

TECH FINANCING GUIDELINE TO FACILITATE EFFECTIVE LENDING SUPPORT FOR INNOVATIVE SMEs

The FSC announced the introduction of a new tech financing guideline, which outlines details about the specific target business sectors and relevant procedures of tech financing. The guideline will go into effect from January 2021.

BACKGROUND

Since it was first introduced in January 2014, tech financing grew significantly as more banks and tech credit bureaus (TCBs) became interested in offering financing options to innovative SMEs based on their technological prowess and future growth potential.¹ Until now, five tech credit bureaus and ten banks have been providing tech credit evaluation service using their own evaluation models. In order to strengthen the accountability and stability of tech financing and improve its qualitative standards, a guideline on tech financing has been established as follows.

KEY DETAILS

- 1) Setting up necessary infrastructure for tech financing
 - Require TCBs to set up a division specializing in tech financing and specify division members' professional qualifications
 - Introduce a standardized TCB evaluation model to enhance consistency and stability
 - Establish an independent organization charged with inspecting the standard TCB evaluation model

- 2) Providing support to SMEs with technological prowess and innovativeness
 - SMEs with innovative ideas in manufacturing, knowledge and content industries, tech-based environmental or construction sectors, new and renewable energy sectors, as well as those with proven records of technological prowess through patents, etc.

- 3) Establishing clear procedures on tech financing
 - Provide specific guidelines on tech financing procedures for SMEs, banks, TCBs and Korea Credit Information Services
 - Make site inspections mandatory in principle with specific cases for exemption
 - Require tech credit evaluating institutions to set up internal inspection frameworks to ensure the appropriateness and fairness of their tech credit evaluation

¹ Tech financing loans grew on average KRW40 trillion a year to KRW264.6 trillion at the end of October 2020.

- 4) Recommending a set of professional rules and ethics for banks and TCBs
 - Promote independence of tech credit evaluation by prohibiting inappropriate activities by banks and TCBs while suggesting fair professional standards
 - Prohibit TCBs from engaging in tech credit evaluations on companies with potential conflicts of interests

- 5) Ensuring quality management on TCBs' tech credit evaluation
 - Set up an internal and external quality control system on banks and TCBs and provide incentives accordingly
 - Conduct an integrated quality control inspection on banks and TCBs once every six months and provide incentives accordingly

FURTHER PLANS

The newly introduced tech financing guideline will become effective from January 2021 once the new requirements on organization and evaluation have been adopted by banks. However, the standardized tech credit evaluation model will be made available in the second half of 2021 after the completion of system development.

With the guideline on tech financing, the FSC will work to gradually introduce an integrated business credit evaluation model combining both the technology and credit aspects of companies in order to facilitate financing of innovative businesses.

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