

REGULATORY REFORM ON ENTRY BARRIERS TO FINANCIAL SERVICES INDUSTRY

The FSC outlined its plan on regulatory reform on entry barriers to financial services business in a bid to promote competition and innovation in the financial sector. The proposal comes at a time when Korea's financial industry is facing a paradigm shift that demands further innovation in response to the Fourth Industrial Revolution, prompting competition between incumbents and new entrants. It is the first-ever reform plan on entry barriers in 20 years since the current regulatory framework on market entry was established after the Asian financial crisis. Based on the review of the current regulations across the financial sector, the plan aims to overhaul entry requirements tailoring to the needs of each sector, encouraging innovative players to enter the market.

Key Changes

1. Expanding participation of private-sector experts

The FSC will expand participation of private-sector experts in the decision-making process related to approval for new entrants. To this end, the FSC will create a 9-person committee of outside experts to evaluate competitive conditions in the financial sector on a regular basis, making it possible to make more objective and fair policy decisions.

2. Lowering regulatory barriers to entry

The FSC will lower regulatory barriers to entry and reform entry-related regulations to allow 'innovative challengers' to enter the market.

► Banking industry

The two internet-only banks, launched in 2017, are being considered to have brought positive changes to the banking sector as they have grown in size¹ and promoted competition with incumbent banks. To deepen and broaden such changes, the FSC will consider allowing additional internet-only banks, if demand exists, based on reviews and evaluations of competitive conditions in the banking sector.

¹ Number of customers (5.8 million), deposits (KRW 6.6 trillion), credit loans (KRW 6 trillion), as of January 19, 2018.

► Insurance industry

The insurance industry is highly concentrated towards large insurers dealing with all types of life and property insurance. Such large insurers accounted for 99.5% of life insurance and 92% of property insurance in assets, as of 2016.

To facilitate market entry for smaller and specialized insurers, the FSC will reform regulatory requirements in the insurance sector:

- For smaller insurers dealing with low-risk, short-term products, the FSC plans to significantly ease minimum capital requirements for business approval, compared to KRW 30 billion for large insurers.
- To encourage the entrance of online-only insurers, the FSC will amend relevant regulations to facilitate online sales of insurance products and consider lowering minimum capital requirement for business approval, if needed.
- The FSC will encourage the creation of specialized insurers in the areas of reinsurance and pension insurance.

► Financial investment industry

Currently, entry barriers are set too high for some financial investment services such as brokerage service, advisory service, trust business, given the nature of their business and level of risk.

The FSC will ease entry requirements in accordance with the nature of each business to facilitate the entrance of specialized players in financial investment business:

- For brokerage firms specialized in venture capital investment, the FSC will switch the current requirement of license for investment brokerage business to registration-only system. Minimum capital requirements for such specialized brokerages will be nearly halved, compared to the current KRW 3 billion.
- To facilitate the entrance of one-person advisory firms, capital requirements will be halved, compare to the levels of general investment advisory firms.
- To encourage the advent of new type of trust businesses which provide specialized services, the FSC will subdivide regulatory categories for business approval or create a new category for such specialized service providers, applying different levels of capital requirements by type of trust business.
- The FSC will permit the market entry of real estate trust business.

3. Enhancing transparency in business approval procedure

The FSC will provide detailed standards and make them public when reviewing and making decisions for applications of new entrants. Applicants will be also kept informed of progress during the approval procedure. A fast track will be introduced to shorten the approval procedure for those who apply for formal approval within a certain period of time after preliminary approval.

Schedule

- Creation of a committee for evaluation of competitive conditions in the financial sector (2nd quarter of 2018)
- Banking sector: Evaluation of competitive conditions in the banking sector for an review for approval of additional internet-only banks (3rd quarter of 2018)
- Insurance sector: Proposal for amendments to the Insurance Act and relevant regulations to encourage market entry of online-only insurers and specialized insurance service providers (3rd quarter of 2018)
- Financial investment sector: Proposal for amendments to the Financial Investment Services and Capital Markets Act and relevant regulations to overhaul entry requirements for investment brokerage, investment advisory services and trust businesses (3rd quarter of 2018)

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