



# Financial Consumer Protection in Canada: Triumphs and Tribulations

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International Academy of Financial Consumers

# The Plan of the Presentation

Highlighting Canada's Best and Worst In Consumer Protection

1. Consumer Protection Agencies in Canada & Institutions that are Absent; CIR as partial substitute
2. Some Dimensions of the Financial Services Sector
3. Six Triumphs In Canada's Consumer Protection
4. A Way to Look at Challenges and Response Capabilities
5. Serious Shortcomings in Consumer Protection
6. Tribulations – What Not to Copy from Canada
7. Comment: Can FINTECH Rescue Consumers?



# CANADA - RESEARCH FOR PUBLIC POLICY WITH A FOCUS ON CONSUMER INTEREST RESEARCH (CIR)

## PARTNERS - IN THE FIRST SSHRC PARTNERSHIP GRANT 2013-2017

**Research Activities 2013-2017:** <http://ppocir.uwaterloo.ca/ppocir-knowledge-centre/>

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### Q: LINK WITH IAFICO?

#### UNIVERSITIES

- UNIVERSITY OF WATERLOO
- RYERSON UNIVERSITY
- UNIVERSITY OF ALBERTA
- GUELPH UNIVERSITY
- LAVAL UNIVERSITY
- MCGILL UNIVERSITY

#### PRIVATE SECTOR REPRESENTATIVES

- CSA GROUP (STANDARDS)

#### GOVERNMENT ORGANIZATIONS

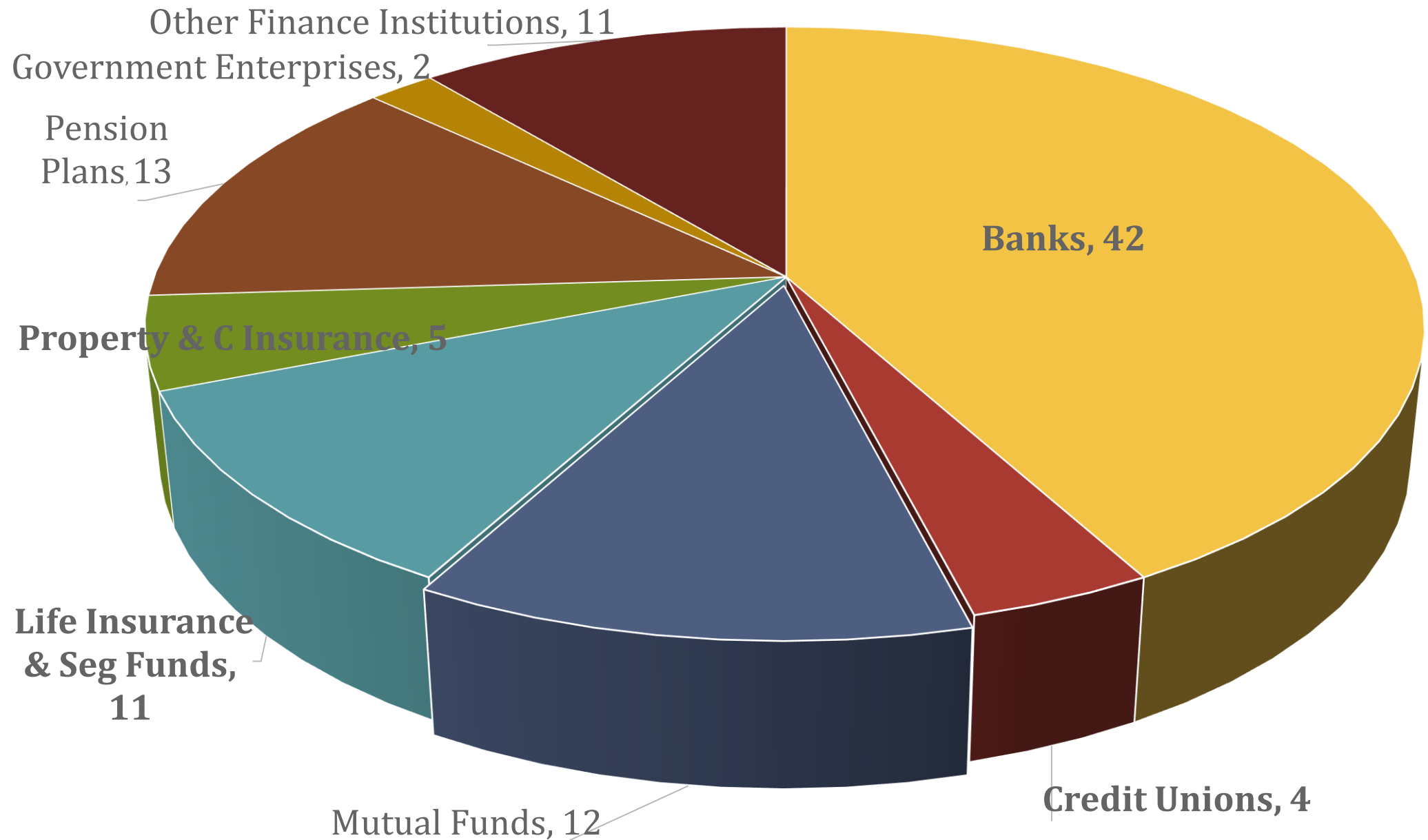
- FINANCIAL CONSUMER AGENCY OF CANADA
- CANADA, OCA - MINISTRY OF INNOVATION, SCIENCE AND ECONOMIC DEVELOPMENT
- OFFICE DE LA PROTECTION DU CONSOMMATEUR DU QUÉBEC
- ONTARIO'S MINISTRY OF GOVERNMENT AND CONSUMER SERVICES

