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Setting the Right Agenda: A Report on the Capital Markets Sector

Can Taiwan be an Asset Management Center?

The island has numerous attributes in its favor, but many shortcomings will need to be rectified before it is ready to take on the role being envisioned.

BY BRIAN ASMUS

While President Ma Ying-jeou’s administration is saying the right things, and in some cases taking long-awaited action to remove restrictions on investment flows, no one in the asset management industry is breaking out the Champagne yet. Far too many obstacles still lie in the way of achieving optimal results, say industry sources, and overcoming those obstacles will require strong political will and effective cooperation among the Ministry of Finance (including its National Tax Administration), Financial Supervisory Commission, Central Bank, and Mainland Affairs Council, not to mention involvement by the Legislative Yuan to revise old laws or enact new ones.

While most fund managers say they highly appreciate the specific reform efforts currently under way, they are also daunted by the complexity of the interagency coordination that would be needed to put Taiwan on course to reach the government’s stated goal of developing Taiwan into a regional asset-management center.

Given the sensitivity of these matters and many companies’ strict internal guidelines, the seven industry sources interviewed for this report were unwilling to be quoted by name. But they were largely in agreement both in their praise for particular examples of progress and in their frustration over the slow pace of movement in other respects.

Among the positive developments seen by the industry have been the administration’s loosening of restrictions on investment in China, raising the fund derivatives investment limit, opening the trust business to securities investment trust enterprises (SITEs) and security investment consulting enterprises (SICEs), and continued efforts to draft a Financial Services Act.

In its position paper in the 2008 Taiwan White Paper published in May, AmCham’s Asset Management Committee stated its gratitude to the Financial Supervisory Commission (FSC) – as well as to the FSC’s

Securities and Futures Bureau – for considering its recommendations on improving the regulation of Taiwan’s mutual fund industry through the adoption of international best practices. In particular, the Committee welcomed the FSC’s overall policy direction – reflected in the draft Financial Services Act – of moving from rule-based to principle-based and from entity-based to activity-based supervision of the financial-services industry.

The position paper went on to cite various obstacles to the goal of building Taiwan’s financial services sector into one in which an efficient regulatory system provides robust investor protection, while also fostering the industry’s development, growth, and global competitiveness.

Among the specific issues discussed were calls to streamline the fund registration and fund-raising processes, remove the track-record requirement for offshore funds, eliminate China-holdings restrictions, accelerate the adoption of UCITS III derivatives investment limits, and facilitate onshore-fund management. The Committee also urged the relevant government authorities to base regulations on global practices and to maintain consistency.

The Committee particularly requested the FSC’s cooperation in coordinating with the National Tax Administration on several matters. It recommended that the tax officials provide inducements in the tax regime for Taiwan’s financial services industry, as well as incentives to individual investors to invest in funds so as to encourage long-term investment practices and retirement planning. The tax authorities were also urged to clarify implementation details of the Alternative Minimum Tax (AMT) system and the proposed taxation of offshore capital gains.

Industry overview

The availability in Taiwan of international funds has a history of about two decades, but most of the growth has taken place in the past 10 years as investors became more conscious of the need for diversification. The value of assets under either management or administration in Taiwan is estimated to be about US$57 billion, with major players in the sector including BlackRock, Franklin/Templeton, Fidelity, JP Morgan, AllianceBernstein, and Schroder’s.

Characterizing the local market, one fund manager said that Taiwanese investors tend to “lack patience and have no mercy when financial products fail to deliver a good performance – they are very performance-oriented.” A similar situation exists in China and Hong Kong. “They try to catch the pulse of the market and benefit from trading on its ups and downs,” she said.

Gradually Taiwanese investors have begun reducing the frequency of their trading, however, and the typical length of holding a fund has increased from a month about five years ago to five to six months today. “It took them a while to understand that they needed to follow trends over several years, not several months or even a few weeks,” said the fund manager.

Part of the problem is that bank sales staff are normally rewarded only with front-end commission on new sales, but some banks have started to encourage a longer-term approach by also paying their employees trailer fees for providing ongoing investment advice and other service.

