The FHC is a newly introduced vehicle that is designed to convey several advantages, such as synergies, international competitiveness, so is it expected to resolve some problems faced by traditional banks, such as financial disintermediation\(^1\) and the over-banking problem.\(^2\) When many people jump on the bandwagon of acclaiming what FHCs are expected to and can achieve, attention should also be drawn to the concept of corporate governance.

The most dominant corporate governance theory, the principal-agent theory, emphasizes problems which may arise from the separation of ownership and control and asymmetric information. When ownership seriously misaligns with control, those in control will have incentives to seek rent-extraction activities. Therefore, closer alignment between ownership and control is more likely to lead to better corporate governance. Moreover, when the government introduced the FHC bill, it envisaged a picture of more concentrated ownership, which would reduce moral hazard risks.

Several legal or regulatory devises can help an ultimate owner to increase control. Pyramid structure and cross-shareholdings are not uncommon in Taiwan. Furthermore, section 15(2) & (3) of the Financial Holding Company Act allows a financial holding company’s board of directors to substitute the powers and functions of the shareholders of its 100% owned subsidiaries. Thus, board members of the fully owned

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\(^1\) See Canals, 1997  
\(^2\) See 李紀珠, 2002.
subsidiaries are appointed by the financial holding company’s board of directors, which may also impact on the alignment of ownership and control.

According to the research outcome, the FHC vehicle seems to increase the concentration of the ownership as the government first envisaged in this case. However, this concentration of ownership has not been effectively translated into control for reasons outlined in section five. Without aligned ownership and control, the significance of concentrated ownership is largely reduced. The type of control which the Hong family enjoys is the minority control under the Berle and Means categories or Quadrant II of the ECGN theoretical framework. Free-ride problem and easy exit render the great number of outside shareholders ineffective. This type of control is likely to lead to conflicts between controlling blockholder and outside small shareholders, particularly in times of crisis.

With the reduced percentage of ownership, the Hong family’s control in fact increases under the holding company structure. In the case study, FHC serves as a vehicle to increase the Hong family’s control due to the family’s reduced percentage of overall ownership. In spite of this, the reduced shareholdings are nonetheless translated into greater board seats on per capital basis. Thus, the local Moral Hazard Index, namely Moral Hazard II, increases more than one-fold. This finding suggests that the misalignment of ownership and control of the Hong family actually increases
under the holding company structure. From corporate governance viewpoint, this inevitably provides opportunities and incentives for agency problems to take place, and is detrimental to other shareholders’ interest.

Nonetheless, SinoPac Holdings does outperform other FHCs in several regards as far as corporate governance is concerned. First, it does not have the problem of cross shareholdings with its subsidiaries, which complicates the ownership structure. The Ministry of Finance is now figuring out how to prevent the block-holder of the holding company from expanding voting rights in the event when the holding company’s board is subject to re-election while subsidiaries cross-hold the holding company’s shares. Second, SinoPac Securities endeavors to invite independent outside directors to sit in its board to strengthen corporate governance.

To sum up, the alignment of ownership and control is an indicator of moral hazard risks, serving as a warning sign of the occurrence of potential agency problems. As Shen and Wu (2003) conclude in their research, low Moral Hazard I and II are not necessarily the prerequisite of well-performing banks. Other factors should also be taken into consideration for the purpose of evaluating a company’s corporate governance efforts, such as capital market’s response to the company and the ultimate owner’s willingness to uphold corporate governance. The capital market, viewed as an effective mechanism to eliminate poor performers, has given SinoPac Holdings
positive response since foreign investors account for more than 30% of SinoPac Holding’s ownership. Thus, in spite of the increasing misalignment, SinoPac Holdings is still seen as a company with sound corporate governance.

In terms of future research interest, similar researches can be conducted on a financial holding company that does not fully own its subsidiaries. In other words, section 15(2) & (3) of the FHC Act will not be applicable. Thus, the election of subsidiaries’ board members will be shareholders’ legitimate power. Then the misalignment between ownership and control can be examined in comparison with FHC who fully owns its subsidiaries, such as the present case of SinoPac Holdings.