#### NGO CONSUMER GROUPS

- CONSUMERS COUNCIL OF CANADA
- OPTION CONSOMMATEURS
- PUBLIC INTEREST ADVOCACY CENTRE
- UNION DES CONSOMMATEURS




# FINANCIAL SECTORS: CANADA 2014



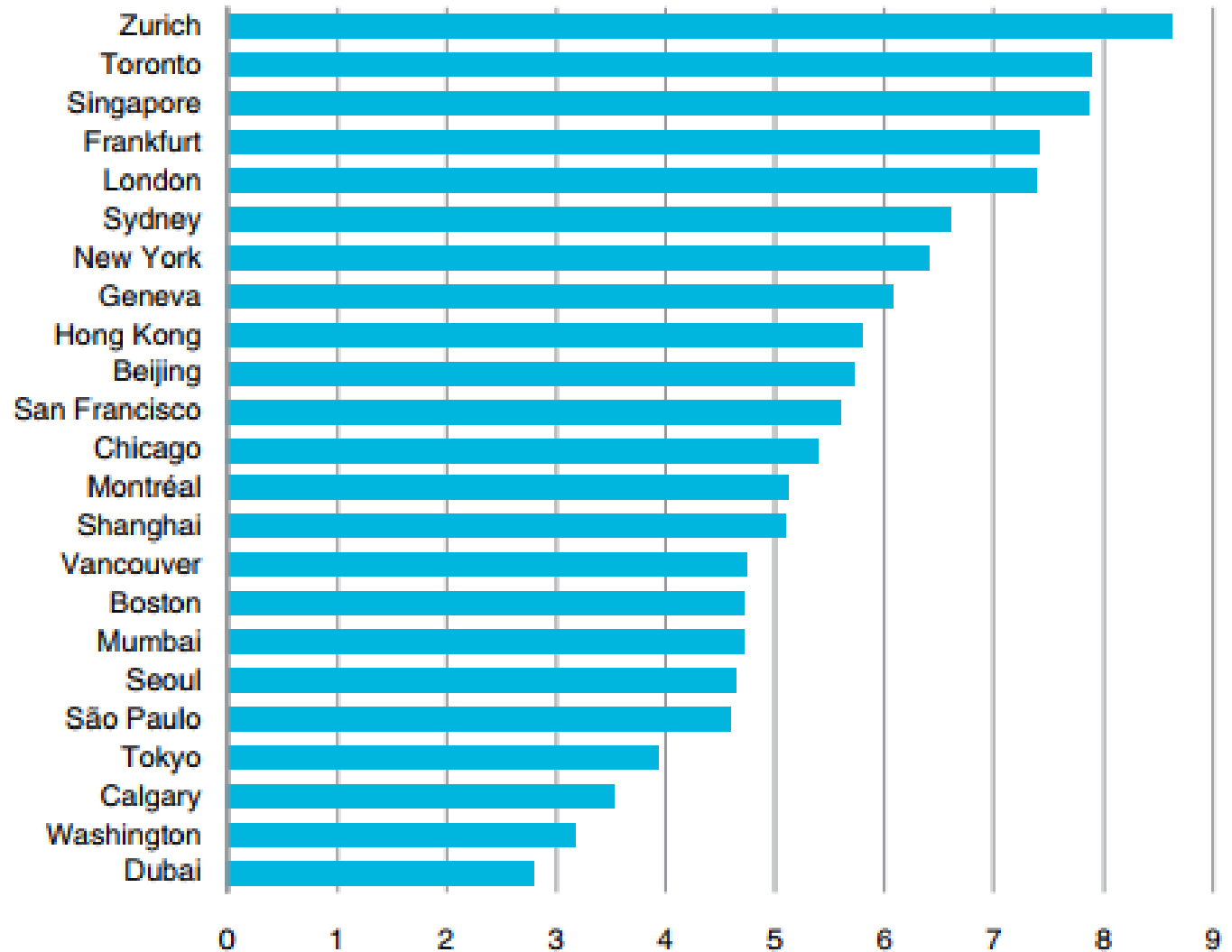
# Global Financial Centers Index

Source: Z/Yen Group in London (Z/Yen) and the China Development Institute in Shenzhen (CDI),

Rank	Change	Centre	Country/region	Rating	Change
1 		<u>London</u>	<u>United Kingdom</u>	780	2
2		<u>New York City</u>	<u>United States</u>	756	24
3	1	<u>Hong Kong</u>		744	11
4	1	<u>Singapore</u>		742	18
5		<u>Tokyo</u>	<u>Japan</u>	725	15
▲ 6	7	<u>Shanghai</u>	<u>China</u>	711 *	4
- 7	3	<u>Toronto</u>	<u>Canada</u>	710 *	9
8		<u>Sydney</u>	<u>Australia</u>	707 *	14
9	2	<u>Zurich</u>	<u>Switzerland</u>	704 *	14
10	6	<u>Beijing</u>	<u>China</u>	703 *	7
11	12	<u>Frankfurt</u>	<u>Germany</u>	701 *	3

# The Importance of Financial Services to Toronto Is Higher Than in Other Financial Centres

(financial services employment as a share of the total, per cent)



# WHICH CANADIAN FINANCIAL FIRMS SUCCEED INTERNATIONALLY?

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INVESTMENT FIRMS?

TRUST COMPANIES?

INSURANCE FIRMS?

YES

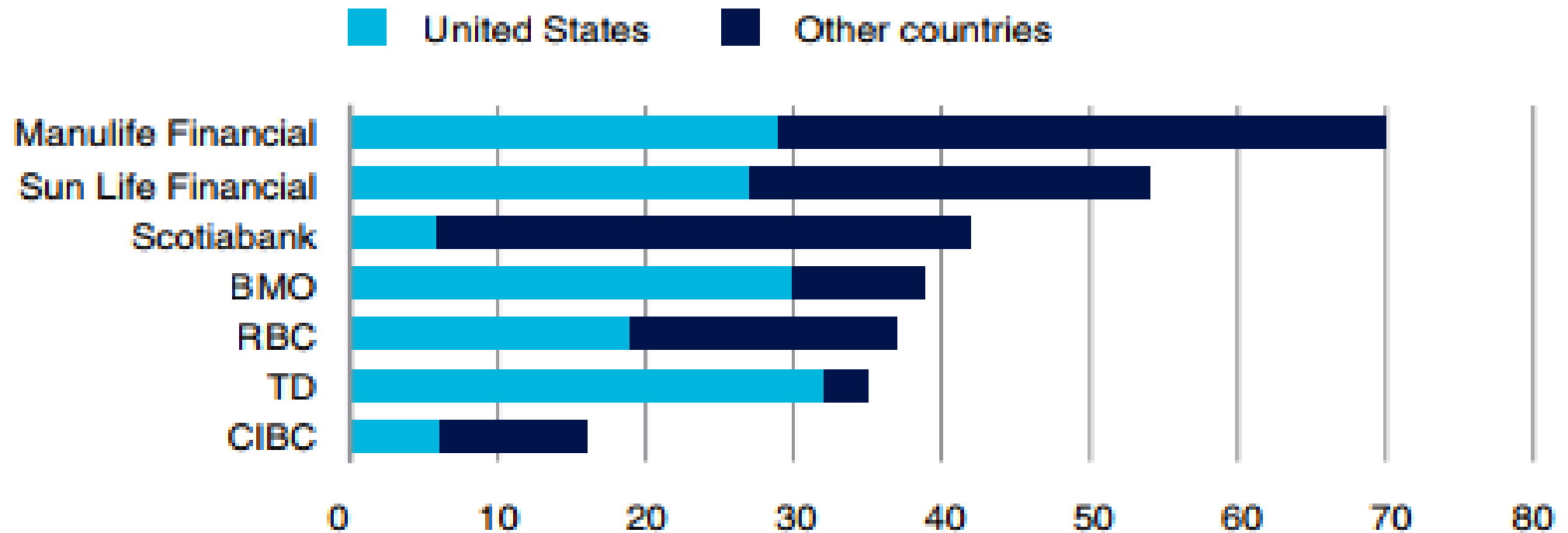
BANKS?





## Canadian Banks and Insurance Companies Generated a Large Share of Their Revenues From International Operations in 2015

(share of revenues from U.S. and other countries, selected banks and insurance companies, per cent)



Source: Conference Board in Canada, 2016. *An Engine for Growth. 2016 Report Card on Canada and Toronto's Financial Services Sector*. <http://www.tfsa.ca/storage/reports/EngineforGrowthFinancialServicesStateoftheSector2016.PDF> p.22



# PRUDENTIAL REGULATION

1. OSFI: STABILITY
2. CDIC - DEPOSIT INSURANCE
3. CENTRAL BANK OF CANADA
4. MINISTRY OF FINANCE
5. INSURANCE REGULATION
6. MORTGAGE REGULATION
7. INVESTMENT REGULATION
8. PAYMENTS ASSOCIATION

## 1 to 6 IN LIST - SUPERB

- PRAISE FROM IMF FOR PRUDENTIAL SUCCESS
- PRAISE FOR QUALITY OF REGULATORY EXPERTISE
- SOME REDRESS NEEDS IMPROVEMENT

## 7. INVESTMENT REGULATION VERY POOR

- NO REAL HARMONIZATION
- REGULATORY EXPERTISE IS “UNEVEN” AMONG PROVINCES

## 8. PAYMENT SYSTEM LAGGING

- LEGACY PLATFORMS VS. FINTECH AN ISSUE
- PRUDENCE DELAYS INNOVATION

Q: HOW WELL DO CANADA'S  
POLICIES ON FINANCIAL  
LITERACY PERFORM?

