Policy Recommendation to Improve Deposit Protection System and Resolution Regime for Financial Companies

In Korea, in the midst of the 1997 Asian financial crisis, the financial consumer protection funds, then operated by each financial sector, were integrated to form a single deposit insurance system, operated by the Korea Deposit Insurance Corporation. Although the integrated deposit insurance system has managed to overcome several incidence of instability in Korean financial market, the effectiveness and efficiency of the integrated system have been challenged due to insufficient response to changes in the financial environment over the decades.

This report revisits current deposit insurance system of Korea and diagnoses the problems stemming from the integrated system: insufficient consumer protection to each financial sector other than banking and lack of proper resolution regime especially for the financial companies potentially posing threats to financial stability. The report provides key recommendations to improve deposit insurance system and resolution regime for financial companies employing domestic analysis and overseas case study. Specifically, the policy proposals include reforms in resolution regime and managing structure of deposit insurance fund, adjusting coverage limit and coverage scope to meet the needs of consumers from each financial sector, and resetting target fund and changing funding structure of deposit insurance.

In summary, it is necessary to improve the deposit protection system and resolution regime for financial companies to reflect the systemic importance and business models of individual financial companies.