



## SRI MARKETS IN ASIA

# TAIWAN

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November 2001

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ASRIA is funded by: Calvert Group, Domini Social Investments, Friends Ivory & Sime, Henderson Global Investors, Kingsway Fund Management, Morley Fund Management, The Women's Group of the Methodist Church USA, Zurich Financial Services, The Network for Social Change, Co-operative Insurance Services, KLD, Prudential UK, Trillium Asset Management



## 1. Executive Summary

Taiwan has a rapidly changing economy and a growing fund industry. Amidst this change, there are always opportunities to introduce new ideas such as Socially Responsible Investment. However, the overall penetration rate of funds to investors remains relatively low. It may take time for the public to warm to this investment tool.

### RELIGIOUS & CARING GROUPS

Ethical investing in the US was principally propelled by religious movements. The churches invested in the stock market but eschewed companies involved in areas such as gambling and alcohol. If overseas experience is anything to go by, Taiwan has more than a few active religious communities that are vociferous in their opposition towards government policies and other social agendas. The number of caring professionals, such as teachers and health professionals, is also large.

### A GROWING FUND INDUSTRY

Taiwan's mutual fund industry has grown at a compound annual rate of 39.94% over the past 17 years. The government has been vigorously driving industry deregulation. As of 31 December 1999, the size of Taiwan's mutual fund industry was NT\$1.1 trillion (US\$35.5 billion). A special characteristic of the industry is that most Taiwanese people prefer subscribing to newly launched funds rather than to existing ones. There is ample room for innovative funds with new mandates to grow. However, overall fund penetration rate still remains low at 16% of the total population. Moreover, the release of government pension schemes to private management is an opportunity for introducing SRI options to staff.

### HIGH CONSCIOUSNESS ABOUT THE ENVIRONMENT AND HEIGHTENED FRUSTRATION

Pollution in Taiwan is a topical issue. Surveys show that the public is dissatisfied with their environment and demand that the government promote "Industries of the Future" for the sake of sustainable development. The island has a "misery index" that measures public discontent with their surroundings. The index is constantly high. There are also about 15 active environmental protection groups in Taiwan.

## 2. Religious & Caring Groups

### 2.1 Active Religious Communities

The religious movements in the US and the UK were at the forefront of pushing SRI into the spotlight. Churches invested their funds in companies they considered “moral” – such as companies not involved in gambling or tobacco.

Taiwan’s religious groups are powerful and active, and they wield political influence. By some estimates, the island has 4.9 million Buddhists out of a population of 22.16 million. According to government statistics however, the figure falls to 200,000 Buddhists. These figures also indicate that there are 406,000 Christians, 179,000 Catholics and 819,000 Taoists in Taiwan.

There are 98 welfare foundations set up by various religious groups for the benefit of the society. The Buddhist associations are particularly powerful in political circles. They have helped promote dialogue in cross-strait relations. Taiwan is still considered by China as a renegade province.

The Protestant and Catholic faiths promote different social activities. Among the leading schools founded by the Catholic churches in Taiwan are Fu Jen University, the Blessed Imelda's School, Providence University, and the Wentsao Ursuline College of Modern Languages. As of 1999, there were some 793 Catholic churches, 1,834 clergymen, and 652 foreign Christian missions. As of 1999, the Roman Catholic Church operated three universities, one seminary, 36 high schools, ten elementary schools, 199 kindergartens, ten retirement homes, three rehabilitation centres, 21 centres for the mentally retarded, four handicapped welfare institutions, one institute for spreading church teachings, 12 hospitals, and 15 clinics. The church community has contributed significantly to Taiwan’s education and social welfare.

The Protestants are involved in 29 seminaries, six universities, one junior college, eight high schools, one elementary school, 46 kindergartens, four nurseries, seven orphanages, three retirement homes, three rehabilitation centres, four centres for the mentally retarded, six handicapped welfare institutes, 14 hospitals, 15 clinics, four libraries, and 78 publishing houses producing 52 publications.