# INTERNATIONAL FINANCIAL LITERACY RATES 2015 OECD - PISA TESTS

Programme for International

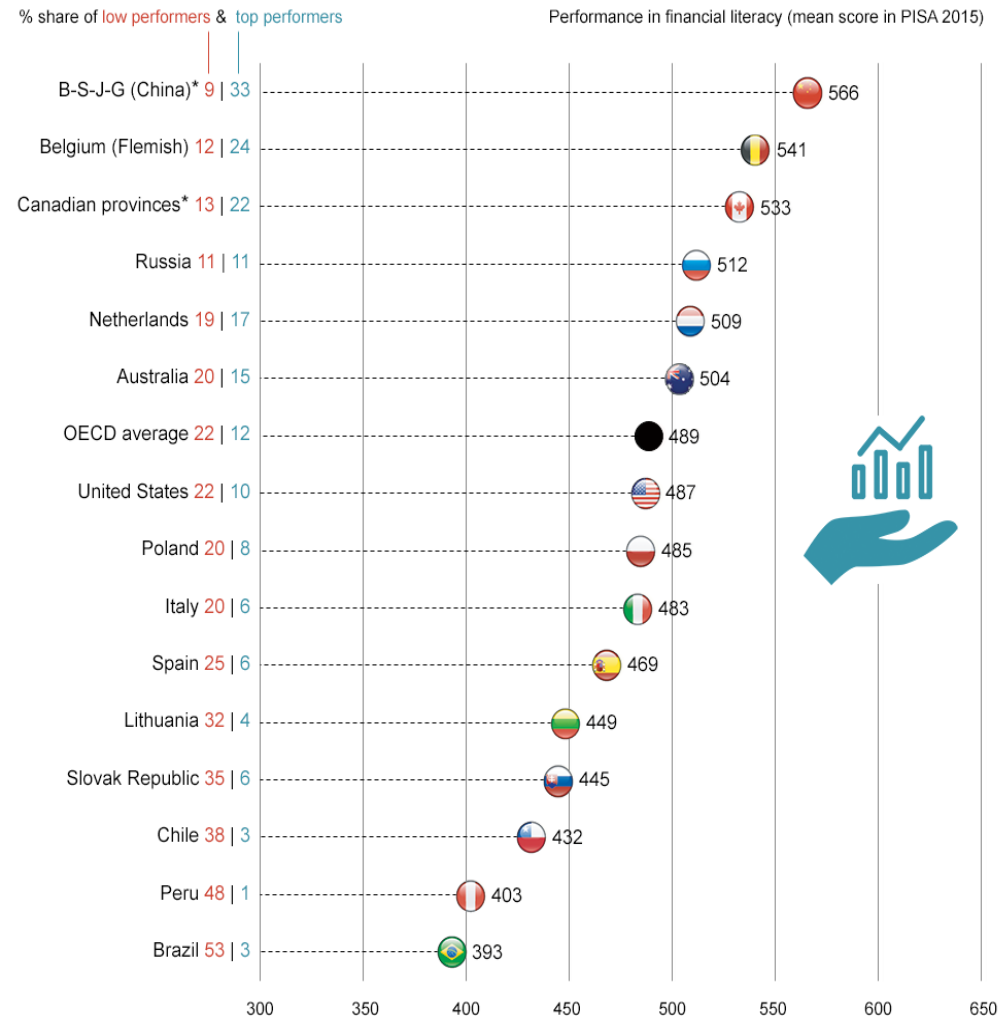
Student Assessment - PISA

IAFICO 2017 R. Kerton, University of Waterloo, CANADA



## PISA 2015 results

Only 12% of 15-year-old students are top performers in financial literacy (OECD average)



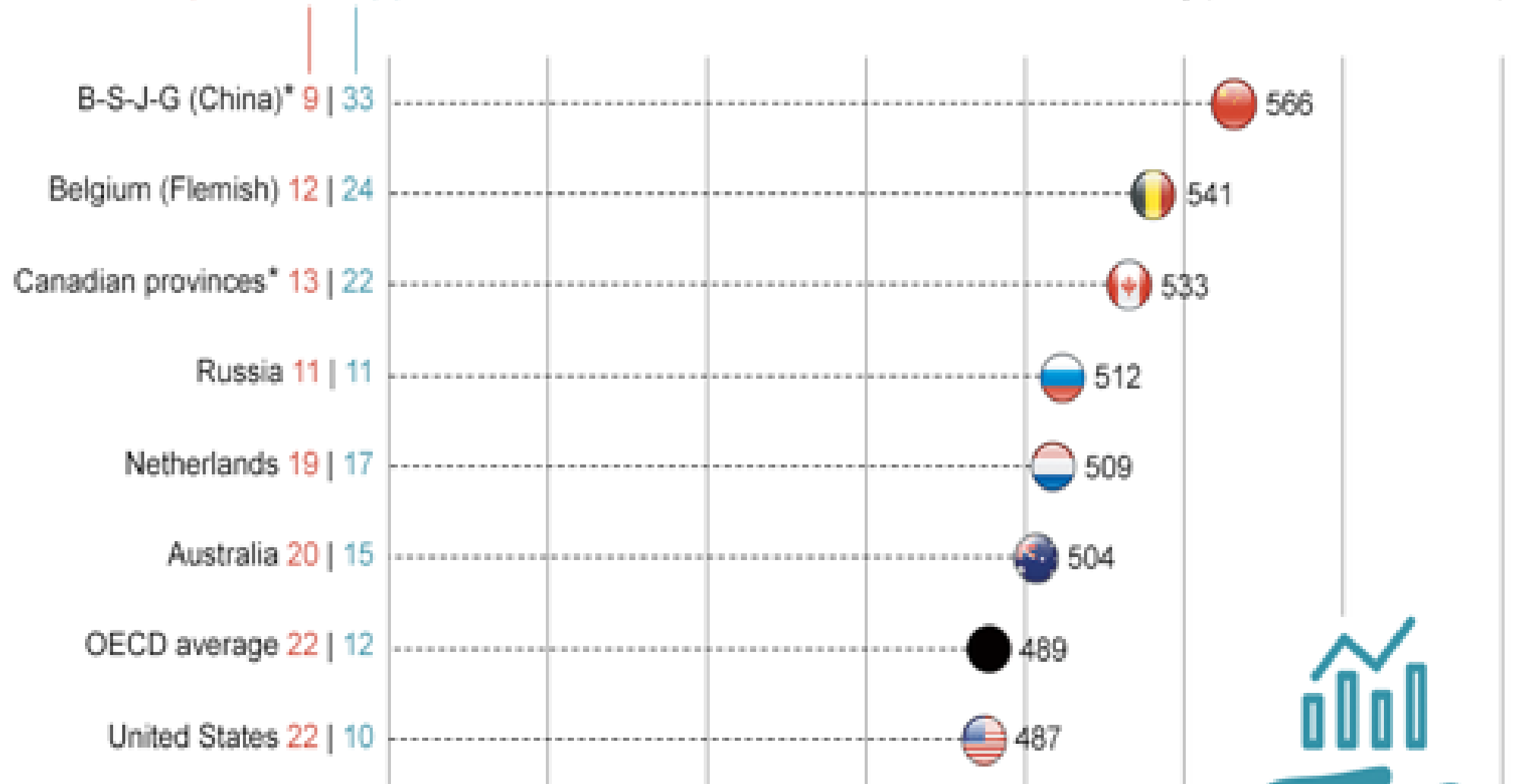
Source: OECD, PISA 2015 Database



\*B-S-J-G (China) refers to the four PISA-participating China provinces: Beijing, Shanghai, Jiangsu and Guangdong.  
Canadian provinces refer to the seven provinces in Canada that participated in the PISA financial literacy assessment:  
British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario and Prince Edward Island.

% share of **low performers** & **top performers**

Performance in financial literacy (mean score in PISA 2015)



# THE NEED FOR CONSUMER PROTECTION DEPENDS ON THE DIFFICULTY OF A CONSUMER CHOICE

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D IS DIFFICULTY

C IS THE COMPLEXITY OF A FINANCIAL SERVICE

K IS THE “HUMAN CAPITAL” OR THE RESOURCE THE  
CONSUMER HAS TO HELP MAKE THE CHOICE.

