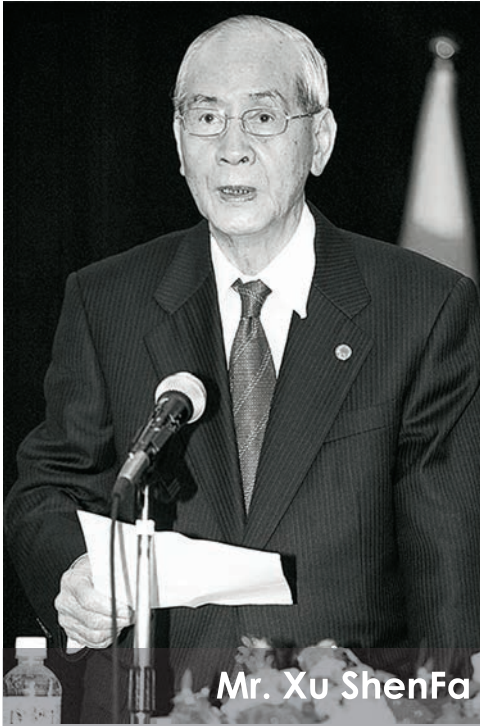


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What the Legendary
Cash Card Cashed Out ?¹”





Mr. Xu ShenFa



Mrs. Xu XianXian

Photos from Apple Daily

A headline-catching auction held in Taipei District Court on June 29th, 2016 featured antiques and luxury furniture most recently owned by Xu ShenFa (許勝發) and his daughter Xu XianXian (許嫻嫻). Xu ShenFa was the founder of Prince Conglomerate (太子集團) and President of WanTai Commercial Bank (萬泰商業銀行). The auction was being held to help recompense lending banks and former employees of Prince Motor Co. Ltd. (太子汽車工業股份有限公司).

Why was a powerful entrepreneur who commanded a conglomerate organization worth NT\$270 billion (US\$9 billion) selling his personal art collection at a court-mandated auction? The story unfolds below.

¹ 民國 97 年 4 月 10 日，台北地檢署以 96 年度偵字第 15655 等案件起訴被告許勝發等 12 人，認其等身為萬泰商銀、太子汽車、萬泰票券公司等公司的負責人與執行業務之人，卻未盡職責放任許家以員工名義成立人頭公司，又以人頭公司向萬泰商銀與萬泰票券公司做無擔保貸款，致掏空上開公司 50 億元，而以違反銀行法等罪名起訴，並對被告許勝發、許顯榮、許娟娟、楊錫洲各具體求刑有期徒刑 10 年、8 年、6 年、5 年。臺灣台北地方法院於 97 年度金重訴字第 1 號判處被告許勝發、許顯榮、許娟娟、楊錫洲有期徒刑，其餘 8 人無罪。本件偵查檢察官吳秋瑩，公訴檢察官陳國辰、林逸群。

The Entrepreneur

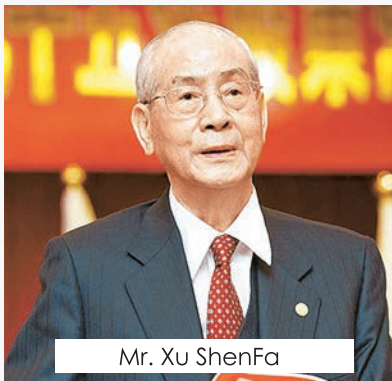
Xu ShenFa was the son of one of Taipei City's elite families. After earning a degree in Economics from National Taiwan University, he set up DaFa Trade Company (大發貿易公司), which joined in the lucrative banana trade with Japan. In 1965, he founded Prince Motor and began importing automobiles from Japan and three years later founded ShenRong Trade Company (勝榮貿易公司) to import automobile parts and accessories. In 1973, ShenFa opened Prince Industry Company (太子工業公司), later renamed Prince Information Company (太子資訊公司) to import NEC computer products from Japan. Five years later, he established Union Rental Company (聯合租賃公司), which leased and maintained industrial equipment. Finally, ShenFa founded WanTai Commercial Bank in 1991.

All of his companies were managed under the umbrella of Prince Conglomerate.

In his capacity as Founder and President of both WanTai Bank and Prince Conglomerate, ShenFa was elected as Chairman of the Chi-

nese National Federation of Industries (CNFI, 中華民國全國工業總會), serving from 1987 to 1994; Chairman of the Taiwan Provincial Industrial Association (台灣省工業會); and Chairman of the Industrial Association of Taipei City (台北市工業會).

