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Global Financial Forum hosted by Maeil Economic Daily
Opening Remarks

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Distinguished guests, and ladies and gentlemen,

I am pleased to join you this morning for the opening of the First Global Financial Forum organized by Maeil Economic Daily. I would like to thank Chairman Chang Dae Whan for the gracious invitation to speak before you this morning.

Before I begin, I would like to take a moment to congratulate the organizers of the forum for bringing together such an impressive group of financial leaders and experts from around the world for discussions on some of the key issues and challenges we all face. I always find an open dialogue like today's forum quite useful in my work. So I very much look forward to many constructive discussions that can help us further develop the Korean financial market.

I understand that the topic for the Global Financial Forum is "Expanding Korean Financial Organizations throughout Asia and Strategies for Investment Banking." So I would like to share with you my views on where investment banking in Korea stands and some of the key steps that need to be taken if we are to realize its full potential. I will then make a couple of observations on how Korea's financial institutions can expand their presence throughout Asia.

In the course of bold restructuring following the 1997 financial crisis, Korea's financial sector has made significant progress in terms of business fundamentals, industry consolidation and providing universal banking services. In particular, Korea's financial institutions have gained much expertise and experience on asset (NPL) disposal and other investment banking activities during the restructuring process.

One important byproduct of Korea's financial sector restructuring has been a divergence in the core business focus between domestic and foreign financial institutions. That is, domestic banks assumed a key role in corporate financing activities, but foreign securities companies became dominant players in investment banking activities, such as NPL disposal and M&A. With greater focus on corporate financing activities, domestic financial institutions were relatively less successful in developing competitive investment banking capability.

There is no question that domestic financial institutions have attained investment banking "know-how" from their experience with corporate and financial sector restructuring during the post-crisis years. But it appears that they have not been able to take full advantage of their investment banking know-how because of shortcoming in developing a pool of highly skilled investment bankers and building global network and brand power.

Also, their small size posed a disadvantage in competing with foreign securities companies. In fact, the combined assets of Korea's four largest securities companies amount to only about one percent of the combined assets of the top four U.S. investment banks. In terms of revenues, it is two percent and in shareholders' equity, five percent.

Even when compared with other Asian countries whose financial market is similar in size to Korea's, we see that Korea has much catching up to do with developing healthy investment banking. So, we face an urgent task of promoting globally competitive local investment banks if we are to ensure balanced development of the Korean financial market and continued economic growth.

Clearly, there is much work ahead for all of us. In particular, I see two critical hurdles that Korea's financial institutions must overcome in order to become global players. One is enhancing the ability to analyze and produce information about companies and business opportunities that investors can trust. As investment banks produce reliable information, the adverse effects of information asymmetry among market participants can be minimized, investment decisions made more readily and capital moved more efficiently.

The other is "reputation building." Unlike commercial banks, investment banks typically pool capital from investors and supply it to companies they invest in. So there is no question that having a solid reputation in the marketplace greatly enhances the intermediary role of investment banks. No reputation is built overnight, and domestic financial institutions must make a genuine effort to build and protect their reputation.

For domestic financial institutions looking to build their investment banking capability, the question may be just what strategy will work best for them. Let me discuss on how specialization and private equity funds may provide effective strategies for domestic financial institutions.

What we see from the leading global investment banks is that they dominate the market with innovative financing and customized services. They excel in providing high-value added services by exploiting their advantages in size and expertise. You may say that they create value from what they do best. So, I believe that the likelihood of success for domestic securities companies looking to transform themselves into an investment bank will be greatly improved when they pursue a strategy of specialization that focuses on what they do best.

One area of specialization for domestic securities companies may be an advisory role for domestic M&As, which may not require extensive global network or large pools of capital. They may also find a niche in disposal of troubled assets since many domestic financial institutions mastered expertise during recovery from the financial crisis.

