

1ST WORKING GROUP MEETING HELD ON IMPROVING MANAGEMENT, OPERATING PRACTICES OF BANKS AND BANKING SYSTEM

The FSC and the FSS held the first working group meeting¹ of the taskforce on improving the management and operating practices of banks and banking system on March 2, chaired by FSC Vice Chairman Kim So-young. At the meeting, authorities shared the operating method of the working group and taskforce as well as discussed specific task items intended to promote competition in the banking sector and seek improvements in its industrial structure.

METHOD OF OPERATING THE TASKFORCE AND WORKING GROUP

The taskforce and its working group will make public details of discussion on each task item after each meeting in order to enhance the understanding of general public. During discussions, authorities will consider not the interest relationship between different sectors but practical benefits to the general public, such as an improvement in consumer access to financial services, reduction in interest rate burdens, etc., as a core criterion, upon which specific improvement measures are prepared.

In addition, in the process of taskforce and working group discussions, if there are certain task items that can be implemented early, authorities will immediately announce related improvement measures and promptly carry out follow-up actions. In this regard, participants were briefed and discussed on the measures to expand disclosure of the differences between interest rates on deposits and loans at today's working group meeting as a way to promote interest rate competition in the banking sector. They decided to implement the measures to require banks to disclose not only the differences between interest rates on newly transacted deposits and loans but also those between interest rates on outstanding deposit and loan balances.

Especially, alongside promoting competition in the banking sector, authorities will promptly examine and review issues related to the banks' interest rate calculation system and bonus remuneration practices. First, regarding banks' interest rate calculation system, the taskforce and its working group will (i) consider development of indicators and products that will help to dampen the magnitude of loan interest rate increase when market interest rate is rising excessively and (ii) examine whether there exist any factors constraining competition in the current interest rate calculation system. In addition, on the issues raised after recent on-site examinations and examination of terms and conditions for the banking sector conducted by Korea Fair Trade Commission (KFTC) and interest rate inspections carried out by the FSS, the

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

taskforce and its working group will immediately come up with improvement measures. Second, regarding banks' bonus remuneration practices, the taskforce and its working group will seek ways to make institutional improvements by introducing say-on-pay and clawback as well as strengthening the function of remuneration committees. In March, together with the banking sector, the working group will examine the appropriateness of each bank's performance indicators and method of measuring performance, and find measures requiring improvement

DETAILS OF FIRST WORKING GROUP MEETING DISCUSSIONS

In the first working group meeting on promoting competition in the banking sector and seeking improvements in its industrial structure, authorities discussed ways to (a) allow entry of new banks and (b) boost competition between banks and nonbanks.

- a) **(ALLOWING ENTRY OF NEW BANKS)** Authorities discussed (i) introducing small licensing units and small-scale specialized banks (so-called "challenger banks"), (ii) allowing entry of additional internet-only banks, regional banks and nation-wide banks, and (iii) converting mutual savings banks into regional banks and regional banks into nation-wide banks.
- b) **(PROMOTING COMPETITION BETWEEN BANKS AND NONBANKS)** Authorities discussed (i) allowing credit card companies to provide comprehensive payment settlement services, (ii) allowing securities firms to provide payment settlement services to corporate entities, (iii) permitting insurance companies to concurrently operate payment settlement services, (iv) expanding banks' loans to SMEs and small-loans to lower-income groups, and (v) extending nonbanks' scope of services in handling policy fund loans and policy mortgages.²

SUMMARY OF REMARKS BY FSC VICE CHAIRMAN

Regarding task items the working group discusses, FSC Vice Chairman Kim So-young emphasized the need to examine the tasks of promoting competition in the banking sector with an aim to boost workable competition substantially as well as to prioritize tasks accordingly. First of all, as it is necessary, for each task item of allowing new entrants or expanding the scope of permissible services for nonbanks, to review the specific mode of competition and its effectiveness, he asked the relevant industry groups and research institutions to conduct relevant analyses and report the findings at the next meeting. In particular, for the task of allowing new entrants, he said that it is necessary to consider the effectiveness of the analyses by checking such aspects like whether there is any entity who wish to enter the banking industry.

Regarding the task of expanding the scope of permissible services for nonbanks, such as allowing securities firms to provide payment settlement services to corporate entities, Vice Chairman Kim said that authorities should approach the issue with a

² A comparison and recommendation service for savings accounts and establishing a platform for refinancing loans, which are specific task items for promoting competition in the banking sector, will be discussed later.

focus not on interest relationship between different sectors but on the improvement of public utilities—in other words, promoting competition in the banking sector—while also considering financial stability and consumer protection in a comprehensive manner. Numerous matters to be considered have been raised toward this task - the expansion of service scope for nonbanks – on the aspects of financial soundness and consumer protection. Therefore, authorities will consider ways to expand the scope of permissible services only for the financial institutions that are equipped with sufficient soundness and liquidity levels as well as well established consumer protection systems. In particular, for the task of allowing securities firms to issue real-name verified accounts for virtual assets, it is necessary to prioritize financial stability over encouragement of competition, as there may be a potential rise in money laundering, etc.

Lastly, regarding the need to permit entrustment services of banks that will help to strengthen their function of managing customer assets, Vice Chair Kim commented that the item should be dealt with not as a part of the task to promote competition in the banking sector but as a part of later discussions on expanding non-interest incomes.

FURTHER PLAN

The second working group meeting of the taskforce will be held next week (tentatively scheduled for March 8), in which participants will intensively discuss with a focus on specific mode of competition and its effect for each task item to facilitate competition between banks and nonbanks and their effectiveness. In the third and fourth working group meetings that will be held in March, participants will closely review and discuss the current status of banks' bonus remuneration practices.

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