K CAN BE BASED ON EXPERIENCE AND ON WHAT THE CONSUMER HAS LEARNED TO HELP MAKE A CHOICE.

K CAN BE FINANCIAL LITERACY.

$$D = \frac{C}{K}$$



# IMBALANCE OF POWER

## World Bank on Protection

- **“The imbalance of power between consumers and providers is particularly marked in financial markets. In part, this is due to the complex nature of financial products and services which often have a deferred expected pay-off to the consumer and, in many cases, are purchased only rarely.”**

- *Source: Good Practices for Financial Consumer Protection*, World Bank, 2012; p. 89.





# SERIOUS PROBLEMS WITH MARKET CONDUCT

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DOCUMENTS OF MAJOR BANKS CONTAIN WORDS TO:

1. UNILATERALLY END A CONTRACT WITHOUT NOTICE,
2. UNILATERALLY CHANGE TERMS EFFECTIVE IMMEDIATELY,
3. EXCLUDE LIABILITY EVEN WHEN THE INSTITUTION IS NEGLIGENT,
4. RESTRICT THE PERIOD TO DISPUTE TRANSACTIONS,
5. PERMIT A BANK TO CHARGE UNDISCLOSED FEES.

**Ref: PIAC AND OPTION CONSOMMATEURS .** <https://www.fin.gc.ca/consultresp/pdf-ssge-sefc/ssge-sefc-50.pdf> Pp.37-38

# DOCUMENTING RISK TO CONSUMERS

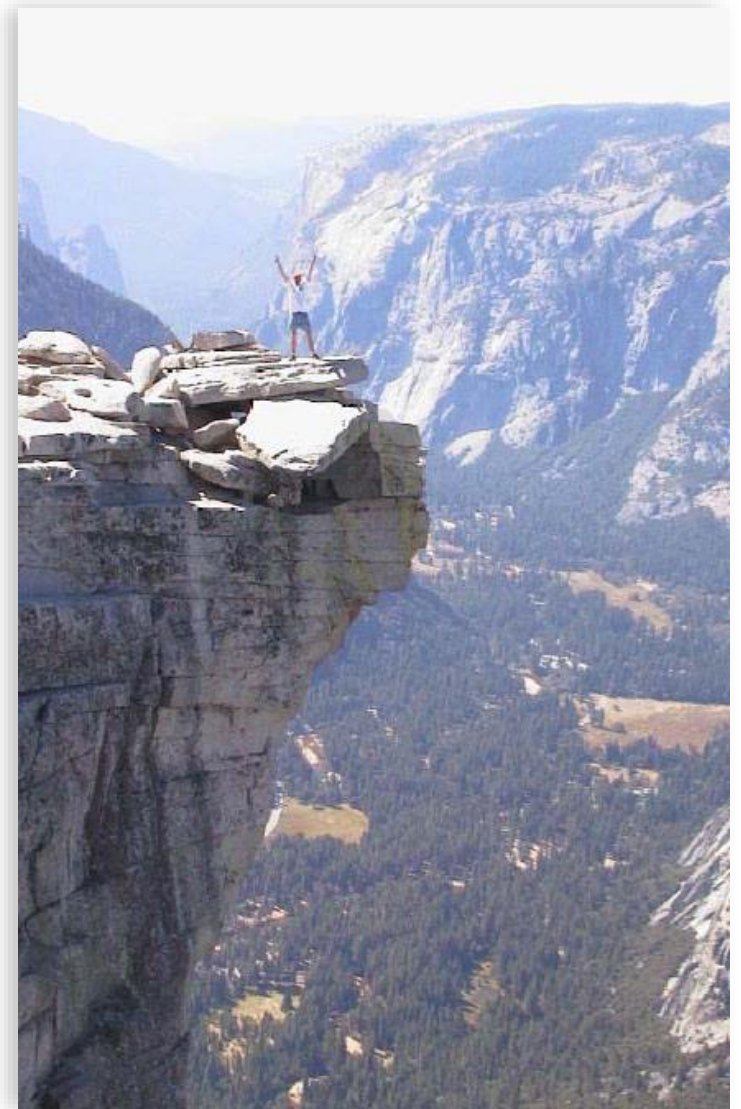
## **RBC ELECTRONIC ACCESS AGREEMENT 2017**

28 SCREENS OF TEXT

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**RISK OF SOFTWARE FAILURE IS TRANSFERRED  
FROM THE BANK AND FROM THE EXPERT THIRD  
PARTY PROVIDER TO THE (NOVICE) CONSUMER**  
*(RBC; ONLINE IN SECTION 24).*

**“WE CAN ADD, REMOVE OR CHANGE ANY PART OR  
FEATURE OF THE SERVICES, WITHOUT GIVING YOU  
NOTICE.”** *(RBC; ONLINE #3 UNDER ‘USERNAME’)*



# TRIUMPHS



## 1. PRUDENTIAL CARE



CANADA IS #1 IN WORLD FOR “MACRO  
STABILITY AND RESILIENCE “ [IMF]



CANADA AT TOP IN STRESS TESTS  
FOR THE LAST 10 YEARS [IMF]



CANADA’S OSFI HAS 700 EXPERTS “WELL  
TRAINED IN THE EXPERTISE NEEDED” [IMF]



# TRIUMPHS



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## 2. FINANCIAL LITERACY

Canada #3 IN OECD INTERNATIONAL PISA RESULTS  
(TESTED: 15 COUNTRIES OR JURISDICTIONS)

CANADA #2 IN OECD IN “MEETING THE TARGET LEVEL  
OF UNDERSTANDING”

(87% OF 15 YEAR OLDS REACHED THE TARGET LEVEL)

# TRIBULATIONS



## 1. REGULATORY CONFUSION

**“MISHMASH” OF FEDERAL- PROVINCIAL RULES - COST TO FIRMS AND TO CONSUMERS. EG.: WHERE TO SEEK REDRESS?**

**PIAC & OC, consumer NGOs, found more than 24 types of financial advisors in one province**

**LABYRINTH OF REGULATION**

**CAPTURE?**



# TRIBULATIONS

## 2. TOO MUCH PRUDENCE?

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- IMPEDES FINTECH INNOVATION
- HIGH PRICES - LEGACY OLIGOPOLY 93%
- PRUDENCE IS RESOURCED, BUT FEW FUNDS FOR CONSUMER PROTECTION  
OSFI, CENTRAL BANK, & LITERACY, ARE WELL FUNDED, BUT NOT MARKET CONDUCT AGENCIES

# TRIBULATIONS

## 3. MARKET CONDUCT

### MALPRACTICES IN SELLING.

#### HARMFUL INCENTIVES

concealed payments to sellers

#### CANADIAN PRACTICE IS BELOW OECD'S *G20 PRINCIPLES*

Including 'best interest' principle

#### CANADA LAGS ON REDRESS POLICIES IN FINANCIAL SERVICES

Lag in "Good Standards" and with *U.N. Guidelines*

*Defective Ombud Service- Official OBSI Review*



#### UNDER-RESOURCED POLICY AGENCIES:

- OFFICE OF CONSUMER AFFAIRS
- MARKETING PART OF FCAC
- FAIR PRACTICES BRANCH OF  
COMPETITION BUREAU
- MANY PROVINCIAL AGENCIES



