

Press Release

January 29, 2015

FINANCIAL POLICY DIRECTION FOR 2015

The FSC announced its financial policy direction for the year of 2015 with three key policy goals and nine tasks.

SUMMARY

Creative Finance	Consumer Trust	Financial Stability
<p>① Converge IT & financial sectors</p> <ul style="list-style-type: none"> · shift regulatory paradigm · overhaul offline service-focused financial regulations · support Fintech industry <p>② Strengthen role of finance to support the real economy</p> <ul style="list-style-type: none"> · vitalize venture capital · expand technology finance · increase policy bank's investment <p>③ Strengthen competitiveness of financial services sector</p> <ul style="list-style-type: none"> · carry out financial regulatory reform · create new added-value · strengthen global competitiveness 	<p>④ Increase financial support</p> <ul style="list-style-type: none"> · improve system for microfinance · improve financial access for the financially-marginalized · strengthen financial support for aged population <p>⑤ Strengthen financial consumer protection</p> <ul style="list-style-type: none"> · reinforce infrastructure for financial consumer protection · improve financial system related to consumer's daily life · ensure financial security <p>⑥ Boost trust in financial sector</p> <ul style="list-style-type: none"> · earn back consumer trust · ensure transparency in market & transaction system · improve financial supervisory system 	<p>⑦ Stabilize household debt structure</p> <ul style="list-style-type: none"> · improve household debt structure · support the financially-marginalized · strengthen control of mutual banks' household debt volume <p>⑧ Carry out preemptive and continuous restructuring</p> <ul style="list-style-type: none"> · encourage continuous restructuring · establish market-friendly fiscal structure · increase policy bank's financial support for weak industry <p>⑨ Enhance financial market stability</p> <ul style="list-style-type: none"> · respond to external risk factors · respond to internal risk factors · meet global standards

Creative Finance

Initial achievements in creative finance spread widely across all financial sectors

- Facilitate the convergence of IT and financial sectors to promote the 'Fintech' industry
- Strengthen the intermediary role of finance to support the real economy by encouraging investments by venture capital
- Continue financial regulatory reform to strengthen competitiveness of Korea's financial sector

Consumer Trust

Consumer trust in the financial sector for further growth of the financial services sector

- Improve the financially-marginalized' access to financial services and expand supportive programs
- Strengthen financial consumer protection by improving inconvenient practice in financial services
- Restore consumer trust in the financial sector with establishment of ethics guidelines of the sector

Financial Stability

Secure financial stability to support a strong recovery of Korea's economy

- Preemptively respond to potential risks of household debt
- Conduct corporate restructuring in a preemptive manner on a year-round basis
- Ensure financial stability against risk factors home and abroad

KEY POLICY ACHIEVEMENTS IN 2013 AND 2014

For the last two years since the launch of the Park Geun-hye administration, the FSC has been committed to laying the groundwork for creative finance to promote innovation and competition in the financial sector.

Technology finance

The FSC established infrastructure for tech finance such as technology data base(TDB) or technology credit bureau(TCB)¹ to support financing of innovative tech firms. For six months since the 'tech finance' initiative took off, provision of technology-secured loans amounted to a total of KRW 8.9trillion in 14,413 cases. Interest payment burden reduced 0.4%p with tech loans.

Financial regulatory reform

As part of the government's regulatory reform initiative, the FSC reviewed all statutory and 'hidden' financial regulations. Out of 1,700 regulations shortlisted for reform, about 700 were repealed or improved to reduce regulatory burden for financial institutions and consumers.

<EXAMPLES OF MAJOR REGULATORY IMPROVEMENTS>

Regulatory issue	Regulatory improvements
Start-ups or entrepreneurs	- Age requirement entitled to special guarantee for young entrepreneurs was lowered from age 20 to 17
Requirement of authenticated certificate in online payments with cards	- Mandatory requirement for authenticated certificate was abolished in online payment with cards - Card companies are required to offer consumers alternatives to authenticated certificate – e.g. SMS or ARS – as a means of identification - Consumers are able to choose 'easy payment service' with ID and password without additional process of identification
NCR rules for brokerages	- NCR rules for brokerage firms were reformed to ease regulatory burden in M&A activities * Refer to FSC press release(Sept.29, 2014) for details
Derivatives market	- KRX regulation on derivatives market was revised to give greater autonomy to market players and to attract more professional investors

¹ As of end-2014, TDB collected 9.8million cases of tech information from 225 public and private institutions.

