

Capital Requirements for Financial Holding Companies in Taiwan

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This study presents a feasible solution for managing market risk capital of Financial Holding Companies (FHCs) in Taiwan. Currently Taiwan has 14 Financial Holding Companies and the Taiwanese government promulgated a FHC adequacy regulation based subsidiary stand-alone basis, rather than the group-wide basis that combines all subsidiaries. A Taiwan FHC is a pure holding company, also termed an invest-holding company. Under Taiwan FHC Act, a FHC may invest in and own 100 percent of all banks, securities firms, and insurance companies. Accordingly, in the proposed model, FHCs invest all of their financial resources in and hold 100 percent of their subsidiaries, including banking, securities, non-life insurance, and life insurance subsidiaries.

This study borrows the idea of risk budget. The total risk capital is assigned to each subsidiary based on the level of assumed risk. Two different dimensions exist for assigning risk capital: the pure risk dimension and the risk and return dimensions. This paper demonstrates that FHCs may reduce risk capital from 24.5 standard units to 11.7 standard units and achieve a 52.30 % diversification effect.

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