Another strategy that domestic financial institutions can utilize may be found in private equity funds, one of major participants in the capital market. Though still in an early stage, private equity funds have the potential to become a new source of capital for financial institutions in expanding their investment banking business. For those without substantial capital base, private equity funds may just be the vehicle that enables them to pool a variety of "high-risk capital."

As financial regulators, we see much potential benefit from having strong, home-grown investment banks, particularly for the Northeast Asia Financial Hub Initiative. So we are open to any ideas that may encourage the growth of investment banking here at home.

As some of you may recall, we recently adopted new measures that enable securities companies to engage in OTC derivatives business, M&A advisory services, and consulting for business restructuring. As seen by the growing demand for asset management services for the national pension plan and employer-sponsored retirement benefit plans, the growth prospect for Korea's asset management industry is quite promising.

So, as part of our plan to encourage investment banking, we are looking into new proposals that enable securities companies to engage in a greater variety of financial products and services and offer asset management services. I may also note that the government also recognizes the need for highly trained investment bankers capable of supporting and sustaining sophisticated investment banking activities. To this end, the government is developing diverse plans to train highly skilled financial professionals, such as building a graduate school offering advanced education in finance.

Ladies and Gentlemen,
Up to now, I have shared with you on the recent development in investment banking in Korea and some of the challenges faced by domestic financial institutions.

Now, let me quickly make a couple of observations on how Korea's financial institutions can expand their presence throughout Asia. Asian financial markets have experienced rapid growth since 1990s as a result of market liberalization that opened the door for derivatives and other innovative products and services.

With the Chinese economy widely expected to maintain its growth momentum and a growing number of Asian companies opening up to M&A, few would dispute the idea that Asia is, and will remain, one of the most attractive places to look for business and investment opportunities.

Particularly, the size of the market for NPL and restructuring-related services in Asia is widely believed to be substantial. According to Korea Asset Management Corporation (KAMCO), the size of NPL in Northeast Asia is close to $2 trillion. However, Asian countries have not yet achieved a substantial outcome in the resolution of NPL. I think that the experience and expertise Korea's financial institutions have had in large-scale NPL disposal can give them an edge in Asia's growing market for NPL and restructuring-related services.

Another area that Korea may use their accumulated expertise is in the region's ABS market. In view of major infrastructure and development projects underway in many Asian countries, financing for these projects will provide various opportunities for Korean financial institutions. With the product variety and structures, there is no doubt that Korean financial institutions will be able to effectively compete with other global players.

In addition, domestic financial institutions can diversify their investment portfolio and generate a higher return by moving some of their assets to growing overseas markets like China and India. By doing so, domestic asset managers should be able to meet the growing demands from local investors and at the same time improve their name recognition abroad. Investing in overseas markets will of course require careful selection of investment opportunities and sophisticated risk management.

As I stressed on several occasions elsewhere, Korean financial institutions need to more aggressively adopt and integrate the risk management practices of the leading global financial institutions. With strengthened risk management abilities, they can actively expand their businesses into overseas debt issuance of domestic companies and M&A activities of new Asian companies.

Lastly, I believe establishing a strategic alliance with foreign financial institutions can also allow Korean financial institutions to take full advantage of their local knowledge.

Ladies and gentlemen,
I will conclude my presentation by sharing with you the famous quote by Francis Bacon, the renowned British philosopher. He once observed that “Wise men make more opportunities than they find.” In many ways, these words well capture what we should be doing. That is, rather than lamenting the lack of business opportunities, we should work on creating new opportunities for the future.

By any measure, we have a track record we can be proud of. The KOSPI is breaking new highs, and the pool of funds going into the equity market recently surpassed the 200 trillion won (200 billion dollar) mark. So this may well be the time for Korea to begin to set its sight on overseas markets and start creating new opportunities elsewhere. The time may have come for Korea’s financial institutions to start establishing a global presence. I firmly believe that we can make this happen, if all of us work closely together with strong determination.

Let me congratulate you once again on the opening of the global financial forum. It will be a great opportunity to broaden our vision and create new paradigms for a brighter future of the Korean economy.

Thank you.