

Governor's Inaugural Address

March 18, 2013

Dear Colleagues,

I am pleased to speak to you as the new Governor, but I must say that I also speak to you with a grave sense of duty and responsibility. I would first like to convey my sincere respect and appreciation to former Governor Kwon Hyouk-Se for his leadership in restructuring of the mutual savings bank industry and his stewardship during the global financial crisis under exceptionally difficult circumstances.

I also wish to express my deep personal gratitude to you for the sacrifices you have made to restore the public's trust in the aftermath of the mutual savings bank crisis. Your sacrifices certainly helped to pave the way out of the crisis.

Nevertheless, we face many challenges ahead. On the global front, the outlook remains clouded by uncertainty from the euro-zone and the health of the global economy. On the domestic front, the economy remains weighted down by a confluence of factors ranging from household debt to real estate slump to sluggish consumption. More recently, tensions have risen because of North Korea's nuclear tests and a heightened likelihood of provocation.

All in all, I think we can safely say that much will be expected from us going forward. But I am sure we can surmount any obstacle on our way if we put our heads and join our hands together and faithfully execute our duties and responsibilities.

Let me now outline the key tasks that we will need to carry out as our priorities.

First, we should now be the driving force for the "creative financing" and do our part in implementing the goals set by the government. For this, we will need to closely coordinate our activities with others and set specific objectives on our priorities such as helping to reduce the

crushing debt burden on hard-pressed low-income borrowers through the National Happiness Fund and managing household debt growth.

I also hope to encourage financial institutions to take steps to better evaluate the creative and innovative ideas and potentials of SMEs and start-ups and lend a helping hand in support of the “creative economy” that the government is promoting to spur job creation and economic growth. This means lenders relying on business feasibility, future profit prospects, and credit ratings, not on the borrower collateral, for loan decisions. The financial industry should also be encouraged to undertake fresh efforts to improve productivity and job growth.

Second, a stable, strong, and resilient financial system is a must for effective policy implementation. So we should all strive for it. To this end, financial institutions should be encouraged to improve their loss-absorbing capacity, maintain high levels of safety and soundness, and strengthen their credit intermediation functions.

In an era of slow growth, low interest rates, and aging population, the profit prospects for financial institutions have clearly diminished, accentuating the need for new sources of growth for the financial industry. So let us lend a helping hand in this endeavor. We should also help banks better manage foreign currency liquidity and long-term funding and come up with more robust and better-coordinated responses to speculative foreign currency activities and extreme capital volatility.

In respect of our market monitoring, I believe that we need to make sure our risk monitoring systems are effective and sensitive enough to identify even minor risks to help supervisors take preemptive action. Restructuring of distressed debtor companies will also have to be carried out in an expeditious manner to prevent them from creating uncertainty in the market.

Third, I believe the time has come for us to provide meaningful and effective support to low-income households and SMEs. For this, we need to do away with long-ingrained customs and practices that favor financial institutions. The priority should now shift to the more

vulnerable members of our society who are especially in need of public policy support and protection. We must work to bring those at the margin of the financial system to the mainstream and do what we can to help them stand on their feet.

Support should also be extended to the physically disabled, those who have resettled from the North, and families with foreign spouses, to whom the benefits of government policy often do not reach. I also intend to push for banking practices that safeguard small shop owners and SMEs, not the kind that takes away the umbrellas just as it starts to rain. So we should take a fresh look at the deeply rooted “financial firm-centric” customs and practices, conduct more field supervision, and act to solve problems.

In meeting the needs of the more vulnerable members of the society, I think it pays to move away from the usual one-size-fits-all approach and to more tailored approaches. So, to the extent necessary, I am going to seek some organizational changes that can better facilitate our objectives.

Fourth, our priority should now shift to consumer protection, which hasn't quite received the attention it deserves because of our emphasis on prudential supervision. So I intend to push for much more aggressive consumer protection role and functions for our supervisors.

To this end, I would like to take a look at the feasibility of instituting a new examination regime that enables financial consumers to file a request to us for examination of a financial firm. I also think we need a more effective monitoring system that keeps an eye on financial institutions' handling and resolution of consumer complaints. The basic understanding should be that financial institutions receiving consumer complaints too frequently will be subject to greater market discipline and stricter supervisory discipline from us.

An early recognition regime for consumer protection that alerts supervisors to potential risks to consumers early on should be developed as well. I argue for this because we must do our utmost not to repeat the KIKO debacle and the large financial losses consumers

suffered from the subordinate debt that failing mutual savings banks had issued. In particular, we must act to restore the public's confidence in insurance companies, which account for more than half of all the complaints we receive from consumers. We should also step up the effort to improve consumer finance literacy and help consumers make informed decisions.

Fifth, I see a need to significantly reinforce market discipline that insists on uncompromising respect for rule of the law. So I will push for stronger supervision of credit cooperatives and private money lenders that may have escaped our oversight in the past. Where we find misconduct or abuse, we will take action. In respect of enforcement of unfair trading in the capital markets, we must let it be known to market participants that no wrongdoing will go unpunished and all ill-gotten gains will be disgorged to the fullest extent possible under the law.

Stricter oversight of financial institutions practicing unsound governance or engaging in misconduct will be sought as well in order to deter abuses by the management and the controlling shareholders and to reinforce fair and sound market order. To this end, we will tighten our oversight of financial institutions for illegal non-arm's length activities with the affiliated institutions, intensify our audit review, and deal sternly with accounting fraud. We will also act to deter financial activities that take place in the underground economy. I would also like to see an end to the criticism leveled against financial institutions that they are driven only by their narrow self-interest and see them wholeheartedly embrace their corporate social responsibilities.

Sixth, I intend to seek "open financial supervision" founded on active dialogue and participation of everyone. I think we all agree on the need to move past the antiquated heavy-handed one-way work habit and endeavor for a new work process that first listens to what consumers and financial institutions have to say. In fact, I believe this should be an integral part of our supervision and that doing so will help improve the public's confidence in us.

As a way to improve the transparency of our supervision, I intend to push for significantly enhanced information disclosure as well. As a first step, I would like to see an objective assessment of our information disclosure regime and practices. I think the general rule should be to disclose unless the law says otherwise, or there is strong and specific privacy or market concerns. Let me also stress that financial supervision today is a complex enterprise that must be coordinated and supported from all sides. It is simply not enough to merely defend our positions to those whom we must work with; we must do our job with respect for the other side, in a spirit of mutual cooperation, and from the standpoint of consumers and market participants. I would say that this is one of the surest ways to earn the public's trust.

Lastly, I would like to initiate organizational reform and internal institution building. For more effective execution of our key tasks—examination, audit review, and enforcement—I intend to identify and eliminate internal processes that needlessly hold up our work or no longer serve any useful purpose. I also intend to take steps to improve our personnel system to make sure we produce the maximum synergy as an integrated supervision authority. I want to make sure those who do their job diligently, responsibly, and quietly are evaluated fairly and rewarded accordingly. I also hope we can set up programs aimed at improving the specialization of our supervisors and their supervision efficacy. Let me add that I will spare no effort in trying to bring out the very best in all of you.

Many will say that Korea's global stature has risen significantly in recent years. Unfortunately, we cannot say the same about our financial markets or our financial supervision. So I say we should strive for financial markets and financial supervision befitting Korea's global stature. So let us set our sights on that goal, renew our sense of responsibility and pride, and do our part in discharging the tasks before us. If we persevere quietly with our job, I am sure that we will be rewarded handsomely with the respect and the trust of the public.

Thank you.