Restructuring Financial Consumer Protection System in Korea

This report provides a reform proposal on financial consumer protection system which is considered as an important issue in the financial industry along with financial soundness oversight. The major principle used in this report is that it is desirable to impose the same regulation on the products or services if they share the same economic properties for fair competition and consumer protection.

In order to enhance the protection of financial consumer, legal and supervision system have been reviewed on two criteria, namely ex ante protection and ex post protection. Also, we investigate the reforms in other countries and find their relevance to Korea. We analyses the differences in the regulations of financial sectors and the reason for the differences, then propose the direction of regulation reformation.

First, we contend that Financial Consumer Protection Law should have a general and abstract structure not something that includes all clauses concerning business conducts and business licence of individual laws. At the same time individual laws should be amended so that the businesses that are conducted with identical economic functionality are regulated with the same level of regulations without regulatory arbitrage.

Second, regarding the supervision system, the separation between financial soundness supervision body and financial consumer protection body should be considered in the long run. In the short
run, financial soundness supervision division and financial consumer protection division can be divided within the current supervision institution as an instant action.

Third, in order to make consumer dispute resolution body an independent entity with quasi-judicial function, it is suggested to strengthen its independence from FSS (Financial Supervisory Service) and make it a separate body.

Lastly, in reforming regulation system, self-regulations can be exploited to improve the efficiency of financial supervision and to sustain the creativity of the financial market.

In addition, we categorize each item of financial consumer protection system into two categories, ex ante system and ex post system, and suggest several reforms. Ex ante system includes insurance terms, the regulation of business conducts, advertisement, public announcement, protection of privacy, and financial education. Ex post system includes law related to compensation for liabilities, dispute resolution scheme, and deposit insurance system.

Consumer protection should help financial consumers participate in the market on even ground with suppliers. However too much consumer protection regulation should be avoided as it can harm the market autonomy and suppress creativity. Also insurance companies should utilize this proposed reform as an opportunity to earn consumer's trust.