Financial Services Commission

Press Release

March 23, 2023

4TH WORKING GROUP MEETING HELD ON IMPROVING MANAGEMENT, OPERATING PRACTICES OF BANKS AND BANKING SYSTEM

The FSC and the FSS held the 4th working group meeting[1] of the taskforce on improving the management and operating practices of banks and banking system on March 22, chaired by FSC Vice Chairman Kim So-young.

DETAILS OF 4TH WORKING GROUP MEETING DISCUSSIONS

First, participants discussed the recent progress and future plan for online deposit product brokerage service, which is aimed at enhancing consumer benefits and boosting competition in the banking sector. Financial authorities announced that the online deposit product brokerage service offered by nine companies that were selected as “innovative financial service providers” in November 2022 will be launched in June this year and that the authorities plan to provide support to ensure their seamless launch. Also, at the end of May, authorities plan to have another screening session for more than ten companies that submitted applications to be selected as “innovative financial service providers” to allow more diversity in the availability of relevant service platforms. Based on the result of pilot operation, authorities plan to consider whether to make online deposit product brokerage services official in 2024. In particular, when seeking to make it official, authorities plan to look into ways to include checking accounts as well as ways to expand the subscription limit within the boundaries in which excessive money moves can be avoided.

In this regard, participants expressed high hopes for the benefits of online deposit brokerage services, particularly in connection with MyData services. A participant talked about the importance of ensuring fairness in algorithms to enable appropriate recommendation of deposit products, and that the service fee levels need to be set appropriately so as not to transfer deposit brokerage service fees to consumers. Another participant raised a concern about excessive money moves as consumers become more sensitive to interest rates, and said that there needs to be upper limits for subscription and mechanisms to control frequent movements of money. Also, another participant said that in the case of some deposit product brokerage platforms overseas, there were instances where interest rates suggested on the platform were different from real interests, causing complaints from consumers, thus, this needs to be taken into account when designing a platform.

[1] Working group meeting participants include officials from the FSC, the FSS, the Bank of Korea, private sector experts, financial industry groups and research institutions.

Next, participants held in-depth discussions on ways to boost the competitiveness of internet-only banks. Prior to engaging in discussions, participants shared the current status of internet-only banks, the advantages and assessment on introducing internet-only banks, and suggestions for strengthening the competitiveness of internet-only banks.

In this regard, a participant said that internet-only banks should focus on specialized areas like challenger banks in the UK in their competition with traditional banks, and that rather than easing the ratio of lending to medium and low-credit borrowers, it is more important for internet-only banks to improve their risk management capacity related to their expanded volume of loans to medium and low-credit borrowers. Another participant said that if internet-only banks ease their ratio of lending to medium and low-credit borrowers, there may be increased difficulties for these borrowers as they are exposed to higher interest rates, which is why internet-only banks should continue to provide the complementary role in bridging disparities in lending rates, and that based on the vast amount of data accumulated on medium and low-credit borrowers, internet-only banks will be able to refine their alternative credit assessment model. In addition, another participant said that the current regulations on the operating standards (so-called “25 percent rule”) of bancassurance and on coercive subscription of insurance policy as a condition of lending by banks seem to be inconsistent with the contactless, digitalized operating environment, but that it is necessary to consider how to regulate the problem of misguiding or luring customers using dark patterns, etc.

Internet-only banks said that due to difficult economic situations coupled with the continuation of high interest rates, the ratio of overdue debt accounts has been rising, and suggested a lowering of their target ratio of lending to medium and low-credit borrowers. Regarding the development of an alternative credit assessment model, internet-only banks said that although there are difficulties in developing due to insufficient amount of data accumulated thus far on medium and low-credit borrowers, they will continue to work on improvements.

FURTHER PLAN

On March 29 (tentatively scheduled), financial authorities will hold the 2nd taskforce meeting on improving the management and operating practices of banks and banking system to put together the details of discussions that have been dealt with so far, and discuss (a) issues that need to be considered to institute small licensing units and (b) more concrete ways to regulate nonbank financial institutions and benefits to consumers if nonbanks are authorized to provide payment settlement services.

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