

FSS Speaks 2014

Keynote Address

Choi Soohyun

Governor

Financial Supervisory Service

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Distinguished guests, and ladies and gentlemen,

Good morning to everyone, and welcome to FSS Speaks 2014.

It is great to have you and I thank you for taking time out of your busy schedule to join us today.

Before I begin, I want to take a moment to specially thank: Stephen Bird, CEO of Citi Asia Pacific, and Jan van den Berg, President of Prudential's Asia Region for coming to Korea to mark the occasion with us.

I also extend my special welcome to the honorable British ambassador Scott Wightman and thank him for joining us today. As you know, the FSS Speaks is a unique forum we set up to facilitate our information sharing and dialogue with foreign financial firms.

From the beginning, the overriding goal has been to help foreign financial firms better grasp our supervision agenda and objectives. We also wanted to make sure we hear what foreign financial firms have to say and maintain a constructive engagement. So I am delighted to note that this is our sixth year of continuing conversation. And I very much appreciate your continued interest and involvement in it.

For much of last year, we focused on keeping the financial system safe and sound and advancing consumer protection. But we came up short in preventing troubling activities at Tong Yang Group and a major data breach that led to widespread consumer backlash. It must be said that, in both cases, the problem was more of a compliance

failure than a rule failure. Nevertheless, I can tell you that all of us at the FSS feel an added sense of responsibility for the recurrence of financial firms' malpractice and wrongdoing. And we are committed to preventing it as never before.

In particular, there is now a concerted government-wide effort under way to drastically strengthen the legal and regulatory frameworks to better protect privacy and personal information. Because of the difficulties I just noted, some argue that Korea's financial industry faces a crisis of confidence. To be sure, confidence matters, matters a lot. Without consumer confidence in financial firms, the industry will neither grow nor last long. So we must work hard to restore it and work even harder to protect it.

Let me now offer you some broad perspectives on the economy. Many see a need for new growth formula for the Korean economy. One argument is that, for too long, the Korean economy has depended on labor and capital inputs—rather than knowledge, technology, and innovation—for growth.

Another is that the economy suffers from: A service sector with comparatively low productivity, Persistent competitiveness gap between large and small companies, and Imbalance between exports and domestic demand. Many also worry that, as population aging begins to accelerate, the economy will start to lose its vitality and dynamism. So the three-year economic reform plan the government recently launched to turn the economy around is a much needed undertaking. I have no doubt that a well-functioning financial market and effective financial supervision will provide strong support to a lasting economic turnaround. So, for our part, we will work to uphold order and discipline in the financial market, provide sensible regulatory frameworks, and let the market do what it does best.

Ladies and gentlemen, I will now turn to financial supervision for this year.

I am hopeful that this is going to be a watershed year for Korea's financial industry as it seeks to regain the public's trust and advance to the next level. For our part, we are deeply committed to re-establishing order and discipline in the market with preventive, forward-looking, hands-on supervision. Specifically, we are going to achieve our goal with what we call the Four P's. They are: Prevention, Performance, Protection, and Publicity

Let me quickly go through each. The first is Prevention. This means we are going to re-orient our supervision to prevention so that we identify problems early on and deal with them effectively. We are going to accomplish this in part by utilizing our Financial Risk Early Identification System—FREIS for short. In a nutshell, FREIS helps us aggregate risk information from wide-ranging sources and predict to which direction and how hard the wind will hit financial markets.

The second is Performance. By performance, I mean improving the effectiveness of our supervision with more hands-on onsite examinations and more robust follow-up actions. You know, as I dealt with the recent customer data breach case, I kept thinking of the phrase: “Actions speak louder than words.” Looking back, it may be said that we talked the talk, but did not walk the walk as much as we should have. So, in a way, what we are doing now is going back to the basics. Going forward, we are going to significantly intensify our on-site examination and off-site monitoring and enforce the law as never before.

The third is Protection. Here, I mean protection and support for consumers, especially the more vulnerable members of our society. You know, it really hasn’t been that long since consumer protection has emerged as a major public interest. The same is true for consumer services and protection for the elderly and low-income households. So I see our job as making sure our supervision effectively reflects consumer issues, concerns, and complaints. We are going to do this by ensuring an ongoing linkage and feedback between consumer protection and financial supervision. In addition, we are going to encourage financial firms to develop more products well tailored to the elderly and low-income households. We will also continue to develop and expand our education programs and make sure consumers do benefit from what we do. I would like to add that we intend to promote relationship finance as a means to help small businesses meet their financing needs. For low-income borrowers who are held back by their low credit scores, we will encourage alternative credit scoring models that better take into account their unique credit circumstances.

