

GOVERNMENT PREPARES TO INTRODUCE POINTS-BASED PERSONAL CREDIT SCORING SYSTEM

The FSC announced on March 19 that a new points-based personal credit scoring system will be introduced on January 1, 2021, which will replace the current ratings-based credit scoring system.

BACKGROUND

The government has been pursuing a shift from the current ratings-based system (1 to 10 ratings) to a points-based system (1 to 1,000 points) in order to minimize the threshold effect when applying for loans.¹ Once the change takes effect, the credit bureaus will provide personal ‘credit grades’ instead of ‘credit ratings’ to individuals and financial institutions alike.

Introducing the new points-based credit scoring system requires a revision of the term ‘credit ratings’ with ‘credit grades’ in all financial and other relevant laws. The government will work on the revision of the 11 finance-related laws and regulations to facilitate a seamless transition by January 1, 2021.

KEY REVISION

The specifics of the change from ‘credit ratings’ to ‘credit grades’ are shown below.

Credit ratings	Credit grades
4 or below	Lower 50 percentile
6 or below	Lower 20 percentile
6 or above	Upper 93 percentile or 0.65% or lower possibility of long-term default
7 or below	Lower 10 percentile

The new points-based credit scoring system will provide a more segmented credit scoring system for both individuals and financial institutions.

FURTHER PLAN

In order to ensure a smooth transition to the new points-based credit scoring system,

¹ For example, a credit score in the upper section of a ratings category is relatively disadvantaged when applying for loans compared with a credit score in the lower bottom of the next ratings category.

the government will operate a taskforce to closely monitor the transition. The necessary revisions to the legislations are expected to be completed by the third quarter of this year. The change from the 'credit ratings' to the 'credit grades' system for financial companies' credit scoring system (CSS), guidelines, internal regulations and standardized agreements will take place in the fourth quarter. The new points-based credit scoring system will be fully operational beginning on January 1, 2021.

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