In addition to his leadership in business, ShenFa was also politically ambitious. He was elected as a national Legislator and appointed Commissioner of the Central Commission of the ruling KMT Party. Political connections brought ShenFa significant new clout. He was subsequently hired as a Consultant to the Presidential Office during President Lee DengHui's term in 1999. After the national presidency changed from the KMT to the DPP in 2002, ShenFa was appointed Vice President of the Straits Exchange Foundation, a semi-government organization that holds primary responsibilities for communications and interactions between Taiwan and Mainland China. ShenFa leveraged this position to further advance his own business influence and interests.



Mr. Xu ShenFa



Photos from

Upper : Solomon203 , Wiki
Lower : Apple Daily



Prince Motor

Prince Motor Company, founded in 1965 and headquartered in the Taipei City suburb of Sanchong, served as the engine of Prince Conglomerate. Prince Motor initially imported automobile chassis for domestic assembly into commercial vehicles, slurry tankers, and cargo carriers. In 1971, Prince Motor began taking OEM orders from Nissan Motors (日產汽車) and later launched a dealership for Yulon Motors (裕隆汽車), which had the franchise contract with Nissan Japan. Prince Motor reached its zenith in the 1980s and, in 1989, cooperated with Japan's Suzuki Motors to manufacture its popular commercial vehicles in Taiwan. This gave the company leadership in compact automobile sales for many years.

THE BANK AND THE **LEGENDARY CASH CARD**

The Taiwan Government began issuing licenses for new, private banks for the first time in modern history in 1990. Many successful entrepreneurs, including Xu ShenFa, streamed into this new market, hoping to make the most of Taiwan's rapidly expanding financial and securities markets.

ShenFa's WanTai Commercial Bank (萬泰商業銀行) began operations on February 2nd, 1992 with a capitalized value of NT\$12 billion (US\$400 million). The bank's merger with the Tainan 4th Credit Cooperative on April 11th, 1998 significantly expanded its branch network and business scale. In 1999, a business trip to Japan inspired ShenFa to introduce Japan's popular cash card business model to Taiwan. In July of that year, WanTai Bank issued their "George & Mary" cash card, giving cardholders easy access to immediate, preapproved loans at ATMs throughout Taiwan. Its name and accompanying promotions popularized the card as an easy source of interest-free emergency funds. However, loans taken out using George & Mary were charged rates of up to 20% per annum.

Cash cards quickly undermined Taiwan's traditional bank loan business model as the bank began to realize greater



George & Mary Cash Card

profits from its retail cash card loans than its corporate loans. WanTai Bank issued 300,000 cash cards and loaned NT\$16 billion (US\$533 million) in the first year alone. Just two years later, in 2001, it issued 550,000 George & Mary cash cards and released N\$30 billion (NT\$1 billion) in related loans at an average interest rate of 30%. Other banks, hungry for the profits being made by WanTai, soon began issuing cash cards of their own. These latecomers, however, couldn't unseat WanTai's commanding lead in this new segment. By 2003, four years after the launch of George & Mary, the bank had issued 1 million cash cards and loaned NT\$55 billion (US\$1.83 billion) through the program. This represented some 85% of Taiwan's total cash card loan market that year, which totaled NT\$65 billion (US\$2.17 billion).

The "Two-Card" Storm

Other banks, still looking to shake loose some benefit from WanTai's cash cow, began to promote their own cash cards using free gifts, low loan thresholds, and carefully crafted commercials that harped on themes such as "Enjoy now, pay later" and "Avoid predatory loan sharks". The flurry of ads and promotions won an increasing number of consumers over to the idea that cash cards could resolve their debt problems, deliver easy money, and offer entrée into the good life.

The many cash card holders who also had credit cards were known as "two-card holders". While credit cards are subject to strict credit limits and transaction-based approvals, cash cards are specifically designed to provide consumption-oriented loans without guaranties.

Customers may borrow money using cash cards at ATMs immediately, with no approval required. The creditworthiness of individual cash card holders is evaluated only once, at the time of application. Once approved, they could make loans indefinitely, without updating their credit records. Although nearly all of the cash card loans qualified as microloans, their accumulated value and risk grew exponentially. Many cash cardholders took advantage of these terms to expand their credit and increase their expenditures. Consumers started to pay their debt on one cash card using money loaned from another cash card. In September 2005, the 33 banks in Taiwan that issued cash cards recorded cumulative, outstanding loans of NT\$315.2 billion (US\$10.5 billion).