## 2.2 Caring Groups

Caring professionals are more likely to be enamoured with the idea of SRI. There are 262,541 teachers and 152,385 health professionals in Taiwan, according to government statistics in 1999 (the latest available).

# 3. A Growing Fund Industry

## 3.1 An Overview of the Mutual Fund Industry

Taiwan's mutual fund industry has grown at a compound annual rate of 39.94% over the past 17 years, according to Taiwan Ratings, an independent credit rating organisation to Taiwan's financial markets including banks, finance companies, securities firms, insurance companies, corporations, infrastructure projects and bond funds.

With the active participation of new entrants, the size of Taiwan's mutual fund industry, apart from the offshore fund market mentioned in the Merrill Lynch report below, was NT\$1.1 trillion (US\$35.5 billion) as of 31 December 1999. Of the total, 62% are bond funds while the remaining 40% are equity funds. In terms of quantity, bond funds numbered 52 and equity funds 184. Some 214 funds invested in the domestic securities market while 22 funds invested in overseas securities markets. There were 33 securities investment trust companies (SITE) and 1,358,605 unit holders in the market, while 456,648 individual investors participated in monthly investment schemes, just a fraction of the population of 22 million.

## 3.2 Pension Funds are Up for Grabs for Private Management for the First Time

The current pension system is mandatory for all employees. All employees are required to contribute 6.5% of their salary to a labour insurance scheme. That is supplemented by between 6% and 10% of employees' salary by employers. The scheme, however, is due to change soon to provide more security to retirees.

Taiwan's state pension funds have been managed conservatively, invested in time deposits and in bonds or invested directly in domestic mutual funds. In May 2001, the Civil Servants Pension Fund, which has some US\$7 billion of assets under management, decided it would



issue mandates totaling US\$450 million to private fund managers for investing in the domestic bourse. Three other state pension funds: Labour Insurance Bureau, Labour Pension Fund and the Postal Savings System, are expected to follow suit later this year. It is estimated that the four will release around US\$1.5 billion this year to fund managers. This partial availability of state pension fund to private management opens the doors for SRI to become an option for pension fund contributors.

### **3.3 Fund Mix**

The growth of bond funds in Taiwan has grown at a rapid pace over the last five years with the aggregate size of bond funds soaring from NT\$12.1 billion in 1994 to NT\$634 billion in 1999. Against an environment of loose monetary policy, low and stable interest rates, as well as the absence of capital gains taxes and dividend payments for bond funds, the market weighting of bond funds increased to more than 60% of assets under management in June 1999 from only 5% in 1994. Many institutional investors use the funds for treasury purposes, while wealthy individual investors sometimes shift assets from time deposits to bond funds in order to avoid personal income tax, according to Taiwan Ratings.

The growth in the number of unit holders has been equally phenomenal, increasing from 386,000 in 1994 to 1,358,605 in 1999, translating into a 3.5 times growth in five years. Although Taiwan's mutual fund industry experienced a high rate of expansion, it still has plenty of room to grow, compared with the US mutual fund market. In Taiwan there were 1,358,605 mutual fund beneficiaries representing 16.2% of the island's population of 22 million, while mutual fund beneficiaries in the U.S. amounted to 25% of the total population.

According to the Hong Kong Exchange and Clearing Report in 2000, individual shareholders in Taiwan contributed 88 per cent of total market turnover in 1999.

A unique characteristic of the industry in Taiwan is that investors prefer new funds, which have a book value of NT\$10 per unit, to the older established funds, resulting in keen subscription for new funds. This calls for fund managers to continue to launch new funds to attract new investment. Therefore SRI funds will not be the only new entrants competing in the market.

