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Press Release

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PLAN TO STRENGTHEN COMPETITIVENESS OF KOREA'S FINANCIAL INDUSTRY (‘10-10 VALUE-UP’ PLAN)

The FSC announced its ‘Plan to Strengthen Competitiveness of Korea’s Financial Industry’ or the so-called ‘10-10 Value-Up Plan’ aimed at raising the added value that the financial industry generates up to 10% of the GDP over the next 10 years.

BACKGROUND

The financial industry greatly contributed to Korea’s rapid economic growth. Since the global financial crisis in 2008, however, Korea’s financial industry has lost its growth momentum and vitality. Moreover, repeated security incidents and fraud scandals in the financial sector significantly undermined financial consumers’ confidence in the industry.

At the same time, the financial industry faces new challenges as Korea’s economy is shifting to slower growth, searching for a new growth model based on innovative technology and creative ideas. The population is also rapidly aging. Faced with such paradigm-shifting changes, it is time for both the government and the financial industry to seek new growth drivers.

The FSC proposed the ‘10-10 value-up’ as a vision for Korea’s financial industry for the first time when Chairman Shin Je-Yoon met CEOs of financial holding companies in May this year. For the last six months since then, the FSC held 68 meetings with those in the financial industry to gather their opinions.

Based on such a bottom-up approach, the FSC drew up the ‘10-10 value-up’ plan focused on its feasibility. As a rolling plan, the ‘10-10 value-up plan’ will continue to be reviewed and updated on a regular basis in order to respond to market developments in a timely and flexible manner.



OVERVIEW

The ‘10-10 value-up’ plan is to provide a blueprint for the financial industry’s development. The financial industry will be developed into a high value-added service sector as a new growth driver and generate decent jobs. To this end, the plan set three missions and nine objectives.

| Vision | The Financial Industry to Generate Higher Value ('10-10 Value-up') | | |
|------------------|---|--|---|
| 3 Missions(3C's) | 1) Competition <ul style="list-style-type: none"> - Create new market opportunities by promoting competition and encouraging innovation | 2) Convergence <ul style="list-style-type: none"> - Achieve shared growth between finance and real economy by realizing Creative Finance | 3) Consumer Protection <ul style="list-style-type: none"> - Earn back people's trust in the financial industry with stronger consumer protection |
| | ① Promote sound competition within the financial industry <ul style="list-style-type: none"> - Relieve financial institutions' regulatory burden hampering competition - Foster a competitive environment by encouraging M&As among financial institutions and ensuring consumers' right to choose | ④ Vitalize finance for technology and intellectual property <ul style="list-style-type: none"> - Establish 'Tech Credit Bureau' which provides technology assessment information tailored to consumer's needs - Create a DB that consumers easily access to technology assessment information | ⑦ Strengthen financial consumer protection <ul style="list-style-type: none"> - Overhaul current legal framework and organizations related to financial consumer protection - Ensure fair competition by eradicating unfair and unjust financial transaction practices |
| | ② Create new demand for the "Homo-hundred" <ul style="list-style-type: none"> - Ensure consumers' financially stable post-retirement life with financial products tailored to their needs - Foster private pension markets - Develop insurance products and services for aged population | ⑤ Revitalize capital markets <ul style="list-style-type: none"> - Improve PEF regulations - Expand demand for investment in the capital market - Stimulate IPOs of promising companies - Encourage development of new markets and products | ⑧ Stabilize financial market <ul style="list-style-type: none"> - Enhance quality and transparency of financial supervisory system - Improve domestic financial market infrastructures to a level equivalent to global standards |
| 9 Objectives | ③ Globalize Korea's financial industry <ul style="list-style-type: none"> - Ease regulations that hinder the financial industry's opportunity to pioneer new overseas markets. - Support for creation of a Financial Hub | ⑥ Strengthen corporate financing capability <ul style="list-style-type: none"> - Provide financing support for companies' overseas project - Support start-ups with regulatory reform such as abolishment of joint surety - Diversify funding channels for SMEs | ⑨ Improve financial accessibility of financially marginalized people <ul style="list-style-type: none"> - Enhance low-income households' access to financial services and relieve their debt-servicing burden |

KEY CONTENTS

1. Promote competition and innovation in the financial sector

Regulatory barriers will be significantly relieved to promote fair competition in the financial industry. The FSC plans to integrate current units of approval for financial services providers, which is excessively subdivided, into larger categories so that new players can easily enter the markets. In principle, financial service providers – e.g. specialized credit financial business providers¹ – will be allowed to engage in additional business upon registration only, not application for approval.

