

Vote Bulletin: Shin Kong Financial Holding Company

Company	Shin Kong Financial Holding Company Limited (TW: 2888)
Market and Sector	Taiwan; Financials
Meeting Date	9 June 2023
Key Resolutions ¹	Item 4.1-4.32: Election of Non-independent and Independent Directors
Key Topics	Board quality and effectiveness
Board Recommendation	The board recommended shareholders vote FOR items 4.1-12 and 4.26-28, and AGAINST items 4.13-25 and 4.29-32
BlackRock Vote ²	BlackRock voted FOR items 4.1-3, 4.10, 4.15-17, 4.19-22, 4.27, and 4.31-32, and voted AGAINST items 4.4-9, 4.11-14, 4.18, 4.23-26, and 4.28-30.

Overview

Shin Kong Financial Holding Company (SKFH) is a Taiwanese family-controlled company that provides financial products and services through their subsidiary businesses in insurance, banking, securities, and asset management. SKFH was established in 2002 as a financial holding company comprised of legacy Shin Kong companies, including Shin Kong Life Insurance Company (SK Life).³

BlackRock Investment Stewardship (BIS) engages with companies to better understand how their leadership teams identify and manage the material risks and opportunities in their business model that, in our assessment, can impact their ability to deliver durable financial performance for long-term investors like BlackRock’s clients. BIS also engages to provide a long-term investor perspective on corporate governance practices.

BIS has had multiyear engagements with SKFH’s management team and members of the board on a range of corporate governance topics that, in our assessment, are important for long-term financial value creation. In recent conversations, BIS has sought to understand SKFH’s financial performance, corporate governance issues, and developments around the 2023 proxy contest.

¹ SKFH. “Annual Meeting of Shareholders.” 2023.

² BIS conducts proxy voting for those clients who authorize BIS to vote on their behalf. As part of BlackRock’s Voting Choice program, eligible clients can have a say in the proxy voting process by selecting their own proxy voting policy or one of 14 available third-party policies. 47% (\$2.1 trillion of \$4.5 trillion) of our index equity assets are eligible to participate in Voting Choice, and clients representing 25% of the \$2.1 trillion in eligible assets are enrolled in Voting Choice. Currency shown in USD. Source: BlackRock. Data as of March 31, 2023.

³ Shin King Financial Holding Company. “About Us: Corporate Overview.” 2023.

At SKFH's 2023 annual general meeting (AGM), a group of shareholders seeking reform at the company (the reform camp) led by an incumbent director, who is a third-generation member of one of the founding families, sought control of the board, expressing concerns over accumulated regulatory fines and governance and oversight issues. Specifically, in a letter to shareholders, the incumbent director highlighted the company's poor financial performance, which was attributed to failures at the board level and lack of robust corporate governance practices, including apparent conflicts of interest as a result of the continued influence over management of the former chair of the board.

In response, management published a letter to shareholders highlighting the company had "strengthened corporate governance in terms of human resources, organization, system and corporate culture".⁴ A different incumbent director who supported management also raised concerns that several of the candidates on the reform camp slate were potentially affiliated with a competitor in the financial services industry, suggesting that a change in board control might be sought to facilitate a merger.

There were 15 director seats, including three independent director seats, in contention at the company's 2023 AGM. The reform camp proposed 15 candidates, while pro-management shareholders and the board nominated 17. In total, 32 candidates competed for 15 positions.⁵

Rationale for BlackRock's vote

Item 4.1-4.32: Election of Non-independent and Independent Directors

BIS supported nine reform camp candidates and five management-nominated directors. In BIS' view, financial and governance concerns warranted support for the reform camp while maintaining a degree of management-supported directors to maintain a level of institutional knowledge in the board. Long-term shareholders like our clients tend to benefit when boards include a diversity of views and directors can act as checks and balances on one another, as necessary.

In the APAC region, BIS has identified director independence as a major corporate governance issue that may have an impact on the ability of some local companies to create long-term financial value for shareholders, including minority shareholders such as BlackRock's clients. As discussed in our [Global Principles](#) and report on [Board Independence in Asia-Pacific](#), BIS finds that an independent board is better able to oversee management and ensure that business strategies are aligned with the goal of delivering durable, long-term financial performance. As such, BIS look to boards to have a sufficient number of independent non-executive directors (INEDs), free from conflicts of interest or undue influence from connected parties, to bring an objective view to board decisions and ensure that the interests of all shareholders are protected.

In our assessment, long-term investors, including our clients, would benefit if the company were to enhance their corporate governance practices. This would include establishing an independent nomination committee, improving overall board independence, and appointing a lead independent director to strengthen independent board leadership.

