

Interrelationships among Safety Net Players

(International Practices and Korea's Experience)

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I. Financial Safety Nets

➤ Objective

- Ensure the stability of the financial system and protect consumers

➤ Functions

- Prudential regulation and supervision
- Lender of last resort
- Deposit insurance

II. Guidance on Interrelationships

- Effective interrelationships within the Financial Safety Net
 - Mandates for each player with aligned objectives and powers
 - Clearly defined duties and responsibilities
 - Adequate cooperation and information sharing
- Effective DIS
 - Coordination in accordance with mandates
 - Information sharing
 - Timely, accurate and relevant information

III. Crisis Management in Korea

- The Financial Crisis of 1997 → Need for immediate action
- Comprehensive Financial Reform Program
 - Foundation of FSC & FSS
 - Expanding the scope of insured institutions
 - Safety Net coordinated by FSC & MOFE
- Key role as deposit insurer and restructuring agency
 - Mandates of KDIC during the crisis
 - Normalization of ailing financial institutions through the injection of public funds
 - Depositor protection

IV. Crisis Management by KDIC

- The injection of public funds amounted to 160.5 trillion won
 - More than 60% raised through issuance of bonds

<Source of injected public funds>

(Unit: trillion won)

	Equity Participation	Capital Contribution	Deposit Payoff	Asset Purchase	NPL Purchase	Total
Bond Issuance	42.2	15.2	20	4.2	20.5	102.1
Recovered Fund	4	1.7	6.3	4.3	17.1	33.4
Public Money	14.1	-	-	6.3	0.4	20.8
Others	-	0.1	2.9	0.1	1.1	4.2
Total	60.3	17.0	29.2	14.9	39.1	160.5

IV. Crisis Management by KDIC (cont'd)

- KDIC has injected 102.4 trillion won
 - Half of this used for equity participation

<Public funds injected by each institution>

(Unit: trillion won)

	Equity Participation	Capital Contribution	Deposit Payoff	Asset Purchase	NPL Purchase	Total
KDIC	47.6	17.0	29.2	8.6	-	102.4
KAMCO	-	-	-	-	39.1	39.1
Government	11.8	-	-	6.3	-	18.1
Bank of Korea	0.9	-	-	-	-	0.9
Total	60.3	17.0	29.2	14.9	39.1	160.5

IV. Crisis Management by KDIC (cont'd)

- Normalization of ailing institutions
 - Reduction of NPLs, enhancement of liquidity and improvement of BIS ratio
- Depositor protection
 - Millions of depositors were paid off with 29.2 trillion won
- Credit intermediation function restored
- Recovery of real-sector economy and credibility