¹ Card companies will be required to acquire regulatory approval in order to engage in additional business since they own information about customers' purchases.



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The FSC will foster an environment where competitive players can live through competition by encouraging M&As and ensuring consumers' right to choose. For example, the FSC will grant brokerage firms pursuing M&As preferential benefits such as giving a priority in approval for PEF business or applying consolidated Net Capital Ratio (NCR) in accounting.

In order to ensure financial consumers' broader range of choices for financial services, the FSC plans to introduce a 'bank accounting switching' system from 2016 in which money transfer services linked to a previous bank's account automatically shift to a new bank's account if customers switch their primary bank account.

In trusting contracts of retirement pension plans, the percentage that financial companies are allowed to include their own products will be gradually reduced in order to promote sound competition in each sector.² Insurance companies will be further authorized to engage in trust business.

The FSC will also come up with its plan on how to integrate process and utilize big data accumulated by financial institutions and credit rating bureaus.

2. Create new financial services for the “Homo-hundred”³

The FSC will encourage development of new and various financial products for growing aging population to ensure financially stable life after retirement in the era of extended longevity.

A 'pension portal' will be established until the end of 2014 so that consumers could search all relevant information about pension plans at the portal.

Insurers will be allowed to sell insurance policy tailored to demands of elderly consumers that provides, for example, a package of care services instead of insurance payments.

The FSC will also foster private pension schemes such as personal pension plans or retirement pensions so that more people could be better prepared for their elderly life and those funds could be utilized for further development of the financial industry.

The FSC will discount service fees for long-time pension holders and make it easier to revive temporarily lapsed contracts in order to provide pension holders with an incentive to maintain their contract for a longer period of time.

Retirement pension holders such as Defined Contribution (DC) plans or Individual Retirement Plans (IRPs) will be guaranteed up to KRW 50 million per person, regardless of depositor protection that other financial products would provide.

² The permitted percentage, for example, will be reduced from below 50% in April 2013 to 30% in 2014. The FSC plans to completely prevent such practice from 2015.

³ A term used in the 2009 World Population Aging Report to describe people whose average life span reaches over 100 years



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3. Stimulate IPOs of promising companies

The FSC plans to ease regulatory burden faced with companies preparing for initial public offerings (IPOs). In the KOSDAQ market, listing requirements will be reduced by half compared to the current level. In the KOSPI market, a ‘fast track’ will be introduced to shorten the length of review period for listing large and good-performing companies.

The number of contents required to be publicly disclosed on a regular basis, currently 54, will be reduced depending on usefulness and importance of the data from the perspectives of investors.

4. Revise PEF regulations

The FSC will make PEF regulations simpler and clearer in order to foster PEFs to play a leading role in capital markets. Types of private funds, currently fragmented such as general private funds, hedge funds, PEFs, PEFs for stabilizing corporate finance, etc., will be integrated into two categories according to their purposes: ‘PEFs for professional investment’ (or ‘hedge funds’) and ‘PEFs exercising rights of management.’⁴

Regulations on establishment of PEFs will be revised so that PEFs can be formed with only reporting after establishment, without prior registration.

5. Promote the ‘Korean wave’ in the financial sector

The FSC will revise relevant regulations to further encourage domestic financial institutions to pioneer overseas markets in search for new growth opportunities.

Newly-established overseas branches will be granted a longer grace period to be exempted from performance evaluation of financial institutions. During the grace period, the branches will be exempted from evaluation of localization as well.

The FSC plans to open a way for domestic banks to acquire overseas financial holding companies. In order to encourage financial holding companies to establish more overseas subsidiaries, the FSC will ease the regulation that requires financial holding companies to hold over a 50% stake in the overseas subsidiary.

Overseas branches of domestic banks, currently allowed to engage only in businesses approved under Korea’s banking act, will be allowed to expand into a broader range of businesses as long as they are permitted by local laws.

⁴ The former aims to seek profits by maximizing values of their investments in a variety of products such as securities or derivatives, while the latter aims to gain profits by raising values of a target company via direct participation in the company’s management and restructuring.



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FUTURE SCHEDULE

Top priority tasks such as revising financial regulations or strengthening financial supervision will be completed until the first half of 2014. The FSC will come up with a series of detailed plans in December: to reform PEF regulations (Week 1); to create new demands for financial services in the era of extended longevity (Week 2); and to help innovative technology & intellectual property generate financial values (Week 3). The remaining tasks that the plan proposed will be included to the FSC's policy agenda for next year.

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