The Third Forum for Asian Insolvency Reform(FAIR)

Opening Remark

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Distinguished guests and ladies and gentlemen,

It is a great pleasure and honor for me to have this opportunity to speak before such distinguished audience this morning. I am also very pleased to make this address for the opening of the 3rd Meeting of the Forum for Asian Insolvency Reform (FAIR) here in Seoul.

In the process of the economic reform since the onset of the financial crisis in late 1997, among many demanding tasks, the effective resolution of non-performing assets has been one of the most challenging and crucial one that the nation has faced especially in restoring financial stability and market confidence. From this viewpoint, I find it is particularly meaningful that Korea is the venue for this year's forum.

Already, six years have passed since Korea faced the threats of the financial crisis, and the Korean economy today stands tall in line with many advanced economies in terms of its soundness and competitiveness. Even yet, the Korean government's commitment to further improving economic policies and restructuring the corporate and financial sectors are as firm as ever.

Indeed, the corporate and financial restructuring efforts thus far have made remarkable progress. They have made it possible to fully recover intermediary functions of the financial market and international credibility in our industries.

Early on, having recognized the urgency of the task of cleaning up bad assets burdening the financial market, the Korean government has concentrated its resources for a quick resolution of bad assets through injection of public funds.

At the same time, the regulatory authorities introduced preemptive prudential regulatory tools against incurring fresh NPLs. These tools include the Forward Looking Criteria and more stiffened asset classification standards.

For more effective and efficient NPL resolutions, the government has also created various bad asset management tools, including the Korea Asset Management Corporation (KAMCO), Corporate Restructuring Companies (CRCs), Corporate Restructuring Vehicles (CRVs) and Corporate Restructuring Reits (CR Reits).

On the legal front, an important corporate restructuring bill called, Corporate Restructuring Promotion Law was enacted in order to quicken the exit process of non-viable companies from the market and many bankruptcy-related laws have been streamlined.

Despite its relatively short history in corporate restructuring in a global standard, especially in the bad asset resolution endeavors, I can say with confidence that the Korean financial market is now well equipped with sophisticated tools and knowledge in this field.

When you look at Korea’s current financial market situation, however, a new uncertainty factor has arisen. In the post crisis economy, the Korean banking industry has shifted its business target from corporate to retail financing.

In the process of the reallocation of banks loan portfolios, bad assets have again increased, but this time in household loans instead of corporate loans. As of June this year, the household delinquency ratio went up to 2.0% from 1.3% at the end of 2001.

Especially, in the credit card sector, the delinquency ratio is higher. Since the end of 2001, it has doubled from 7.3% to 15.1% during the first half of this year.

As a result, the banks' net profit has also declined from 3.5 trillion won a year ago to 0.5 trillion won. The current NPL ratio has worsened from 2.3% in 2002 to 3.2% in June 2003. The number of credit delinquents has surged to 3.5 million by 33% since nine months ago.

Evidently, the most urgent task faced by the regulatory authority today is effective prevention and resolution of NPLs in household loans and to actively support a prompt restructuring of remaining marginal companies.

Regulators also have to make sure that the recent bubble in the real-estate market does not hamper the soundness of the financial market. In an effort to reduce credit delinquents, it is equally important that financial institutions successfully operate individual workout programs in helping them rebuild their credit history.

In order to effectively meet new challenges and to tackle risks rising from such challenging financial market environment as we encounter today, we must accomplish a number of tasks.

The foremost important task is to continue, without losing its momentum, the reform drive on a daily basis. It has been well established upon firm public consensus that restructuring efforts are futile when they are not accompanied by market-driven, preemptive measures against falling back to insolvency. One way to make sure that restructuring of such nature takes place in the market is to ensure transparency and fairness in reform implementation so as to build strong public consensus for its support.

Another important task is to encourage and guide financial institutions to enhance the quality of management system in line with the international best practice.
New standards for transparent corporate governance codes were introduced and a sophisticated risk management system is taking its deep roots in everyday corporate work places. However, the real success of the reform will ultimately depend on the positive attitude and actions being taken by staff and management of each financial institution.

Third, financial regulators need to take on pro-active roles to cope with the highly volatile financial market environment.

Many countries in the past have clearly demonstrated how difficult and costly it can be when an economy strives to enforce reforms in the face of escalating risks in its financial system. It is especially true when a country commits regulatory forbearance while underestimating the urgency of impending problems in its economy, eventually incurring unnecessarily high fiscal costs. We can draw an important lesson from such unfortunate experiences. It is the importance of continuing our efforts to establish a risk-based supervision system that enables supervisors to effectively allocate their resources based on potential risks in the market.

Plus, such essential elements of market infrastructure as an efficient credit rating system and effective rules governing ailing companies have to be in place.

Finally, I want to emphasize the importance of actively operating education programs for market users.

In retrospect, I believe the most fundamental weakness behind the household NPL problem was financial illiteracy of consumers. This sad situation is deja-vu to corporate insolvency problems in the past as a result of excessive borrowing and reckless investments, without sound financial planning. Therefore, the government, financial institutions and NGOs should provide financial consumers with various education programs. All these important tasks that I have talked about so far absolutely requires one thing in common. That is the strong and well-informed support from all financial market participants.

In closing, I sincerely hope that the 3rd Forum will be an invaluable opportunity for all the participants to ponder upon and gain important insights into ways of carrying out important tasks each one of you are facing for successful market reform in your country.

Finally, I would like to thank the staff of the OECD, KAMCO, and KDI for all their hard work they have put into making today’s event possible.

Thank you.