



The following is the full text of the New Year's message Governor Choi Soohyun delivered to the employees of the Financial Supervisory Service on Thursday, January 2, 2014.

Dear Colleagues,

The year of the snake has passed, and the year of the horse has now dawned upon us. So I would first like to wish everyone a happy new year. I also wish you and your loved ones abundant joy and happiness this year.

Looking back, I think many of you would agree that the year 2013 was a difficult one because of a series of troubling developments that we had to contend with. This was especially so because of problems at Tongyang, which came on the heels of difficulties we had with several failing mutual savings banks. But we persevered with our dedication and commitment to consumers and the market and spared no effort in trying to address our shortcomings.

So I want to take this opportunity to express my appreciation for your hard work and take a look back at what we have accomplished.

First, as uncertainty loomed large over emerging markets and risks stemming from household debt persisted, we took preemptive steps to ensure strong foreign currency liquidity of domestic financial firms and improve the structural soundness of household debt. In addition, we encouraged timely restructuring of financially distressed debtor companies, especially those vulnerable to the business cycle.

Second, we sought to reinforce order and discipline in the market with firm, strong actions against unfair securities trading and improve the effectiveness of our examination, investigation, and audit inspection. We expanded prevention-focused thematic examination on risk-susceptible areas and set up a special investigation unit and coordinated arrangements with the Financial Services Commission and law enforcement authorities to ensure no wrongdoing goes unpunished.

We also reinforced our monitoring and investigation of insurance fraud and took strong enforcement actions against foreign currency transactions intended to illegally transfer assets overseas or evade taxes. As part of our accounting supervision initiative, we also intensified audit inspections of backdoor-listed companies and others that showed signs of flawed accounting.

Third, we sought a major shift to consumer-centric supervision with meaningful "software and hardware reform." With greater emphasis on the Consumer Protection Evaluation Committee, we worked hard to incorporate consumer perspectives into our supervision framework and strived for preemptive consumer protection by eliminating

outdated anti-consumer business customs and practices. Moreover, in a bid to effectively address the root of consumer complaints against financial firms, we went to great lengths to analyze past consumer complaint data and carried out our complaint reduction strategies. As we did so, we also set up an early consumer complaint recognition system to help facilitate immediate action on consumer complaints before they grow to pose grave harm to consumers.

Lastly, we actively encouraged financial firms to pursue more inclusive finance to help low income households, small businesses, and other often excluded groups in gaining easier access to mainstream banking. As you know, we took concerted efforts to lower the bar for the elderly, low-income households, and other disadvantaged groups in obtaining mainstream commercial banking services. We did this by rectifying financial firms' sometimes discriminatory lending practices against old customers and lending a helping hand to college students in obtaining student loans.

I would also note that I took the time to hold meetings with SME business owners and worked to address their concerns on financial firms' discriminatory or abusive interest rate practices. We also ordered lenders to return excessively charged interest payments on secured loans to SME borrowers. So you might say that we helped to remove some thorns in their side.

I again would like to thank everyone for their continued dedication and commitment to their work last year.

The economy increasingly appears to be gaining growth momentum on the back of government stimulus measures and global economic recovery. But we have to be mindful of risks that may well hold back our markets.

Externally, the foreign exchange markets may experience a period of volatility as markets react to the widely expected tapering by the Fed and to the policy effect from the so-called Abenomics. Domestically, prolonged household debt and real estate slump have led to a contraction in consumer spending. On the corporate front, the availability of credit varies widely among companies, and there is a risk that some companies may increasingly find it difficult to obtain credit at favorable terms.

Above all, we must look squarely at the structural issues that the financial industry faces and deal with them head-on. The financial industry is experiencing diminished earnings and growth prospect under pressure from less-than-robust growth, low interest rates, and an aging population. If the industry's sluggishness persists for the next several years or so, the industry's overall soundness will likely deteriorate. So, for these reasons alone, the industry needs to revitalize and restore its growth momentum. It must also be stressed that the recent spate of irregularities at financial firms points to the need for significantly enhanced discipline and order.

The extent of challenges we face makes it clear that the responsibilities we take on this year will be heavier than ever. So, as we renew our commitment to our duties and responsibilities, I would like to put forth some ideas on where we should focus our financial supervision.

First, we must work to further strengthen the safety and soundness of the financial system with strong preemptive risk supervision. One important step in this endeavor will be to regularly carry out stress tests on financial firms' foreign currency liquidity in order to ensure they maintain effective safeguards against unexpected adverse liquidity developments. Another is to help the banks improve their loss-absorbing capacity under the Basel III capital framework. We should also continue to aim for a "soft-landing" of the household debt problem by encouraging the banking industry to bring about meaningful improvement to the underlying structure of household debt and provide more debtor-creditor workouts.

Action will also be needed to ensure effective market-led corporate restructuring on an ongoing basis. For viable debtor companies, we are going to encourage a lending hand. For companies facing heightened risk of default, we will need to make sure that they go through timely restructuring and avoid inflicting heavy losses on others. For heavily indebted business groups, we will need to step up our supervision so that the creditor banks and the companies take appropriate measures to reduce the debt ratio and restore financial soundness.

Second, I see a need to further improve our supervision regimes and processes so that we can more effectively perform our job: preserving financial stability, ensuring orderly market, and protecting consumers.

For this, it is no longer acceptable to merely react to problems ex post. We must make the transition to a more effective supervision regime that seeks to identify risks and preempt them early on. So the goal is preemptive ex ante supervision. To this end, I would like to make sure that our Financial Risk Early Identification System take hold and help us build effective risk identification and prevention systems.

