



Press Release

February 20, 2014

FINANCIAL POLICY DIRECTION FOR THE YEAR OF 2014

KEY POINTS

- Establish a specialized IT security agency for the financial sector
- Abolish financial regulations that hinder sound competition in financial markets
- Develop new pension products tailored to various consumer needs
- Establish a special agency to provide guarantee for the shipping industry
- Stimulate PEF industry
- Establish a technology credit bureau (TCB)
- Conduct annual survey on public awareness of financial policy

OVERVIEW

The FSC announced its financial policy direction for the year of 2014 in pursuit of Korea's financial service industry more trustworthy and globally competitive.

In 2013, the FSC achieved its policy goals such as protecting financially-marginalized individuals and laying a foundation for creative finance. A recent string of financial incidents, however, undermined public trust in the financial sector. It has become essential to restore the trust.

'Public trust', 'market confidence' and 'consumer satisfaction' are three pillars under which the FSC will push forward its financial policy throughout this year. The FSC set three policy goals: (a) establish market discipline in financial markets¹; (b) secure stability in financial system²; and (c) strengthen financial industry's competitiveness³.

¹ In order to ensure market discipline, the FSC will make efforts to eradicate financial incidents such as data security breach, to establish a consumer-oriented supervisory system, and to reform micro finance programs.

² To secure financial stability, the FSC will take preemptive actions against potential risks, if any, such as household debt, poorly-performing companies and other market destabilizing factors.

³ The FSC will strengthen financial industry's competitiveness by fostering sound competition, alleviating regulatory burden, and seizing new growth opportunities in financial markets.

Vision	Trustworthy & Globally Competitive Financial Service Industry		
Values	Public Trust	Market Confidence	Consumer Satisfaction
Policy Goals	Market Discipline	Financial System Stability	Financial Industry's Global Competitiveness
	① Prevention of Financial Incidents <ul style="list-style-type: none"> Strengthen personal data protection Establish a specialized IT security agency Redress unfair market practices 	④ Strengthen Household Debt Management <ul style="list-style-type: none"> Improve the structure of household debt Relieve debt repayment burden for low-income earners Preemptively respond to potential risk factors 	⑦ Foster a Market Environment for Sound Competition <ul style="list-style-type: none"> Revise financial regulation on a regular basis Introduce a system to stimulate competition Strengthen expertise in financial supervision
	② Consumer-oriented Supervisory System <ul style="list-style-type: none"> Establish a consumer protection agency Devise measures for consumer protection Conduct a regular survey on consumer awareness 	⑤ Prevent Corporate Insolvency <ul style="list-style-type: none"> Conduct regular corporate restructuring Systemize preventive management of corporate insolvency Establish a special agency to provide guarantee for shipping finance 	⑧ Vitalize 'Creative Finance' <ul style="list-style-type: none"> Establish infrastructure for tech evaluation Support SME growth Energize capital markets
	③ Microfinance Support System Programs <ul style="list-style-type: none"> Establish an integrated agency for microfinance programs Strengthen microfinance networks for better accessibility Support debt restructuring 	⑥ Enhance Financial Market Stability <ul style="list-style-type: none"> Preemptively respond to potential risk factors Revise payment settlement system Upgrade financial infrastructure to global standards 	⑨ Explore New Growth Opportunities for the Financial Sector <ul style="list-style-type: none"> Develop new pension and insurance products for retirees Foster PEF industry Globalize Korea's financial industry

