

## FSC HOLDS POLICY WORKSHOP TO DISCUSS PROGRESS OF POLICY IMPLEMENTATION AND TASKS AHEAD

The FSC held a policy workshop on the progress of financial policy implementation of the Moon Jae-in administration at its fifth year on May 20, discussing some of the key policy achievements made in the past four years as well as the remaining tasks. The policy workshop was attended by all FSC employees and key members of the financial development review committee.<sup>1</sup>

### **POLICY ACHIEVEMENTS**

#### **I. PREEMPTIVE CRISIS RESPONSE HELPED TO EASE UNCERTAINTIES AND ENSURE STABILITY**

a) Prompt implementation of COVID-19 response measures helped to prevent a spread of financial crisis.

- The KRW175 trillion-plus COVID-19 financial support programs introduced, which include (i) stronger lending support for SMEs and small merchants hit by COVID-19, (ii) emergency liquidity support for businesses facing temporary liquidity shortages and (iii) the bond market and stock market stabilization funds.

⇒ *The stock market recovery was the quickest and strongest in the world*

b) The growth of household debt has been stably managed.

- Mortgage rules tightened to curb speculative demand in the housing market ([Aug. 2, 2017](#))
- Stronger mortgage rules applied on multiple homeowners to cool down speculative demand ([Sep. 14, 2018](#))
- Prohibition of mortgage loans introduced on homes valued over KRW1.5 billion in speculative areas ([Dec. 16, 2019](#))
- Gradual application of DSR rules introduced on individual borrowers ([Apr. 29, 2021](#))

c) Continuous efforts have been made on corporate restructuring

- Corporate restructuring fund created in the amount of about KRW3.2 trillion between August 2018 and April 2021, which made investments of about KRW1.8 trillion so far
- Pursued restructuring of maritime shipping and airline industries

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<sup>1</sup> For social distancing, most FSC employees participated through YouTube live broadcast.

## **II. ENCOURAGED A SHIFT IN FLOW OF FUNDS TOWARDS PRODUCTIVE SECTORS THROUGH FINANCIAL INNOVATION AND SUPPLY OF VENTURE CAPITAL**

- a) Expanded the supply of funds to innovative sectors by making improvements to the corporate credit evaluation system and the capital market rules
  - Corporate credit rating system changed to take into account the future growth potential of businesses
  - Promoted a growth of movable asset-based financing from about KRW700 billion at the end of 2018 to KRW3 trillion by the end of 2020
  - Introduced stock market listing rules based on the future growth potential of businesses
  - Expanded credit offering to SMEs and venture startups from major investment banks from about KRW1.9 trillion in 2016 to KRW15.4 trillion in 2020
  
- b) Established foundations for supplying funds to innovative New Deal sectors
  - Korea Growth ladder fund created in the amount of KRW9.8 trillion in 2018-2020 and made investments in the amount of KRW4.3 trillion as of the end of April 2021
  - KRW20 trillion in [K-New Deal fund](#) to be created for 2021-2025
  - KRW1.95 trillion in financial support provided to some 150 innovative firms selected as part of the government-wide effort to cultivate more than 1,000 innovative firms
  - Mapo Front1, the government-backed startup incubating facility opened in July 2020 which hosts some 102 startups and 821 employees as of the end of February 2021

⇒ *Introduced diverse ways to raise funds according to the different needs of businesses at different stages of business life cycle*

## **III. ENHANCED CONSUMER CONVENIENCE AND COMPETITIVENESS IN FINANCIAL SECTORS**

- a) Established the legal, procedural and technological foundations to promote innovation in the financial sectors
  - The Special Act on Financial Innovation Support took effect in April 2019 and the financial regulatory sandbox program has thus far designated 142 'innovative financial services,' attracting about KRW585.7 billion in investments
  - Open banking became operational with about 101 banks, fintechs, mutual finance companies and securities firms already participating while MyData businesses were also introduced
  - Financial big data infrastructure and financial data exchange established
  
- b) Promoted competition among legacy financial institutions by lowering entry barriers and issuing new licenses
  - Licensing of internet-only banks leading to some 15.8 million users as of the end of 2020
  - Capital requirement eased for insurance companies specializing in small-sum, short-term insurance coverages
  - Allowed issuing new licenses to securities firms, etc.

