

## SINGLE-STOP ONLINE LOAN TRANSFER SYSTEM TO BE SET UP TO REDUCE INTEREST BURDEN ON CONSUMERS

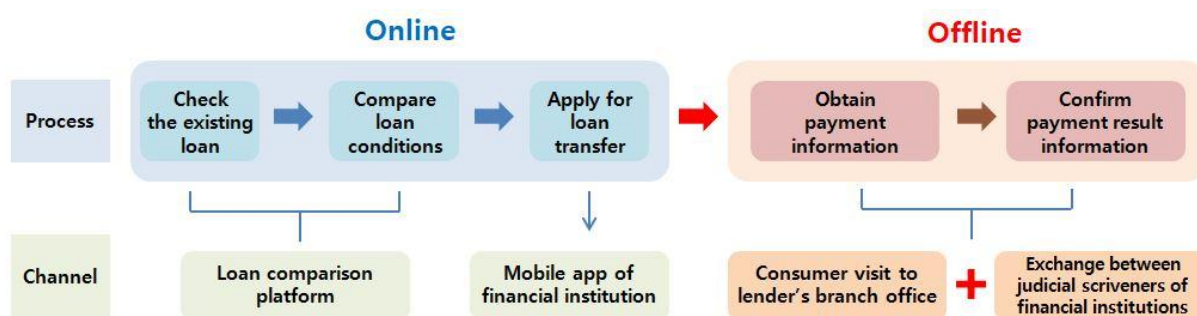
The FSC announced its plan to set up a single-stop online loan transfer system on November 14 to help alleviate the burden of high interest rates on financial consumers.

With recent interest rate increases, it is necessary to find ways to lessen financial consumers' interest costs.<sup>1</sup> The FSC plans to facilitate loan transfer,<sup>2</sup> as one of these ways, allowing financial consumers to more easily swap their present loans to reduced interest rate loans.

### CURRENT MARKET SITUATION

Currently, there is not a lot of products for loan transfers in the personal loan market because of inconvenience for the loan applicants and lack of a relevant infrastructure.<sup>3</sup> In the first place, the absence of a fully integrated online system in financial institutions has required the payment of existing loans in the offline mode,<sup>4</sup> which results in time and costs for both financial consumers and financial institutions. Second, since there are very few platforms offering comparison services for loans and because there is a limited amount of information, namely, accurate information on the current loan, the cost (various fees when transferring loan) and the benefits (savings generated from lower interest rate), which can help consumers make informed decisions, borrowers still have a difficult time making a decision about the loan transfer.

< Current Process of Loan Transfer Service Usage >



<sup>1</sup> Bank of Korea's base rate was raised 7 times over the past year by 2.25%p (from 0.75% in August 2021 to 3.0% in October 2022). Interest rate on household loans from banks was 5.15% for new loans issued in September 2022, the highest level in 9 years.

<sup>2</sup> Financial institution offering a new loan pays out borrower's current loan to original lender in place of the borrower.

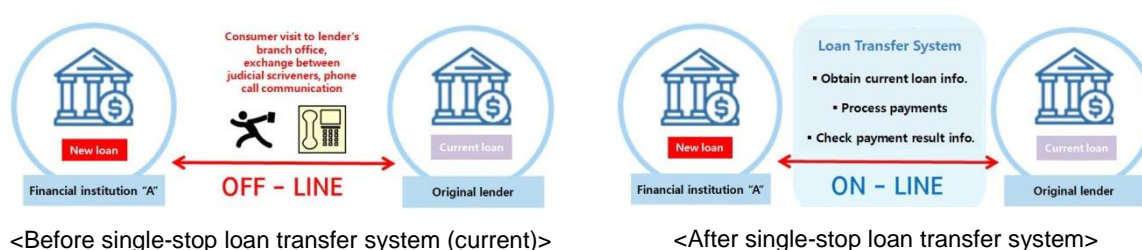
<sup>3</sup> From 10 loan comparison service platforms provided by banks, only 3 loan transfer products are available.

<sup>4</sup> A borrower has to visit current lender's office branch to get relevant confirmation document on the current loan and the judicial scriveners of former and new lending institutions need to get involved in the process.

## **KEY DETAILS OF PLAN**

### **a) Build an online loan transfer system between financial institutions**

The payment of the loan, from the request of payment to the provision of the necessary information and to the final confirmation of the payment, between financial institutions, will be managed by the Korea Financial Telecommunications & Clearings Institute (KFTC), and the entire process will be computerized. When the current lender is a bank, savings bank, credit card firm or “capital” company,<sup>5</sup> the borrower can easily transfer the loan to a different loan product with better conditions of borrowing. As the entire process of loan transfer will be carried out on a single-stop online system, there will be growing number of financial institutions participating in the market for transfers, and the time and costs incurred by consumers and financial institutions are expected to be reduced.



### **b) Expand the number of market participants and the type of information provided**

First, authorities will allow financial institutions, not only as lenders of refinance products (for loan market) but also providers of loan comparison services (for loan comparison market), to participate in the market for loan transfers. Second, authorities will ensure that consumers can obtain accurate information on their current loans (various fees, etc.) on the loan transfer platforms at the stage of making comparisons on various loan products in order to facilitate the decision making process of consumers.<sup>6</sup> It is anticipated that competition among loan comparison service providers will result in an improvement in the quality for loan comparison services. Financial institutions that offer their own loan comparison services will provide more products for loan transfers. In addition, consumers will benefit from a more rational decision based on a sufficient amount of information.

## **CONSUMER PROTECTION AND RISK MANAGEMENT**

**(CONSUMER PROTECTION)** Authorities will develop sufficient consumer protection mechanisms in order to facilitate loan comparison platforms, which will provide recommendations on most suitable products in accordance with consumer demands. For this, authorities will strengthen verification of platform algorithms, which are designed to compare and recommend financial products in order to prevent the financial institutions from committing activities that could hinder the consumer benefits,

<sup>5</sup> Loans eligible for transfer to another lending institution according to the standardized credit transaction agreement in each financial sector.

<sup>6</sup> Specific types of information and method of providing information will be decided after having discussions with financial institutions.

for instance, by recommending first their own products on their platforms.

**(RISK MANAGEMENT)** Authorities will provide a period of pilot operation to ensure the management of risk in financial markets, for example, in the event of a sudden flow of money with the introduction of single-stop service for loan transfers. On the basis of assessment result of the system<sup>7</sup> during the period of pilot operation and considering ongoing discussions on the international standards for platform services, authorities will adjust the way the system operates thereafter.

## **SCHEDULE**

Authorities plan to set up the single-stop online loan transfer system with a goal to start operation in May 2023 (tentatively).<sup>8</sup> A taskforce composed of relevant stakeholders such as financial institutions, fintechs and the KFTC will be formed in November to coordinate specific details. Based on the discussions in the taskforce, the development of the system will begin within this year.

# # #

For press inquiry, please contact Foreign Media Relations at [fsc\\_media@korea.kr](mailto:fsc_media@korea.kr).

---

<sup>7</sup> Consumer convenience (how many times loan transfer service was used, how long it took for service provision, etc.) and risk to financial institutions (excessive flow of money, etc.)

<sup>8</sup> It is expected to take about 6 months for having working level meetings between network specialists of all financial sectors, developing the system and conducting a comprehensive test.