Another problem in Taiwan has been the difficulty of hiring, training, and retaining talent. “Lots of Taiwanese financial professionals have run off to China because overall it is growing more and it’s a bigger market,” says one financial expert. “While Hong Kong and Singapore are relatively small markets, they’ve continued to attract top talent and remain strong financial centers because of their rule of law and professional accounting and legal conditions.” In both places, personal income tax rates are also much lower than in Taiwan, which reduces Taiwan’s competitiveness for retaining top-flight personnel.

Also on the HR front, industry players hope that Taiwan can do more to foster high-level English-language skills. “Regional operations centers need workers with good English abilities,” noted one executive. He rates Taiwan as better off in this regard than Korea, Japan, and China, but not as good as it needs to be to fit its aspirations.

On the other hand, Chinese-language capabilities – together with familiarity with Chinese culture and geographical proximity to China – should be competitive advantages for the Taiwan industry, yet these strengths are “substantially reduced by restrictions imposed on Taiwan domiciled asset management funds’ ability to invest in China,” said one source.

Taiwan’s widely recognized core competencies include a talented work force that is hard-working and trustworthy. “Taiwanese workers are committed, flexible, and adaptable – they can take a process and improve it to get results,” said a fund executive. He suggests that Taiwan would make an excellent regional training center, provided that restrictions on the entry of Chinese professionals are further liberalized.

As a regional center, Taiwan also has quality-of-life factors in its favor, especially considering the serious pollution levels in China and Hong Kong. In addition, office rentals and other expenditures are relatively low in Taipei compared with pricy cities like Hong Kong, Singapore, Shanghai, and Tokyo. “There are good schools, the country is safe, and many people choose Taipei over Hong Kong because of concerns that their children will suffer health problems due to air pollution,” said one manager.

Getting it right this time

In the 1990s Taiwan had set a goal for itself of becoming a regional financial center, but little came of it. To succeed now in that objective, said one industry player, the government needs to adopt a broad change of mindset rather than just tinkering with this or that regulation. “Officials here should look to Hong Kong, Singapore, London, New York, and Luxembourg to see how and why these places are successful and then attempt to emulate them – not in piecemeal fashion but in toto,” she suggests.

Based on her contacts with top officials in the various ministries, she reports that “all understand the need to change, to relax restrictions – they are open and willing to listen.” But she hopes they will realize the need to move quickly “if they want success in this dynamic world.” Others in the industry add that commitment at the top for change has to be matched by greater effort to get buy-in from working-level bureaucrats.

The head of one asset management company recommends that Taiwan “hire more specialists with global expertise from, say, Hong Kong or Singapore” to work within government regulatory agencies. Most of the regulators here, he says, tend to be too passive and too parochial in their outlook. “They’re looking only at Taiwan market conditions. For the island to become an asset management center, they need to have a much broader focus.”

Tax policy would be a good place to start, observed one fund manager. “Reducing the estate tax will attract more capital to flow back to Taiwan. A few years ago, the Hong Kong government conducted research, determining that even though HK$1.5 billion was earned every year from the estate tax, its abolishment would bring in far more. When it was reduced to 0%, more than US$600 billion flowed into Hong Kong. Imagine the business opportunities created from that much money. I believe that a lot of this was contributed by Taiwanese investors.”

Changes by the Central Bank are also seen as needed. “Sometimes, the Central Bank interferes too much with market conditions,” said one asset management company executive. “A couple of months ago, when the NT dollar was quite strong, the Central Bank required that SITE funds investing offshore be 100% hedged against currency risk. This should be at the discretion of the fund, not at the dictate of the Central Bank.”

Describing the Central Bank as “too heavy-handed,” another executive said that “we often find that, despite our conversations with the FSC and other regulators, the Central Bank overrides their decisions.”