# CAN FINTECH RESCUE CONSUMERS?

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$$D = \frac{C}{K}$$

**YES – FINTECH OFTEN DECREASES C**

**YES - FINTECH OFTEN INCREASES K**

**URGENT NEED FOR REGULATION TO LIMIT  
E-SCAMS AND OTHER FORMS OF MARKET  
MISCONDUCT DESIGNED TO INCREASE C**



# Deposit Insurance System in Korea and its Role for Consumer Protection

Shanghai, China  
4 Nov. 2017

Seokjin Kang  
Deputy General Manager  
Deposit Insurance Research Center

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- I. Introduction**
- II. Deposit Insurance System In Korea**
- III. KDIC's Role for Consumer Protection**
- IV. Conclusion**

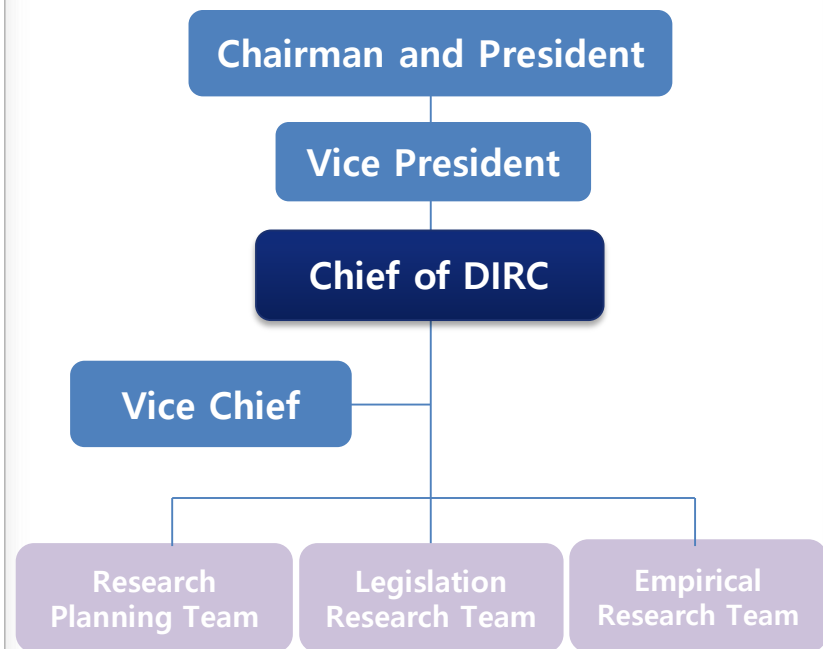
# I. Introduction



# Deposit Insurance Research Center (DIRC)

'Think Tank For KDIC' performs Research and Provide Support for Deposit Insurance development and Financial Policy

## Organization



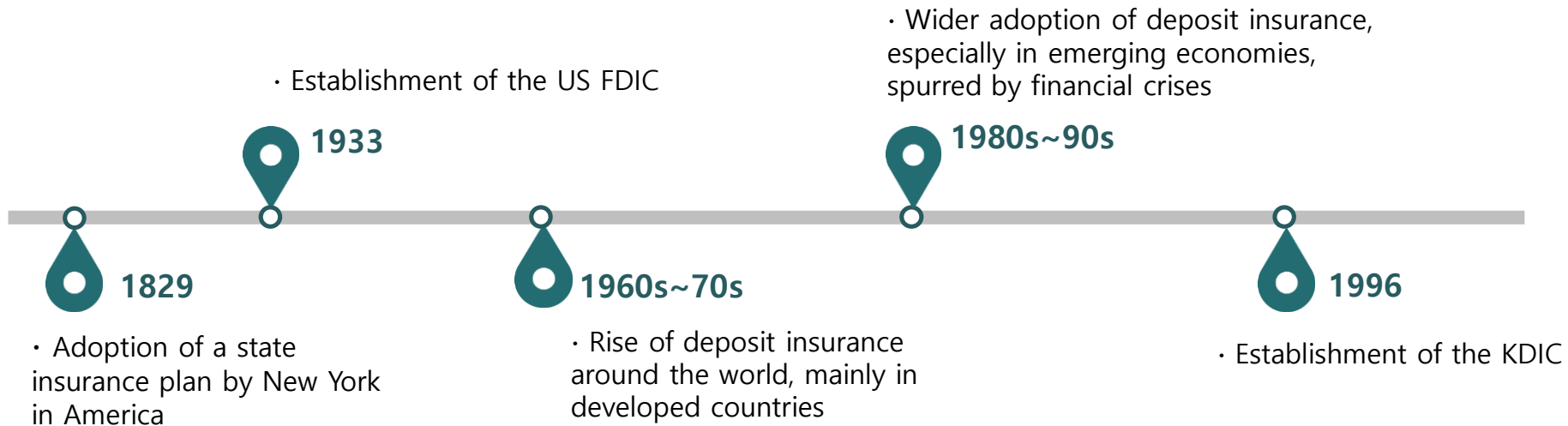
## Research Area

- Researching Deposit Insurance Development
- Researching Policy for Financial Safety
- Analyzing Financial Market and Industry
- Reviewing Financial policy Issues

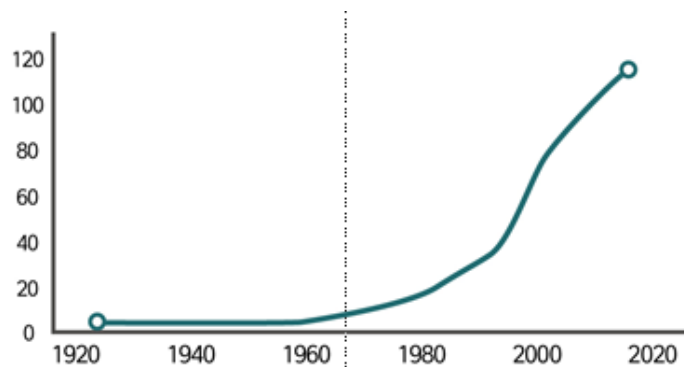
## **II. Deposit Insurance System in Korea**

- 1. History of Deposit Insurance**
- 2. Development of Korea's Deposit Insurance System**
- 3. KDIC's Functionality**
- 4. Insured Financial Institutions & Eligible Deposits**