The fourth is Publicity. By this, I mean open and transparent financial supervision that is subject to independent evaluation and criticism from the market as a form of market discipline. We do this with the belief that more openness contributes to greater transparency and greater public confidence in what we do. So, to this end, we are going to significantly expand the amount of supervision information we make available to the public. I also want to stress that we will give all of our support to the government’s regulatory reform to help financial firms and markets thrive. As you know, the government has set forth “creative economy” as the driving force for Korea’s next economic renewal. For the supervisory authorities, one critically important job is not to hold back the creative powers of individuals and businesses. So we intend to move aggressively on regulatory reform in support of a creative economy. Lastly, I wish to stress that we will continue to implement internal reform throughout the entire organization at the FSS. In the reform drive, we will re-examine everything from organizational structure to staff management to supervision effectiveness. I am sure you will hear more about these issues in later sessions.

Let’s now turn to what we are doing to help improve business climate for foreign financial firms. I first want to give credit where credit is due and acknowledge the enormously positive effect foreign financial firms have had on our markets over the years. You

continue to overcome local social and cultural differences and become productive members of our economy. Indeed, your contributions in terms of product and service innovation, management improvement, job and wealth creation, and market growth in Korea are simply too long for me to mention here. As a result of a prolonged period of slow growth, low interest rates, and intense competition, business conditions for foreign financial firms have not been very favorable. In times like this, I think it pays to be reminded of the many upsides in our markets. Korea's large and globally competitive manufacturing sector continues to expand. And the growth of our pension assets continues to increase demand for new products and services in the financial sector. For foreign financial firms—many with world-class investment and asset management know-how—new growth opportunities will be found in Korea.

As you may recall, President Park pledged early in the year to make Korea the best country to invest in the world. So, this morning, we renew our pledge to work to identify and remove even invisible barriers that get in the way of creative and productive activities of foreign financial firms. At the same time, we pledge to work to restore order and discipline in the market by bringing an end to business conduct and activities that can no longer be justified under the law. In fact, where we are headed is part of the normalization process designed to ensure fair and orderly conduct that you usually see in the developed markets. To prevent any misunderstanding that may arise from our action, I intend to step up our engagement with foreign financial firms and make sure we involve them and hear from them.

As I pledged after I took office, I now hold a group meeting with foreign CEOs at least twice a year. Individually, I of course meet many more. Our dialogue led to some positive changes involving chief consumer officer, prior consultation, and fund supermarket for foreign financial firms. On some issues such as expanded negative regulatory system for financial firms, we have more work to do. All in all, however, I stress that our engagement with foreign financial firms has produced many positive, tangible results. So our engagement with you will continue. And I add that, where there is room for improvement, I will make sure that we act on it.

Ladies and gentlemen,

Now, if I may, I would like to turn the table around and make some suggestions to foreign financial firms.

First, I would like to ask foreign CEOs to put more emphasis on internal controls so that they function effectively and uphold people's trust. Trust is the very source of business competitiveness, even more so for financial firms. So, whether it's managing customer assets or protecting customer information, I ask that you work to ensure the confidence and trust of your customers.

Second, I would like to ask foreign CEOs to take the lead in advancing consumer protection in Korea. I say this because advancing consumer protection benefits your business by increasing your customer loyalty, market share, and bottom line. So I reiterate our strong commitment to consumer protection and hope your interest and involvement in advancing consumer protection will continue. I like to say the same about corporate social responsibility. Foreign financial firms are valuable members and stakeholders in our community. We see many of them engaging in CSR, and I hope more foreign firms recognize its importance and come aboard.

Distinguished guests, and ladies and gentlemen,

As I noted earlier, the government recently launched a three-year economic reform plan. It includes, among others, giving the economy a fresh impetus with regulatory reform and foreign investment. As the leaders of the financial industry, you certainly have much to contribute to this worthy undertaking. And I very much hope that we will continue to engage each other to bring about the kinds of positive changes we all seek. For our part, I pledge that we will not only work hard, but also work smart to help revitalize the financial industry and help you succeed in Korea.

Finally, it is already March, the sun feels bright, and I think many of us can almost smell spring in the air. Spring is of course a season of renewal, new life, and new hope. So I celebrate spring with you, and I close with the same hopes for the markets and the economy.

I very much look forward to meeting you again, and I wish you continued success in Korea.

Thank you.