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WELCOMING REMARK

**Post-Crisis Financial Landscape &
Supervision Challenges**

Kim Jong Chang

Governor
Financial Supervisory Service

Distinguished guests, and
Ladies and gentlemen,

I am delighted to join you this morning for the Eleventh Seoul International Financial Forum. I would first like to thank President and CEO Jeon Jae Ho of the Financial News, and organizers of the forum. I also wish to take a moment to thank the many distinguished speakers and panelists who joined us from abroad for making today's forum such a special occasion for all of us.

Ladies and gentlemen,

The global economy is recovering from the worst post-war recession at a fairly strong pace with emerging economies leading the way. As the Greek distress reminds us, however, the recovery is taking place amid concerns of the after-effect of the extraordinary fiscal and monetary measures that were implemented to cope with the crisis.

As we come to grips with the reality of an uncertain post-crisis era, we may say that this is also a time in need of transformation. With this in mind, I believe the perspectives for "A New Decade" that this forum seeks from you should be of great interest to a broad audience.

The global financial crisis brought an end to the so-called era of "Great Moderation" with exceptionally steady output and inflation. The crisis also rendered untenable profit models based on high leverage and never-ending deregulation and globalization. The new decade, therefore, will be a time of great challenge as we discard the old paradigm in search of a "new normal."

One striking post-crisis development I see is the significantly heightened international standing of the emerging economies. With countries such as China, India and Korea leading global economic recovery, the weight of the emerging economies in global economic affairs can no longer be taken lightly.

The G-20 and the Financial Stability Board, which now set global financial stability agenda with newly expanded members and broadened mandate, demonstrate the new shift under way. From resolving imbalances in the global economy to ensuring sustained long-term growth, the emerging economies will also assume an ever-increasing role in global economic affairs.

We also see cross-border capital flows picking up again as the global economy resumes growth. Capital flows into the emerging economies have been particularly pronounced. As we all know, long-term cross-border capital flows generally promote capital market liquidity and facilitate investment in productive economic activities. A short-term capital surge, however, can sometimes backfire by heightening the risk of asset bubbles and financial market volatility.

In fact, it has been suggested that a sizable chunk of capital flowing into emerging economies these days is for interest rate arbitrage and other short-term purposes. Should interest rates in the developed economies start to rise, we may see a reversal in capital flows. Such capital volatility is not desirable. And I believe there is now a broad consensus that we must work together to build safeguards at both the national and international levels.

It is also encouraging that serious regulatory reform efforts are under way with many concrete proposals on the table. There is a general recognition that failure in micro-regulation contributed to the severity of the global financial crisis. So, one key area of focus is preventing moral hazard of financial firms and encouraging prudent behavior.

At the macro-level, the reform efforts are focusing on controlling systemic risks and reinforcing the stability of the financial system. The emphasis on maintaining strong oversight of systemically important financial institutions (the so-called "SIFIs") is an example of the reform effort aimed at making the financial system more crisis-resistant. I may also note that the bank levy the IMF recently proposed is essentially aimed at the same systemic objective.

For the reform efforts to succeed, we must have international cooperation and collaboration so that we can effectively address the systemic aspects of the global financial system. This is what Korea will be striving to achieve as the chair of the G-20 Summit.

Ladies and gentlemen,

The post-crisis financial landscape poses several new challenges to regulators. Let me quickly outline a few.

One is market-wide stress that could result from the unwinding of crisis measures. Last year, when easy credit prompted a surge in borrowing for home purchases, we tightened lending standards with lower loan-to-value and debt-to-income requirements so as to preempt overheating in the property market.

Going forward, we intend to take similar preemptive actions to make sure that household and project finance loans do not add any undue distress on the financial system.

We will also continue to encourage creditor-led restructuring of distressed companies so that they do not turn into a source of uncertainty in the market.

But I wish to emphasize, first and foremost, the soundness of financial institutions as an overriding supervision objective. The resilience of Korea's financial sector in the face of a severe global financial crisis can be attributed, in no small measure, to our simple supervision philosophy. The fact that the capital ratio of Korean banks actually rose above 14% last year is yet another sign of our commitment to soundness.

Let me also note that we anticipate some fine-tuning of our prudential regulation and supervision in line with global regulatory reform. One example in this regard is domestic banks' foreign currency liquidity management, which we found to be unsatisfactory throughout the crisis.

We are also stepping up consumer protection to make sure consumers are not harmed by unfair business practices by financial service providers.

Let me also reiterate that we will continue to remove anti-competitive regulatory barriers that undermine the long-term competitiveness of the financial services industry. The Financial Investment Services and Capital Markets Act, which took effect in February last year, was a major turning point for deregulation and competition in Korea's financial industry.

And, as before, we will strive for more transparent, more consistent, and more effective financial supervision in Korea.

Ladies and gentlemen,

It is said that humanity's progress throughout history is a testimony to people standing up to the challenges of their time. In the face of an uncertain post-crisis world, we may well think of the same and say that we will rise up to the occasion by joining our hands and pooling our wisdom and write a new chapter.

We are making a great deal of progress toward a more resilient, less crisis-prone financial system. Your debate here at this forum today contributes to that progress. We value what you have to say today, and we will be listening to your ideas intently.

Thank you.