

INTEREST RATE DISCLOSURE SYSTEM TO BE IMPROVED FOR PROTECTION OF CONSUMER RIGHTS AND INTERESTS

The FSC unveiled a set of measures to make improvements to the interest rate disclosure system in the banking sector on July 6. The measures are aimed at protecting the rights and interests of financial consumers and include the following.

- a) Making improvements to the disclosure of net interest spread (NIS) comparisons and on the disclosure of lending and deposit rates to make accurate and adequate information about interest rates available to consumers.¹
- b) Overhauling the rate calculation system to ensure that rate calculation is conducted in a reasonable and transparent way and bolstering the banking sector's self-inspection and internal control on rate calculation.
- c) Piloting online deposit products intermediary business, strengthening the requirement to explain personal credit assessment to consumers and having banks to disclose their performance on meeting consumers' demand for interest rate reduction in order to promote interest rate competition between banks.

BACKGROUND

With the normalization in monetary policy taking place across the globe and the Bank of Korea's base rate increase, rapidly rising market rates have pushed up lending rates and deposit rates in the banking sector. In particular, due to a considerable hike in lending rates to households, banks' net interest spread (NIS) for the household sector has expanded² and consumers are experiencing added burdens as a result.

As there are possibilities of growing financial cost burdens on consumers in times of rate hikes, the authorities plan to seek following measures for improvement to expand interest rate disclosures and ensure rate calculation in a reasonable way.

<Basic Direction>

PROTECTING THE RIGHTS AND INTERESTS OF FINANCIAL CONSUMERS & PROMOTING INTEREST RATE COMPETITION BETWEEN BANKS		
MAKING IMPROVEMENTS TO INTEREST RATE DISCLOSURE	IMPROVING REASONABLENESS AND TRANSPARENCY IN RATE CALCULATION SYSTEM	PROMOTING COMPETITION & PROTECTING CONSUMER RIGHTS AND INTERESTS
<ul style="list-style-type: none"> - Disclose net interest spread (NIS) comparisons - Improve lending rate disclosure - Improve deposit rate disclosure 	<ul style="list-style-type: none"> - Overhaul spread calculation system - Overhaul deposit rate calculation system - Strengthen self-inspection on rate calculation 	<ul style="list-style-type: none"> - Pilot online deposit products intermediary business - Explain and notify personal credit assessment in advance - Disclose performance on meeting consumer demand for interest rate reduction

¹ Specific policy task from the new administration's policy agenda #37—"boosting the rights and interests of financial consumers"

² Net interest spread (NIS) in household sector: 1.89%p (Dec 2020) → 1.96%p (Dec 2021) → 2.26%p (Jan 2022) → 2.12%p (May 2022)

KEY DETAILS FOR IMPROVEMENT

I. IMPROVING INTEREST RATE DISCLOSURES TO BOLSTER INFORMATION ACCESSIBILITY FOR FINANCIAL CONSUMERS

- a) Net interest spreads (NIS) of all banks will be disclosed in a comparative format (on the website of Korea Federation of Banks) and the disclosure cycle will be shortened from three months currently to one month. Since the aim is to disclose monthly variations, calculations will be based on new loans and deposits. To make it easier for consumers to understand, the average NIS for both household and corporate sectors as well as the household-only NIS (by credit score range) will be disclosed alongside.
- b) To help consumers easily identify relevant information on interest rates suitable for their credit scores, the disclosure criteria for lending rates will be changed from the banks' own grading system currently in practice to the credit scores provided by credit bureaus (CBs).³ Considering that there is a relatively high proportion of individuals with high credit scores compared to other sectors, disclosures will be made available in 50-point ranges⁴ (9 ranges in total).
- c) With regard to the deposit rate, in order to help consumers verify information on the real interest rates being applied to them, additional disclosures will be made on the previous month's average interest rate (new deposits) for each deposit product.⁵

II. OVERHAULING THE RATE CALCULATION SYSTEM TO IMPROVE ITS REASONABLENESS AND TRANSPARENCY

- a) With regard to the lending rate, while guaranteeing the autonomy of banks for calculating rates, improvements will be made rooted on basic principles to ensure that calculation of lending rates is carried out according to a reasonable process and ground.⁶
- b) With regard to the deposit rate, authorities plan to check variations in market rates at least once every month and work to have these variations in market rates reflected in banks' base rates.⁷
- c) Banking sector's self-inspection and internal control for rate calculation will be strengthened. Banks will carry out self-inspection on their rate calculation system twice every year through their own internal control department, which will then be used as a reference during regular inspections performed by the Financial Supervisory Service.

³ Personal credit scores provided by credit bureaus (CBs) can be verified anytime using one of the mobile platforms (e.g. Toss, Kakao Pay) in partnership with CBs but credit ratings calculated by banks are not readily available to consumers.

⁴ (As of now) Banks' own credit grading system (5 ranges) → (To be changed) CBs' credit scores (9 ranges)

⁵ (As of now) Base rate, maximum prime rate → (To be changed) Base rate, maximum prime rate, previous month's average rate

⁶ Making an overhaul to the calculation procedure and the set of indicators to be considered when calculating spread to prevent arbitrary decisions taking place excessively (cost of operation, risk premium, etc.).

⁷ There are cases where despite variations in market rates, banks maintain their base rates at a steady level while making adjustments to their prime rates only, which lead to the problem of variations in market rates being applied to only certain customers.

III. PROMOTING INTEREST RATE COMPETITION BETWEEN BANKS AND STRENGTHENING THE RIGHTS AND INTERESTS OF CONSUMERS

- a) Online deposits products intermediary business will be piloted⁸ to allow consumers to easily make comparisons on savings and deposit products offered by multiple financial companies through an online platform.⁹ Considering some of the risk factors along with the advantages to consumers, authorities will review whether to impose certain conditions¹⁰ when deciding to designate it as an “innovative financial service” under the regulatory sandbox program.
- b) Banks will provide explanation and information¹¹ on the rights of consumers in advance so as to help consumers to actively exercise their right to demand explanation on their personal credit assessment and the right to make an appeal.
- c) Banks will disclose every six months (on the website of Korea Federation of Banks) their performance on meeting consumers’ demand for interest rate reduction while consumer notification¹² will be strengthened.

FURTHER PLAN

Authorities will promptly carry out the measures to expand the accessibility of interest rate data for consumers and promote interest rate competition in the banking sector. With regard to the measures to improve the interest rate disclosure system, the process for building a necessary system will take place immediately to ensure disclosure of interest rates from July this year. Other tasks such as overhauling the rate calculation system and strengthening the consumers’ rights and interests will also be carried out promptly.

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For press inquiry, please contact Foreign Media Relations at fsc_media@korea.kr.

⁸ Through designation of “innovative financial service” under the financial regulatory sandbox program.

⁹ Unlike loans or insurance products, for deposit or savings products, there exists no provision for the registration of intermediary business or relevant business operation under the relevant law, which makes it difficult for the service provision.

¹⁰ Algorithm requirement to ensure fairness in comparisons, prohibition on brokering products offered by financial companies under prompt corrective action, etc.

¹¹ A revision to the Credit Information Use and Protection Act in 2020 newly established these rights, but in order to exercise these rights, consumers had to be aware of them in advance, so that the system has not been in wide use thus far.

¹² Make regular notifications twice yearly and frequent notifications when needed.