

FSC PLANS TO INTRODUCE CONSUMER CREDIT BILL TO ENHANCE FINANCIAL INCLUSIVENESS

The FSC announced on March 3, 2020 its plans to draft a bill on consumer credit and push for the enactment of the legislation within this year in order to enhance financial inclusiveness.

The new legislation will replace the current Act on Registration of Credit Business, etc. and Protection of Finance Users. It will take essential provisions on the contents and procedures of loan contracts from the Credit Business Act, while establishing new regulations on delinquent debt management, termination of contracts, etc.

BACKGROUND

Under the current personal debt management system, it is extremely difficult for delinquent debtors to recover on their own while facing a risk of turning into long-term delinquent debtors.

- ▶ Only about 14,000~17,000 delinquent debtors out of 26,000~28,000 every year are found to seek personal debt restructuring programs while many choose not to.
- ▶ The burden of arrears and repayments as well as the pressure of debt collection cause disruptions and distress to daily lives.
- ▶ The debt collection process heavily focuses on the performance of debt collection while overlooking issues related to consumer trust.

KEY PROVISIONS

The improvement will focus on providing more safeguards for debtors and providing more chances to get back on their feet by modifying the structure that currently tolerates excessive debt collection practices.

The government will work to establish a legal principle for a balanced approach to debt collection that takes into account not only debt collection performance but also consumer trust.

I. PROVIDE TAILORED SUPPORT TO DEBTORS FOCUSING ON THEIR NEEDS

Establish a new debtors' right through which they can request debt restructuring from

financial institutions, which will help them find ways to get back on their feet and resume normal economic activities.

- ▶ Delinquent debtors will have an option to request a debt restructuring program when facing diminished debt servicing capacity. Upon such a request, financial institutions will be required to cease debt collection and provide a response.
- ▶ Financial institutions will be required to provide debtors with an opportunity of debt restructuring prior to taking steps toward debt collection.
- ▶ Financial institutions will be required to establish their own debt restructuring standards based on the principle of consistency which can be used as a guideline when reviewing requests for debt restructuring.
- ▶ Introduce a new debt restructuring negotiation business to improve bargaining power of debtors and through which negotiators will work on the side of debtors on a contract basis. The negotiators will be directly involved in the negotiation process with financial institutions and support debtors in coming up with the most accommodating debt restructuring plan.

II. MITIGATE DEBT COLLECTION BURDENS

Restrict accumulation of delinquent debts and excessive debt collection practices.

- ▶ Establish a limit to delinquent debt liabilities in the events of default by prohibiting practice of charging interest on late fees while demanding payment on the principal, and having financial companies to develop a reasonable standard for extending the period of extinctive prescription.
- ▶ Provide safeguards against excessive debt collection practices by limiting the number of debt collection calls that can be made in a given period, providing debtors with a right to request that certain types of debt collection methods during certain times of the day be restricted, and introducing statutory damages to discourage unlawful debt collection practices.
- ▶ Restrict collection of expired debts, debts undergoing a restructuring process, or unregistered debts.

III. MAINTAIN CONSUMER TRUST

When debts are collected by third party collectors, financial companies should still maintain the responsibility of protecting consumer trust.

- ▶ Require financial companies to monitor the effects of third party debt collection process on debtors, to establish a standard for selecting and managing debt collection agencies and to report unlawful activities to financial regulators
- ▶ Eliminate factors that contribute to excessive debt collection practices by restricting cross-operation of credit business entities and debt collection agencies, reviewing strengthened entry and operational requirements for debt collection agencies, and maintaining coherence in the regulatory framework by transferring

debt collection agency related provisions from the Credit Information Use and Protection Act to the new legislation on consumer credit.

FURTHER PLANS

The taskforces that have been studying ways to improve the management of personal arrears will conclude their investigation in March this year and the findings will be announced in the second quarter. Based on their findings, the FSC will draw up a bill on consumer credit and submit it to the National Assembly in the second half with a goal that the legislation becomes enacted within this year for implementation in the second half of 2021.

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