Financial Infrastructure and Corporate Governance in South Korea: An In-depth Analysis and Current Economic Trends

Kaijie Xu

University of Sydney, Camperdown NSW 2050, Australia

E-mail:kaxu0451@uni.sydney.edu.au

Abstract. This comprehensive report delves into the multifaceted financial landscape of South Korea, highlighting its various financial institutions, stock exchange functions, central bank roles, and the influence of governmental bodies on corporate governance. The analysis emphasizes the differentiation and unique functionalities of South Korean financial institutions ranging from banks, insurance companies to real estate trusts. An in-depth look at the stock exchange reveals its primary roles, including securities and futures market operations and regulatory responsibilities. The critical role of the central bank in shaping the financial sector, notably in financial stability and systemic risk management, is detailed. Moreover, the report discusses the intricate dynamics between various financial intermediaries such as investment banks, securities intermediaries, and the Korea Deposit Insurance Corporation. A significant emphasis is laid on the government's role in establishing a stringent corporate governance framework through laws like the Commercial Law and Securities Market Act. To ensure effective corporate governance, the incorporation of modern information management techniques like ERP technology and data communication methods by Korean firms is highlighted. The report concludes with a snapshot of the country's recent economic trajectory, spotlighting the challenges faced during the 2020 pandemic and the forecasted economic rebound in 2021.

Keywords: South Korea, Economy

1 Introduction

This report delves into the financial services landscape of South Korea, providing a comprehensive overview of its intricate framework. We begin by assessing the role and function of the Korean Stock Exchange, deciphering its significance in the South Korean financial ecosystem. This is followed by an exploration of the Bank of Korea's role in the evolution of finance in the country, particularly highlighting its influence on financial stability and policy-making. Subsequent sections delve into the roles of various financial intermediaries in Korea, elucidating their impact on the broader financial sector. Additionally, we cast light on the involvement and role of the Korean government in the process of corporate governance. Recommendations on how Korean

A. Bhunia et al. (eds.), *Proceedings of the 2023 International Conference on Finance, Trade and Business Management (FTBM 2023)*, Advances in Economics, Business and Management Research 264,
https://doi.org/10.2991/978-94-6463-298-9_14

companies can effectively implement corporate governance will also be provided. Concluding the report, we analyze the current economic scenario in South Korea and its potential ramifications on the future of its financial markets.

Through this report, the reader will gain an in-depth understanding of South Korea's financial markets, the economy, and the interplay between these elements, ultimately painting a picture of South Korea's economic prospects.

2 Financial services available in Korea

South Korean financial institutions are divided into financial holding companies, banks, non-bank deposit acceptance institutions, insurance companies, financial investment institutions, other financial institutions, and financial supplementary institutions according to the attributes of providing financial services. Korean banking financial institutions is divided into two categories: domestic banks and foreign banks' branches in Korea. As of the end of 2016, Korea had 25 life insurance companies and 32 damage insurance companies. South Korea has 54 securities companies with total assets of 392 trillion won and self-owned capital of 47.4 trillion won. There are 11 real estate trust companies with 155.1 trillion won in custody funds. Other financial institutions include commercial credit companies engaged in leasing, credit card, installment finance, new technology business finance, etc., SME venture capital companies, professional corporate restructuring companies, and venture capital finance companies with similar business types [1] (Dienillah, et al., 2018).

3 The Role of Stock Exchange

The main functions of the Korea Securities and Futures Exchange are to open and operate securities and futures markets, as well as to review the listing of securities and futures commodities. The main responsibility of the Securities Industry Association is to maintain the business order between securities companies, ensure the fairness of securities transactions and protect investors. The stock exchange is an organized and orderly securities trading venue [2] (Jha, 2021). According to Article 6 of the Korea Securities and Futures Exchange Act, its main responsibilities are as follows: The first is the trading business of securities and futures; the second is the securities and futures trading business. The business of self-regulation in the event of disputes in futures trading; the third is the securities auction business; the fourth is the surveillance business of the securities market and securities companies. In order to actively bring into play the self-discipline supervision mechanism of the securities market, a board of supervisors and a market monitoring committee has also been established in the stock and futures exchanges: First, the board of supervisors. It is composed of 1 permanent director and 2 independent directors. Since the Korea Securities and Futures Exchange is a joint-stock company, in accordance with the provisions of the "Commercial Law", a board of supervisors should be established. Its main business is: The first is to supervise the daily operations and accounting of the exchange; the second is to propose an extraordinary general meeting of shareholders. Second, the Market Monitoring

