



New Year's Message from the Governor

The following is the full text of the New Year's message Governor Zhin Woong-Seob delivered to the employees of the Financial Supervisory Service on Friday, January 2, 2015.

Dear Colleagues,

The Year of the Sheep has dawned upon us, brimming with our hopes and anticipations. I would first like to wish everyone a happy new year. I also wish everyone abundant joy and health this year.

In the morning of the New Year's Day, our tradition is to get together with our families, enjoy wholeheartedly prepared food, and share warm, hearty stories with each other. Today is of course the New Year's first workday, and I am delighted to see you and exchange our New Year's greetings.

Looking back, I think it would be an understatement to say that 2014 was an "eventful" year for the Financial Supervisory Service. If I may use hiking as an analogy, we had to spend much more time persevering through steep and rough trails than we did on well-trodden paths.

To be sure, we did accomplish much as a result as well. In particular, the FSS promptly responded to customer data breach at credit card companies, a major loan scam at KT-ENS, and other disruptive activities. The FSS also earnestly endeavored to improve financial firms' internal controls and institute other prevention measures. The FSS also expended significant supervisory resources to protecting investors who suffered from the collapse of Tong Yang through no fault of their own. Efforts were also undertaken to identify financial market risks earlier than before and provide effective supervisory responses.

We also worked to bring about significantly enhanced consumer protection in 2014. We strived to conduct examination and other supervision activities from the perspectives of consumers and worked to remove outdated anti-consumer practices. Moreover, we took steps to help consumers exercise their rights with significantly expanded consumer information channels.

I would attribute these successes and accomplishments to your passion and dedication to your responsibility at the FSS. And I wish to take this opportunity to express my appreciation for your dedication and hard work.

Let me now share some thoughts on the economy and market conditions for this year. You of course understand as well as anyone that the economy and financial markets will likely run into headwinds this year. Externally, the prospects of U.S. interest rate hikes, heightened emerging market risks, and volatile oil price loom large over global markets. At home, pressure is building from rapid growth of household debt and sluggish corporate earnings triggered in part by declining competitiveness in the key industrial sectors.

Understandably, many would like to see the financial services industry facilitate more, support more, and contribute more to real economic activities. One argument for this is that effective credit intermediation and the formation of a virtuous cycle of finance and real economic activity reinforcing each other are prerequisite for the revitalization of our economy.

As highlighted by the emergence of the so-called “FinTech” or financial technology and aging population, the economy and financial markets are yet again undergoing major structural changes. As a result, we must contend with the grave challenge of finding the right path forward as well.

Unfortunately, it does appear right now that there continues to be a dearth of dynamism and entrepreneurial spirit in the financial services industry. The industry’s prospect for healthy, sustained profit growth seems to have diminished as well. So the time has come for us to acknowledge the concern that optimism for the future will not last unless we bring about some fundamental changes. In short, what this tells us is that we will have to bear even heavier responsibility and role this year than ever before.

You know, the word “promise” came to me out of the blue while I was contemplating our financial supervision going forward. I of course need not tell you that finance begins with a “promise” between financial firms and their customers. That is, financial firms make the promise to their customers that they will faithfully and dutifully work to safeguard their customers’ assets. When trust builds that the promise is always honored, financial transactions grow, and the financial industry thrives.

The FSS has made a solemn promise to the public as well: preserving a stable financial system, expanding the foundation for the growth of financial products and services, and protecting financial consumers. I would argue that this is the most solemn promise we have with the public.

I would like to talk to you today about our financial supervision for the year while bearing in mind the promise we have made to the public.

First, we will act preemptively to deal with market-destabilizing risks and ensure order and safety in the financial markets. We are going to analyze the effect of the economy on financial markets on an ongoing basis and take appropriate prudential supervision measures if or when necessary. In particular, we will work to bring about gradual reduction and structural improvement in household debt and fine-tune the corporate credit-rating regime to keep risks associated with household and corporate distresses in check.