V. Changing Environment of the KDIC

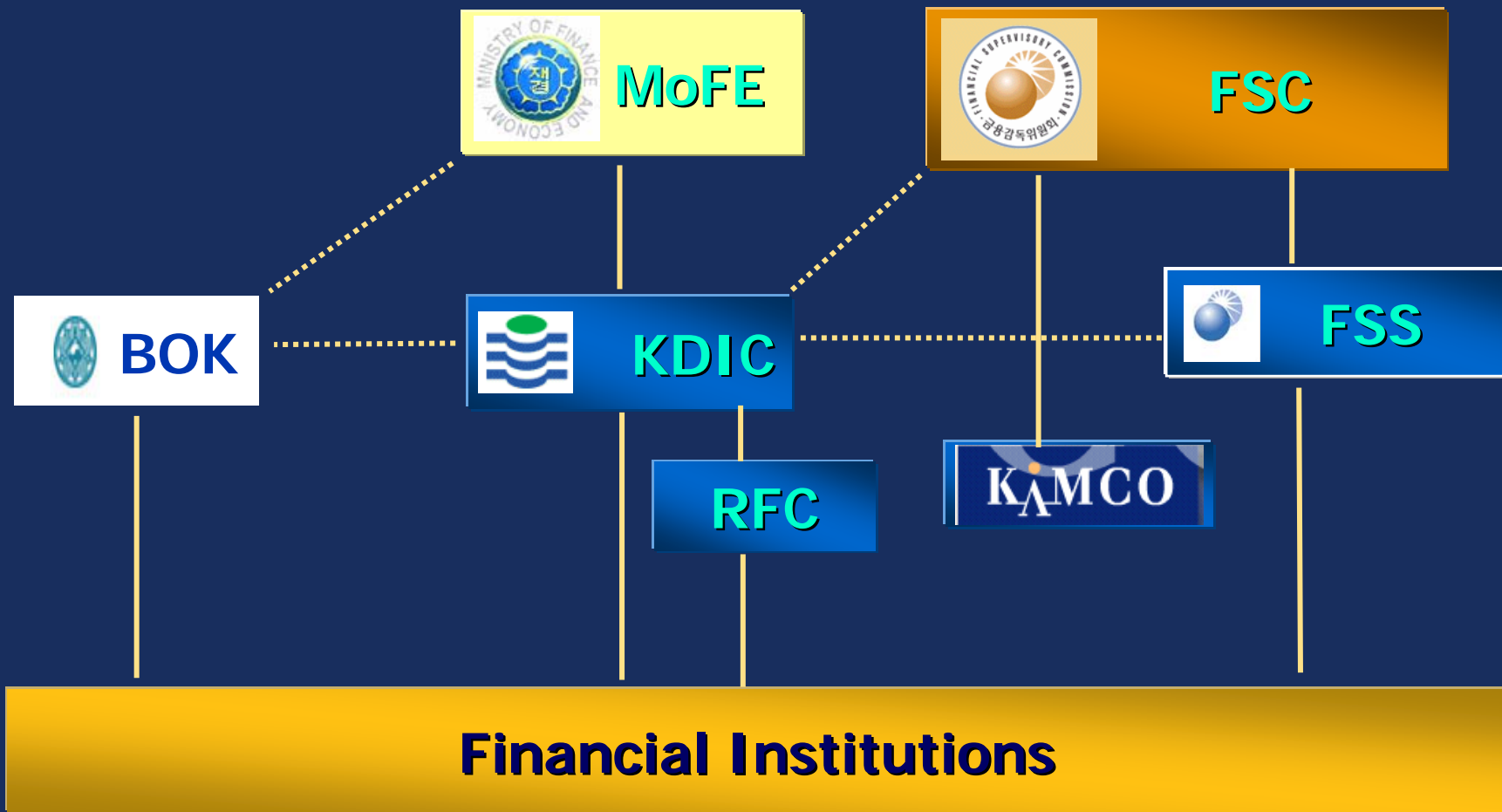
➤ Changing environment

- Recognition of the Deposit Insurance System
- Since 2003, all incurred costs fall on the New DIF
 - Sound fund management is necessary

➤ Important change of role

- Critical restructuring agency
 - Risk minimizing deposit insurer
- Preparation for the implementation of differential premium system and the improvement of risk assessment models
- Reviewing and setting clearer responsibilities for safety net players

VI. Financial Safety Nets



VII. Coordination and Information Sharing

- Supervised and guided by the MOFE
 - Budget and audit
 - Guidance on policies and operations
- Policy Committee members
 - MOFE, FSC, MOPB, BOK
- Financial restructuring in cooperation with the FSC
 - Provide financial support or resolve with appropriate manners

VII. Coordination and Information Sharing

- KDIC may request the submission of documents and other material information
- KDIC may request joint examinations with the FSS and information on failed or troubled financial institutions
 - MOU on joint examinations with the FSS
- Information Sharing
 - Information Sharing Committee
 - KDIC, FSS and BOK
 - On-line access to information
 - MOU with FSS and BOK

VIII. Concluding Remarks

- One of the important components of a Safety Net

- Enhancement of interrelationships
 - Formalized by legislation, MOUs, and the special committee
 - Nonetheless, goodwill and commitment are still necessary

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