Chart 1. Growth of Mutual Funds Industry

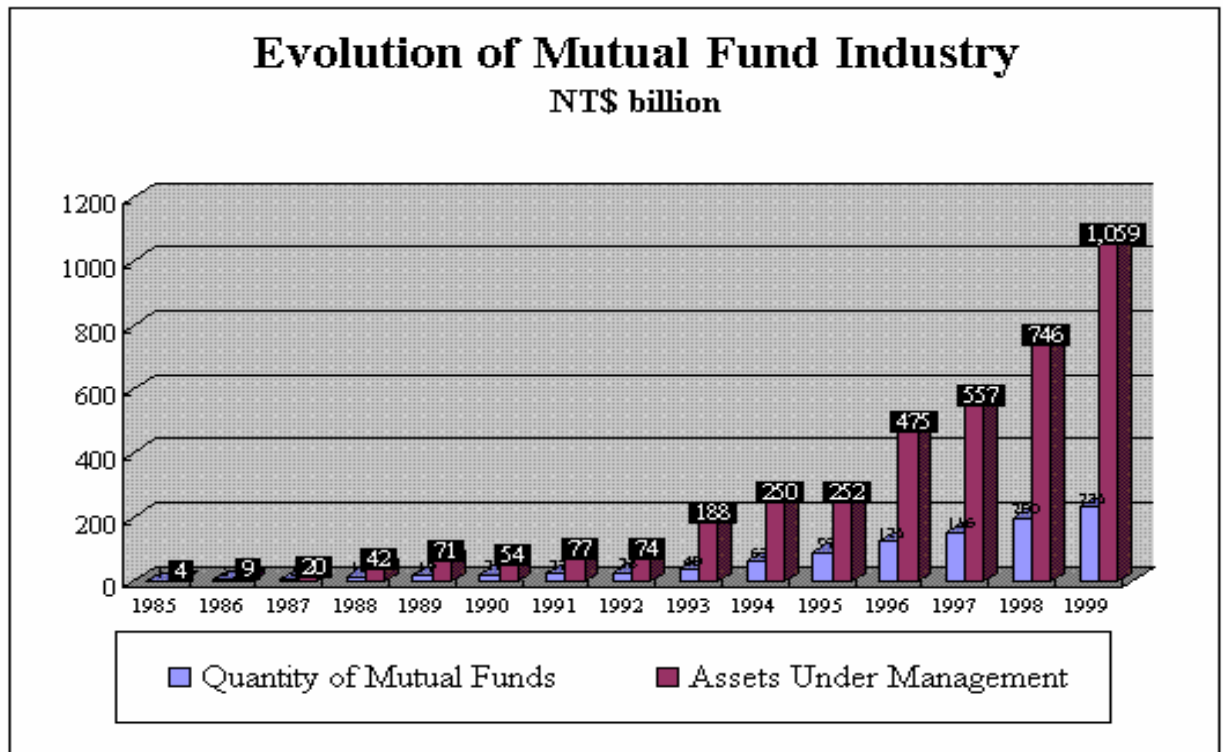
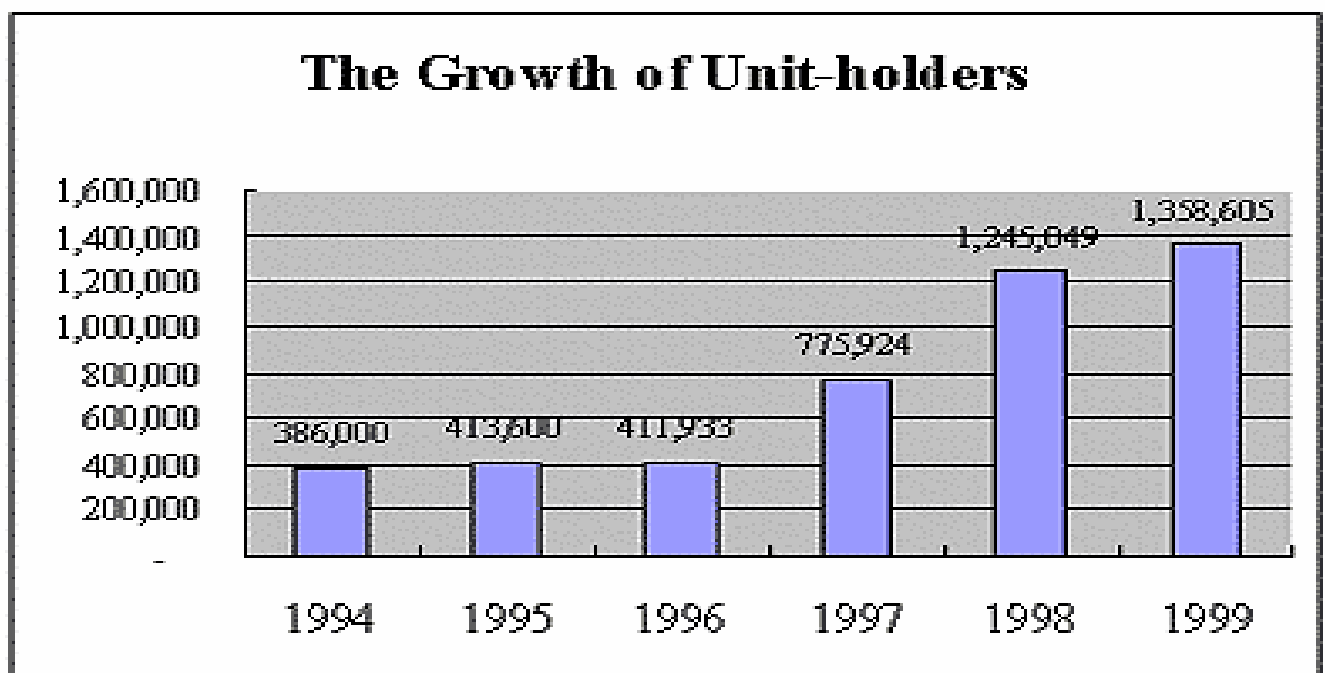