He also called for swifter action toward implementing the 4-in-1 plan of combining the Taiwan Stock Exchange, the over-the-counter (OTC) and futures markets, and the central depository authority under one holding company. The government envisions doing so in about two years (see the accompanying interview with the Taiwan Stock Exchange chairman). “Without this, Taiwan will lack the scalability to compete as a regional asset management center,” said the executive. As mentioned above, other industry recommendations include total elimination of restrictions on China holdings and full compliance with UCITS III directives on derivatives. “Once these are liberalized, more financial products can be introduced into Taiwan,” said one industry source. “This will enable Taiwanese investors to diversify, hedge, find havens in bad markets, and take advantage of the latest market opportunities without going to Hong Kong or Singapore. We see lots of money flying to Hong Kong that should be part of our business here.”

When it comes to business with China, some in the industry see the need for more preparatory work. “The focus has been too much on China and not enough on overall reform,” said one fund manager, since even after Taiwan’s lifting of various cross-Strait restrictions, in many ways local fund management houses are not ready for investment in China. He suggests that while the Chen Shui-bian government moved too slowly in this area, the Ma administration has been going too quickly, without sufficient communication first with the other side.

“There should have been discussion with counterparts in China and Hong Kong first,” he said. “There are still a lot of regulations in China governing investment from Taiwanese funds. The government here is telling us that it has lifted a number of restrictions, and now it is up to us to figure out what to do. As a result, many of the liberalizations do not actually benefit us.”

Another financial expert cited the need to drop the rule that financial products be on the overseas market for at least one year before being introduced into Taiwan. “Financial markets change very quickly to adapt to market needs, and because of this requirement, investors on the island are actually one and a half years behind.”

More fundamentally, there is a consensus that insider trading rules need to be much stricter and more uniformly enforced, and that corporate governance in general needs further strengthening. “We will know the reforms have been successful when the first global company chooses Taiwan for a regional operations center,” said a fund manager. “It has to be a logical choice that makes sense in the context of a company’s global operations.”

The Taiwan Stock Market – Beyond the Current Turbulence

Schive Chi, one of Taiwan’s most respected economists, was recently appointed chairman of the Taiwan Stock Exchange Corp. Schive, 61, holds a Ph.D. from Case Western Reserve University. His previous positions include Chair Professor at Shih Hsin University, President of the Taiwan Academy of Banking and Finance, Vice Chairman of the Council for Economic Planning and Development, and Chairman of the National Taiwan University economics department. He was interviewed for Taiwan Business TOPICS by Editor-in-Chief Don Shapiro.

Stock markets are going through an exceptionally turbulent period worldwide. What will it take to restore stability in the global marketplace?

Everyone recognizes that the source of the earthquake was the United States, and it’s a macro problem originating from monetary policy. But it’s interesting that if we look back from 1990 up to 2006 or 2007, except for 2000 and 2001, we experienced 15 years of prosperity. This is a historical record. Whether the U.S. was applying monetary policy to prolong the period of prosperity is an interesting academic question. If that was indeed the case, that means that you’ve artificially lengthened the business cycle – which usually lasts from at least seven up to 10 years. What will happen? When you push back the turning point for a couple of years, eventually you have to pay a price.

What to do about it? How, to use your term, to “restore stability”? I think there’s no way for the economy to progress at the same speed as before. If you look at asset distribution, if you look at how bad the financial sector is now suffering, we can’t expect any quick return [to prosperity]. It’s like a human being after a big illness. There is no panacea. You just have to take a long rest and let the body build up its resistance and bring your health back to normal.

Putting government policy aside, we’ve been through some unprecedented changes. The advent of IT technology was a breakthrough innovation, like the automobile or telephone. That was good, but in the 1990s IT development in the financial sector led to derivatives. They were designed to spread the risk into a much broader spectrum. But after a certain point they became the source of trouble, since the content of the product, the structure of the product, has become so sophisticated that no one knows how much risk is really built it. That’s why companies that a year or two ago were the kings are now gone or in trouble.

So for investors here would you just tell them that they need to be patient – that it will take time for the body to recuperate?

Governments all around the world are busy trying to do something. The medicine is quite clear, and for the time being it’s probably the only medicine that the doctor can prescribe. That is, to ease liquidity to the market, because right now interest rates are not the problem. Who cares about the interest rate when the problem is survival?