# History of Deposit Insurance



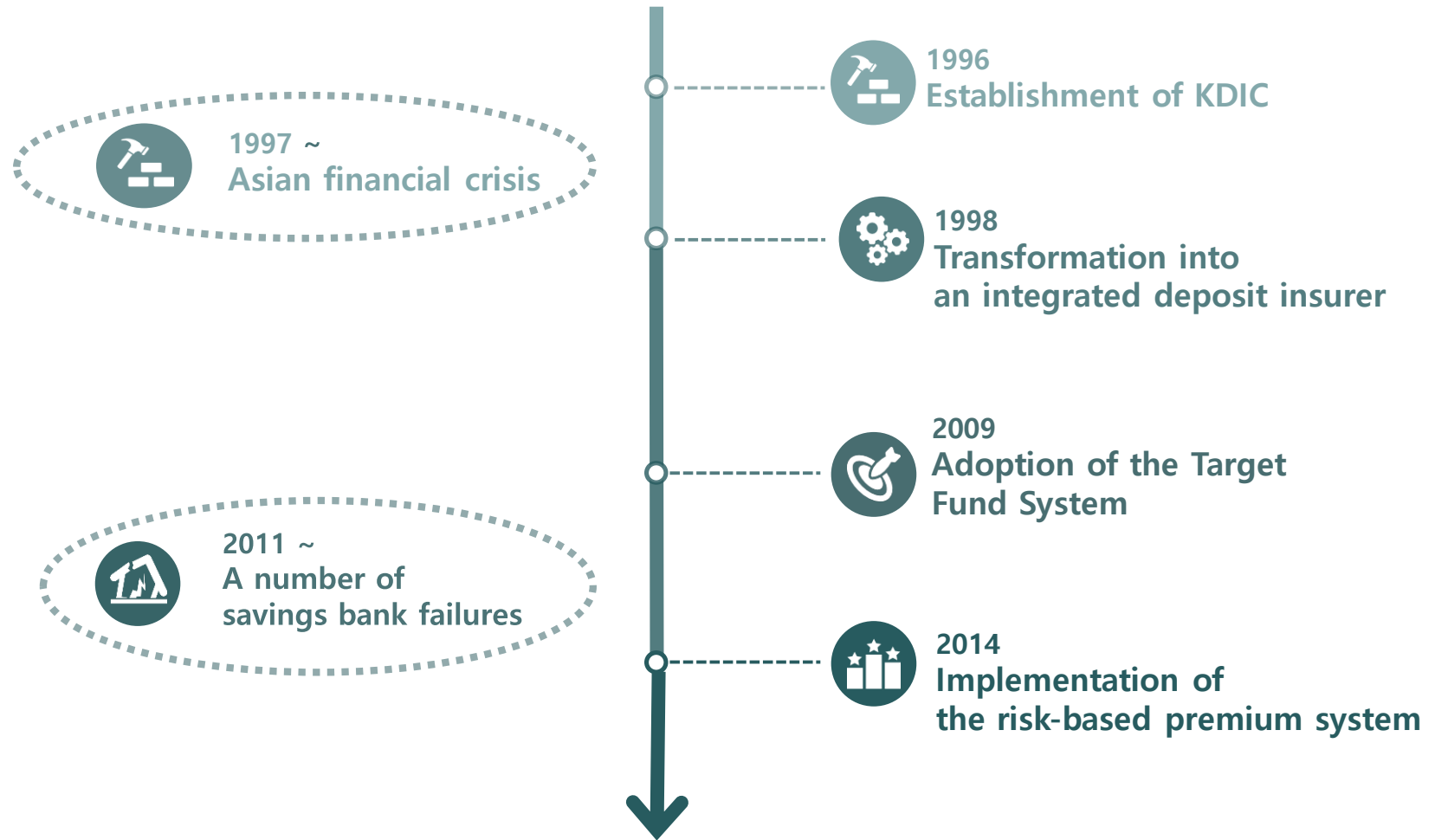
## Number of Countries with Deposit Insurance by Year



Rapid growth  
since the 1970s

\* Source : 2015 IADI Annual Survey

# Development of Korea's Deposit Insurance System





# KDIC's Functionality

## 1 Purpose of Establishment

Depositor Protection and Financial Stability

## 2 Legal Basis

Depositor Protection Act

## 3 Major Functions

- Management of Funds
- Risk Management to Prevent Insolvency of Insured FIs
- Depositor Reimbursement and Resolution of Failed FIs
- Recovery of Assistance through Sale of Assets and Bankruptcy Dividends
- Accountability Investigations against Insolvency—implicated Persons

# Coverage limit/Financial Institutions/Eligible Deposits

Coverage Limit : KRW 50 mil. per person, per institution

✓ which is equivalent to USD 43,478 (approx. USD/KRW 1,150)

**Total 292 institutions, KRW 2.0 Quad. (USD 1.8 tril.)**

(Number of institutions, KRW billion, as of September 2017\*)

Industry segment		Domestic	Foreign	Subtotal	Eligible Deposits
(Commercial) <b>Banks</b>		18	40	58	1,144,277
<b>Investment traders/ brokers</b>	Securities	43	11	54	-
	Asset Mgmt	48	-	48	-
	Futures	2	-	2	-
	Other	2	-	2	-
	(Subtotal)	95	11	104	28,874
<b>Insurance companies</b>	Life	24	1	25	548,955
	Non-life	17	5	22	164,138
<b>Merchant banks</b>		1	-	1	1,088
(Mutual) <b>Savings banks</b>		80	-	80	46,511
<b>Total</b>		<b>235</b>	<b>57</b>	<b>292</b>	<b>1,993,843</b>

\* Eligible Deposits: as of June 2017

# III. KDIC's Role for Consumer Protection

1. Preliminary Consumer Protection
2. Ex post Consumer Protections
3. Changing Environment & Challenges

# Ex ante Financial Consumer Protection



## Monitoring FIs

- **Information Gathering and Risk Assessment**
  - Financial/Non-Financial data on FIs, etc
  - MOU for information Sharing(with FSS, FSC, MOSF and BOK)
  - Risk grading, Risk monitoring levels
- **Risk Verification**
  - Joint examination with FSS
  - independent examination by KDIC
- **Control Measures**
  - Ask FSS to take necessary action to address risks verified through an examination
  - Notify KDIC's findings (if significant risk) to FSC and requesting proper action(PCA) by FSC



## Promoting Public Awareness

- **Providing financial literacy education** for financial consumers
  - **Target** : Senior citizens, Small Merchants, Students
- **Deposit protection logo** on passbooks and internet/mobile screen of protected financial products
- **Furnishing DI guide materials** (leaflets, posters and ATM stickers) available at insured FIs

Financial Education Class



Deposit Protection Logo



\* FSS(Financial Supervisory Service), FSC(Financial Services Commission)  
MOSF(Ministry of Strategy and Finance), BOK(Bank of Korea)



# Ex post Financial Consumer Protection

## 1 No Suspension of Business

Resolution of MSB without interruption in financial services

\* Bank Closing and Decision for a P&A (on a Friday) and new bank opening on the next Monday

## 2 Rapid Deposit Reimbursement

- Plans to pay insurance claims (KRW 50 million) within 7 days from Business Suspension of failed FIs
- Standardized DI payment system\* for MSB sector relating to “No Suspension of Business”

\* when a MSB is ordered business suspension on Friday Night, deposit reimbursement is made on the next Monday

## 3 Advance Payment of Dividends

- partial advance payments of bankruptcy dividends (on the Next Monday)
- paying dividends to the creditors, including depositors of over KRW 50 million, in proportion to their claim

# Changing Environment & Challenges

## Advent of new technologies in financial industry - Fin Tech, Internet Primary Bank

- Expand covered products in deposit insurance following changes in financial industry
- Strengthen education for financially underserved consumers

## Proliferation of consolidation and diversification in financial industry

- Establish a Crisis Response System
  - Establish new resolution procedures to prevent systemic risk
    - RRP(Recovery & Resolution Plan) of SIFI\*, Bail-in
      - \* Systemically Important Financial Institution
  - Strengthen cooperation with financial safety net players\*
    - \* Ministry of Strategy and Finance(MOSF), Financial Services Commission(FSC), Bank of Korea(BOK), Financial Supervisory Service(FSS), KDIC
  - More participation in the FSN Meeting and Information sharing
  - Regular Crisis Simulation Exercises with other Safety Net Participants

## IV. Closing

“與好學人同行, 如霧露中行, 雖不濕衣, 時時有潤” (孔子家語)

“ If you develop a close relationship with a man fond of learning, it is like walking in the fog or dew. Although you do not actually wet your garment, it gradually moistens.”

(School Sayings of Confucius)

# Thank You!

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2017 IAFICO Global Forum for Financial Consumers

# **Financial Consumer Protection Institution in Korea**

Misoo Choi(Seoul Digital University)





# INDEX

1. Financial Supervision Organization
2. Deposit Insurance Corporation
3. Dispute Settlement Organization
4. Special Financial Consumer Protection Systems
5. Financial Consumer Information Portal

# 1. Financial Supervision Organization

## 1) History

- ◆ The Financial Supervisory Service (FSS) was established on January 2, 1999, as Korea's fully integrated supervisory authority under the Act on the Establishment of Financial Supervisory Organizations that the National Assembly approved on December 29, 1997. The Establishment Act created the FSS as a specially legislated quasi-government supervisory authority and charged it with financial supervision across the entire financial sector.
- ◆ Prior to the creation of the FSS, financial supervision was carried out by four separate sector-based authorities with the finance ministry exercising significant overarching powers.

