A Study on the Supervision of Non-bank Financial Conglomerates in Korea

Global financial crisis has brought a renewed attention to the systemic risk harbored in financial groups. Accordingly, financial supervision on these groups, the failure of which may harm the financial system and the real economy became one of the key issues in financial stability. Early in 2015, Korean government announced a plan to introduce a group-wide supervision on financial conglomerates including those affiliated to Korean business groups also known as Chaebols. This study suggests how to identify and supervise non-bank financial conglomerates focusing on prudential supervision differentiating macro-prudential supervision from micro-prudential one. These financial groups show little or no evidence to have systemic risk evaluated by the business models and channels thereby spreading the risks to financial system. The current level of regulations on these groups by the financial regulation as well as business group regulation for the separation of finance and commerce also help reducing potential systemic risk. Therefore, the group-wide supervision on these groups reduces to the group-wide micro-prudential supervision, which is supplementary supervision on financial conglomerates. As for the supplementary supervision, this study suggests a regulation on group-wide capital adequacy using deduction and aggregation method described in the EU conglomerate directive of 2002. Disclosure and other requirements of the current regulation can be utilized for the supplementary group-wide compliance,