Some people have raised fears about the possibility of another Depression.

No, I don’t think so. When similar things happened in the United States 50 years ago, the U.S. was the only strong economic power. The rest of the world could be ignored. Now with globalization, there is sharing of the prosperity as well as the damage. In that sense, and with more tools at hand, I don’t think the economy will collapse, but that the world economy will go more slowly is for sure. Just how slowly is the question.

Another example: if you look at the longer term, like 50 years, the world economic growth rate is between 2 and 3%. Last year the United States was over 3% and this year maybe we’re talking about 2%. By that standard, 2% is within the normal range. The same with Taiwan. Over the past eight years, we achieved a 4% growth rate. By any international standard, that is wonderful, though for various reasons the people didn't feel that way.

What are the major objectives you would like to accomplish during your tenure at TWSE?

When I took office here, I said I wanted to complete four things during my tenure. The first is to bring Taiwanese companies back home. In the past, Taiwanese companies operating in China were not permitted to go public here. That was a big mistake. The new government has a new policy on this, and maybe that’s why they asked me to come here.

So far the result has been quite promising. Four companies are in the pipeline, and my colleagues are constantly keeping me informed of the latest progress. By the end, we are looking at getting more than a dozen – including OTC listings as well – and that is quite feasible. There is good news, which was beyond our expectation. Recently some venture capital and private equity companies have been approaching us to say they have large stakes in some overseas companies, especially in Japan and the United States, that are looking at listing in Taiwan. These companies may not be that big by international standards, but by Taiwan standards would belong to the upper second tier. And they are all in the high-tech sector – energy businesses like solar cells, very high-end home appliances, and so on.

We’re trying to create a mechanism to turn the issuance of TDRs (Taiwan Depository Receipts) into an IPO. The difference is that a foreign listed company, if it comes to Taiwan to issue TDRs, most likely will just use a portion of their existing shares to list here. What would be more interesting would be for the investor to use Taiwan to raise funds by issuing new stock. For what purpose? Most likely to invest in China.

Some Japanese companies, for example, are interested in using Taiwan as a link, a gateway, to the China market. That is exactly the idea that we were talking about 10 or 15 years ago – the operations center concept. But at that time we didn’t dare think we could bring foreign companies to list here. Just over the last two or three weeks, though, I have suddenly received a number of visitors – from investment banks, VCs, private equity firms – and to my surprise they are talking about this. People are really taking a different look at us.

Is this development totally due to the change in the cross-Strait atmosphere since the new government was inaugurated on May 20?

Before, this would have been totally impossible. My predecessor in this job, Wu Rong-I, spent a lot of time going to Thailand and elsewhere in Southeast Asia trying to convince Taiwanese companies to come home [to list their stock]. Some companies have come back, but for the companies based on the mainland, there was just no way, because they were prohibited. The door was closed.

In addition, we had restrictions on where you can use the money raised from listing in Taiwan. Not in mainland China. So if I’m a Taiwanese company in China, why should I come to Taiwan? If I go public in Taiwan, that means I’m caged. The same for foreign companies. But now under the new government policy, such investors will no longer be held hostage.

My second objective is to upgrade the country’s status in FTSE and also MSCI. We take that as the goal, to provide evidence that we have really reached developed country status in the capital market. FTSE listed five items for improvement. I can tell you we resolved three and a half of them, and the remaining one is free capital flow. On that one, we have to work with the Central Bank.

What is the attitude of the Central Bank?

We need communication. They think it is not their fault. I cannot say they are totally wrong. Some of the complaints are due to companies’ internal misinformation. For example, a local foreign dealer complained ‘why when I borrow money do I have to borrow through the custodian bank?’ He thought it is our government regulation – from the Central Bank. But when we looked into it, we found that in fact there is no such regulation. That custodian bank was the company’s associate – it was totally an internal arrangement.

The only issue is the NT dollar’s internationalization. The Central Bank still doesn’t want to let it go, for the reason that if you allow NT accounts to be globalized, that will decrease their control over the exchange rate.