Committee. It is composed of the chairman of the market monitoring committee, one committee recommended by the Korea Securities Association, one committee recommended by the Futures Association, and one committee recommended by the Finance Committee. According to the provisions of the Korea Securities and Futures Exchange Act, its main business is: first, supervision of irregular transactions and members; second, continuous supervision of marketable securities, KOSDAQ, and futures markets; third, punishment of illegal acts and members Make a decision; fourth is the formulation, modification, and abolition of market surveillance regulations and dispute adjustment regulations approved by the Financial Commission. As a representative of the collective interests of members, the stock exchange shall supervise the implementation of the articles of association and various rules of the stock exchange by each member unit [3] (Bell and Hindmoor, 2018).

4 The Role of Central Bank in developing the financial sector

The financial supervision function of the Bank of Korea is mainly for the purpose of maintaining financial stability. It supervises financial institutions in terms of implementing and implementing monetary policy, improving the central bank's macro-prudential supervision system, controlling systemic financial risks, and playing the role of lender of last resort. According to the "Bank of Korea Act": "The Bank of Korea, as the central bank of South Korea, has the functions of formulating and implementing monetary policies, stabilizing prices, and promoting economic development [4] (Benes and Kumhof, 2012). It pays attention to maintaining financial stability when implementing monetary policies." The law empowers the Bank of Korea to maintain financial stability functions. The main functions of the Bank of Korea in maintaining financial stability are as follows: First, the Bank of Korea has an important function of providing emergency liquidity to maintain financial stability. The second is that the Bank of Korea can provide various credits or emergency financial assistance to financial institutions under certain conditions. The third is that the Bank of Korea is the main body of operation and monitoring of the payment and settlement system. The fourth is that the Bank of Korea has the right to conduct legal analysis, monitoring and supervision of financial institutions within the scope of its powers [5] (Ahmad, 2018).

5 The Roles and Operations of the various financial intermediaries/institutions.

The expansion of the scale of financial intermediaries enables financial intermediaries to better perform their financing functions, increase the liquidity of resources, increase the rate of private savings, reduce the transaction costs of financial investment, and convert a higher proportion of savings into investment. The expansion of the scale of financial intermediaries has strengthened competition among financial institutions. Financial institutions continue to improve financial intermediary functions, innovate financial products, strengthen financial market liquidity, increase the marginal productivity of capital, improve the efficiency of overall resource allocation, and ultimately increase productivity [6] (Akbas, 2015). The expansion of the scale of financial intermediaries enables financial intermediaries to more efficiently improve information asymmetry and reduce the cost of investors' obtaining information about operators, which is conducive to strengthening the supervision of operators and improving corporate governance, thereby prompting operators to improve corporate governance and management. Adjust corporate strategy to improve the quality of economic growth [7] (Ardic, et al., 2013).

5.1 Investment bank

Dealing with mergers and acquisitions is the main function of investment bankers. As with IPOs, one of the main areas of expertise of investment banks is to evaluate the value of a possible investment project to acquire at a fair price. Investment banks can also help structure and facilitate acquisitions so that transactions can proceed as smoothly as possible.

5.2 Securities intermediaries

First, securities brokers are securities companies that help investors buy and sell stocks. Second, securities underwriters help companies issue stocks on the market. If investors want to buy new stocks issued by the company, they must find this type of Securities Company. Third, securities dealers, like ordinary investors, are also stock traders [8] (Cihak, et al.,2016).

5.3 Korea Deposit Insurance Corporation

The main functions of deposit insurance companies are as follows: The first is to raise deposit insurance funds. The deposit insurance fund consists of premiums paid by financial institutions, capital contributions from the government and insured institutions, and deposit insurance fund bonds. It is a source of funds for deposit insurance companies to compensate depositors when financial institutions are unable to pay depositors. The second is to early grasp the bad risks of insured financial institutions through the analysis of financial institutions' operations. When the deposit insurance company discovers that the insured financial institution has unhealthy characteristics, the deposit insurance company will conduct temporary inspections on the insured financial institution, conduct business analysis, and use the risk assessment model of the corresponding financial circle to determine the possibility of unhealthy insured financial institutions Conduct an early survey of sex and maximize the protection of deposit insurance funds to minimize losses [9] (Cull and Kunt, 2012). The third is the rectification of bad financial institutions. Deposit insurance companies are responsible for mediating and transferring insurance policies on the merger of insured financial institutions and non-performing financial institutions, realizing the disposal of non-performing financial institutions, and ensuring the stability of the financial system. The fourth is to perform the role of insurance payment. When the insured financial institution ceases business or becomes insolvent and is unable to pay the deposits of depositors, the deposit insurance company shall pay on its behalf. The fifth is to recover support funds. Deposit insurance companies recover support funds through the recovery of capital contributions, bankruptcy apportionment, and asset sales. The sixth is the right to conduct investigations and accountability of unhealthy related parties [10] (Dienillah, et al., 2018).