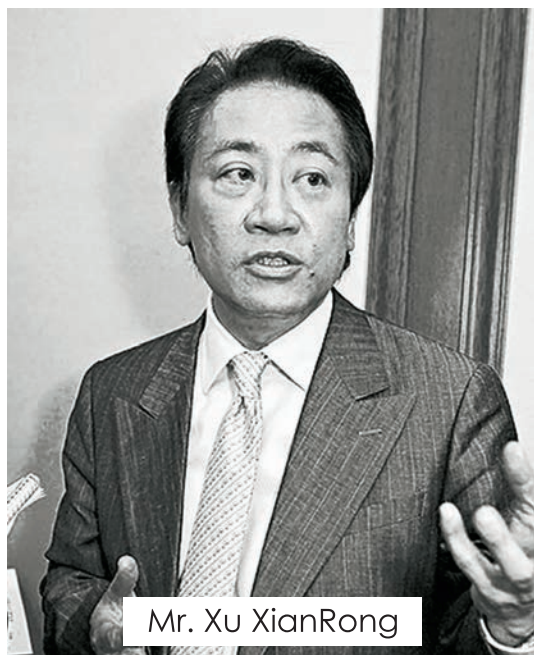


At the end of 2005, the total amount of credit and cash card-based debt in Taiwan exceeded NT\$800 billion (US\$26.7 billion). Banks, groaning under the weight of their nonperforming debts, began tightening lending policies, which bankrupted 520,000 cash card and credit card customers, who were caught unable to meet the revised terms. The amount of outstanding cash card debt in Taiwan at the time averaged NT\$120,000 for each and every one of the nation's 3.76 million cash cardholders. The glamorous cash card bubble burst, leaving a banker's nightmare in its wake.



As the number-one cash card issuer, WanTai Bank was worst-hit by the cash-card collapse, shouldering NT\$15 billion (US\$500 million) in nonperforming debt in 2006.

ILLEGAL LOANS AND BREACH OF TRUST



Mr. Xu XianRong

ShenFa had failed both his bank and his banking dreams. However, instead of rallying an all-out effort to rescue his struggling bank, he started working behind the scenes to hasten its demise. From 2006, ShenFa, his son XianRong (許顯榮), and his daughter, JuanJuan (許娟娟) instructed the Conglomerate's Finance Department Vice Manager Yang XiZhou (楊錫洲) to set up 6 companies using the names of 9 Conglomerate employees. These companies were nominal companies, which exempted them from stakeholder loan scrutiny under the Bank Law. ShenFa and his co-conspirators then took out loans on behalf of these nominal companies from WanTai Bank and the WanTai Bills Finance Corporation (萬泰票券金融股份有限公司) totaling NT\$5 billion (US\$167 million). The loans were unguaranteed and flagrantly illegal.



Ms. Xu JuanJuan

A special financial examination of WanTai Bank launched by Taiwan's Financial Supervisory Committee (FSC) in October 2006 uncovered these illegal loans. Moreover, the FSC discovered that ShenFa and others had sold WanTai's NT\$15 billion in nonperforming debt to a Prince Conglomerate-affiliated firm, WanRong Marketing Consultant Company (萬榮行銷顧問公司), in 2004 for a mere NT\$1 billion. Based on this, the FSC issued a fine on WanTai Bank in March 2007.



WanTai Cosmos Bank

Cognizant that his bank was already in the government's crosshairs, ShenFa made plans to extricate himself from the looming crisis. The bank announced a deficit of NT\$11.2 billion (US\$373 million) in April 2007, which took both the FSC and financial markets by surprise. The FSC demanded that WanTai Bank increase its capital by August 31st, 2007. Although SAC Private Capital Group and GE Money expressed interest in funding this capital increase, the FSC noted irregularities in the overseas funding process and thus then filed a report to the Prosecutors' Office.

The resulting Prosecutors' Office investigation lasted six months and involved raids on WanTai Bank, Prince Conglomerate, and the homes of both ShenFa and XianRong on January 25th, 2008. The 110 prosecutor assistants and investigators who raided WanTai's headquarters confiscated

over 60 boxes of documentary evidence and subpoenaed 9 employees from the bank's accounting and financial departments.

The Prosecutor's investigation shed light on the wrongdoings of WanTai Bank President Xu ShenFa and Vice President Xu XianRong. From 2001 through 2006, the two had illegally taken out loans from the bank, falsified accounting documents, and breached trust by selling non-performing debt at junk rates. Their illicit activities facilitated their embezzlement of about NT\$20 billion (US\$667 million).

ShenFa and XianRong both resigned from their positions at WanTai Bank on September 6th, 2007.

