

FINANCIAL INDUSTRY POLICY AGENDA TO FOCUS ON COVID-19 RECOVERY AND FINANCIAL STABILITY

The FSC's Financial Industry Bureau announced its specific policy agenda for this year, which aims to support COVID-19 recovery and ensure financial stability while seeking innovation in the financial industry. The key policy tasks are the following—(a) bolstering pandemic response and risk management, (b) improving the role of region-based and microfinance institutions, (c) strengthening the competitiveness of the financial industry and (d) facilitating digital innovation in the financial industry.

POLICY TASKS

A. PANDEMIC RESPONSE AND RISK MANAGEMENT

- (1) Prepare measures for a gradual rollback of the pandemic-related temporary financial support programs
 - (Maturity extension, etc.) Introduce plans for loan maturity extension and deferment of payments currently in place to cope with COVID-19 (Feb 2021)
 - (Temporary deregulatory measures) Review whether to extend the period of the temporary deregulatory measures put in place due to the COVID-19 pandemic
 - (Loss absorbing capacity) Require financial institutions to maintain a sufficient level of loss absorbing capacity through loan loss provisions and dividend limits
- (2) Strengthen risk management in the non-banking sector
 - (Credit finance companies) Introduce measures to more effectively manage liquidity risks
 - (Savings banks) Introduce capital buffers (+2%p) to boost their loss absorbing capacity in a preemptive way
 - (Mutual finance companies) Strengthen management on large loans (March 2021)
- (3) Prepare for the implementation of IFRS 17
 - (Impact analysis) Conduct an impact analysis on insurance companies regarding the implementation of IFRS 17 and the new accounting standards (K-ICS) from 2023 (within 2021)
 - (Implementation capabilities) Ensure a seamless implementation of K-ICS through a gradual application and by allowing insurance companies' capital expansion
 - (Law revision) Introduce revisions to the Insurance Business Act to prepare for the implementation of IFRS 17 from 2023 (H2 2021)

B. REGION-BASED AND MICROFINANCE INSTITUTIONS

- (1) Boost the financing function of region-based financial institutions
 - (Local banks) Draw up plans for applying less stringent standards (compared to national banks) for evaluating their management status and risks (2022~)
 - (Mutual finance) Seek measures to improve public confidence in the National Credit Union Federation of Korea and to boost their ties to communities
 - (Savings banks) Allow voluntary restructuring of savings banks through M&As to boost efficiency in their role as financing channels (H1 2021)
- (2) Seek reasonable ways to support financial institutions in making adjustment to digital transition
 - (Taskforce) Operate a taskforce made up of financial authorities and relevant industry officials to promote discussions and gather opinions to deal with the issue of financial institutions' branch office closures
- (3) Promote mid-range interest rate loans
 - (Mid-range interest rate loans) Seek to lower interest rates on mid-range interest rate loans (weighted average) as the statutory maximum interest rate has been reduced from 24 percent to 20 percent (Mar 2021~)
 - (Right to request a lower interest rate) Carry out a survey on the level of public awareness and usage regarding the right to request a lower interest rate and continue to promote its availability
 - (Consumer protection for subscription economy users) Continue to work on consumer protection measures to ensure easy subscription and cancellation of various subscription services

C. COMPETITIVENESS OF THE FINANCIAL INDUSTRY

- (1) Carry out a second round competitiveness assessment on the financial industry to find out areas where regulatory reforms and improvements in supervisory practices are needed while working to lower the entry barrier where necessary
- (2) Work to make the pricing system of financial services more reasonable
 - (Credit Scoring System) Work to further improve the savings banks' credit scoring system (CSS) model to enable the provision of loans at a lower interest rate
 - (Savings banks' interest rate calculation) Seek revisions to the best practice guidelines on the calculation of interest rates to improve transparency and make interest rates more reasonable
 - (Credit card processing fees for merchants) Work to improve the credit card processing fee system to help reduce burdens for small merchants (~Nov 2021)
- (3) Work to ensure sound management of financial institutions by regularly checking the relationship between the savings banks and their large shareholders to prevent inappropriate management practices, encouraging the entrance of new qualified entities into the credit finance market and improving the insurance companies' compensation and incentive structures based on their long-term risk management, ESG factors, etc.
- (4) Strengthen the role of insurance in proving a safe net by introducing the indemnity health insurance 4.0 (Jul 2021), operating a taskforce on boosting the role of private sector insurance, working on ways to prevent excessive hospital

- visits and treatments for auto insurance (H1 2021) and promoting the role of the private sector health insurance in providing health care services (H1 2021)
- (5) Improve the convenience and trust of insurance subscribers by requiring insurers to make available an online health insurance claim process, seeking improvements to the claims adjustment process (Mar 2021), tightening regulations on general agencies (GAs) to prevent insurance mis-selling (H1 2021) and drawing up plans for preventing insurance fraud as well as consumer damage from foreign currency-based insurance products, etc. (H1 2021)

D. DIGITAL INNOVATION IN THE FINANCIAL INDUSTRY

- (1) Continue to promote convergence between finance and ICT to promote digital finance by maintaining close communication with the relevant industries, making the most out of the financial regulatory sandbox program, working on further advancement of the open banking system and seeking digital insurance through AI-based services
- (2) Pursue regulatory reforms to promote a convergence and synergy between financial institutions, fintechs and digital platform service providers by encouraging the entrance of new players and allowing an expansion of business areas for traditional financial service providers
- (3) Expand the availability of online-based and contactless financial services by promoting the development and use of diverse authentication and ID verification methods, improving regulations to promote online-based insurance sales channels and making mutual finance companies' operation of "tablet branches" more widely available
- (4) Establish rules on insurance platform services to strengthen their function of providing comparison services on different insurance policies and to prevent anti-competition behaviors

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