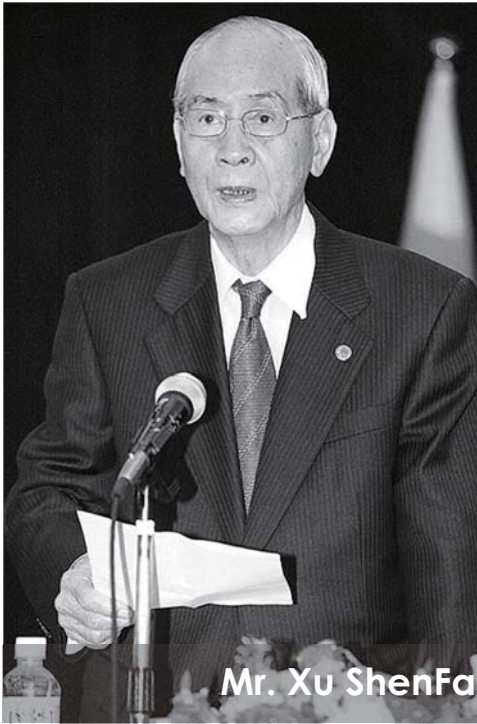


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What the Legendary **”**
Cash Card Cashed Out ?





Mr. Xu ShenFa



Mrs. Xu XianXian

Photos from Apple Daily

On June 29, 2016, an eye catching auction proceeded in Taipei District Court. The auction intended to sell antiques and luxury furniture belonged to Mr. Xu ShenFa (許勝發) and his daughter Mrs. Xu XianXian (許嫻嫻).

The reason the auction drew attention of the public was because Mr. Xu ShenFa was the founder of The Prince Conglomerate (太子集團, hereinafter, the Conglomerate) and the President of WanTai Commercial Bank (萬泰商業銀行, hereinafter, the Bank); whereas the debtors are banks and former employees of the Prince Motor Co. Ltd. (太子汽車工業股份有限公司, hereinafter, the Motor).

Why a powerful entrepreneur ever commanding a conglomerate worth of 270 billion NT dollars (i.e. 9 billion US dollars) ended up selling his personal art collections in the auction room disgracefully?

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 (1 億 6666 萬美元)，而以違反銀行法等罪名起訴。臺灣高等法院 103 年金上重訴字第 47 號判決許勝發、許顯榮、許娟娟、楊錫洲四人有罪，其餘 8 人無罪。本件偵查檢察官吳秋堂，公訴檢察官陳國辰、林逸群。

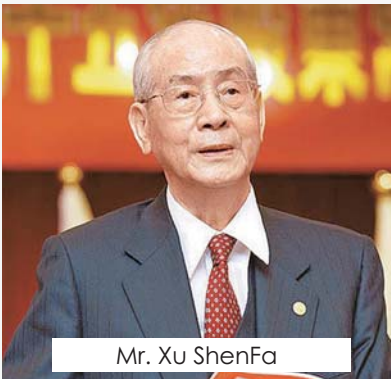
The Powerful Entrepreneur

Mr. Xu ShenFa (許勝發) was raised in a rich family in Taipei. He graduated from Department of Economics of National Taiwan University. In his early years, he set up DaFa trade company (大發貿易公司) which exported bananas to Japan. In 1965, he founded the Motor (太子汽車工業股份有限公司) to import automobiles from Japan. Three years later, he founded ShengRong Trade Company (勝榮貿易公司) to import automobile parts and accessories. In 1973, he set up The Prince Industry Company (later renamed as the Prince Information Company 太子資訊公司) to import computer products made by NEC company in Japan. Five years later, he established Union Rental Company (聯合租賃公司) running industrial equipment rental and maintenance. In 1991, he founded the Bank.

All these companies formed the Conglomerate.

As the founder and President of the Bank and the Conglomerate, Mr. Xu ShenFa was elected as the chairman of Chinese National Federation of Industries (中華民國全國工業總會, hereinafter, CNFI) from 1987 to 1994, the chairman of Taiwan Provincial Industrial Association (台灣省工業會), and the chair of Industrial Association of Taipei City (台北市工業會).

Other than being the leader of business sector, Mr. Xu ShenFa also actively took part in politics. He was elected as legislator of the Legislative Yuan for the first and second stages. He was also appointed as the commissioner of the Central Commission of the KMT party the then ruling party in Taiwan. At the KMT ruling time, being the commissioner worth a lot more than being a president of a company and demonstrates a solid connection with the ruling political party. The connection ensures business opportunities and of course, benefit. Mr. Xu was also hired as the consultant of the Presidential Office in President Lee DengHui's term in 1999. While the political ruling party changed from the KMT party to the DPP party in 2002, Mr. Xu ShenFa was appointed as the Vice President of the Straits Exchange Foundation which shouldered the responsibility to communicate with correspondent in the Mainland China. With this position, Mr. Xu advanced his business development.