# 1. Financial Supervision Organization

- ◆ Although institutional and systemic shortcomings that came to light during the 1997 Asian financial crisis reinforced the need for reform of the regulatory and supervisory structures and frameworks, there was a broad recognition even before the crisis of changes needed to deal with the evolving financial market landscape. These ranged from the accelerating convergence of financial services to the blurring of the traditional boundaries between banking and nonbanking activities. The confluence of financial market liberalization, deregulation, and globalization that were gathering momentum across countries at the time also pointed to the need for bold systemic reform to drastically improve the effectiveness of Korea's financial regulation and supervision.

# 1. Financial Supervision Organization

- ◆ As a result of the two-tier system created by the law, the FSC assumes the primary responsibility for rulemaking and licensing while the FSS principally conducts prudential supervision, capital market supervision, consumer protection, and other oversight and enforcement activities as delegated or charged by the FSC. As the government regulatory authority, the FSC is staffed by civil servants, but the FSS as a specially legislated supervisory authority is staffed by private sector employees who are not part of the government civil service system.

# 1. Financial Supervision Organization

## 2) Organization

### (1) Divisions and Departments

- ◆ Following a major reorganization on February 2, 2016, with significantly augmented consumer protection, the FSS was restructured into nine divisions comprising 44 departments and 15 offices. Each of the departments and offices under the nine divisions is charged with specific functions, tasks, and responsibilities ranging from administrative support and examination to consumer protection endeavors. Each of the nine divisions is headed by a deputy governor and each of the 44 departments by a director general. In addition to its headquarters in Seoul, the FSS maintains ten regional and district offices nationwide and eight representative offices overseas. The Office of the Chief Executive Auditor, which comprises an internal audit office and an inspection office, is responsible for internal audit, inspection, and compliance.<sup>6</sup>



# 1. Financial Supervision Organization

## (2) Sources of Operating Funds

- ◆ Fees collected from financial institutions and securities issuers and appropriation from the Bank of Korea comprise most of the operating budget for the FSS. The relative share of fees to be contributed by the regulated financial institutions is determined annually by the FSC based on the total amount of liabilities at the end of the previous fiscal year, subject to certain restrictions. The relative share to be collected from securities issuers is also determined by the FSC based on the total amount of securities issued. When approving the budget for a fiscal year, the FSC takes into account the current funding level, assets, and other financial factors and conditions.

# 1. Financial Supervision Organization

## 3) Supervision

### (1) Financial Institutions

- ◆ FSS–Supervised Financial Institutions : As the integrated supervisory authority, the FSS oversees financial services firms across the entire financial sectors. For supervision purposes, the FSS classifies financial services firms it supervises into four general types: banks, nonbank financial companies, financial investment services providers, and insurance companies.

# 1. Financial Supervision Organization

## (1) Financial Institutions

- ◆ Entry and Exit Supervision : Financial services businesses are regulated enterprises, and financial services companies are incorporated in accordance with established rules and standards as provided under the law. The board of directors of a financial services company comprises executive directors, non-executive directors (non-executive inside directors), and outside directors (non-executive outside directors). Non-executive directors and outside directors are mutually exclusive. Non-executive directors do not take part in the day-to-day management decisions. Outside directors are independent of the management.

# 1. Financial Supervision Organization

## (1) Financial Institutions

### ◆ Prudential Regulation and Supervision :

- \* Banks
- \* Nonbank Financial Companies
- \* Financial Investment Services Providers
- \* Insurance Companies

The business activities of financial institutions are subject to certain restrictions and prohibitions that are intended to prevent illegal or anti-competitive activities while promoting sound business practices, competition, and consumer protection.

# 1. Financial Supervision Organization

## (1) Financial Institutions

- ◆ Supervisory Evaluation and Rating : The FSS periodically evaluates financial institutions' financial health and operations and assigns an overall rating. Supervisory rating was first introduced for banks in October 1996 following Korea's membership in the Organization for Economic Co-operation and Development (OECD) and Bank for International Settlements (BIS). The rating system was soon expanded to other types of financial institutions. It took effect for securities companies in January 1999, insurance companies and specialized credit finance companies in January 2000, mutual savings banks and specialized banks in July and August, respectively, of 2000, and financial holding companies in December 2000, and asset management companies in July 2001.



# 1. Financial Supervision Organization

## (2) Examination

- ◆ FSS examiners perform full-scope and targeted examinations of financial institutions to help ensure their safety and soundness and compliance with laws and regulations. FSS examiners conduct full-scope examination to evaluate financial institutions' overall financial, management, operational, and compliance performance. The selection of financial institutions that are to undergo a full-scope examination is made in advance during the annual examination planning. The determination of the timing and duration of a full-scope examination and the number of examiners to be assigned is normally made with due consideration given to the size, the complexity, and the risk profiles of the subject institution, findings from the previous examination, and issues of supervisory concerns that have been raised from off-site monitoring.

# 1. Financial Supervision Organization

## (2) Examination

- ◆ Off-site monitoring also constitutes an important component of financial institution examination that complements on-site examination. For normal off-site monitoring, FSS examiners analyze financial and operational reporting from financial institutions, evaluates quantitative safety and soundness measures, and work to identify areas of weaknesses and risks in need of supervision action. If necessary, FSS examiners conduct an on-site inspection and meet with the subject institution's senior executives to address issues of supervisory concern.

# 1. Financial Supervision Organization

## (3) Capital Markets

- ◆ Corporate Disclosure : The Financial Investment Services and Capital Markets Act (FSCMA) provides for fair and transparent corporate disclosure in order to protect investors and ensure an efficient and well-functioning securities market. The FSCMA provides for three general types of corporate disclosure: disclosure for new securities issuance, disclosure for listed companies, and disclosure for significant event.

# 1. Financial Supervision Organization

## (3) Capital Markets

- ◆ Unfair Trading and Enforcement : Although unfair trading covers wide-ranging unlawful activities in the securities markets and is not specifically defined in the FSCMA, it comprises three general types: the use of material nonpublic information, market manipulation, and other illegal acts.

# 1. Financial Supervision Organization

## (3) Capital Markets

- ◆ Accounting Supervision : The legal framework for accounting supervision comprises the Financial Investment Services and Capital Markets Act (FSCMA), the Act on External Audit of Stock Companies (AEASC), and the Certified Public Accountant Act.  
Companies subject to external audit must also operate with an internal accounting management system for the preparation of accounting information. The auditor must also prepare an evaluation of the actual status of the audited company's internal accounting management system and provide it in the business report.



# 1. Financial Supervision Organization

## (4) Consumer Protection

- ◆ The Financial Supervisory Service works to protect financial consumers in collaboration with various government consumer protection agencies such as the Korea Consumer Agency, the Korea Deposit Insurance Corporation, and the Fair Trade Commission.
- ◆ Consumer protection activities that the Financial Supervisory Service performs can be broadly divided into ex-ante and ex-post measures. Whereas ex-ante measures include activities such as enforcing proper contract provisions for financial products and due disclosures and providing counseling and financial education to consumers, ex-post measures refer to actions that are intended to rectify abuses and malpractices of financial institutions and bring remedy to consumers who have been harmed.

# 1. Financial Supervision Organization

## (4) Consumer Protection

- ◆ In May 2012, the Financial Supervisory Service consolidated its consumer protection functions and established the Financial Consumer Protection Bureau (FCPB) for enhanced financial consumer protection. The FCPB's main responsibilities and functions are to administer consumer complaints, provide consumer counseling and dispute mediation services, and take supervisory actions on improper business practices of financial institutions. In addition, the FCPB conducts wide-ranging financial education programs to help improve consumer financial literacy.