Chart 2. Growth of Unit Holders





### 3.4 Taiwan's Top 10 Fund Management Companies (as of December 31,1999)

	Fund Name	Fund Size
1.	China SITE	97,795,050,179
2.	Yun-Ta SITE	84,417,308,330
3.	Jardine Fleming SITE	78,640,570,799
4.	Capital SITE	72,707,135,808
5.	Fubon SITE	72,173,535,913
6.	NITC SITE	71,059,112,947
7.	Kang-Hwa SITE	60,619,027,615
8.	Grand Pacific SITE	60,507,833,811
9.	Core-Pacific SITE	50,659,425,275
10.	Jih-Sun SITE	42,264,711,155

## 4. High Environmental Awareness

### 4.1 The Environmental Misery Index

Taiwan is not reticent about its environmental problems. The country has a Misery Index to measure public discontent with quality of life issues. Gallup, on behalf of the Environmental Quality Protection Foundation, conducts an annual survey in Taiwan and asks respondents 24 questions about the country's environmental problems. The survey uses the respondents' judgment on the seriousness of these problems to calculate the misery index. The problems include air and water pollution from various sources; the disposal of garbage and waste plastic, and public nuisance such as noise and foul smell.

This year, the index dropped 1.93 points from last year's 77.98 points, indicating that the public is happier with their living environment. Nonetheless, the index has hovered at a high level constantly with no signs of abating.

The survey also separately calculated the environmental misery index of Taiwan's eight most populous areas: Taipei City, Kaohsiung City, Keelung City, Hsinchu City, Taichung City, Chiayi City, Tainan City, and Taipei County. Taipei County topped the list with 77.7 points this year.

### 4.2 Nuclear Power Plant

The Taiwanese government scrapped its plan to build the fourth nuclear power plant on the island last year after strong NGO and public opposition. Although this was more a result of political struggle rather than a genuine interest in alternative renewable energy, it has educated the population about the different arguments behind having a nuclear power plant.

