



Governor's Keynote Address at the FSS Speaks 2016

The following is the full text of the keynote address Governor Zhin Woong-Seob delivered at the FSS Speaks 2016, an annual gathering of the executives of foreign financial firms in Korea and FSS supervisors, in Seoul on March 22, 2016.

Good morning, Ladies and Gentlemen,

It's my great pleasure to stand before you this morning and welcome you to FSS Speaks 2016, and I thank you for joining us today.

Before I begin, let me acknowledge and thank three special guests who have graciously joined us this morning: the honorable Mark Lippert, the United States Ambassador to the Republic of Korea; Mr. Gao Ying Xin, Executive Vice President, Bank of China; and Mr. Jayant Rikhye, HSBC Head of International Asia-Pacific. We are glad to have you with us this morning.

I also want to thank guests from news organizations and foreign embassies for their interest in our meeting today. The large audience we have certainly speaks to your strong interest in our work and my duty as the head of the Financial Supervisory Service.

As many of you know, we started FSS Speaks as a forum to facilitate our dialogue with foreign financial firms operating in Korea and to help improve mutual understanding. This is the 8th FSS Speaks we are hosting. And, this year, we are especially delighted that Mr. Kim Hak-kyun—Standing Commissioner of the Financial Services Commission—is here to speak to you about Korea's financial policy.

As before, we tried to address many of the issues we heard from you in the presentations and discussions that will follow later today. So, my hope is that our meeting today reaffirms our commitment to dialogue and partnership with you.

Before I get to our supervision for the year, I would like to make a couple of observations on the markets and economy. As you know, the growth outlook for the U.S. and European economies appears to be getting less certain than before. And many expect China's slowdown to continue.

Here at home, we are paying close attention to household debt and distressed companies in need of restructuring. And as we all know, low interest rates and an aging population are becoming the "new normal." Overall, the near-term outlook for the economy remains uncertain. However, as Moody's recent upgrade of Korea's sovereign rating to "Aa2" indicates, Korea's economic fundamentals and its commitment to structural reform to promote growth remain strong and resilient.

In fact, the Korean government is doing its part by undertaking bold measures to reform and re-energize the economy and put it back on the growth track. The government is pushing for major structural reform across four key areas—the financial sector, labor, public sector, and education—to revitalize the economy. So, we have embarked on wide-ranging reforms to inject fresh energy and vitality to the financial sector in support of a “creative economy.”

In particular, we are actively encouraging Fintech, Internet banking, and other promising areas as a new growth engine for the financial industry. We are also providing support to promising technology companies as a way to further stimulate interactions between the financial sector and the real economy.

I can also tell you that the FSS came up with its own financial sector reform measures last year and has since been faithfully implementing them in support of the broader financial sector reform. The reform measures we put into effect also helped us bring about a new supervisory approach that gives the market fresh freedom and power to realize its full potential.

We are also working to put an end to what we call “five financial sector vices” and set 20 specific tasks to improve financial sector practices and raise the public’s confidence. I have reasons to believe that we are succeeding and making progress with our effort.

Let me add that, this year, we have embarked on the second phase of the financial sector reform to produce real and meaningful changes. At the FSS, we continue to focus on fixing financial sector customs and practices that are needlessly unfair or disadvantageous to consumers. As we work to achieve more effective supervision, we are going to deal aggressively with the challenges and risks we see.

So let me quickly outline our supervision for this year.

The first is to make sure that the changes we made to our examination and supervision following the shift from ex ante regulation to ex post supervision function effectively and produce the intended effect.

To this end, we are going to focus more on the safety and soundness aspects in our examination in close consultation with financial firms. As we do so, we will expect financial firms to take their own initiative to continually improve their internal controls and exercise effective risk management. We will certainly do our part to encourage new, more diversified, and innovative products to the market as well. Let me also add that we are working to further fine-tune and improve our market-monitoring systems to ensure early risk detection and assessment. One important aspect of this is better utilizing non-quantitative information and setting up more market-monitoring indicators.

I must say that the reorganization and personnel changes that the FSS carried out last month are very much designed to facilitate the new supervision approaches I just outlined above. Going forward, we will continue to focus on providing

responsive and effective supervision and engage financial firms in our supervision endeavor.

The second major supervision approach I would like to note today is more forward-looking, preemptive supervision of risks to the market and the financial system. We have to do this to not only ensure the safety and soundness of financial firms, but also preserve the stability of the financial system.

As part of this, we intend to conduct rigorous stress tests for the entire financial sectors in addition to tests for each individual financial sector. For these tests, we are going to look for stress correlations across the financial sectors and work to set up a comprehensive risk supervision system.

With respect to household debt, we are working to further improve our credit oversight system to help bring about a soft landing of household debt. We also expect to further improve and tighten our oversight of corporate debt risk this year.

If I may, I would like to take a moment and say a few words about foreign financial firms. We are well aware of the critically important role that foreign financial firms perform in our markets. So we are going to work to build a fair and transparent environment so that foreign financial firms can compete and succeed on their own merit.

In fact, many will say that foreign financial firms will continue to find growth opportunities in Korea by leveraging their local know-how and specialized products and services ranging from derivatives to risk management. So we hope that foreign financial firms continue to help us raise not only the financial industry's global competitiveness, but also its compliance, consumer protection, and business conduct to the next level.

Lastly, let me note that we resolved the issue of IT outsourcing that came through the meeting we hold with the CEOs of foreign financial firms. We also discontinued the supervisory year-end accounting review that we used to require from foreign financial firms. The message we hope to send with these actions and the reform measures the government has been undertaking is that we will stay engaged with you and work to bring positive changes for all.

Ladies and Gentlemen,

The IMF ranked Korea the 6th among 183 countries in its latest financial development index. We of course should not exaggerate what the ranking says about our markets because there is always room for improvement. But I do say that foreign financial firms deserve credit for being part of many positive changes over the years that led to the latest IMF ranking. So they are our indispensable partners, and I have no doubt that, as our financial industry advances, so will they in Korea.

You know, Alan Curtis Kay, the American computer scientist who is said to have had a great influence on Apple's Steve Jobs, famously said:

“The best way to predict the future is to invent it.”

Ladies and Gentlemen,

Korea's financial industry is emerging from its outdated culture and embarking on a reform path to create new, lasting value for the future. So I very much hope foreign financial firms embrace our reform drive to create new value for the future and continue to thrive with us. The sessions we have scheduled for today should give you a chance to engage in constructive discussions with us.

And I do hope you find them useful and helpful to what you hope to accomplish in Korea.

Thank you.