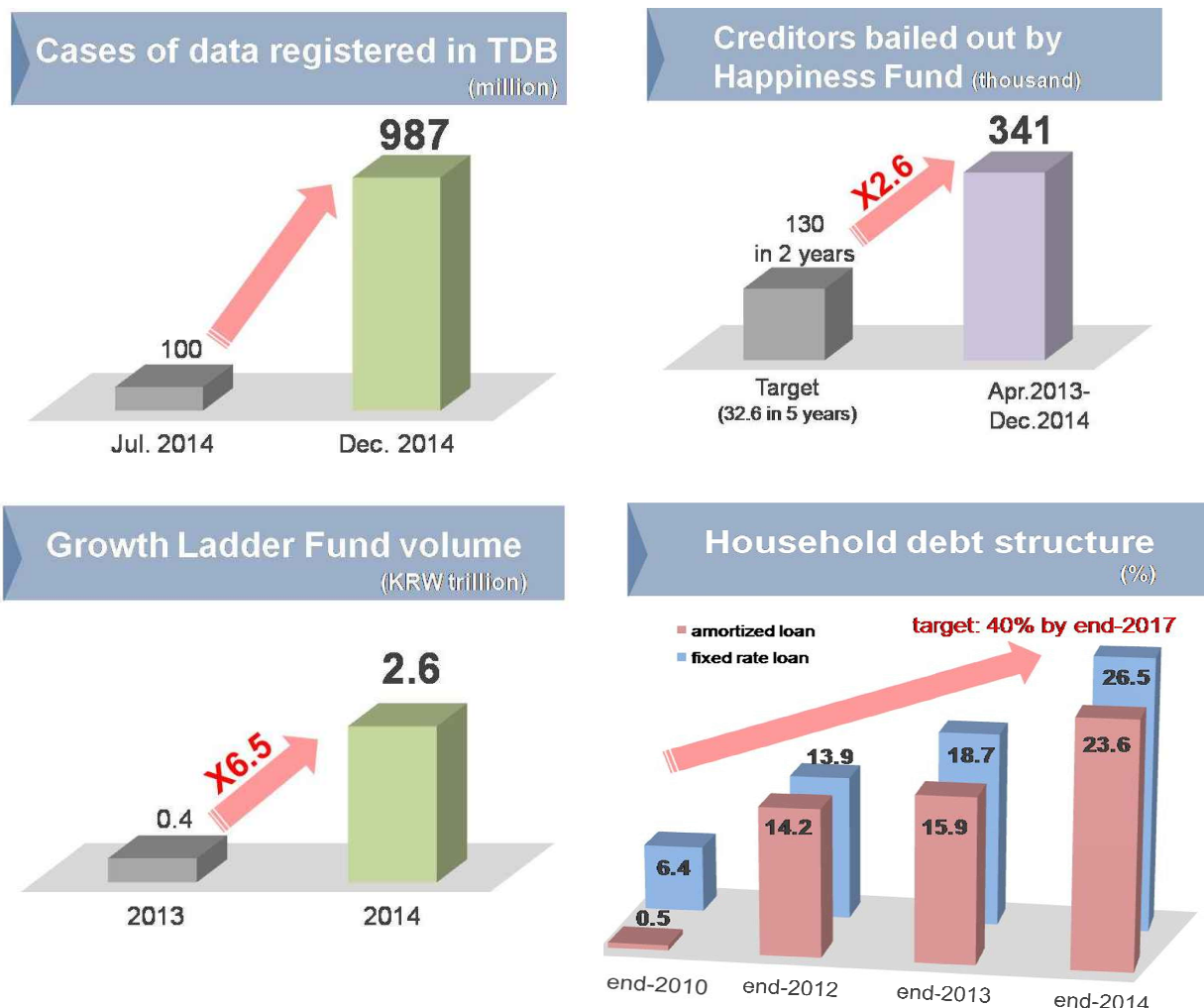
Financial consumer protection

The FSC reduced debt burden of low-income borrowers with the Happiness Fund(launched in March 2013) and support their debt restructuring. After the data leaks by card companies in January 2014, the FSC set out comprehensive measures to prevent a recurrence of data breach and protect financial consumers from financial frauds.

Financial market stability

The FSC responded to potential risks with preemptive actions. Measures were taken to improve quality of household loans, while managing quantitative growth of household debt.² Corporate default risks were also preemptively managed with corporate restructuring and management of watch list for financially-distressed companies.

Financial institutions adopted prudential measures such as Basel III capital requirements or consolidated RBC rules in order to ensure financial soundness in accordance with global standards.



² The FSC aims to lower the ratio of household debt to disposable income by 5%p until the end of 2017. The share of fixed-rate and amortized loans is targeted to increase up to 40% respectively out of banks' total household loans by the end of 2017.

DETAILED POLICY TASKS

Creative Finance

1. Facilitate convergence of IT and financial sectors to foster the ‘Fintech’ industry³

Minimization of ‘ex-ante’ regulations

Security review and evaluation for means of authentication will be abolished to allow financial firms to deliver consumers innovative convenient financial services and introduce more efficient authentication means on their own responsibility. (Revision to regulations related with electronic financial transaction within the second quarter of 2015)

Instead, financial companies will be required to bolster their internal inspections and assessment, while the FSS will strengthen security oversight with regular and spot inspections. The FSC will establish a legal ground to issue business improvement recommendation and order based on internal inspection results by revising the Electronic Financial Transaction Act.

Internet-only banks

The FSC will draft a business model for online-only banks after reviews and discussion of relevant factors – e.g. overseas cases, ownership structure,⁴ possible means to replace the current principle of face-to-face identification, capital requirement, business scope, etc. Details will be set out in June 2015 with an aim to submit a relevant bill to the National Assembly within the third quarter of this year.

