## I. Introduction

The Taiwan Financial Supervisory Commission (the FSC) was established on 1 July 2004 as the competent authority with overall responsibility for supervising, regulating, examining, and facilitating the development of financial markets and financial services in Taiwan. The FSC seeks to ensure the sound operation of financial institutions, maintain financial stability, and promote the development of our financial markets.

Tactics employed by fraudsters are constantly evolving and becoming more sophisticated, significantly impacting the rise of online fraud at a greater scope and scale. To achieve the goal of intercepting money flow, the FSC keeps working with other government agencies and banks to devise anti-fraud measures. The FSC welcomes the opportunity to comment on this discussion paper. Below, the FSC is pleased to present some specific comments regarding the questions raised in the discussion paper.

## II. Comments on questions raised in the discussion paper

**Q1. Do you agree with the features and categories of digital fraud? Are there additional financial stability and/or prudential transmission channels from digital fraud to the banking system?**

**A1.**

(1) **Failure of fully establishing internal control system for banks contributing to the increase of cross-border frauds**

According to the FSC's supervision findings, some bank clerks improperly handled customer requests to raise the daily limit on Internet bank account transfers and the daily limit on ATM cash withdrawals. The bank failed to set up effective mechanisms to confirm the reasonableness and authenticity of customer requests to make such limits higher and properly manage employee behavior. As a result, after the limit was raised, these customer accounts were soon found to be suspected of illegal and abnormal transactions. As the bank did not establish a proper internal control system, the FSC imposed remedial measures on the bank, including increasing its operational risk capital requirements to mitigate its risk and potential losses. In addition, with the advancement of financial technology, similar incidents may otherwise impact bank operations through digital means or increase cross-border fraudulent activities, thereby affecting the banking system's stability.

(2) **Illicit financial flow of fraud is complex and multi-layered in nature, making investigation highly challenging and affecting financial stability**

The FSC has found that methods such as fake investment, cancellation of installment, or impersonation of government officials are commonly used by scammers. The fraudsters cash out criminal proceeds through multiple mule accounts and transfer to accounts opened by Virtual Asset Service Providers (VASP). The illicit financial flow finally exchanged into cryptocurrency which stored in an digital wallet of overseas VASP. The cash flow of fraud is complex and multi-layered in nature, making it difficult to trace and to investigate by the law enforcement department. Therefore, banks should conduct comprehensive internal operational procedures, such as customer identification and transaction monitoring, to ensure their effective implementation in preventing money laundering and fraud. This aims to prevent banks from becoming transmission channels for illicit financial flows, thereby safeguarding financial stability.

**Q3.Are there any additional, banking-specific, initiatives on digital fraud that could be pursued by the Committee?**

The FSC has promogulated “Regulations Governing the Deposit Accounts and Suspicious or Unusual Transactions “ (hereinafter the Regulation) on 27 April, 2006, pursuant to Article 45-2, Paragraph 3, of the Banking Act. The Regulation aims to set up management mechanism of "Watch-listed Account" and "Derivative Watch-listed Account." In addition, the FSC has urged banks to jointly defense against scams with the Criminal Investigation Bureau (the CIB). However, online payments have skyrocketed due to the frequent use of mobile or digital banking channel during the outbreak of Covid-19, which gives rise to the increasing cases of digital fraud. The AML procedures implemented by banks focus on fund tracing from suspicious transactions, while the fraud management emphasizes more on the early detection and prevention. The goal of fraud prevention may not completely achieve by AML procedures. Therefore, a series of financial fraud prevention measures have been taken by the FSC to further safeguard customers from digital banking scams. Examples of the measures include:

(1) **Enhancing Know Your Customer processes**

a. Internal control measures for online banking：The FSC has requested the Bankers Association to study and enhance control measures based on account types and risk levels. This includes enhancing Know Your Customer processes, implementing differentiated management on transfer amounts, and establishing of clear review and risk management framework.

b. Identity verification for financial payment instruments：To prevent misappropriated customers' data from being used to open electronic payment accounts, the FSC has implemented an identity verification mechanism for electronic payment instruments by checking the users' mobile number originally registered with the bank or credit card company.