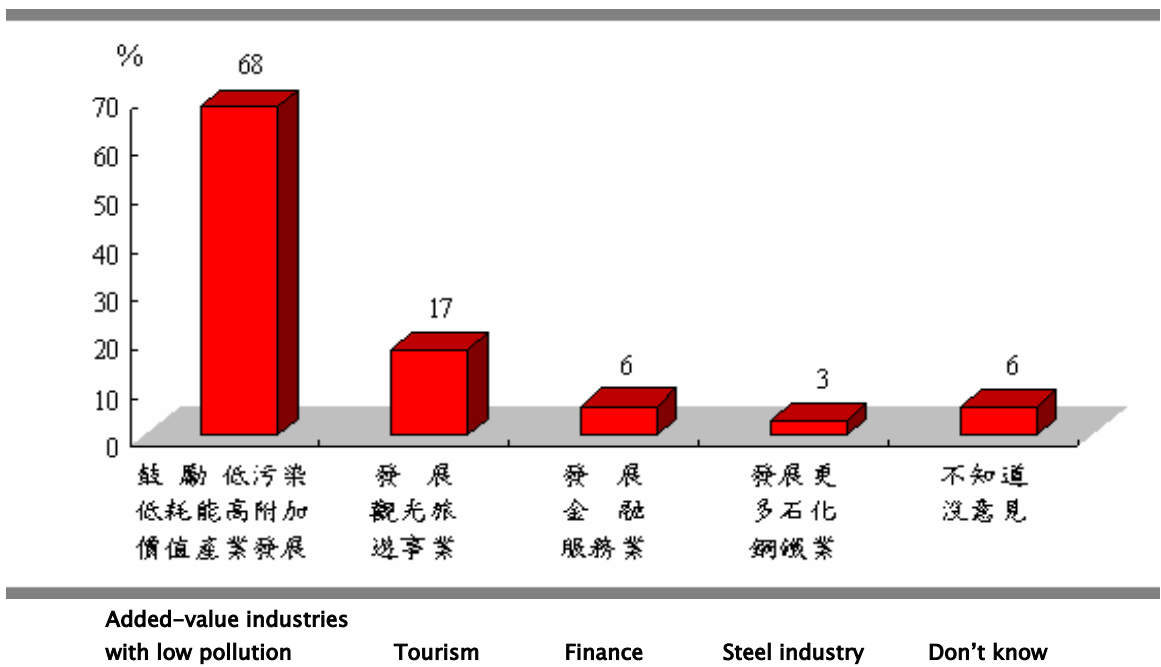
### 4.3 The Taiwanese Want to Change their Way of Running Business

There are 15 active private environmental protection groups in Taiwan trying to foster change to the polluting way of living.

The Taiwan Environmental Protection Union did a survey in 2000 and found that one fourth of the people thought that Taiwan's environment was in a really bad shape, twenty percent thought it was bad, half thought the environment was normal. Only 4 percent and 1 percent thought that the environment was good or very good respectively. Negative sentiments can generate action. Apart from reducing the pollution they produce, the Taiwanese can invest in a cleaner environment through SRI. The capital markets are a powerful force for change.

Industries of the Future – 68% of respondents want to see more low energy-consuming, low polluting industries. About 17% want to see the tourism industry expanded, 6% want to develop the financial industry, only 3% want to see more of the steel industry, as Chart 3 shows.

Chart 3. Industries of the Future



Priorities Shift – 45% of respondents want environmental considerations to have much heavier weighting when making business decisions. 30% think the environment is worth more consideration than business, 19% want to maintain the status quo. Only 1% want less environmental protection, and 4% say that business and industrial development are more important than the environment. It is very encouraging that the respondents are familiar with the benefits of the “triple bottom line”, as Chart 4 indicates.

Chart 4: Priorities between Business Development and the Environment