Mr. Xu ShenFa



Photos from

Upper : Solomon203 , Wiki
Lower : Apple Daily



The Motor

The Conglomerate developed from the Motor. The Motor was founded on July 6, 1965 and had its headquarter in the SanChong County of the New Taipei City. The Motor first imported automobile chassis to assemble commercial vehicles, slurry tankers, and packer vehicles. In 1971, the Motor became OEM of Nissan Motors (日產汽車) in Japan and manufactured commercial vehicle for Nissan Japan. Later, the Motor became the car dealer of Yulon Motors (裕隆汽車) which had franchise contract with Nissan Japan. In 1980s, the development of the Motor reached the peak. In 1989, the Motor cooperated with Suzuki Motors in Japan to manufacture many popular commercial vehicles in Taiwan and occupied the leading position of compact cars sales for many years.

THE BANK AND THE LEGENDARY CASH CARD

In 1990, Taiwan Government released licenses of new banks for the first time. Many successful entrepreneurs poured in the new bank market to fulfill their dream to become a banker, and Mr. Xu ShenFa (許勝發) was one of them.

On February 2, 1992, the Bank which had capital of 12 billion NT dollars (i.e. 400 million US dollars) started to run business. On April 11, 1998, the Bank merged Tainan Fourth Credit Cooperation and expanded its business branches and scale. In 1999, after a business trip to Japan, Mr. Xu ShenFa decided to introduce cash card business of Japan to Taiwan. In July 1999, the Bank issued the cash card, “George & Mary Card” and loan ATMs in Taiwan. That was a pioneer product in Taiwan bank business. “George & Mary” rhymed with “emergency fund” in Chinese and with “loan without interest” in Minnan dialect; Therefore, it was easily remembered by customers and even gave customers hallucination that the card provided emergency fund with no cost. However, the loan interest was actually as high as 20% per year. With its loan ATMs, customers need not to apply loan from bank counters and enjoyed fast grant on small loans, based on their cash card customers’ information.

Cash card subverted the traditional bank loan business. Out of surprise, a bank earned more profit from



George & Mary Cash Card

small loans of cash card interest than from large loans of companies. The Bank issued 0.3 million cash cards and loaned 16 billion NT dollars (i.e. 533 million US dollars) in the first year. In 2001, the Bank had issued 0.55 million cash cards, had loaned 30 billion NT dollars (i.e. 1 billion US dollars), and had received 30% of total interest income from cash cards business. To this point, other banks then realized the profitability of cash cards and started to march into cash cards market. However, the Bank had made the preemptive move and occupied the main market. Up until 2003, the Bank had issued 1 million cash cards and had loaned 55 billion NT dollars (i.e. 1.83 billion US dollars), while the total cash card loan in Taiwan at the time was 65 billion NT dollars (i.e. 2.17 billion US dollars). That is to say, the Bank had taken 85% of cash card loan market within four years since it issued the first cash card.

The Two Cards Storm

Starting from the legendary “George & Mary Card”, banks raced to issue cash cards for its high interest. To promote cash cards, banks attracted customers by exquisite free gifts, low loan threshold, and hypnotizing commercials conveying ideas of “Enjoy first and pay later” and “Cash cards save you from terrifying loan sharks”. Within a short period of time, customers started to believe that cash cards were the saviors for their debts, money shortage predicament, and even vanity. At the time, many of the cash card holders have had credit cards. They were called “the two cards holder”. Customers had used to use credit cards as their plastic currency to avoid the trouble of cash transactions.

While using credit cards, customers still spend within their credit limit and ability to pay. In other words, credit cards are not loans, but only substitutes for cash.

However, cash cards are consumptive loans without guaranties. By using cash cards, customers can borrow money from cash card ATMs without providing guaranty to the bank. Cash card holders’ financial strength evaluations are based on their income, property, and credit records of the time they applying cash cards. Nevertheless, at the time cash card holders withdraw money from cash card ATMs, their evaluation are not updated. Even though cash card loans are small amount, the accumulated loans and loan risks are actually high. Many cash card holders expanded their credit, increased their expenditure, and paid their debt by money loaned from other bank’s cash cards. Till September of 2005, there were 33 banks issued cash cards and total loan were 315.2 billion NT dollars (i.e. 10.5 billion US dollars)