6 The role of government in corporate governance

In South Korea, the relevant organs of corporate governance mainly include the general meeting of shareholders, the board of directors (some large listed companies

In order to establish the position of independent directors on the board of directors, South Korea has a number of relevant laws and regulations (such as the Commercial Law, the Securities Market Act, the Korean Best Practice Guidelines for Corporate Governance, etc.) The production and rights and obligations are stipulated set up an audit committee) and supervisors within the board of directors [11] (Aguinis and Glavas, 2012). Although external auditors and inspectors are not corporate agencies, they also perform part of the supervision functions. Legislators share the company's supervisory functions among internal, external, and temporary agencies, and strive to form a complete set of strict supervisory systems. The current company law can be divided into the traditional governance structure with supervisors as the main body and the new governance structure with the supervisory committee as the main body according to the different establishment of supervisory bodies [12] (Barnett and Salomon, 2012).

The Korean joint-stock company's governance structure was originally based on the separation of powers in the civil law system, implementing a supervisory supervisory system, and allocating the company's powers to the general meeting of shareholders, the directors, the board of directors, and the supervisors. However, in recent years, the "Securities Exchange Law" has been revised to introduce an outside director system, and the "Commercial Law" has been revised to introduce a committee system within the board of directors, including the introduction of an audit committee system. The Securities Exchange Act stipulates that large listed companies with assets exceeding KRW 2 trillion must set up an audit committee, and other companies can freely choose a supervisor or an audit committee system in accordance with the company's articles of association. Since the audit committee is only a subordinate organ of the board of directors in the companies that choose the audit committee, the company's power has been transformed into a two-dimensional system in which the company's power is distributed between the general meeting of shareholders as the decision-making body and the board of directors (including the audit committee) as the business executive body. . Therefore, the operation of joint-stock companies in the Korean Company Law has formed the coexistence of the two supervisory agencies, the Supervisory Committee and the Supervisor.

7 Implement (effective) corporate governance

In the course of modern enterprise management and development, information resources are the most important thing in obtaining profits. Efficient and timely information and communication mechanisms play a vital role in the operation and decision-making of securities companies. It can improve the information management capabilities of the company's internal control system and is conducive to the formation of a healthy company's internal environment. Korean companies use modern information exchange methods to achieve effective exchange of information. For example, companies can use EPR technology to combine information management to improve the performance of the management system [13] (Endiana, et al., 2020). In addition. Korean companies use modern information exchange platforms to exchange big data and realize comprehensive information management, so as to realize timely update of communication contacts, smooth communication of communication content, and optimize the role of information and communication mechanisms, making the company risky more controllable, laying a solid foundation for the company's risk management work. In addition, the Korean company attaches great importance to the company's information transmission channels, realizes a variety of different information communication methods, and realizes the interactivity of all employees of the company, and in-depth construction of information communication mechanisms, so that employees can enhance their ideological understanding of participating in information communication, so as to enhance the overall company's competitive strength [14] (Gao ,2021).

8 Recent economic development in Korea

In 2020, dragged down by the repeated spread of the new crown epidemic, South Korea's economy has become more difficult to operate, consumption and exports are sluggish, and the year has fallen into the Asian financial crisis for the first time in negative growth, but investment has risen against the trend, and the economy has slowly recovered after bottoming out in the second quarter. In the fourth quarter, although private consumption was still weak and the job market performed poorly, both supply and demand showed signs of recovery. The downward pressure on the economy weakened, industrial production improved, the risk of deflation tended to ease, the current account surplus expanded, and the pressure on the depreciation of the Korean won eased. The overall economic fundamentals continue to improve. The World Economic Outlook issued by the International Monetary Fund (IMF) in January 2021 predicts that South Korea's economic growth rate in 2021 will be 3.1%, an increase of 0.2 percentage points from the October 2020 forecast; OECD released in March The "Mid-term Economic Outlook" forecasts that the economic growth rate in 2021 will be 3.3%, an increase of 0.5% from the December forecast. Economists believe that the Korean economy will slowly recover in 2021, and the economic growth rate will reach 2.4%. Comprehensive consideration, driven by investment and exports, coupled with the base effect, South Korea's economy is expected to achieve a positive growth of about 3% in 2021[15] (McCully, 2021).