Fintech support system

The FSC will co-establish ‘Fintech Support Center(tentatively named)’ with related organizations⁵ to effectively provide support to foster Fintech industry. The center will offer comprehensive consultation services related to legal, regulatory, and financial matters. The center will be operated in close cooperation with ‘Center for Creative Economy’ which is under establishment by the MOSF to maximize synergies.

Financial support will be provided in various forms through policy banks. The KDB and IBK will give out loans and make investments worth KRW200 billion(KRW100 billion each) within 2015. KODIT and KIBO will provide guarantees.

2. Strengthen intermediary role of finance to support the real economy

‘Tech finance 3.0’

The FSC will further expand technology finance on a sustainable basis with policy focus shifting from loans to investment. In 2015, a total of KRW 20 trillion will be provided in 32,000 technology secured loans.

³ Refer to the FSC press release ‘Plan to Support Convergence of Finance and Technology’ (January 27, 2015) for details.

⁴ Non-financial companies are banned from owning a 4% stake or more in banks by law.

⁵ Ministry of Science, ICT and Future Planning, Small & Medium Business Administration, Financial Supervisory Service

To invigorate investment in future values of technology, a fund worth KRW 300billion will be created through the 'Growth Ladder Fund.' To stimulate intellectual property(IP) investments, policy banks will create an 'IP fund' and play a role of non practicing entities(NPE) to stimulate trading of intellectual property.

Vitalize venture capital market

The FSC will boost venture capital investments in innovative start-ups. Funds worth KRW 600billion will be invested to support innovative start-ups. V-credit default swaps(V-CDS) will be developed to separately trade risks involved in venture investments. Barriers to investments by private equity funds will be reduced through revisions to relevant regulations. The FSC will also make easier for venture capitalists to recoup their investment by stimulating trading of SME shares and M&As.