But you think that in the near future you can work out enough change to satisfy FTSE?

I think so. It may not completely satisfy all foreign investors, but they should at least accept that it’s enough.

My third objective is to carry out the plan for a merger of the four [units] in the capital market, to build up a roof that is a holding company, and then the holding company would go public and engage in swaps with other stock exchanges. Under the roof we will change the operations of each unit. For example, TWSE will focus on the concentrated market. That means part of the OTC listings will be moved to the TWSE. And what the OTC will do is to handle trades that are by negotiation, like a bond market, not by bidding. There will be another market specialized in futures, and the fourth component will be back office – to act as a securities depository company.

Then we will remove the supervisory function from the three exchanges and create an independent agent for the sole purpose of supervision, under the regulation of the government’s FSC. When that happens, the four companies I mentioned will no longer play the dual role of market promotion on the one hand and providing market discipline on the other.

The change will make this into a normal private company. We won’t have to submit our business plan [to the government] or apply for permission every time we want to add even one staff.

What is your timeframe for that?

First we need a revision of the Stock Exchange Law. One article in the law says TWSE’s shares can only be sold to the original investors among state-owned companies and dealers. We have to remove that restriction. When we get that revision from the Legislative Yuan, in half a year we should be able to set up the holding company. After that, in the second stage, we’ll start doing the restructuring.

I would like to say around two years to finish the organizational restructuring. At that point the financial performance of the holding company will become transparent and stable – only at that stage can you go public. Otherwise how can you tell people the value of this piece of stock?

And after that you’ll engage in share swaps with other exchanges?

Right. That would give us the advantage of dual listings. We’re finding a lot of enthusiasm among other exchanges in this. For example, the New York Stock Exchange is looking for a partner in this part of the world, and Taiwan by all standards is a very attractive possibility. This time when I went abroad they also asked about this, and I had to be very honest to say that eventually that is our goal and I can roughly tell you our timetable, but beyond that nothing can be said right now.

And the fourth objective?

There are so many new products each year. For example, now we have 11 ETFs (Exchange Traded Funds) and they’re doing quite well. So we’d like to have more new products and find ways to offer better service. This one is kind of routine business. Every day there are things to keep you busy.

In what other ways do you see the Taiwan stock market evolving in the years ahead?

The Taiwan stock market has the distinction of having grown up from the involvement of the individual investor, not the institutional investor. So all the thinking by the regulator and by the Stock Exchange was that very tight controls were needed to protect these small investors who are not that sophisticated or well-informed. But this created obstacles for other investors. In Hong Kong and maybe in all developed countries, the proportion of such individual investors is not so large. Listed companies are required to provide basic information, but beyond that it’s the investors’ responsibility to do their analysis and make their judgments.

Now in Taiwan the number of small investors is going down and the proportion of institutional investors is up. Foreign investment now takes one-third of the market cap, though in terms of transactions it’s just one-fourth. For institutional investors both foreign and domestic, the proportion of market cap is close to 40%. At TWSE we have to follow the market trends to change our thinking and mode of regulation.

What would be the economic significance of attracting foreign or mainland-based Taiwanese companies to list here?

They could have a substantial impact in enlarging the local market scale. We’re not expecting huge foreign companies like Google to come here, but as I mentioned these companies are not small either – they’re upper second tier. Why they want to come here is that they’re looking for a local link, perhaps for a Taiwan manufacturing base, but far more important would be the China connection.

For the Taiwanese companies, they came from here originally and they all have some sort of office here. That Taiwan office could start doing financial management; step by step it will become an R&D center, maybe the procurement office, and if it’s big enough perhaps it will become the logistics center, the training center. Taiwan’s location is a very good for those functions. We hope there will be a lot of offspring.

Labor Pension Fund: How to Invest Effectively?

The arrival of a bear market is making it much more difficult for the fund managers to meet the anticipated targets.