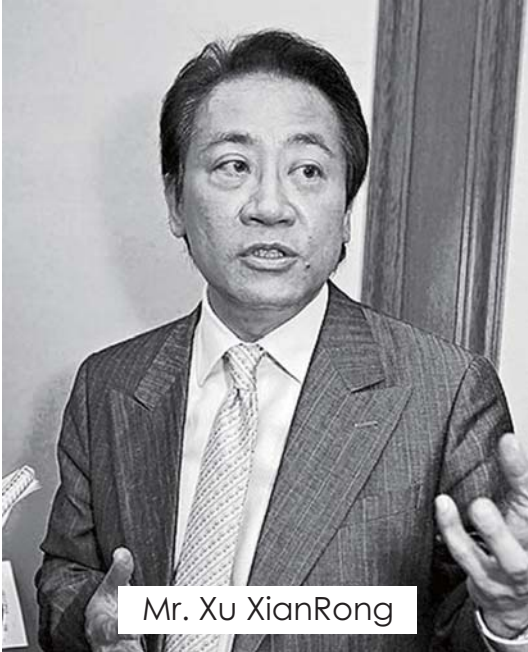


At the end of 2005, the expanding amount of credit cards plus the loan amount of cash cards exceeded 800 billion NT dollars (i.e. 26.7 billion US dollars). Banks encountered unprecedented pressure of nonperforming debt and had to tighten the money in circulation. As a result, 520 thousand customers with cash cards and credit cards went bankrupt. There were 3.76 million cash card holders; and the average debt for every holder was 120 thousand NT dollars. The glamorous cash card bubble evaporated and turned out to be banks' nightmare.



As the number one cash card issuer, the Bank certainly devastated the most in the mass and was bombed with 15 billion NT dollars (i.e. 0.5 billion US dollars) nonperforming debt in 2006.

THE ILLEGAL LOANS AND BREACH OF TRUST



Mr. Xu XianRong



Ms. Xu JuanJuan

Mr. Xu ShenFa (許勝發) had failed his bank and his banker's dream. He didn't try to save the bank but to accelerate its death. Starting from 2006, Mr. Xu ShenFa, his son, Mr. Xu XianRong (許顯榮), and his daughter, Ms. Xu JuanJuan (許娟娟), instructed the Vice Manager of Finance Department of the Conglomerate, Mr. Yang XiZhou (楊錫洲), to utilize 9 innocent employees of the Conglomerate to set up 6 companies. The 6 companies were nominal companies to avoid the stakeholder loan scrutiny pursuant to the Bank Law. Mr. Xu ShenFa and his codefendants then took loan on behalf of these nominal companies from the Bank and WanTai Bills Finance Corporation (萬泰票券金融股份有限公司, hereinafter, the Bills). The total amount of loan was 5 billion NT dollars (i.e. 167 million US dollars). These loans provided no guarantee to the Bank and the Bills and obviously were illegal loans.

The Financial Supervisory Committee (hereinafter, the FSC) stepped in and performed a special financial examination to the Bank on the cash card problem in October of 2006. During the examination, the FSC discovered the illegal loans. Moreover, the FSC found out that Mr. Xu ShenFa and his codefendants sold abovementioned 15 billion NT dollars nonperforming debt in 2004 to one of affiliated companies of the Conglomerate, WanRong Marketing Consultant Company (萬榮行銷顧問公司), for merely 1 billion NT dollars. The FSC fined the Bank in March of 2007.



WanTai Cosmos Bank

Since the government authority had targeted the Bank, Mr. Xu ShenFa planned to get away with the trouble. The Bank announced that its deficit was 11.2 billion NT dollars (i.e. 373 million US dollars) in April of 2007. The announcement startled the FSC and the market. The FSC demanded the Bank to increase its capital by August 31 of 2007. Later, SAC Private Capital Group and GE Money were interested to fund the Bank. While supervising the process of overseas funding, the FSC sensed the abnormality of the money flow of the Bank. The FSC then filed a report to Prosecutors Office.

Prosecutors Office initiated an investigation upon the illegal loans after receiving the complaint from the FSC. After six months of investigation, Prosecutors Office raided the Bank, the Conglomerate, and the residence of Mr. Xu ShenFa (許勝發) and Mr. Xu XianRong (許顯榮) on January 25 of 2007, just the day after Mr. Xu ShenFa's 83 year old

birthday. Prosecutor led 110 prosecutor assistants and investigators to raid the head quarter of the Bank, confiscated document evidences for over 60 boxes, and subpoenaed 9 accounting and financial employees of the Bank.

Prosecutor revealed the wrongdoings of Mr. Xu ShenFa and Mr. Xu XianRong, the then President and Vice President of the Bank. During 2001 to 2006, they illegally loaned from the Bank, made false accounting documents, breached trust to cheaply sold nonperforming debt, and thus embezzled about 20 billion NT dollars (i.e. 667 million US dollars) from the Bank.

Mr. Xu ShenFa and Mr. Xu XianRong both resigned their positions in the Bank on September 6, 2007.

