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Governor's New Year Message

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A New Year has dawned upon us, so I would like to send everyone my New Year's greetings along my best wishes for your health and happiness.

As I look back, I think we can fairly characterize 2012 as a year of trials and tribulations as we worked to bring about solutions to difficult problems, restore public confidence, and renew our resolve to do better.

First, as uncertainty grew from the euro-zone fiscal crisis and domestic household debt, we pushed for preemptive risk supervision to encourage financial firms to improve their capacity to deal with risk and adopt more systematic approaches to potential risks. We also took steps to facilitate expeditious restructuring of distressed debtor companies and remove barriers to credit flows to SMEs. In addition, we concluded the restructuring of the failing mutual savings banks and significantly boosted monitoring of the large shareholders of financial firms for signs of misconduct or abuses.

Second, we aggressively embraced more consumer-oriented financial supervision in a bid to strengthen consumer protection. In May, we took a major step forward in this direction by newly establishing the Financial Consumer Protection Bureau to lead our consumer protection efforts. To help consumers make more informed financial decisions, we started to issue Financial Consumer Report for the first time and set up a task force to banish anti-consumer business customs and practices of financial firms.

Throughout the year, we conducted a series of "Campus Talk" aimed at improving the financial literacy of college students. Our supervisors also went out of their way to provide on-site financial education programs for military personnel and rural residents, many of whom often lack such opportunity. We also expanded our consumer education programs to school children with financial literacy textbooks and reached out to the traditionally underserved residents in rural areas with individually tailored educational programs.

We also stepped up our efforts to help low-income borrowers better manage their troubled finances. For 2012, approximately 10 trillion won in credit was provided to some 1.18 million low-income households and borrowers through four loan products specially tailored to their needs. We worked closely with banks to encourage voluntary workouts with financially distressed low-income borrowers and helped to launch a new fund that collects reward points from corporate credit card purchases to provide assistance to consumers who fall victim to financial fraud.

Lastly, we have made significant strides with our enforcement activities. We set up a special consumer center to combat abuses by private money lenders. To date, our supervisors received some 86,000 cases from consumers and took actions against 10,702 private money lenders who engaged in unlawful conduct. By responding aggressively to insurance fraud, loan fraud, voice phishing, and speculative theme-driven stock trading, we sought to strengthen the public's confidence in us as well. By most accounts, the economy and the markets will likely continue to face headwinds this year. For one, concerns persist over the health of the euro-zone economies, and there are worries that growth out of the U.S., China, and the emerging market economies will not be as robust as many have hoped. Domestically, the outlook remains clouded by stubbornly high household debt, a prolonged slump in the real estate market, and sluggish consumer spending.

So the priorities we set this year take on added importance. Let me stress a few. The first is stepping up our prudential supervision of financial firms, in particular with an eye to preventing further deterioration of the financial soundness of households and businesses. So we intend to carry out regular stress tests to ensure high levels of preparedness against wide-ranging distress scenarios. As we do so, we will expect financial firms to set aside more for loss reserves and to refrain from questionable dividend distribution. Such prudent steps will surely contribute to more resilient safeguards against potential losses.

With regards to household debt, we will continue to take steps to moderate the pace of debt growth and bring about structural improvement so as to reduce potential risks stemming from it. For the financially vulnerable borrowers who pose high default risk, we intend to step up our monitoring and encourage more active creditor-debtor workouts. Making debt more manageable and improving the creditworthiness of low-income borrowers are two important goals we should all strive for. We intend to do the same for debtor companies in need of restructuring and workout with the creditor banks.

Second, we intend to lend a helping hand, where appropriate, to help financial hard-pressed low-income households and SMEs overcome difficulties they face amid economic polarization. It is said that the growing economic polarization—fueled in part by high household debt, real estate slump, uneven economic competitiveness between large and small companies, and the shrinking size of the middle class—has contributed to anemic economic growth.

To help ease small businesses' difficulty with obtaining credit, we intend to take steps to improve the use of trade receivables as collateral for credit and other similar credit-expanding measures. We will also closely coordinate our efforts with the government to see if there are additional measures that can be taken to help SMEs secure funding with debt issues through the capital markets.

We will also continue to focus on steps we can take to help financially hard-pressed low-income debtors so that they can better manage their finances and carry on their economic activities. To this end, we intend to encourage better differentiated credit scores for those with spotty credit history so that more lenders can come up with credit products better-suited to them. To help ensure fair and reliable consumer credit reporting, we will look into whether consumers should be notified of their credit report by the credit-rating providers. Making the creditor financial firms obtain debtor consent before selling off loans to another party is also something we are looking at in order to minimize consumer harm caused by unlawful debt collection and disposition. Let me add that the oversight of private money lenders and enforcement against all forms of misconduct will intensify as well.

Third, I wish to reiterate our resolve to carry out a "software reform" of the supervisors and financial firms to improve and strengthen consumer protection. A key part of this will be making the Financial Consumer Protection Bureau function effectively and independently within a well-established consumer protection framework. Just to be clear, our policy is not to tolerate any conduct that harms consumer interests or rights. And we will aggressively go after any unfair customs and practices we find in the marketplace. We will also continue to expand the Financial Consumer Report to help consumers compare choices available to them and make decisions in their best interest.

Financial literacy is a prerequisite to a well-functioning financial industry. To this end, we will continue to expand our consumer educational programs, especially for those in school and the traditionally under-served segments of the society. Efforts to make the consumer dispute mediation process more consumer-friendly are also planned.

Fourth, there is a growing recognition that an era of low interest rates, low growth, and aging population will be the new normal for the financial services industry. Our supervision going forward will therefore need to adjust to the new financial landscape. This means formulating supervision policies with longer-term perspectives in order to minimize any adverse consequences of low interest rates, low growth, and aging population. For the industry, business diversification and product innovation will also need to pick up with more globally oriented business outlook. Furthermore, we are going to step up our oversight of high-risk investment products and facilitate policy measures aimed at distressed home mortgage borrowers. Reduced fees for pension management services and insurance for long-term care will be encouraged as well.

As I noted earlier, the outlook for the market and the economy this year is even more uncertain than last year. However, as an old saying goes, beyond the dark clouds lies the blue sky. So we are going to gather our strengths and make 2013 a year of great renewal at the Financial Supervisory Service. We are going to persevere like water drops that erode a hole in a rock to regain your confidence.

I wish you great health and much happiness in the New Year.