We are also going to redouble our efforts to prevent malfeasance by financial firms. We intend to systematically collect and analyze data from markets and work to establish preemptive and forward-looking supervision that enables us to identify and deal with risks that lurk in the financial system.

In addition, we intend to vigorously encourage financial firms to improve the security of online banking and strengthen their internal controls and governance. In a way, what we seek is continuing enhancement of the financial services industry's "software." This will help us build a sound and sustainable financial ecosystem founded on "fundamentals" and "principles."

Second, we will work to reinvigorate financial market dynamism so that capital flows to high-growth economic activities, and the financial services industry re-emerges as a leading growth industry.

For our part, we will seek to re-orient our examination and supervision approaches so that financial firms' ability and desire to self-discipline, innovate, create, and compete are respected to the fullest extent possible. A key step in this will be encouraging the financial services industry to firmly establish and adhere to best practices. So we will continue to monitor the effectiveness of financial firms' risk management, compliance, internal controls, and governance. What we would like to see is financial firms operating with well-functioning self-correcting systems.

This will help us re-allocate our limited supervisory resources to areas that demand our attention and improve the efficiency and effectiveness of our supervision. We will of course make sure we listen to what financial firms have to say and strive for high-quality examination.

We also intend to faithfully carry out our responsibility in the regulatory reform effort. As we banish outdated rules and practices that sap market dynamism, we need to step up efforts under way to encourage financial firms' FinTech, overseas expansion, and new product development for the elderly. The same holds true for financing for new technology start-ups and relationship banking. Where appropriate, we will be ready to lend a helping hand to financial firms that are looking to establish new markets and grow by supporting and facilitating real economic activity.

Third, we will pursue consumer protection and encourage more inclusive banking, especially for low-income households. I don't think we can afford to overlook consumer protection even for a moment. It is our core mission, and a yardstick for the level of advancement for our markets. So, we intend to significantly step up our vigilance against improper financial product sales, usury targeting low-income borrowers, illegal loan collection, and other unlawful activities.

We will also work to ensure a well-functioning and mutually reinforcing supervision framework from our prudential supervision and conduct supervision. By expanding consumer financial education opportunities and improving the comparative financial product disclosure regime, we will work to help consumers fully exercise their rights in the marketplace. We will also act forcefully to combat cyber crimes such as phishing and pharming and increasingly sophisticated and organized insurance fraud, to which low-income households often fall victim.

I believe "self-reform" of the FSS is a prerequisite to the successful implementation of the supervision agenda I just outlined above. So here are a few things I would like to ask of you.

When performing our supervision duties, let us not forget the saying that it is the soft that overcomes the hard. So, do take to heart what financial firms and consumers have to say. When explaining our position, let's make sure we present ample rationale and justification for it and try to come to a common understanding, even if it takes time.

You should also approach your work with the mindset that you will always strive to be the very best at it. So make an earnest effort to cultivate your strengths and specialized skills with never-ending self-development. We now live in an age where the pace and the magnitude of change is continually accelerating and expanding. Unless we discard anachronistic habits, stagnation will follow. So we must strive to get our job done with the most up-to-date information and expert knowledge.

I must add that we should do more to reinforce our communication and dialogue not only internally within the FSS, but also externally with our related authorities. We have to do this to avoid conflict and duplication. Do remember that this is a first step to raising the productivity of our supervision.

Respected colleagues,

Rising and falling, like a wave, is an inevitable experience in life. From time to time, we run into tribulations or accomplish something that stands out. Through

the ups and downs, though, what truly matters is, I would say, the “core.” The most fundamental part of financial supervision—the core—is keeping the promise we have made to the public.

I am confident that we can raise the public’s confidence in the FSS and move up the competitiveness of Korea’s financial services industry to a new level this year if we forge ahead together and devote ourselves to keeping the “promise.”

This is the Year of the Sheep, which represents peace and harmony. So, may peace and harmony overflow in your family this year!

I wish everyone a great year!