(2) **Strengthening suspicious transaction detecting and monitoring mechanisms**

a. The FSC has requested banks to incorporate the 30 types of unusual transactions(red flags) compiled by the Banking Association into early warning indicators or internal operational procedures to strengthen control measures. To continuously enhance the fraud prevention measures, the FSC also urges banks to proactively collaborate with the CIB on employing anti-fraud technology, which increases the efficiency of detecting fraud cases and optimizes data model dynamically in response to various and emerging forms of crime. This improves early warning effectiveness to monitor suspicious transactions.

Taking the developing Project Eagle Eye started by one of Taiwan's bank as an example, the model effectively elevates the accuracy of prediction for suspicious transaction, while enhancing the anti-fraud capabilities, and saving operational time for banks. Empirical evidence shows that the accuracy has tremendously improved after adopting the model, with the detection rate of watch-listed account (accounts flagged after detection/ watch-listed accounts) reaching up to 80%. Statistics indicate that out of the 38 domestic banks in Taiwan, 34 banks already joined the Eagle Eye Anti-Fraud Alliance.

b. Establishing " Designated Account Reporting Platform"

In order to promptly detect suspicious account and halt illicit financial flows, the FSC has designated Financial Information Service Co., Ltd. to establish the " Designated Account Reporting Platform." This platform is a collaborative anti-fraud mechanism between settlement institution and financial institutions. Financial institutions gain more information to assess risk of fraud. When operating inter-bank transfer services at customers' request, the remitting bank promptly sends the recipients' account number to the receiving bank via the platform. Upon receiving the notification, the receiving bank implements risk and account status check(such as watch-listed account or derivative watch-listed account) before responding back to the remitting bank. This allows both banks to jointly conduct thorough risk management on transaction risk of online banking account.

c. Improving management on authorized online credit card transactions

A one-time password (OTP) is a password that is valid for only one online transaction, on a computer system or other digital device, which can be used as a method of identity verification. Considering that card holders may disclose OTP without being able to identify fraudulent transactions under certain circumstances, the FSC has required credit card issuers to improve risk management on authorized credit card transactions.

(3) **"Warning Account" Mechanism**

To prevent mule accounts from being exploited by criminal activities, the Ministry of Justice has enacted the "Regulations on Suspension, Functional Restriction, or Immediate Closure of Accounts under

Paragraph 6 of Article 15-2 of Money Laundering Control Act" (draft), scheduled to come into effect on 1 March, 2024. The draft explicitly states that individuals providing their bank accounts to others either for financial returns or not will receive a reprimand from the police authority. Subsequently, financial institutions will impose restrictions, including an upper limit on daily transfers and withdrawals, a prohibition on using online banking, rejection of transactions at service counters, and refusal to open new accounts for individuals who have received warnings from the police authority. These restrictions will remain in effect for a duration of five years from the date of the reprimand.

(4) **International cooperation**

a. Holding international workshop on combating transnational fraud

In response to the ever-changing nature of modern society and new types of fraud, all public and private sectors need to collaborate with each other to focus on enhancing know-how in combating fraud. Therefore, as a member of the GCTF (Global Cooperation and Training Framework), a platform to utilize Taiwan's strengths to address mutual global issues, this March, Taiwan is planning to invite governmental officials in combating fraud, experts and scholars to shed light on anti-fraud strategies in different perspectives of telecommunication, digital development, and finance. By establishing the platform of exchanging practical experiences, we'll be able to strengthen our capability in combating fraud through the channels of international cooperation.

b. The requirement of Letter of Indemnity by foreign banks to return of remittance, causing delays in returning defrauded funds

When foreign law enforcement authorities freeze offshore banking accounts involving fraud, they will notify the National Police Agency of the Ministry of the Interior through mutual legal assistance, indicating the account holds funds belonging to Taiwan citizens who have fallen victim to fraud. The remitting banks in Taiwan are required to issue a Letter of Indemnity upon request from the foreign banks before processing the fund refund. However, due to variations in the circumstances of each case, foreign banks in different countries may have different requirements for fund refund (such as only accepting indemnity letters issued by U.S. banks), or they may not permit annotations regarding limits and deadlines, making it challenging for banks to provide the necessary documentation.