BY PHILIP LIU

Inaugurated in July 2007 after a two-year postponement, the Labor Pension Fund Supervisory Committee under the Cabinet-level Council of Labor Affairs (CLA) is still straining to find the best way to fulfill its formidable responsibility of investing as effectively as possible so as to assure a decent retired life for millions of local employees.

So far, the Supervisory Committee has failed to live up to the original expectation from the public, which had high hopes for it during the protracted process of its establishment. Due to feuding between the two main political parties, passage by the Legislative Yuan of the draft organic law to set up the committee was shelved for two years following inauguration of the new labor pension system in July 2005. The delay forced the CLA to deposit the fast-accumulating pension funds with local banks where they earned dismally low interest income, missing out on lucrative investment opportunities in what was then a bull market.

A bear market has since set in, both in Taiwan and overseas, posing extreme challenges for the Supervisory Committee. The organization entrusted NT$30 billion (US$984 million) in new labor pension funds to 10 local fund managers in September 2007 and another NT$30 billion in January 2008, both on three-year contracts.

After a steep decline during 2007, the market value of the first entrusted fund dropped a further 3.1% in the first half of 2008 to hit NT$22 billion. Although the result far outperformed the 12% decline of the Taiwan Stock Exchange Capitalization Weighted Stock Index (Taiex) and the average 19% decline for domestic mutual funds, it was a far cry from the 12% annual return specified in the contracts for investments under the old labor retirement fund in recent years and the 7.5% long-term return targeted by the CLA.

In 2007, the Labor Pension Fund scored returns of only 0.42%, which made it necessary for the national treasury to come up with a subsidy of NT$4.9 billion (US$161 million) to meet the 2.4% minimum return (equivalent to the rate for two-year time deposits) guaranteed to the 4.5 million workers insured under the system.

Li Ya-wen, a section chief at the Committee, notes that the Supervisory Committee is unlikely to invoke its right to terminate the contracts for the first batch of entrusted pension funds when it reviews their performance in October at the time of their one-year anniversary. Although the investment returns have fallen far short of expectations, they have in fact exceeded market performance. In July, citing worse-than-the-market performance, the Committee terminated its contracts with four fund-management companies for investment of some NT$11 billion (US$360 million) covered under the old labor retirement system.

The new labor pension fund is designed to gradually replace that original scheme, which was only available to laborers who had 25 years of service at the same company, had reached 55 years of age with 15 years of employment at one company, or had reached 60 years of age (extended to 65 this year), the age at which an employer can demand that a worker retire. Few local workers stay with the same company for 15 or 25 years, and many get fired when approaching retirement age as employers seek to avoid paying out company pensions. As a result, only around 200,000 workers have managed to collect retirement payment since the Labor Standards Law was enacted in 1984, and those who did were mostly employees of state enterprises.

In contrast, the new pension system envisions an individual pension account for every worker, whose employers have to contribute a premium equivalent to 6% of salary into the accounts. The accounts are portable if the employee changes jobs. The premiums are pooled into a fund managed by Supervisory Committee, and the fund’s performance will determine the size of the annuities that employees can collect after their retirement.

Huang Chao-hsi, chairman of the Supervisory Committee, tries to downplay the recent poor performance, saying results must be viewed from a perspective of three to five years, or even five to 10 years. “I am confident that through proper asset deployment, the annual returns of the labor pension fund can top 7.5% over the long run,” he says.

CLA officials also appear relatively unconcerned about the current situation, citing the record of performance in past years of the old labor retirement fund. “The average annual return of the fund from investing in domestic stocks and mutual funds topped 9.2% over the past six years and that from overseas investments reached 5.8%,” reports Li Jui-chu, vice chairperson of the Supervisory Committee.

Diversifying investments

To achieve its targeted investment returns, the Committee has embraced a policy of further diversifying its investments and increasing the flexibility of its investment practices, while still adhering to the principles of caution and stability. The current strategy is to allocate funds in equities and fixed-yield financial products (bonds and deposits) at the ratio of 4:6.