Support for re-start businesses

Failed start-ups will be provided with funding support to restart their business. Current terms of joint liability waiver will be eased so that more startup business owners will be able to gain such a waiver. Non-startup business owners can be also waived if they hold good credit standing by KODIT and KIBO.

Policy funds to support creative finance

Policy banks will provide a total of KRW 180trillion in 2015 to boost investment in future growth drivers and large-scale project to build infrastructure.

3. Strengthen financial industry's competitiveness

2nd round of financial regulatory reform

Barriers among financial services sectors will be significantly reduced to make the financial industry more productive and more efficient. Regulations that hinder the convergence of IT and finance will be eased to foster Fintech businesses that will develop new growth drivers and create new jobs in the financial sector. Over the entire flow of financing, regulations will be improved to stimulate investment by venture capital. The FSC will continue to review remaining regulations for improvement depending on changes in regulatory environment.

Financial sector's response to changing financial environment

The FSC will encourage financial institutions to pioneer into new business areas such as real estate finance, insurance against disaster, and climate finance.

Bolster financial institutions' global competitiveness

The FSC will support financial institutions to expand their business into overseas markets. Efforts will be also made to promote Korea as a Chinese yuan trading hub and to strengthen global networks with overseas financial players.

Consumer Trust

4. Expand access of the financially-marginalized to financial services

The system for supporting microfinance will be overhauled to serve better the needs of the financially-marginalized. A draft bill was submitted to the National Assembly at the end of 2014 to establish a single agency(tentatively named as a ‘Microfinance Agency’) that will integrate various microfinance institutions such as Smile Microcredit Foundation, Happiness Fund, etc and provide debt restructuring and counseling programs.

5. Strengthen financial consumer protection

The establishment of a financial consumer protection agency will be pushed forward to provide more comprehensive and systemic policy measures for strong consumer protection. The FSC will tighten personal data protection and IT security by financial institutions. Fundamental measures will be made to stamp out electronic financial frauds.

6. Establish consumer trust in financial sector

As part of efforts to establish sound governance structure in financial institutions, best practice guideline on governance in financial institutions is being implemented since December 2014. The FSC will proceed with the establishment of ‘stewardship code’ to strengthen institutional investors’ rights as share holders. Public disclosure and accounting rules will be improved to ensure transparency and fairness in financial market.

Financial Stability

7. Preemptively respond to potential risks of household debt

The FSC will push forward a program to improve structural soundness of household loans. Under the program, a total of KRW 20 trillion will be provided in 2015 to convert floating rate or interest-only mortgages to fixed-rate amortized loans. Borrowers can take out new loans with fixed rate and amortization plan to repay their outstanding mortgages. The Korea Housing Finance Corporation will purchase and securitize the new loans from banks up to KRW 20trillion in 2015.

The FSC will strengthen assessment of debt repayment ability and provide tailored financial assistance to financially vulnerable people such as low income earners, small business owners to relieve their financial burdens

The FSC will restrict excessive business expansion of the mutual banking sector while strengthening control of mortgage loans

8. Conduct corporate restructuring in a preemptive manner on a year-round basis

The FSC will make the Corporate Restructuring Promotion Act permanent to establish a solid legal foundation for corporate restructuring. (Corporate Restructuring Promotion Act is due to expire at the end of 2015)

Tonnage bank system will be established with KAMCO and private investors to raise funds and purchase used ship in order to facilitate restructuring of the shipping industry.

The FSC will support temporarily financially distressed companies by extending fast track program for SMEs and utilizing KAMCO's sale& lease back program.

9. Ensure financial stability against risk factors home and abroad

The FSC will strengthen monitoring of external risk factors and make sure a contingency plan work properly in the event of a crisis. Foreign exchange liquidity and soundness will be secured against possible increase in volatility of capital flows. The FSC will also strengthen supervision on prudential soundness of domestic financial institutions in order to prevent external risks to spread into domestic financial system.

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For any inquiry, please contact Foreign Press & Relations Team at fsc_media@korea.kr