

2ND WORKING GROUP MEETING HELD ON IMPROVING MANAGEMENT, OPERATING PRACTICES OF BANKS AND BANKING SYSTEM

The FSC and the FSS held the 2nd working group meeting¹ of the taskforce on improving the management and operating practices of banks and banking system on March 8, chaired by FSC Vice Chairman Kim So-young.

DETAILS OF 2ND WORKING GROUP MEETING DISCUSSIONS

First, participants got briefed on and discussed the current progress in the development of a single-stop online loan transfer infrastructure and authorities' plan for its expanded application. Authorities reviewed the progress of construction of a credit loan transfer system which authorities aim to launch in May 2023. To facilitate competition in the financial industry, authorities will broaden the scope of participating institutions (financial institutions, loan comparison platforms, etc.), make its fees calculation system more reasonable, and expand its service availability to include not only credit loans but also home mortgage loans. In this regard, participants said that a reasonable fees calculation for using the interest rate comparison platform is needed, and that it is essential to watch out another oligopoly created by platform business operators.

Second, participants held in-depth discussions on ways to promote competition between the banking and nonbanking sectors as an extension of the discussion held in the recent meeting.² Firstly, the financial investment, insurance and specialized credit finance business sectors each made a presentation on more concrete description of competition that can be realized when payment settlement services are allowed for its sector, following improvements in consumer convenience and ways to solve the previously identified risks. Regarding these, participants said that it is necessary to look at the payment settlement infrastructure from the perspective of "for the same function, same risk and same regulations apply." If nonbanks are allowed to provide payment settlement services, various positive benefits to the public are expected such as convenient use of diverse types of services (stock investing, settlement of credit card charges, payment of insurance premium, receiving insurance proceeds, etc.) offered by the nonbanking sector, a participant suggested

In addition, another participant said that the issue of permitting nonbanks to provide

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.

² (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

payment settlement services should be discussed from the perspective of increasing the level of utility for the public and not be treated as a matter of conflict in the scope of permissible business between different business sectors. From this perspective, it is necessary to visualize in more concrete terms what kinds of benefits nonbanks can deliver to the public using their payment settlement services, and to analyze in detail the expected volume of payment settlement and ensuing risks as well as ways to contain them, the participant commented. Moreover, some participants pointed to the need to comprehensively consider various factors including the availability of the central bank to provide diverse backup measures to the nonbanking sector as they do currently to banks, the potential effects of nonbanks' payment settlement services on the deposit reserve market and money market, etc. As different sectors may face different quantities and qualities of risks, participants said that this needs to be taken into account as well.

Regarding the 2nd working group meeting discussions, Vice Chairman Kim So-young emphasized that it is especially necessary to quickly prepare a loan transfer infrastructure for home mortgage loans, despite various issues to be addressed such as registration of the transfer of mortgage, in order to help alleviate interest burdens on people who are currently struggling with high mortgage interest rates.

FURTHER PLAN

In the 3rd working group meeting expected to be held on March 15, authorities plan to (a) look into the current status of banks' employee remuneration system—such as bonus remuneration, severance pay, etc.—as well as their shareholder return policy, and (b) discuss ways to introduce stress capital buffer and impose countercyclical capital buffer to improve the loss absorbing capacity of banks.

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