequacy of the investment project issued by a certified public accountant and a letter of legal opinion on the legitimacy of the investment project issued by a qualified lawyer where the investment is made onto an enterprise with the items enumerated under Articles 3 and 4.
2. Details of the funds used for the special project or public utilities or social welfare enterprises, and analysis of return (including analysis of return on investment in each phase with explanatory notes)
3. Financial statements of the invested entity. This document does not need to be attached if the invested entity has been established for less than a year.
4. Documents regarding decisions resolved or powers authorized by the board of directors.
5. Letters of approval issued by the relevant authorities.
6. Other information specified by the competent authority.
Where, after the date of receipt of the application package for use of funds for a special project or for investment in public or social welfare utilities submitted by the insurer, the competent authority makes no objection thereto or does not require for supplementary or explanatory documents within 15 working days, the application shall be deemed as approved.
Where the aforementioned supplementary or explanatory documents are required by the competent authority, if the competent authority makes no objection within 15 working days after the date of receipt of the supplementary or explanatory documents, the application shall be deemed as approved.

Article 9 In any of the following circumstances, an insurer may use its funds for a special project or public utilities or social welfare enterprises within the limit authorized by the board of directors without going through the application procedure, provided that the documents set forth in Paragraph 1 of the preceding Article shall be submitted to the competent authority for subsequent review:
1. The insurer increases its monetary investment in an entity for such project as has been approved by the competent authority, without increasing its original share in the total investment in the project
2. The invested entity is a venture investment enterprise qualified to receive guidance and/or assistance from the central competent authority according to the Regulations for the Guidelines for Venture Capital Businesses, and the total amount that the insurer invests in one and the same entity is less than NT$100 million and less than 5% of the paid-in capital of the insurer.
3. The invested entity is not such an enterprises as is specified in the preceding Subparagraph and the total amount that the insurer invests in one and the same entity is less than NT$50 million and less than 2% of the paid-in capital of the insurer.
For an insurer engaging in the investment set forth in preceding Paragraph, the risk-based capital ratio thereof should comply with the provisions of Paragraph 1 of Article 143-4 of the Act,
The invested entity is the entity regulated by the “Act for Promotion of

Private Participation in Infrastructure Projects" and the following investment amount and conditions are met, the insurer can invest in such entity without going through the application procedure, provided that the documents set forth in Paragraph 1 of the preceding Article shall be submitted to the competent authority for subsequent review:

1. The total amount of investment in one and the same project of the insurer is under NT$1 billion and 10% of its owner's equity, and the following conditions are fulfilled:

(1) The risk-based capital ratio of the insurer in the most recent period shall comply with Paragraph 1, Article 143-4 of the Act.

(2) The documents of the investment project prescribed in Article 8 have been submitted to and resolved and approved by the board of directors before the investment is made.

2. The total amount of investment in one and the same project of the insurer is under NT$5 billion and 10% of its owner's equity, and the following conditions are fulfilled:

(1) The financial conditions, corporate governance, and internal control of the insurer must fulfill the following conditions:

(i) Both of the risk-based capital ratio of the insurer in the most recent period and the average risk-based capital ratio of the insurer over the most recent two years are 250% at least.

(ii) The documents of the investment project prescribed in Article 8 have been submitted to the board of directors and resolved and approved by over half of the directors at the board meeting attended by over two thirds of all directors before the investment is made.

(iii) Except for a Taiwan branch of a foreign insurer, independent directors shall be appointed. In addition, except for the insurer entirely held by a financial holding company, an audit committee shall be established.

(iv) There have been no major violations of the internal control procedure governing various applications of funds in the immediately preceding year, or the violations have been rectified and the rectification has been affirmed by the competent authority.

(v) There have been no major sanctions or accumulated fines exceeding NT$3 million imposed by the competent authority in the most recent year, however, this does not include violations that have been rectified and affirmed by the competent authority.

(2) The investment project complies with the financial standards set forth by the insurance association and filed with the competent authority for reference, has the guarantee or risk sharing mechanism provided by the authority in charge, and stipulates dispute settlement mechanism, and meets the following conditions:

(i) The risk-based capital ratio of the insurer in the most recent period shall comply with Paragraph 1, Article 143-4 of the Act.

(ii) The documents of the investment project prescribed in Article 8 have been submitted to and resolved and approved by the board of directors before the investment is made.

The total amount of investment mentioned in Paragraph 3 refers to the total amount of royalty, construction cost, and rent paid by the insurer under the investment contract.

The competent authority may, on a regular basis, audit the investment made by an insurer in such special projects, public utilities and social welfare enterprises as are set forth in Paragraph 1, and may, in light of the social and economic circumstances and the actual performance of the projects, impose restrictions on or require review of such investment.

Article 10 An insurer handles special use of loans as follows:
1. Loans guaranteed by credit guarantee institutions authorized by the banks or competent authorities;
2. Loans guaranteed with the collateral of properties or real properties;
3. Loans guaranteed with collateral of marketable securities in compliance with Article 146.1 of this Act;
The insurer must collect 100% collateral for the loans granted to the person in charge, employees or major shareholders, or the related party of the person in charge or the responsible loan officer; also, the loan terms and conditions shall not be superior to other similar debtors, If the loan amount exceeds the threshold stipulated by the competent authorities, it must be with the consent of three fourths of the directors at the meeting and two thirds of the boards attending the meeting. The scope, quota, total loan amount, and other binding matters for the related party are guided by the “Rules Governing the Loans Granted to Related Party by Insurers”.
For the insurer with the latest equity capital and risk capital ratio over 200%, the special loans arranged in accordance with the government policy may be reported to the competent authorities for exemption not subject to the restrictions of the first Paragraph.

Article 11 This Regulation shall come into force on the date of promulgation

Data Source：Financial Supervisory Commission Laws and Regulations Retrieving System