

## **FSC DECIDES ON THE METHOD AND PROCEDURE FOR AUTHORIZING A REGIONAL BANK'S TRANSITION TO BECOME A NATIONWIDE OPERATOR**

- A “modification of conditions” under the Article 8 of the Banking Act will be applied for authorizing a regional bank's transition to become a nationwide operator.
  - When reviewing requirements, the FSC will apply the same level of rigor expected for the screening of a new entrant.
  - The preliminary approval process may be skipped but can take place if the applicant wishes to do so.
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The Financial Services Commission held its second regularly scheduled meeting of the year on January 31 and discussed the method and procedure for authorizing a regional bank's transition to become a nationwide operator under the Banking Act.

On July 5, 2023, the government announced a plan to promote regional banks' business expansion to become nationwide banking business operators as a way to spur competition in the banking industry. Under the current licensing system, all nationwide, regional and internet-only banking businesses need to get authorization from the FSC under the Article 8 of the Banking Act. Although most requirements and procedures are same for authorizing the operation of banking business, there are different requirements for minimum capital and maximum shareholding by a non-financial entity.<sup>1</sup>

Nonetheless, the Banking Act currently has no explicit provision on the issue of authorizing a regional bank's transition to become a nationwide banking business operator. Some have commented in favor of allowing this through changes in the articles of incorporation for expanding the scope of business operation from a specific geographic region to nationwide. However, as this constitutes a critical matter from the standpoint of supervising financial institutions, the FSC finds it inappropriate to allow the transition from a regional bank to a nationwide banking business operator only through changes in articles of incorporation and without having a proper authorization process. Thus, the financial authorities prepared the following method and procedure for authorizing a regional bank's transition to a nationwide operator under the current regulatory framework.

First, regarding the method for authorizing a transition of a regional banking business to become a nationwide operator, the FSC will apply a “modification of conditions” specified under the Article 8 of the Banking Act. A new authorization may be utilized to allow a regional bank's transition to become a nationwide operator, but in this case, a separate process for filing and authorizing the closure of the current regional banking business may also be needed. A “modification of conditions,” in this regard, does not

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<sup>1</sup> Minimum capital requirement: KRW100 billion (nationwide banks), KRW25 billion (regional banks), KRW25 billion (internet-only banks)

Maximum shareholding by a non-financial entity: 4% (nationwide banks), 15% (regional banks), 34% (internet-only banks)

require a separate authorization for closing down the current regional banking business, and there exist no legal uncertainties regarding whether a regional bank's legal relationships can be maintained intact when it becomes a nationwide bank.

As the transition from a regional bank to a nationwide bank constitutes an important modification of operating conditions for a bank, the FSC will apply a strict standard and the same level of rigor expected for the screening of a new entrant.<sup>2</sup>

Given an expected growth in the applicant's business operation geographically, the FSC will particularly look closely when evaluating the factors associated with the management of a banking business, such as the business plan, internal control and qualification of executive officers. In addition, the FSC plans to have an external evaluation process and collect comments from relevant stakeholders to ensure thoroughness in the review process.

The process of granting a preliminary approval for a banking business may be skipped for a regional bank already equipped with sufficient levels of personnel and facilities requirements, if the applicant wishes to forego the preliminary approval process and apply directly for the final authorization. However, the FSC will accept application for preliminary approval, if the applicant wishes to have a preliminary approval process.

For a regional bank subject to an investigation for financial accidents, it is still possible to apply for an authorization to become a nationwide banking business if the investigation is about violations involving certain bank branches or employees, but not about its major shareholders. Financial accidents involving bank branches or employees neither constitute a reason for disqualification of major shareholders under the Banking Act nor a reason to suspend the authorization process under the supervisory regulation on banking business.

However, if a penalty is expected to be imposed on an executive officer as a consequence of the investigation on a financial accident, the FSC plans to require a submission of a plan from the applicant, detailing specific measures it intends to take against that executive officer, and have an external committee evaluate the appropriateness of this plan. For these applicants, the FSC will more strictly review the appropriateness of their internal control system.

The FSC will utilize these method and procedure when a regional banking business applies for a modification of its operating conditions to become a nationwide banking business operator in the future. In addition, the FSC plans to revise the Banking Act to clearly incorporate these method and procedure into the law.

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<sup>2</sup> Application requirements include rules on major shareholders, appropriateness of a business plan, qualification of executive officers, personnel, business facilities, computer system, and so on.