Financial Services Commission

Press Release

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FSC PROPOSES REVISION OF SUPERVISORY REGULATION TO FACILITATE CREDIT SUPPLY TO LOW-CREDIT INDIVIDUALS

The FSC plans to revise the supervisory regulation on credit service providers to help expand credit supply to lower income individuals under the current program which incentivizes “outstanding credit service providers” maintaining above certain levels of credit extension to low-credit borrowers.

BACKGROUND

The current incentive program for outstanding credit service providers was first introduced to promote expansion of credit supply to the low-credit individuals following the reduction of the maximum legal interest rate from 24 percent to 20 percent in 2021. A credit service provider can be selected as an outstanding credit service provider if the amount of credit loans made to those with low credit is (a) at least KRW10 billion or (b) at least 70 percent of its total gross loan. When selected as outstanding credit service providers, they are given incentives that allow them to borrow from banks, which assist them to lower borrowing costs, and to sell their loan products via online platforms.

The outstanding credit service providers are gradually taking root in the market and playing a crucial role in credit supply to low-credit individuals.[1]

With the continuation of high interest rates, if the supply of personal credit loans from credit service providers significantly shrinks due to the elevated borrowing costs, lower income individuals may face difficulties in getting loans, and illegal private lending activities may spread gradually. Therefore, authorities plan to revise the supervisory regulation on credit businesses to improve the current incentive program for outstanding credit service providers, which will contribute to its original goal of promoting expansion of credit supply to low-credit individuals.

KEY REVISION DETAILS

Authorities will modify the requirements for maintenance of outstanding credit service providers status. Currently, outstanding credit service providers need to maintain both the total balance (at least KRW10 billion) and the ratio (at least 70 percent) requirements. These requirements will be simplified to allow credit service providers to maintain either one of the two requirements to be continuously qualified as outstanding providers. Moreover, authorities will restructure the incentive program to ensure that

[1] As of end-June 2022, 21 outstanding credit businesses provided KRW2.6 trillion in personal credit loans to low-credit individuals, which made up 83.7 percent of all personal credit loans issued by FSC-registered credit businesses.

the balance of loans extended to low-credit borrowers is designed to grow as the total loan balance increases.

Meanwhile, currently, when an outstanding credit service provider is no longer able to maintain its qualification requirements due to a change in certain government policies[2], authorities do not have a way to postpone the disqualification of the status of the outstanding providers. This will be improved. Authorities will take into account the impact of certain kinds of government policy for low-credit individuals by which an outstanding credit service provider's balance of loans to low-credit borrowers inevitably decreases through debt adjustment or transfer of claim, when they review the qualification of the outstanding credit service provider. Also, a regulatory ground will be established to allow authorities to postpone the disqualification of outstanding credit service provider.

FURTHER PLAN

The revised supervisory regulation on credit service providers will go into effect after an advance notice period and a resolution of the FSC (expected in January 2023).

Financial authorities will keep close tabs on the situation of credit supply to lower income individuals and expand the availability of microfinance opportunities from policy financial institutions. At the same time, the government will actively support investigation and detection of illegal private lending practices and make efforts to ensure stability in financial activities of lower income individuals by providing debtor assistance with legal representation and litigation services to those that have fallen victims to illegal private lending practices.

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[2] Temporary restrictions on sharing information about the history of delinquency between financial companies amid the spread of the COVID-19 pandemic between January 2020 and August 2021