

FINANCIAL POLICY ROADMAP FOR 2019

The FSC laid out a financial policy roadmap for 2019 aimed at promoting financial innovation, ensuring trust in finance and securing financial stability.

- ▶ Financial innovation will be accelerated as the newly-enacted laws on online-only banks and financial regulatory sandbox take effect this year. Finance will also play an active role in financing SMEs and start-ups to boost economic vitality.
- ▶ The FSC will establish a consumer-oriented system in which consumers are better informed and protected. The FSC will ensure fairness and transparency to protect investors and shareholders.
- ▶ The FSC will remain vigilant against potential risks with close monitoring on financial markets and active policy responses.

Key policy tasks

1. Financial support to boost economic vitality

- ▶ The government will provide a total of KRW 4.6 trillion in government-backed loans and loan guarantees for small and medium-sized shipbuilders, equipment and auto parts manufacturers.
- ▶ The government launched in January a financial support program of KRW 15 trillion over the next three years to support SME's investment in equipment, environmental safety facilities and business reshuffling.
- ▶ The FSC will overhaul financing mechanisms to enable start-ups and SMEs to borrow or raise funds based on their growth potential.

2. Financial stability and pre-emptive responses

- ▶ The government will continue its policy efforts to curb household debts. Last year, household debt growth slowed down to 5.8%, the lowest since 2013. The government aims to keep household debt growth this year at the similar level – above 5% to below 6%. The debt service ratio (DSR), first introduced in the banking sector in October 2018, will be adopted in the non-banking sector as well in the second quarter of this year.
- ▶ The government will preemptively manage corporate debt risks with enhanced evaluation system for credit risks and market-driven corporate restructuring.
- ▶ The FSC will establish a regulatory and supervisory framework on systemic risks in the non-banking sector.

3. Fairness and transparency in financial markets

- ▶ The FSC will continue its legislative efforts to introduce comprehensive supervision on financial conglomerates¹ and improve corporate governance in financial institutions.²
- ▶ The FSC will introduce imposition of fines as one of the disciplinary actions against unfair trading activities – e.g. insider trading or price manipulation.
- ▶ The FSC will improve companies' disclosure rules and procedures of annual general meeting to help shareholders to be better informed to exercise their rights. The FSC will also amend the disclosure rules for large shareholdings to support the exercise of stewardship code by institutional investors.

4. Financial consumer protection

- ▶ The FSC will enact a comprehensive bill on financial consumer protection. The proposed bill requires financial companies to adopt principles in sales practices to make sure consumers are better informed in purchasing financial products and services. The bill is also intended to provide consumers with remedies in case of unfair contracts – e.g. consumers' right to cancel or withdraw their consent.
- ▶ The FSC will expand financial inclusion with tailored policy approach – e.g. mid-rate loans for those on lower credit ratings, micro loans and debt restructuring for financially-distress small business owners, reverse mortgage programs for the elderly, loan guarantee for young adults or college students to pay housing deposit or monthly rent.

5. Financial innovation

- ▶ The FSC will allow more newcomers to enter financial business to prompt competition and innovation. In the first half of this year, six preliminary approvals will be granted to new players: one for a first-ever online-only insurer (February), three for REITs business (March), and one or two for online-only banks (May).
- ▶ Financial regulatory sandbox will kick off on April 1, in which designated fintech firms are allowed to test new, innovative services with regulatory exemptions.
- ▶ The FSC will amend the Credit Information Act to facilitate the use of big data in the financial sector.
- ▶ The FSC will introduce an open banking system which enables fintech firms to share payment network with banks to encourage development of new payment services.³
- ▶ The FSC will overhaul the regulatory framework on electronic financial business to embrace more flexibility in response to new types of payment services.

¹ The scheme, intended to prevent any possible contagion of group-wide risks into financial affiliates, is now in a pilot operation since July 2018 with seven financial conglomerates: Samsung, Hanwha, Kyobo, Mirae Asset, Hyundai Motor, DB and Lotte. Proposals for legislation on comprehensive supervision of financial conglomerates are under discussion at the National Assembly.

² The FSC proposed amendments to the Act on Corporate Governance in Financial Institutions to strengthen independence and expertise of outside directors and enhance transparency in CEO selection.

³ 「Banks' Financial Payment System To Be Open to Fintech Firms」 (Press Release/Feb.25, 2019)