“THE INDICTMENT

On April 10th, 2008, the prosecutor indicted ShenFa, XianRong, JuanJuan, Yang XiZhou, and 8 other management-level staff of the bank and the bills finance corporation for embezzlement under the Bank Law. Based on their wrongdoings and the social devastation that they had caused, the Prosecutor asked the court to sentence ShenFa to 10 years' incarceration, XianRong to 8 years' incarceration, JuanJuan to 6 years' incarceration, and Yang XiZhou to 5 years' incarceration.

“THE TRIAL

After a 6-year trial, Taipei District Court found the defendants guilty under the provisions of the 2007 Criminal Commutation Act, sentencing ShenFa to six months' incarceration, XianRong to five months' incarceration, and JuanJuan and Yang XiZhou to four months' incarceration on July 8th, 2014.

Upon appeal, the Taiwan High Court overruled the lower court's decision and sentenced ShenFa to eleven months, XianRong to eight months, and JuanJuan and Yang XiZhou to six months on April 21st, 2016.

The case remains open to further appeal.

“THE CONSEQUENCES



Photo from June 15, 2011 Apple daily

Without access to funds. WanTai Bank, Prince Motor, and Prince Conglomerate all ceased operations in 2011. Prince Motor closed its doors still owing NT\$704 million (US\$24.7 million) in salaries, pension payments, and severance for its 1,094 employees. Prince Motor's real estate properties had already been mortgaged to other banks and thus were unable to be liquidated. The Ministry of Labor's Bureau of Labor Insurance provided NT\$110 million (US\$3.7 million) to help Prince Motors pay its salaries. However, when the Bureau filed a complaint for compensation against Prince Motor, the court found that the company had registered all of its properties in

a trust on February 5th, 2008 and thus overruled the complaint.

Employees were furious at Prince Motor and demonstrated in front of its headquarters on October 11th, 2011. After five years of negotiation, the Ministry of Labor, FSC, and MOF together convinced 18 banks to donate NT\$158 million (US\$5.27 million) to a fund for Prince Motor employees, which helped these employees recover 64% of what their former employer owed them. The government promised that it would never again put pressure on private banks to contribute funds for the resolution of labor disputes².

² See <https://money.udn.com/money/story/5648/2064682>



凱基銀行
KGI BANK

China Development Financial & KGI Commercial Bank
Photo from Padai,Wiki

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As for WanTai Bank, SAC Private Capital Group and GE Money provided funds to the bank under the condition that the Prince Conglomerate withdraw completely from the management group. On December 28th, 2007, the bank increased its capitalization to NT\$42 billion (US\$1.4 billion). WanTai subsequently reported a profit of NT\$3 billion (US\$100 million) in 2012. China Development Financial (中華開發金控) merged with WanTai Bank on February 10th, 2014 and, on January 5th, 2015, the bank was renamed as KGI Commercial Bank (凱基商業銀行). WanTai Bank was finally relegated to the history books.

Cash cards shackled 520,000 “card slaves”, 60% of whom were young adults,

with massive debts. The two-card maelstrom severely undermined Taiwan’s social foundations. Many card slaves committed suicide, became criminals, or slipped into mental illness. Cash cards had warped into “plastic opium” – an addictive enticement that poisoned both cardholders and society.

At the beginning of 2005, the FSC supervised the Bankers Association (銀行公會) to establish a debt negotiation mechanism for card slaves in order to negotiate reimbursement terms with each of their debt-holding banks. Of the 220,000 who used this mechanism, 50% failed to make payments in according with their agreements. The Legislative Yuan then promulgated the Debt

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Clearance Act (消費者債務清理條例) on April 11th, 2008, which allowed so-called card slaves to request that their largest debtholder negotiate with them for reimbursement. If negotiations subsequently failed, indebted individuals could then petition the court to liquidate their assets and wipe their debt slate clean.

National Legislator Xu ZhongXiong (徐 中 雄), on behalf of Taiwan’ s “card slaves” , questioned the justification for the high cash card interest rates. His effort subsequently forced banks to decrease these loan rates going forward.

A commentator noted that the senior executives of conglomerate entities often consider banks as just another of their many subsidiary companies and run them the same way. However, while companies may be only responsible to their shareholders, banks bear social responsibilities to their depositors. Thus, the philosophy behind bank management is fundamentally different from that behind corporate management.



LEGISLATOR Xu ZhongXiong

Cash cards, once the darling of Taiwan’ s banking sector, ended up bankrupting WanTai Bank, Prince Conglomerate, and its most vigorous proponent, Xu ShenFa.



Photo from Apple Daily





The Control Yuan Building
Photo from Harry Huang