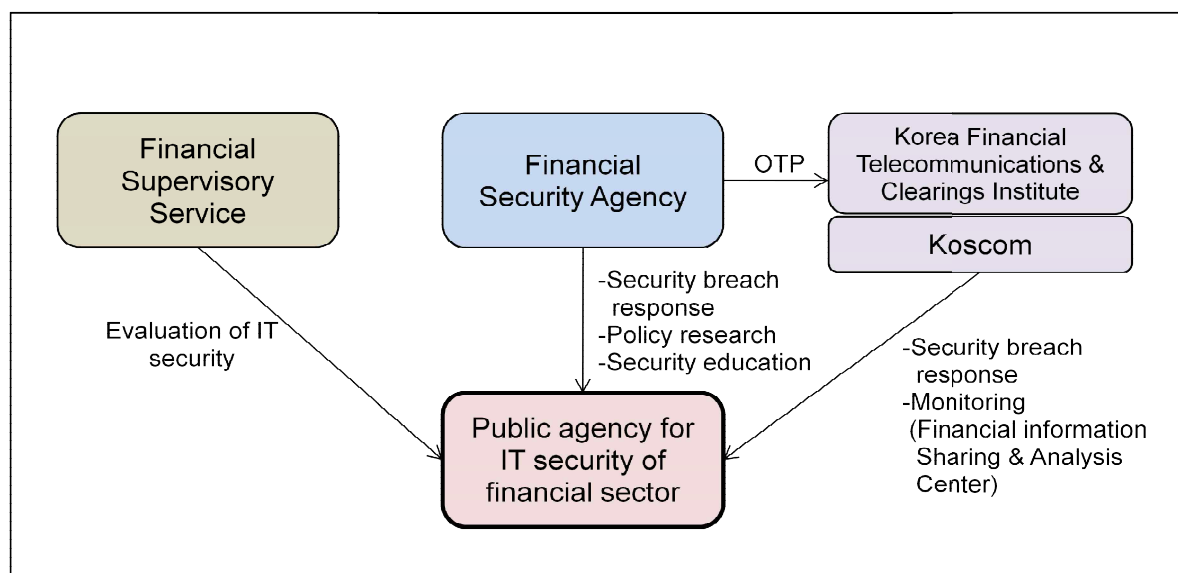
KEY CONTENTS

1. ESTABLISH A SPECIALIZED IT SECURITY AGENCY FOR THE FINANCIAL SECTOR

A specialized IT security agency will be established to better protect financial consumers against rapidly evolving methods of financial fraud. Currently, IT security functions are carried out separately by the Financial Security Agency(FSA), the Korea Financial Telecommunication & Clearing Institute(KFTC) and KOSCOM. Some functions will be transferred to the new agency to provide financial institutions with a total package of specialized IT security service.⁴ The new agency will serve as an integrated control for IT security, responsible for a whole process of monitoring, security alert, analysis and response

⁴ The new agency will take over functions of security authentication from the FSS. Functions of the Information Sharing & Analysis Center(ISAC) and response to security breach will be transferred to the new agency from the KFTC & KOSCOM.

in the event of IT security breach in all financial firms. The new agency will also carry out responsibilities such as security authentication, security policy research and IT expert training. Details will be finalized by the end of June 2014, with an aim to launch the new agency in 2015.



The FSC and relevant ministries will announce at the end of February comprehensive measures for personal data protection.*

* KEY CONTENTS OF ‘COMPREHENSIVE MEASURES FOR PERSONAL DATA PROTECTION’ (scheduled to be announced at the end of February 2014)
- Financial companies will be allowed to ask their customers only the minimum amount of personal information. There will be strict restrictions for financial firms in providing the third party with their customers’ personal data.
- Executive officers responsible for data protection and security will be appointed at each financial company for more effective data protection. Financial companies will be required to strengthen their internal control on both their own employees and contractors in dealing with customers’ personal data.
- Punitive fines will be introduced to hold financial firms to be more accountable for data protection in the event of data security breach.
- Loan marketers who use illegally-obtained information will be faced with immediate termination of employment contract and barred from loan sales for 5 years.

2. ABOLISH FINANCIAL REGULATIONS THAT HINDER COMPETITION

The FSC will thoroughly review all financial regulations in 5 years since 2008 in order to find out regulations or practices that need reform. In principle, regulations that hinder competition will be abolished to encourage competition and innovation in financial markets. To this end, the FSC will hold a T/F meeting⁵ on a monthly basis, as part of joint efforts by both public

⁵ T/F for development of financial service industry composed of public officials and private experts.

and private sectors for regulatory reform. At the same time, the FSC will continue to introduce new systems that promote competition, such as ‘bank accounting switching’ in which money transfer services linked to a previous bank’s account automatically shift to a new bank’s account if customers switch their primary bank account.

3. DEVELOP NEW PENSION PRODUCTS TO MEET VARIOUS CONSUMER NEEDS

The FSC plans to develop new pension products tailored to different needs of various consumer groups such as the disabled, low-income earners or baby-boomer retirees. For example, the FSC plans to launch a new pension insurance product for the disabled in April this year that the policyholders pay less insurance premium while receive more at their pensionable age. The FSC will consider policy incentives such as tax exemptions to encourage more low-income earners or baby-boomers to sign in pension products.

4. CREATE A SPECIAL AGENCY TO PROVIDE GUARANTEE FOR THE SHIPPING INDUSTRY

The FSC will establish a special agency to provide cyclical sectors such as shipping industry with project-based guarantee in order to make them less sensitive to business cycles. The agency will provide guarantees based not on a company’s credit risk, but on LTV or cash flow from each project. The agency will be established as a subsidiary of policy banks with capital jointly raised by policy banks and private investors.

5. REVISE PEF REGULATIONS

The FSC will make PEF regulations simpler and clearer in order to foster PEFs to play a leading role in capital markets. Regulations that restrict PEF operations will be eased or revised so that PEFs would be able to be given more flexibility in investment and operation.

6. ESTABLISH A TECHNOLOGY CREDIT BUREAU(TCB) AND TECH INFORMATION DB

The FSC plans to complete the establishment of a technology credit bureau(TCB) and technology information DB in the first half of 2014. The DB will integrate technology information scattered around different institutions and process the data to be shared and used in technology evaluation or loan application reviews. The TCB and tech DB will enable small tech firms to receive loans from banks with their innovative ideas or technology as collateral.

7. CONDUCT SURVEY ON PUBLIC AWARENESS OF FINANCIAL POLICY FOR BETTER CONSUMER SATISFACTION

The FSC will conduct an annual survey on public awareness of financial policy to reflect results of the survey into devising financial policy. The FSC will survey financial consumers, financial company employees and experts in either November or December every year on their awareness and satisfaction of financial policy to deliver consumer-oriented financial policy.

8. STRENGTHEN HOUSEHOLD DEBT MANAGEMENT

The FSC will continue to improve the structure of household loans with a bigger share of fixed-rate & amortization loans, while managing the pace of household debt growth.

9. REFORM MICROFINANCE SYSTEM

The FSC will integrate various microfinance programs such as Credit Recovery Program, Smile Microcredit and Happiness Fund into a single microfinance organization in order to provide more effective microfinance service.