

FSC CHAIRMAN HOLDS MEETING TO DISCUSS WAYS TO IMPROVE DEPOSIT INSURANCE SCHEME

FSC Chairman Koh Seungbeom held a meeting with the president of the Korea Deposit Insurance Corporation (KDIC), financial industry group leaders and other market experts on February 23 and discussed ways to make improvements to the deposit insurance system. The following is a summary of Chairman Koh's remarks.

CHAIRMAN'S REMARKS

(IMPORTANCE OF DEPOSIT INSURANCE FOR FINANCIAL STABILITY) The deposit insurance system has been a mainstay of our recovery efforts in times of financial crisis situations. Starting from this year, in order to minimize systemic market disorder that may result from large financial companies turning insolvent, the KDIC is overseeing their resolution plans for approval from the FSC when systemically important financial institutions (SIFIs) are unable to recover on their own.¹ Recently, financial imbalances have become more problematic around the world and there are growing concerns about potential risks turning into a reality. As such, the role of the KDIC is becoming ever more integral in providing financial safety net. Timely detection of market risks, prevention of financial companies going bankrupt and stronger cooperation and coordination with relevant institutions should take place. As systemic risk may find us before we find it, the KDIC should have support measures ready to be prepared for market instability.

(NEED TO MAKE IMPROVEMENTS TO DEPOSIT INSURANCE SYSTEM) The deposit insurance system needs to be updated and improved in line with the changes taking place in the financial industry. Rapid growth of the nonbanking sector and the convergence between finance and information technology have led to the emergence of new financial services. The expanded availability of short-term money market instruments, such as repurchase agreement (repo) and asset-backed commercial paper (ABCP), and the emergence of electronic prepaid payment mechanisms may weaken the crisis response function of the traditional deposit insurance institution. In addition, due to the growth in economic scale and financial asset holdings, there is a growing need to raise the limit on deposit insurance. Thus, there needs to be a close scrutiny and active discussions on the current deposit insurance system in order to minimize blind spots in providing protections for financial consumers while guaranteeing stability in the financial market.

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¹ Please click [here](#) to see the press release dated June 22, 2021.