BIS considered multiyear underperformance of the company, which delivered a total return of -13.8% and 48.2% over a 5-year and a 10-year time frame respectively, compared to an average of 33.5% and 145% of its peers.⁶ Furthermore, the company's insurance subsidiary's investment performance had also undermined its capital adequacy, as evidenced by its risk-based capital (RBC) ratio being one of the lowest in the industry (213% as of end-2022, only slightly above the regulatory threshold of 200%).⁷ As a result, the company has

⁴ SKFH. "To all shareholders of Shin Kong Financial Holding." May 2023.

⁵ In Taiwan, director elections are conducted via cumulative voting, a voting structure where shareholders can pool their votes together for certain candidates. With respect to the proxy contest at SKFH, the 12 non-independent director candidates and the three independent director candidates that receive the highest numbers of total votes would be elected as directors.

⁶ Source: FactSet. Sourced on May 26, 2023.

⁷ SKFH. "2022 Annual Report." 2023.

needed to raise capital numerous times, raising more capital from shareholders than the dividends paid out over a five-year period from 2018-2022.

Investigations into corporate governance practices at the company indicated a material weakness in the company's governance culture. In 2020, the Financial Supervisory Commission (FSC) suspended the then Chairman's directorship and chairmanship at a subsidiary due to poor governance and internal control practices.⁸ In 2022, the FSC sanctioned both the parent and subsidiary again over governance issues.⁹ According to the FSC's sanction judgements, the former chairman, who no longer held a director position at the parent or subsidiary, continued to call management and attended meetings with them in 2021.¹⁰ The FSC found that four related-party transactions were instructed by the former chairman with his personal investment companies, and inappropriate pricing was identified in relation to related-party transactions between the subsidiary and him in 2020.

While there was a strong case for change at the board level, BIS also acknowledged potential conflicts of interest related to the candidates proposed by those advocating for reform. Specifically, a number of candidates have clear affiliations with a competitor, including holding prior management positions at the competitor company, which has demonstrated an interest in acquiring or merging with the company.¹¹ BIS withheld support for candidates with identified affiliations with the competitor given concerns about potential conflicts of interest.

Further, any potential merger would require regulatory and shareholder approval. Given that the incumbent management holds a significant share in the company, it would be challenging to successfully carry out a merger proposal if the terms were not favorable to SKFH shareholders, even if the board approved it. Additionally, other reform camp candidates seemed reasonably independent of the competitor in the absence of proven affiliation or share ownership. BIS supported some of these reform camp candidates to enhance corporate governance and provide checks and balances to the pro-management directors on the board.

As a result, BIS supported nine candidates put forward by the reform camp to introduce a diversity of views and five management-nominated directors to maintain a level of institutional knowledge in the board. BIS will continue to engage with the company regarding the steps it is taking to enhance its corporate governance structure and support long-term financial value creation for shareholders. Given the controlled shareholder structure, BIS is of the view that institutionalizing the role of a lead independent director could help empower independent directors to provide more effective independent oversight and foster accountability to the broader shareholder base.¹²

⁸ FSC. "[FSC Sanctions Shin Kong Life Insurance.](#)" September 16, 2020. As the FSC further explained in a Chinese [press release](#), in 2014, the FSC ordered SKFH subsidiary SK Life to review the composition of its Investment Review Committee (IRC) due to poor investment decisions that materially affected SK Life's financial resilience and solvency, and as a result, Eugene Wu was removed from the IRC. However, SK Life set up an Asset Liability Committee (ALCO) above the IRC, with Eugene Wu being the chair to approve investment allocation without any board oversight. This again led to excessive allocation to foreign equity beyond the risk appetite set by the board and negatively affected SK Life's NAV in 2020, which resulted in the FSC suspending Eugene Wu's positions as director and chairman at SK Life to avoid his intervention in SK Life's review of its investment process.

⁹ Cheng-hui, Chen. "[FSC penalizes Shin Kong over governance issues.](#)" The Taipei Times. March 12, 2022.

¹⁰ FSC "[Press Release – SKFH.](#)" March 10, 2022; FSC "[Adjudication of cases – SKFH.](#)" March 11, 2022; FSC "[Adjudication of cases – SK Life.](#)" March 11, 2022.

¹¹ Taishin. "[Announcement of the Board's resolution on initiate the feasibility study of the merge with Shin Kong Financial Holding Co., Ltd.](#)" June 2, 2022.

¹² For more considerations for enhancing board independence, please refer to BIS' report on [Board Independence in Asia-Pacific: A stewardship perspective.](#)

About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability-related risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.¹³

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with durable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

Want to know more? blackrock.com/stewardship

contactstewardship@blackrock.com

This Vote Bulletin is provided for information and educational purposes only and does not constitute legal advice, a recommendation or an offer or solicitation to buy or sell the securities of any company. The information here is as of October 16, 2023. BlackRock has no obligation to provide any updates. Investing involves risk, including the loss of principal.

Prepared by BlackRock, Inc.

©2023 BlackRock, Inc. All rights reserved. BLACKROCK is a trademark of BlackRock, Inc., or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.

¹³ As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.