I would also stress that the confidence of market participants is the very source of the financial industry's competitive strength. We must continue to contribute to that confidence by strictly enforcing the law and improving the effectiveness of our financial supervision.

When we see a problem in the market, we should not settle for a quick fix. Instead, what we should do is to approach it with a long-term market stability perspective, thoroughly analyze the root causes, and come up with the best possible remedy. We will then carry it out strictly in accordance with the applicable laws and regulations. For disorderly conduct and unlawful activities that harm consumers, we are going to step up our supervision and take strict enforcement actions without exception. I would also like to see financial firms making a more intensive effort on raising their standards of conduct and strengthening their internal controls.

It is also important that our financial supervision take place under the watchful eyes of the public. I therefore see a need to expand the amount of supervision information we make available to the public, both in terms of quality and quantity. Along with this, I would like to revamp the financial statistics information system to help the public make easier use of the statistical information we provide. This will also help the market exert stronger discipline on our financial supervision.

Third, I intend to push for regulatory reform aimed at removing ineffective rules and improving the transparency and consistency of our financial regulation and supervision. As we all know, too much regulation dampens competition and innovation, saps the market's creativity and vitality, and distorts capital allocation and consumer welfare. It is also an obstacle to the competitiveness of the financial industry. So we must renew the commitment to bring about meaningful regulatory reform.

In particular, we must do our part in helping to remove barriers to financial firms that are looking to expand overseas. So, as we move forward, I plan to set up task forces with the participation of industry and academic experts and charge them with the task of identifying supervision areas in need of improvement. Moreover, we are going to look to global best practices as our benchmarks so that the market can actually sense and appreciate our reform efforts. But I do stress that there will be no change to rules and regulations that safeguard consumer protection and the safety and soundness of financial firms.

Fourth, I believe our supervision should be more attentive to the needs of SMEs and the disadvantaged members of our society. So, to the extent necessary, we will promptly respond to the complaints and claims we receive from households on public assistance, disabled persons, and other vulnerable groups and members. I am also going to meet with more small business owners and start-up companies and find out difficulties they encounter in obtaining credit and see how we can help.

I also hope to improve public awareness of the New Hope Seed Loan and other support programs that are available to low-income households. Together with this, I would like to encourage new, more tailored credit-rating methods that take into account the special credit circumstances and characteristics of low-income borrowers. This is something I believe both large and small lenders can pursue for low-income borrowers with credit scores in the low-to-mid range.

With respect to product development, I think financial firms can deliver significantly enhanced benefits to consumers with financial products that are easy to understand and help their day-to-day lives. I also want to take steps to make sure financial firms that sell investment products to consumers disclose in no uncertain terms the risks that come with the investment products in the investment purchase contract. I would like to do more to let consumers know that we stand with them.

There are also many reasons to encourage what I would call "relationship finance" between lending institutions and SME borrowers based on business relationship and trust built over many years. This is one important way by which we can contribute to shared growth between small businesses and the financial industry. For our part, we also need to aggressively identify and fix impediments to relationship finance and lend a helping hand to financial firms when needed.

The fifth is consumer protection. One new approach I want to take is to assess financial firms on consumer protection and to conduct enhanced on-site inspection and mystery shopping on those that receive poor consumer protection ratings. We also need to intensify our supervision of financial firms on false product advertisements to

better prevent consumer harm. As a way to reduce repeated consumer disputes, we also need to take steps so that the outcome of our dispute mediation can be readily applied to other similar cases.

We will also continue to expand our on-site consumer education and counseling, especially for school children and consumers who are often excluded from mainstream banking. In dealing with Tongyang, we will need to focus our efforts on whether the company engaged in any impropriety with its customers and come up with meaningful and effective preventative measures so that we can begin to restore the confidence of the public and the market again.

Sixth, I will continue to look for ways to bring about positive changes to our organizational structure, our personnel management system, our standards of conduct, and our work processes. Financial firms provide a significant portion of our funding, so it only makes sense that they expect high-caliber, high-quality supervision from us.

This should be the starting point for the positive organizational changes we seek. That is, as we carry on our supervision to ensure financial firms' safety and soundness and orderly conduct, we must always think about how we can add real value to the process and how we should cultivate our specialization and effectiveness. I wish to emphasize that we are not going to spare any effort in encouraging the professional development of our staff supervisors and bringing in outside professionals so that we can effectively meet the growing demand for technically competent supervisors for such specialized areas such as derivatives and IT supervision. I would also like to add that, as a way to help reduce the burden of paperwork often imposed on financial firms, we should not insist on receiving reports and filings that are seldom used and look for ways to streamline and simplify the paperwork processes.

Let us pause for a moment and try to imagine how much trust it takes for us to entrust a financial firm with our hard-earned income and savings. Many would say that financial firms must do more than safeguarding our money. That is, they must not only act as a foothold to those who struggle to climb up the ladder, but also help open up new possibilities for them. So, more than anything else, we must faithfully execute our examination and supervision, strictly enforce the law, and dutifully work to instill respect for the law and high standards of conduct in the marketplace.

I am very much hopeful that this is going to be a watershed year, a turning point, for the financial industry in restoring the public's trust and helping to revitalize the economy. As you know, this is the year of the horse. In many cultures, a horse often symbolizes an energetic, indomitable spirit, health, and fortune. So I very much hope that you and your family make great strides this year and continue to prosper in great spirit and health.

Thank you.