The Committee, for instance, this May gave out six four-year contracts to international fund managers to invest a total of US$1.5 billion in labor pension funds – with half earmarked for investing in overseas stock markets and the other half in overseas bond markets. The minimum required return is to match the performance of the FTSE index, with a markup of 200 basis points. The management companies are AllianceBernstein, Franklin/Templeton, and Newton (for stock funds), as well as Alliance Bernstein, Franklin/Templeton, and GSAM of Goldman Sachs (for bond funds). “We have to extend to overseas markets, since the Taiwanese market is too limited in scale,” says Huang Chao-hsi.

To achieve higher returns for both the old labor retirement fund and the new labor pension fund, both of which come under its supervision, the Committee will continue investing primarily in equity markets. Huang notes that stock investment has remained the largest source of earnings for the labor funds over the past six years. Consequently, this year the Committee raised the investment ceiling for domestic stocks for the two funds to 33% and 25% of total investments respectively, up from 30% and 20% in 2007. In addition, it lifted the ceilings for all overseas investment to 20% and 30%, up from 15% and 5%.

Further, the Committee is now allowing the entrusted domestic fund managers to invest in hedging-purpose financial derivatives and monetary funds. One such investment item being widely used is ETFs (exchange traded funds), which are funds consisting of stocks (mostly blue chips) with similar characteristics and featuring higher than ordinary stability in investment returns.

The Supervisory Committee will continue to rely on the service of fund managers, noting that the CLA’s own investments for the old labor retirement fund outperformed entrusted fund managers in only one of the past six years. “Up to early July 2008, the CLA had entrusted six batches of funds from both the old labor retirement fund and the new labor pension fund to domestic fund manager, and all six batches have outperformed the overall market,” notes Huang Chao-his. He says the Committee does not plan to increase the ratio of its own direct investment, since it has only 60 in-house investment staffers.

As of the end of June 2008, the Committee had entrusted NT$102.5 billion (US$3.4 billion) from the new pension fund, or 35.8% of the total, to fund managers for investing in both domestic and overseas markets, compared with NT$24.9 billion (US$816 million) under its own investment and NT$159 billion (US$5.2 billion) in bank deposits. For the old labor retirement fund, the amount of entrusted fund reached NT$81 billion (US$2.7 billion), or 17%, compared with NT$193 billion (US$6.3 billion) in directly managed investment and NT$194 billion (US$6.4 billion) in bank deposits.

The Committee and its entrusted fund managers are currently the only option for local workers in managing their pension accounts, since all six domestic insurance companies that initially applied to manage accounts under their annuity insurance programs have withdrawn their applications. The insurance industry points to several unfavorable regulations that make it difficult for them to undertake the business. For example, they are permitted to offer the service only to enterprises with at least 200 employees, half of whom must agree to accept the service, plus they must meet the guaranteed return equaling the interest on two-year time deposits. According to Li Ya-wen, a section chief at the Committee, the organization is now studying whether to relax these conditions so as to encourage insurance companies to participate in the pension program as they do in many other markets.

Experts are also urging another revision in the law – to allow insured workers to use the money in their pension accounts to invest by themselves under certain conditions. A similar practice adopted in Hong Kong and Singapore has been credited with contributing to the remarkable performance of their pension funds over the years.

The outstanding performance of Singapore’s Central Provident Fund, for instance, is attributed to its investment scheme, dubbed CPFIS, which allows the insured to invest a portion of the money in individual accounts in certain government-approved financial products, with the government guaranteeing minimum returns. A survey conducted in May by the Pension Fund Association of the R.O.C. found that 70% of the surveyed employees favored the option of investing on their own. In view of the magnitude of the pension fund, how to invest it most effectively will be critical not only for the welfare of local workers but for the economy as a whole. As of the end of June 2008, the size of the new labor pension fund had hit NT$286 billion (US$9.4 billion) and that of the old labor retirement fund NT$468 billion (US$15.3 billion), and they are growing at a rate of NT$8 billion (US$262 million) and NT$2 billion (US$66 million), respectively, a month. The combined scale of the two funds is expected to hit NT$1 trillion (US$32.8 billion) in three years.