

Speech draft

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Financial Services Commission

Commissioner, Seung-Tae, Lim

I. Greetings

Good morning ladies and gentlemen!

It is a great honor to speak before such distinguished guests as the members of the World Savings Banks Institute at the 22nd World Congress here in Chile. On behalf of Korea's Financial Services Commission and the Chairman, I would like to thank President José Antonio Olavarrieta and Managing Director Chris de Noose, for inviting me to this important event.

I find it particularly meaningful that this year's conference takes place in Chile since this great nation is Korea's first FTA partner.

Thanks to the Korea-Chile FTA, the bilateral trade volume has significantly increased year by year, and most notably, even ordinary Korean citizens now can easily enjoy excellent Chilean wine.

With pleasure I would like to remind you also that Korea and the WSBI have maintained a great relationship over the years.

First of all, four Korean institutions have joined the WSBI membership thus far, while the Korea Federation of Savings Banks and the Korea Post have been most closely involved with the WSBI activities.

Also, with the excellent partnership between the WSBI and the Korea Federation of Savings Banks, the 14th Asia-Pacific Regional Group Meeting was successfully held in Seoul last May .

From the conference, we issued the 'Seoul Resolution' which is to ultimately help enhance the cooperation among the WSBI members and to promote the development of micro-financing.

This significant initiative has provided the Korean government and its people with an opportunity to take special note of the WSBI's magnanimous(mægnæniməs) efforts to improve the international practice of financing for low-income families.

II. Status of Microfinance and its institutions in Korea

As you are aware, in the aftermath of the Asian financial crisis in 1997, Korea could achieve successful restructuring of its financial system. Yet beginning in 2000, we have begun to face the problem with widening polarization in financial services between the financially advantaged and disadvantaged.

The polarization thus marginalized many low-credit and low-income borrowers from the mainstream financial system. In consequence, they have been exposed to predatory private lenders that charge exorbitantly(igzó:rbətəntli) high interests.

Especially amid the global financial crisis this creates a vicious circle, spiraling them further into debt, and evidently this has become one of serious social problems in Korea now.

In response, the government has taken a number of remedial measures to help them get back on their feet.

For example, we introduced the 'Work-Out' program to help individual debt repayment efforts and "Re-financing" program that allows a loan switching for lower interests. These programs have produced good results since 2005, helping at least 500,000 people escape bad-credit and become economically active again.

Recently, the government also introduced a 'New Start 2008' Project which aims not only to subsidize those who are driven out from the main financial system but also to help them get started on their own.

Through this program, many will be able to build a financial basis on which they can start accruing wealth again, making a marked departure from the vicious circle of low credit and deepening debt.

These initiatives have been launched successfully with strong supports from micro-finance institutions, particularly savings banks.

In fact, Korea's main players in the micro-financing industry are savings banks and mutual financial institutions like credit unions. Like in many other economies, Korea's savings banks specialize in financial services to individuals and small & medium sized enterprises with relatively low-credits.

Mutual financial institutions, on the other hand, focus more on bigger entities such as regions and organizations. The National Agricultural Cooperatives Federation is one of the prime examples of such.

Even though the market share of these institutions is still small, they constitute one of the integral components of the banking system, providing much-needed services to often neglected customers and helping them improve their financial security.

III. Policies of Korea government for microfinance under the financial crises

Especially amid the recent global financial crisis resulting worldwide economic recession, the function of micro-financing has become more important than ever.

With increasing shortage in liquidity supply in an economy, the low-income are often most vulnerable. I believe such phenomenon is commonly seen in many nations in the midst of the current economy downturn.

Facing much uncertainties from the global financial markets, all countries including Korea have striven to pull themselves away from the external risks and to make a quick economic recovery. Recently, some bright signs have begun to appear with its financial market appearing to regain its composure.

Notwithstanding some positive signs, some concerns about potential protraction of economic recession are still lingering, buttressed by forecasts made by some market observers, most notably the International Monetary Fund.

In analyzing the cause of the global financial crisis, many have pointed their fingers at the deregulation trends in today's financial system world wide as the main culprit,

pushing policy-makers of many countries back to the old practice of tighter regulatory regimes.

We must recognize, however, the implication of taking such regressive steps. If the recession continues amid tightening regulations, the citizens with financial disadvantages and the self-employed will have to suffer the consequence the most.

Fully aware of this potential problem, the Korean government has taken a number of preemptive actions to insulate the domestic economy from the external threats of global financial crisis and to revamp the real economy at the same time. This will also help expand financial support to those who are financially marginalized.

Among the significant preemptive measures, a bank recapitalization fund in a size of 20 trillion won or 15 billion USD is expected to revamp financial institutions' lending capacity and ability to withstand external shocks.

Beside the recapitalization fund, the government has also taken steps to secure supply of liquidity in the economy by purchasing non-performing loans from financial institutions and guaranteeing external debts and bond issues.

On the microscopical front, the government has been promoting expansion of loans to those with low-credits by boosting the public credit guarantee functions.

By the same token a 'Micro-finance Foundation' was established to support the efforts of the credit delinquents to restore credit. For this, about 300 billion won from financial institutions has been contributed. Low-interest rate funds have been also provided to such a non-government organization as the 'Social Solidarity Bank' to expand micro-credit businesses.

In addition, the government has increased the funding to strengthen the social safety net to help the low-income families by formulating a revised supplementary budget.

Such measures are expected to help reduce the number of the financially neglected in Korea.

Meanwhile, I think the issue of 'the polarization of financial services' is becoming increasingly a common problem faced by most countries amid the expansion of globalization. Therefore, I believe the key to solve this problem is to act collectively by making joint efforts between the public and private financial sectors. Working together with such influential financial organizations as the WSBI will certainly make such efforts more productive.

In this context, I think today's World Congress is very meaningful occasion in which all participants will be discussing in the next two days financial inclusion in a globalized world.

IV. Conclusion

Distinguished guests!

Indeed, inclusive finance is one of important policy objectives that we must strive for, among many other challenges we face today. Therefore, I hope we make the most

out of this opportune event by openly sharing our thoughts and insights into ways to effectively deliver basic banking services to all especially low-income and marginalized households.

In line with this thought, let us put together our experience and wisdom to advance the micro-financing industry.

Before closing, I would like to extend my heartfelt gratitude to the members of Banco Estado for their hard work that they have put into making this wonderful conference possible, and I would also like to thank the participants from abroad for their contributions to developing micro-finance across borders as valuable members of the WSBI.

Before I go, I would like to express Korea's sincere wish to host the World Congress in the near future as a way to show our appreciation for the excellent services that the WISB provides to its members as their global representative.

Thank you.