⇒ *The financial sector provided a momentum of innovation for all other industries and significantly enhanced user experience and convenience in financial services.*

#### **IV. IMPROVED FINANCIAL INCLUSION VIA STRONGER SUPPORT AND CONSUMER PROTECTION**

- a) Helped relieve cost burdens of households and businesses
- The maximum legal lending rate lowered from 27.9 percent prior to February 2018 to 20 percent (from H2 2021)
  - A relief loan program launched in September 2019 helped 240,000 borrowers with interest rate reductions totaling some KRW310 billion a year
  - Expanded the provision of mid-range interest rate loans from about KRW1.3 trillion in 2016 to KRW14.7 trillion in 2020
  - More than 2.6 million small merchants benefiting from about KRW1.4 trillion in credit card fee reduction
- b) Bolstered financial safety net for lower income earners and vulnerable debtors
- Increased provision of microloans from about KRW5 trillion to 490,000 individuals in 2016 to about KRW8.6 trillion to 790,000 individuals
- c) Established a more closely knitted system of financial consumer protection
- The [Financial Consumer Protection Act](#) taking effect in March 2021 introducing six major sales regulations covering all financial products
  - Enhanced investor protection measures applied on highly complex investment products ([from May 2021](#))
  - A comprehensive inspection on private equity funds taking place to strengthen investor protection (from July 2020)
  - Institutionalized financial consumers' right to demand interest rate reduction from lenders (from Jan 2019) and worked to ensure consumer protection with subscription businesses (from Dec 2020)

⇒ *The number and rate of vulnerable debtors have been on a steady decline.*

#### **V. WORKED TO CREATE A FAIR AND RULES-BASED FINANCIAL MARKET ENVIRONMENT**

- a) Pursued efforts to establish an order in financial markets and improve transparency
- Stronger monitoring and penalties for illegal short selling activities in place from April 2021
  - Enhanced inspection and sanctions measures in place for inappropriate trading activities and targeted inspection carried out on M&A activities involving debt financing, convertible bonds and discretionary investment advisory services
  - Increased number of businesses required to disclose corporate governance report from about 70 entities in 2017 to 211 in 2020
  - [New legislation](#) enacted on the supervision of non-holding financial groups that have total assets of KRW5 trillion or more
  - Regulatory reform measures on accounting rules put in place

- b) Strengthened efforts to prevent fraudulent and illegal activities in financial markets
- Launched a special financial response team to help root out speculation in the real estate market (from April 2021)
  - Pursued measures to stamp out illegal predatory lending and provided support to debtors through the legal representation assistance program
  - Introduced measures to prevent vishing scams through enhanced penalties, etc.

## **TASKS AHEAD**

### **I. ORDERLY NORMALIZATION OF LIQUIDITY CONDITIONS CREATED AS PART OF THE PANDEMIC RESPONSE MEASURES**

- Maintain close monitoring of the conditions related to the virus prevention, economic and financial situations while considering a gradual phase-out plan for normalization within the boundaries that will not hinder the economy's recovery momentum
- Effectively respond to the concentration risk in non-productive sectors, such as real estate, while encouraging the flow of funds into New deal and other productive sectors

### **II. PROACTIVE RESPONSE TO RAPID CHANGES TAKING PLACE IN ECONOMIC AND INDUSTRIAL STRUCTURES**

- Continue to work on regulatory reforms to ensure a steady progress in financial innovation
- Improve rules and regulations to create a healthier industrial ecosystem amid changing environment, such as big techs entering the market and an acceleration of convergence between different sectors

### **III. RESTORING OF PUBLIC TRUST AND CONFIDENCE IN THE FINANCIAL SYSTEM**

- Work to ensure responsible sales practices by financial institutions and boost consumer protection by maintaining consistency in the application of financial rules and regulations

### **IV. ACTIVE RESPONSE TO CLIMATE AND DEMOGRAPHICS-RELATED ISSUES**

- Preemptively respond to global trends in promoting green finance while bolstering corporate disclosure of ESG factors
- Development of financial services and products tailored to the needs of different stages of one's life cycle necessary by financial sectors in response to the demographic cliff

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