

## FSC INTRODUCES MEASURES TO IMPROVE THE PROCESS OF BANK BRANCH CLOSURE

The FSC introduced a set of measures aimed at improving the process of banks' branch closures at the 5<sup>th</sup> working group meeting of the taskforce on improving the management and operating practices of banks held on April 12. The key measures include strengthening the preliminary impact assessment process and expanding the scope of information provided to consumers.

From now on, before a branch closure, banks should collect opinions from the branch customers and make decision prudently. When a branch closure is unavoidable, banks should arrange to have an alternative service provision channel beforehand through a joint office, small-scale office, makeshift office or teller partnership to make sure that the same level of service is provided to consumers as before.

### **KEY DETAILS**

#### **I. STRENGTHEN THE PRELIMINARY IMPACT ASSESSMENT PROCESS**

Under the common procedures established for banks' branch closures, banks need to conduct a preliminary impact assessment prior to closing down a branch and establish an alternative service provision channel when a branch closure has been decided. However, with the number of bank branch closures going up steadily, there have been calls to strengthen the effectiveness of these common procedures. Therefore, taking examples from overseas cases,<sup>1</sup> from now on, it will be necessary for banks to establish relevant procedures to collect opinions from the consumers using their branch and take consumer opinions into account to make an adjustment to their alternative service provision plan, perform an impact assessment again or reconsider the decision to close down the branch.

When a considerable impact on consumers is expected, banks should continue to maintain their branch office in principle. However, if it is unavoidable to close down the branch, banks should ensure that consumers can continue to access financial services without much inconvenience after its closure by establishing an alternative service provision channel through a small-scale office, joint office, teller window partnership or a makeshift office. In exceptional cases where potential impact on consumers is deemed to be rather insignificant, an STM (smart teller machine) may be used as an alternative service provision channel but only if it is attended by a personnel or when a user guide for STM is provided. ATMs (automated teller machines) have been used as alternative channels when banks close down branches thus far. However, as ATMs only provide the basic banking functions such as deposit and withdrawal without the ability to entirely replace the functions provided

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<sup>1</sup> In the U.S., Canada, the UK and Australia, banks collect opinions from local customers when requested or coordinate with the local community.

by a bank teller, they will be allowed to be used only as a supplemental channel but not as an alternative service provision channel for a branch closure.

Lastly, the number of external experts participating in the process of preliminary impact assessment will be increased to two persons from only one previously, and one of the two experts should be selected from the local community. In addition, among the preliminary impact assessment criteria, banks should remove the criteria associated with their profitability or growth potential and expand the proportion of criteria related to minimizing inconvenience to financial consumers.

## **II. EXPAND THE SCOPE OF INFORMATION PROVIDED TO CONSUMERS**

The scope of information provided to consumers regarding banks' branch closures will be expanded. Thus far, when a decision is made to close down a branch office, information about the closure date, reason and alternative service provision channel was provided to customers via text message, phone call, postal mail and email, from three months ahead of the scheduled closure date. From now on, however, banks should additionally provide key details about the preliminary impact assessment, supplemental means to access service apart from their planned alternative office and contact information for someone in charge after the branch closure.

Also, the banks' management disclosures on branch closures will be expanded to four times a year from once a year currently. Alongside the number of newly opened or closed branches, information about the date of closure, reason for closure and alternative service provision channel should also be provided. Banks should put up this information on the Korea Federation of Banks' consumer portal website to allow comparison by consumers.

## **III. PROVIDE SUPPORT IN SUBSTANTIVE WAY**

Banks should establish their own procedures for examining effects on consumers after they close down a branch office. If there continues to be inconvenience to consumers, they should come up with response strategies by re-designating an alternative service provision channel, etc. In addition, banks should provide substantive ways to compensate for the inconvenience caused to their branch customers, for example, through interest rate benefits or exemption of fees. For consumers experiencing difficulties in switching to digital banking services, banks should offer digital banking learning courses especially for the elderly users.

## **SCHEDULE**

The announced measures are scheduled to go into effect from May 1 after revising the common procedures on banks' branch closures. However, these measures (excluding certain items) will also apply to banks' branch closure decisions or those scheduled to close down prior to May 1. The improvement measure for disclosure of management practices is expected to go into effect from Q2 2023 after revising the enforcement rule of the supervision of banking business.

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