

FINANCIAL POLICY ROADMAP FOR 2016

The FSC outlined its financial policy roadmap for 2016, focused on two main themes: **Financial Reform** and **Financial Stability**. The FSC will speed up the implementation of financial reform to promote competition and innovation in the financial sector, while strengthening financial stability in response to internal and external risks.

Ten key policy tasks were laid out to push forward *financial reform* and *financial stability*:

- *financing innovative businesses to support the creative economy;*
- *encouraging cultural changes in financial institutions;*
- *promoting the financial industry as new growth driver;*
- *enabling more convenient and innovative financial services;*
- *supporting the growth of household wealth;*
- *managing potential risks of household debt;*
- *managing corporate default risks preemptively;*
- *ensuring stability and fairness in financial markets;*
- *expanding policy support for microfinance; and*
- *strengthening financial consumer protection.*

1. FINANCING INNOVATIVE START-UPS AND VENTURE COMPANIES

The FSC will further stimulate investments in tech start-ups through tech investment funds worth KRW 750billion. We will continue to make our policy efforts to help the newly-introduced crowdfunding system take root as a fundraising channel for start-ups and venture companies. We will push forward the restructuring of the KRX into a holding company in an effort to bring more competition into the local bourse system. The KOSDAQ and KONNEX will be also reformed to attract more listings. The roles of policy banks such as IBK and KDB will be realigned to provide policy loans and state-backed guarantees for start-ups and SMEs in accordance with their growth cycle.

2. ENCOURAGING CULTURAL CHANGES IN FINANCIAL INSTITUTIONS

We will continue our reform of financial supervisory practice and regulation to ease regulatory burden on financial institutions and encourage more private initiatives in the financial sector. Financial institutions will be also required corresponding changes in their culture such as spread of performance-based compensation and stricter internal rules in ethics and compliance.

3. PROMOTING FINANCIAL INDUSTRY AS NEW GROWTH DRIVER

The FSC will continue our policy efforts to support Korean fintech companies to have global competitiveness by amending regulations and practice that hinder further development of fintech services. Fintech demonstration days will be held in overseas markets to offer domestic fintech companies global networking opportunities. We will continue to carry out regulatory reforms in the insurance sector as outlined in our roadmap for strengthening competitiveness of Korea's insurance business.¹ Capital market regulations will be amended to allow securities firms to provide better corporate financing services and expand into new businesses.

4. ENABLING MORE CONVENIENT AND INNOVATIVE FINANCIAL SERVICES

The FSC will encourage further introduction of online- or mobile-based financial services. Non-face-to-face identification, first introduced in the banking sector last year, will be expanded into financial transaction in non-banking sector. The 'Payinfo' service which enables bank customers to easily switch their main account between banks will be further improved to provide a wider range of services such as automatic money transfer and cancellation. Internet-only banks will be launched for the first time under the current Banking Act to enable more convenient banking services for customers. At the same time, the FSC will continue revision of the Banking Act to attract more diverse players into banking business.

5. SUPPORTING HOUSEHOLD WEALTH GROWTH

We will vitalize financial advisory business – for example, introduction of robo-advisor service or independent financial advisors(IFAs) – to support households to increase and better manage their wealth. Korea's Individual Savings Accounts(ISAs) will be introduced in March this year to provide a more comprehensive asset management vehicle for households.

6. MANAGING POTENTIAL RISKS OF HOUSEHOLD DEBT

The FSC will manage household debt risks under the principle that *“debt should be borrowed within the borrower's repayment ability and paid back in installments from the beginning.”* Banks will adopt stricter standards for screening mortgage applications as newly-established screening guidelines² are to be effective from February in Seoul and its metropolitan area, and May in provincial areas. We will also closely monitor household lending by non-banking sector to prevent tighter lending conditions in the banking sector from causing a surge in household lending in the non-banking sector. Policy incentives will be devised to stimulate a reverse mortgage scheme in an effort to reduce debt burden on home owners and to secure stable income source in their old age.

7. MANAGING CORPORATE DEFAULT RISKS PREEMPTIVELY

Preemptive and swift restructuring will be conducted to alleviate market anxiety and allocate resources into more productive areas. Troubled companies will be sort out through credit risk assessment to be placed under a debt workout program, or file for court receivership

¹ Refer to the press release(Oct.19, 2015), 「FSC Roadmap to Strengthen Competitiveness of Insurance Business」 for further details

² Refer to the press release(Dec.14, 2015), 「Policy Direction for Household Debt Management」 for further details.

depending on their chances of normalization. The government and creditor banks will work closely to restructure structurally-vulnerable sectors such as shipbuilding, shipping, petrochemical, steelmaking and construction industries. The consultative body of government agencies will set out a roadmap for industry-wide restructuring, considering each sector's specific conditions and characteristics. Based on the roadmap, creditor banks will conduct restructuring of individual companies in such sectors in a swift manner. The FSC will continue our legislative effort to reenact the Corporate Restructuring Promotion Act which expired at the end of December 2015.

8. ENSURING STABILITY AND FAIRNESS IN FINANCIAL MARKETS

We will closely monitor risks in financial markets at home and abroad, while strengthening prudential regulations in conformity with international standards. The FSC will go forward introduction of foreign currency liquidity coverage ratio (LCR) in order to strengthen domestic banks' buffer against systemic risks. We will also make sure Basel III for the banking sector be implemented as scheduled and review prudential regulations in the insurance sector in preparation of introduction of IFRS4 Phase 2. The FSC will continue our effort to make global investors' access to Korean capital markets more convenient – for example, introduction of 'omnibus account' for foreign investors. Public disclosure and accounting rules for companies will be further improved to enhance transparency for investors. The Korean 'stewardship code' will be introduced for more transparent and sounder corporate governance in Korean companies.

9. EXPANDING POLICY SUPPORT FOR MICROFINANCE

The FSC will stimulate lending markets for mid- or low-credit borrowers, who used to be forced to borrow at prohibitively high interest rates, by encouraging banks and mutual savings banks to develop loan products with interest rates 10% or above. Policy funds of KRW 5.7trillion will be injected to lend micro loans to low-income household and small business owners. Debt restructuring programs will be more tailored depending on borrower's repayment ability.

10. STRENGTHENING FINANCIAL CONSUMER PROTECTION

The FSS will closely monitor sales practice of financial institutions to protect financial consumers from possible financial misconduct, while strengthening education for financial consumers to help them better informed. The FSC will also closely work together relevant authorities at home and abroad to crack down on financial crimes such as money laundering and financial fraud.

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