# 1. Financial Supervision Organization

## (4) Consumer Protection

- ◆ As part of its consumer protection mandate, the FCPB also evaluates financial institutions' consumer protection practices and consumer complaint administration systems. When deemed necessary, the FCPB reviews complaints filed against financial institutions and conducts on-site inspections. In respect of product and service disclosures, the FCPB works to improve disclosures standards to help consumers make informed decisions. It also provides personal finance counseling services to help consumers exercise responsible and sound personal finance, management debt, and understand financial products. The FCPB also works to expand financial education by fostering partnerships between schools and financial institutions so that students can develop sound personal finance habits and skills.

## 2. Deposit Insurance Corporation

### 1) Korea Deposit Insurance Corporation

- ◆ The KDIC was established on June 1, 1996 after the legislation of the Depositor Protection Act (DPA) on December 29, 1995. The KDIC started as a protector of bank depositors, while there were separate funds for non-bank financial sectors. The coverage was initially KRW 20 million per depositor, but the financial instability that resulted from the 1997 Asian financial crisis led the government to adopting a temporary blanket coverage scheme.
- ◆ A transition was made to a limited coverage of KRW 50 million in 2001. The higher limit was established to ensure sustainable stability in the financial market. As the system is not immune to the risk of moral hazard, the KDIC closely monitors both financial and non-financial risks of insured financial institutions

## 2. Deposit Insurance Corporation

### 1) Korea Deposit Insurance Corporation

- ◆ Although Korea's deposit insurance system has only been in operation for a relatively short period of time, it has shown remarkable growth and will continue to make a positive contribution to financial stability through the adoption of various devices and policies designed to further advance the deposit insurance system.

## 2. Deposit Insurance Corporation

### 2) Insured financial institutions

- ◆ Insured financial institutions include: banks, insurance companies (life insurers and non-life insurers), investment traders and brokers, merchant banks and mutual savings banks. On February 4, 2009, with the enactment of the Financial Investment Services and Capital Markets Act, asset management firms licensed under the said Act for investment brokerage and trading (excluding investment brokers engaged in electronic securities brokerage services as defined under Article 78 of the Financial Investment Services and Capital Markets Act) were included in coverage.



## 2. Deposit Insurance Corporation

### 3) Deposit Insurance Coverage

- ◆ Korea provided protection of up to KRW 20 million per depositor (or KRW 50 million won for insurance policyholders) when the deposit insurance scheme was first introduced. However, in the wake of the 1997 Asian financial crisis, blanket guarantees were temporarily introduced in order to minimize the impact of the restructuring of the financial system and ensure the stability of financial transactions. In 2001, limited coverage was reinstated. Since January 1, 2001, the KDIC has insured up to KRW 50 million per depositor including principal and designated interest in case an insured financial institution goes bankrupt due to an insurance contingency (e.g. business suspension, license revocation).

## 2. Deposit Insurance Corporation

### 3) Deposit Insurance Coverage

- ◆ For the remaining amount that is not KDIC-insured, depositors can recover all or part of that when they receive bankruptcy dividends from the bankruptcy estate. The bankruptcy estate pays bankruptcy dividends from remaining assets, if any, after repaying senior debts.
- ◆ The coverage limit of KRW 50 million is the total amount that a depositor can receive per institution. It is not calculated per type of deposit or per branch. “Per depositor” means not only individuals, but also corporate entities. If a depositor of a failed financial institution has an outstanding debt to the institution, the debt will be deducted from the deposit (which is called a set-off) and the remaining amount will be protected.

### 3. Dispute Settlement Organization

- ◆ The Financial Disputes Settlement Committee (FDSC) is a committee that has been created within the FSS specifically to help mediate and resolve financial disputes between consumers and financial service firms. Upon a consumer petition or in response to a consumer complaint, the FSS verifies the relevant facts and makes impartial recommendations so that both the consumer and the financial institution can mutually come to a resolution with resorting to often time-consuming and costly litigation through the court.
- ◆ The FDSC is staffed by 30 specialists that include independent outside experts. Each FDSC mediation meeting is attended by seven to eleven members who are selected by the FDSC chairperson on the basis of the specific areas of consumer complaints, which may vary from banking, nonbanking, and financial investments to insurance.

### 3. Dispute Settlement Organization

- ◆ Consumer complaint is referred to the FDSC when the parties involved are unable to reach an agreement within 30 days from the day the request for mediation was submitted. The FDSC then deliberates on the case and proposes a resolution within 60 days with due consideration given to the applicable rules and regulations and information provide by both parties. The FDSC may dismiss a complaint if it does not merit a mediated resolution from the FDSC or if the facts and information provided by the parties involved cannot be substantiated. The FSDC decides on a resolution proposal with the majority vote. Once an FDSC resolution proposal is accepted by the parties involved, no further recourse is available.

### 3. Dispute Settlement Organization

- ◆ Unlike arbitration, the FDSC recommendation is not legally binding, and adjudication through the court is still available to consumers and financial institutions. The FSS may provide litigation support to a consumer if the FSS deems the action of a financial institution improper.

## 4. Special Financial Consumer Protection Systems

### 1) Long-Term Care Insurance

- ◆ This is the social insurance system that provides long-term care benefit to the elderly who have difficulty taking care of themselves for a period of at least 6 months due to old age or geriatric disease. It supports them in their physical activities or housework based on the principle of social solidarity.
- ◆ Recipients of the long-term care treatment insurance system access long-term benefits such as assistance with excretion, bathing, eating, cooking, washing, cleaning, nursing, treatment or recuperation counseling. Developed countries that are experiencing the aging phenomenon have long since introduced long-term care systems and provided long-term care services



## 4. Special Financial Consumer Protection Systems

### 1) Long-Term Care Insurance

- ◆ Purpose is to regulate items on long-term care benefit, which supports physical activity or housework for the elderly who have difficulty taking care of themselves due to old age or geriatric disease. It aims at promoting senior citizens' health and life stabilization as well as increasing the quality of people's lives by mitigating the burden of care on family members.
- ◆ Welfare equipment provides assistance in the ADL (activities of daily living) and physical activities of those who have difficulty carrying out their daily routine due to the deterioration of physical and mental function. Welfare equipment can be utilized by purchase or rental by making small copayments.

# 4. Special Financial Consumer Protection Systems

## 2) Microinsurance

- ◆ This is the protection of low-income people against specific perils in exchange for regular premium payment proportionate to the likelihood and cost of the risks involved. This definition is exactly the same as one might use for regular insurance except for the clearly prescribed target market: low-income people.
- ◆ The government has been driving policy efforts to reduce financial burden of low-income borrowers and enhance their access to financial services through various microfinance programs.

## 4. Special Financial Consumer Protection Systems

### 3) Financial Literacy Pilot Program

- ◆ The Financial Supervisory Service announced that a total of 667 primary and secondary schools nationwide have been selected for the Financial Literacy Pilot (FLP) program, an educational initiative aimed at advancing financial literacy of students in elementary, middle, and high schools.
- ◆ With growing interest in the FLP program and rising demand for finance education, the number of schools applying for FSS-supported financial education has surged 62% from the previous year. The FSS noted that more than 90% of the selected schools are located in provincial districts.

## 5. Financial Consumer Information Portal

### “FINE” (Financial Information Network)

- ◆ The Financial Supervisory Service established a system which enables consumers to search financial products from all areas and compare their characteristics at a single platform.
- ◆ This one-stop service for search and comparison has been operated and considered favorable for financial consumers. The FSS decided to provide additional information regarding loans, bank deposits/installment savings, tax-saving investment products and credit/debit cards.

## 5. Financial Consumer Information Portal

### “FINE” (Financial Information Network)

- ◆ It is expected that the expanded service will help users rationally choose financial products which are suitable for their purposes and also prevent them from wasting times and costs. Furthermore, the service will encourage competition in a free market and contribute to improving information asymmetry.



**Thank You !**