“THE INDICTMENT

On April 10, 2008, Prosecutor eventually indicted Mr. Xu ShenFa (許勝發), Mr. Xu XianRong (許顯榮), Ms. Xu JuanJuan (許娟娟), Mr. Yang XiZhou (楊錫洲), and 8 other management levels of the Bank and the Bills for special embezzlement pursuant to the Banking Act. Based on their wrongdoings and the devastation they caused to the society, Prosecutor asked the Court to sentence Mr. Xu ShenFa for 10 years' incarceration, Mr. Xu XianRong for 8 years' incarceration, Ms. Xu JuanJuan for 6 years' incarceration, and Mr. Yang XiZhou for 5 years' incarceration.

“THE TRIAL

After 6 years of trial, Taipei District Court found the defendants guilty and should apply 2007 Criminal Commutation Act; therefore, Court sentenced Mr. Xu ShenFa for six months' incarceration, Mr. Xu XianRong for five months' incarceration, and Ms. Xu JuanJuan and Mr. Yang XiZhou for four months' incarceration on July 8, 2014.

After appeal, Taiwan High Court overruled the decision in the district court and sentenced Mr. Xu ShenFa for eleven months' incarceration, Mr. Xu XianRong for eight months' incarceration, and Ms. Xu JuanJuan and Mr. Yang XiZhou for six months' incarceration on April 21, 2016.

The case is still appealable.

“THE CONSEQUENCES



Photo from June 15, 2011 Apple daily

Without easy fund of the Bank, the Motor and the Conglomerate consequently ceased to operate in 2011. The Motor owed 1094 employees' salaries, pensions, and severances for 740 million NT dollars (i.e. 24.7 million US dollars). The real estate possessed by the Motor had mortgaged to other banks and the values were under debt. To solve the problem, Bureau of Labor Insurance of the Ministry of Labor compensated on the Motor's behalf for salaries which amounted to 110 million NT dollars (i.e. 3.7 million US dollars). In 2012, when the Bureau filed a complaint to compensate against the Motor, the Court found that the Motor had registered to trust its all properties on February 5, 2008 and over-

ruled the complaint. That is to say, the Motor had transferred its properties to escape from any compensation liability way before the Motor ceased to operate¹.

Employees were furious about the Motor and demonstrated in front of the head quarter of the Motor on October 11, 2011. After five years of negotiation, the Ministry of Labor, the FSC, and the Ministry of Finance together convinced 18 banks to donate 158 million NT dollars (i.e. 5.27 million US dollars) to the employees of the Motor. The employees thus got their 64% debt back. Government said this was the last time for government to convince banks to donate to solve labor disputes.

¹ See <https://money.udn.com/money/story/5648/2064682>



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



As for the Bank, SAC Private Capital Group and GE Money fund the Bank and made the Conglomerate entirely retreat from the management group. On December 28, 2007, the Bank increased capital for 42 billion NT dollars (i.e. 1.4 billion US dollars). After four years improvement, the Bank earned profit for 3 billion NT dollars (i.e. 100 million US dollars) in 2012. China Development Financial(中華開發金控) merged the Bank on February 10, 2014. On January 5 of 2015, the Bank renamed as KGI Commercial Bank(凱基商業銀行).

The Bank finally disappeared in the flow of history.

The legendary cash card made 520 thousand “card slaves” deeply in debt and 60% of them were young adults who shouldered household incomes. The two cards storm wrecked the foundation of the society. Many of the card slaves committed suicide, committed crimes, or became mentally ill. The cash card had become “the plastic opium” , which poisoned the card holders and the social economy.



At the beginning of 2005, the FSC supervised the Bankers Association (銀行公會) to establish a debt negotiation mechanism for card slaves to negotiate reimbursement with banks. 220 thousand card slaves ever utilized this negotiation mechanism but 50% of them failed to pay back money according to negotiation agreements. The Legislative Yuan then promulgated the Debt Clearance Act (消費者債務清理條例, or Personal Bankruptcy Act) on April 11, 2008. Pursuant to this Act, card slaves can ask the biggest debtor among banks to negotiate for reimbursement. If the negotiation didn't work, card slave can petition Court to liquidate assets and regenerate.

Legislator Xu ZhongXiong(徐中雄) voiced for the card slaves and questioned the unreasonably high card interest. His effort forced banks to decrease loan interest rate later.

Commentator said, Conglomerate operators often consider banks as one of their companies and run banks with the same way. However, companies are only responsible for shareholders, but banks, as credit institutions, bear so-



LEGISLATOR Xu ZhongXiong

cial responsibilities to depositors.

Bank management philosophy can never be the same with company management. In the end, the Legendary Cash Card certainly had created glamour but also cashed out the Bank, the Conglomerate, and the powerful entrepreneur.





Photo from Apple Daily





The Control Yuan Building
Photo from Harry Huang