9 Conclusion

Financial intermediaries and institutions serve as pivotal pillars underpinning both the stability and progression of economic growth. In the context of South Korea, these entities not only ensure liquidity and foster the efficient allocation of resources but also augment the vibrancy of financial markets through consistent innovations and competition. Investment banks and securities intermediaries, in particular, offer indispensable services to corporations and individual investors alike, facilitating informed investment decisions, mergers, acquisitions, and securities trading.

Specific institutions, such as the Korea Deposit Insurance Corporation, further solidify the stability of the financial system. By rectifying malpractices in financial institutions and ensuring protection for investors, they create a secure environment conducive to robust market activity.

In the realm of corporate governance, the South Korean government plays a proactive role, manifesting through explicit regulations and guidelines that supervise corporate operations and ensure transparency and accountability. The efficient deployment of information and communication mechanisms is paramount for informed decision-making within corporations. Here, contemporary modes of information exchange and technological innovations serve as central tools.

In summation, through adept management of financial intermediaries, coupled with a comprehensive corporate governance framework and technological innovation, South Korea demonstrates economic resilience and growth potential, securing a stable and competitive stance within the global economy.

References

1. Dienillah, A., Anggraeni. L & Sahara. (2018). Impact Of Financial Inclusion On Financial Stability Based On Income Group Countries, Bulletin of Monetary *Economics and Banking, Bank Indonesia*, 20(4), 1-14.
2. Jha A (2021). Financial reports and social capital. *Journal of Business Ethics*,2019,155(2): pp. 567-596.
3. Bell, S., & Hindmoor, A. (2018). Are the major global banks now safer? Structural continuities and change in banking and finance since the 2008 crisis. *Review of International Political Economy*,25(1), 1-27
4. Benes, J., & Kumhof, M. (2012). The Chicago plan revisited. IMF Working Papers12/202, *International MonetaryFund*.
5. Ahmad, D. (2018). Financial inclusion and financial stability: Survey of the Nigeria's financial system. *International Journal of Research in Finance and Management*, 1(2), 47-54.
6. Akbas, Y. (2015). *Financial development and economic growth in emerging market: bootstrap panel causality analysis.* Theoretical and Applied Economics, 22(2015), 171-186.
7. Ardic, O., Imboden, K., & Latortue, A. (2013). *Financial access 2012: Getting to a more comprehensivepicture;* Access to Finance Forum Reports by CGAP and its Partners (Vol. 6). Washington, DC:
8. Cihak, M., Mare, D., & Melecky, M. (2016). The Nexus of Financial Inclusion and Financial Stability A Study of Trade-Offs and Synergies. *World Bank Policy Research Working Paper* Series 7722.

9. Cull, R. & Kunt, A. (2012). Financial Inclusion and Stability: What Does Research Show? *World Bank Other Operational Studies* 9443
10. Dienillah, A., Anggraeni. L & Sahara. (2018). Impact Of Financial Inclusion On Financial Stability Based On Income Group Countries, Bulletin of Monetary Economics and Banking, Bank Indonesia, 20(4), 1-14.
11. Aguinis, H., & Glavas, A. (2012). What we know and don't know about corporate social responsibility: A review and research agenda. *Journal of Management,* 38, 932-968. https;//doi.org/10.1177/0149206311436079.
12. Barnett, M., & Salomon, R. (2012). Does it pay to be really good? Addressing the shape of the relationship between social and financial performance. *Strategic Management Journal*, 33(11), 1304-1320. https://doi.org/10.1002/smj.1980
13. Endiana, I., Dicriyani, N., Adiyadna, M., & Putra I. (2020). the effect of green accounting on corporate sustainability and financial performance. *Journal of Asian Finance, Economics, and Business,* 7(12), 731-738. https://doi.org/10.13106/jafeb.2020.vol7.no12.731
14. Gao (2021). Social capital and managers′ use of corporate resources. *Journal of Business Ethics*, 2021,168(3): pp. 593-613.
15. Tuuli McCully (2021). *South Korea's Economic Outlook* 2021–22, available at: https://www.scotiabank.com/ca/en/about/economics/economics-publications/post.other-publications.international-economics.asia-pacific.south-korea-s-economic-outlook-2021-22--may-6--2021-.html [accessed on 08-Dec,2021]