

Final Evaluation Report

**REPUBLIC OF KOREA: FINANCIAL
SERVICES COMMISSION (FSC) &
FINANCIAL SUPERVISORY SERVICE (FSS)**

Approved By:

Mutual Recognition of Jurisdictions (E) Working Group

May 27, 2021

I. Evaluation of Financial Services Commission (FSC) and the Financial Supervisory Service of the Republic of Korea

The Mutual Recognition of Jurisdictions (E) Working Group of the National Association of Insurance Commissioners (NAIC) has completed this *Preliminary Evaluation Report* with respect to the Financial Services Commission (FSC) and the Financial Supervisory Service (FSS), the lead insurance supervisors for the Republic of Korea. It is the recommendation of the Working Group that the NAIC recognize the Republic of Korea as a Qualified Jurisdiction and place it on the *NAIC List of Qualified Jurisdictions*, to be effective upon approval by the NAIC Executive (EX) Committee and Plenary. Further, the Working Group recommends that California be designated the Lead State for purposes of regulatory cooperation and information sharing with the FSC and FSS. These recommendations are based on the following analysis:

II. Procedural History

The NAIC adopted the *Process for Evaluating Qualified and Reciprocal Jurisdictions* (Qualified Jurisdiction Process) on August 27, 2013, with the current revisions effective December 10, 2019. The 2011 revisions to the *Credit for Reinsurance Model Law* (#785) and *Credit for Reinsurance Model Regulation* (#786) (collectively, the “Credit for Reinsurance Models”) require an assuming insurer to be licensed and domiciled in a “Qualified Jurisdiction” in order to be eligible for certification by a state as a certified reinsurer for reinsurance collateral reduction purposes.

The purpose of the Qualified Jurisdiction Process is to provide a documented evaluation process for creating and maintaining an NAIC list of jurisdictions recommended for recognition by the states as Qualified Jurisdictions. Toward this end, the Qualified Jurisdiction Process designates key elements believed to be basic building blocks for sound (re)insurance regulation. Each jurisdiction under consideration to be included on the *NAIC List of Qualified Jurisdictions* is requested to submit detailed information in support of these criteria. In addition, the NAIC review will also rely on publicly available reports evaluating the reinsurance regulatory practices of each jurisdiction.

The Korean FSC/FSS submitted an application to the NAIC to be considered a Qualified Jurisdiction on September 28, 2020, along with a voluminous amount of supporting documentation. The Working Group met in regulator-to-regulator session on March 17, 2021, to review initial findings prepared by NAIC staff to determine whether the FSC/FSS should be approved as a Qualified Jurisdiction. The Working Group requested additional supplementary information from the FSC/FSS with respect to specific questions raised during this meeting, which the FSC/FSS provided to the Working Group on April 2, 2021.

Notice of the Republic of Korea’s application was sent to the Federal Insurance Office (FIO) and the United States Trade Representative (USTR) on May 5, 2021. The Working Group met in regulator-to-regulator session on May 27, 2021, and voted to recommend the Republic of Korea FSC/FSS for approval as a Qualified Jurisdiction.

III. Review of Evaluation Materials

Under the requirements of the Qualified Jurisdiction Process, the Working Group performed an initial evaluation of the FSC/FSS's regulatory system by using the information identified in Section A through Section G of the Evaluation Methodology (Evaluation Materials). The Working Group began by undertaking a review of the most recent Detailed Assessment of Observance on Insurance Core Principles under the International Monetary Fund (IMF)/World Bank Financial Sector Assessment Program (FSAP Report), Report on Observance for Standards and Codes (ROSC), and any other publicly available information regarding the laws, regulations, practices and procedures applicable to the reinsurance supervisory system.

The Working Group also reviewed information the FSC/FSS provided relative to Section A through Section G of the Evaluation Methodology. The Working Group's review was focused on how the Republic of Korea's laws, regulations, administrative practices and procedures, and regulatory authorities regulate the financial solvency of its domestic reinsurers in comparison to key principles underlying the U.S. financial solvency framework and other factors set forth in the Evaluation Methodology.

The Working Group considered the following information with respect to the evaluation of the FSC/FSS:

1. *Republic of Korea FSC/FSS 2020 Qualified Jurisdiction Application Submission (Confidential)*
2. *Republic of Korea: Financial System Stability Assessment, May 2014 (International Monetary Fund Country Report No. 14/126)*
3. *Republic of Korea: Financial System Stability Assessment and Press Release for the Republic of Korea, April 2020 (International Monetary Fund Country Report No. 20/120)*
4. *Republic of Korea: Financial Sector Assessment Program, Insurance Core Principles, Detailed Assessment of Observance, May 2014 (World Bank and International Monetary Fund Report No. 89501)*
5. *Enforcement of judgments in South Korea: overview: Practical Law Country Q&A, by Wonsik Yoon, Thomas P Pinansky, Myounghwan Kim, and Chaewon Kang, Barun Law LLC (September 1, 2015)*
6. *Litigation and enforcement in South Korea: overview: Practical Law Country Q&A, by Jin Yeong Chung, Inhak Lee, and Jong-Hyun KIM, Kim & Chang (April 1, 2021)*
7. *NAIC Staff Workpapers on Initial Review Report dated March 17, 2021 (Confidential)*
8. *Republic of Korea FSC/FSS Outstanding Queries from NAIC Qualified Jurisdiction Assessment, April 2, 2021 (Confidential).*

IV. Standard of Review

The evaluation is intended as an outcomes-based comparison to financial solvency regulation under the NAIC Accreditation Program, adherence to international supervisory standards and relevant international guidance for recognition of reinsurance supervision. The standard for qualification of a jurisdiction is that the NAIC must reasonably conclude that the jurisdiction's reinsurance supervisory system achieves a level of effectiveness in financial solvency regulation that is deemed acceptable for purposes of reinsurance collateral reduction, that the jurisdiction's demonstrated practices and procedures with respect to reinsurance supervision are consistent with its reinsurance supervisory system, and that the jurisdiction's laws and practices satisfy the criteria required of Qualified Jurisdictions as set forth in the Credit for Reinsurance Models.

V. Evaluation Recommendation

The Working Group finds that it has performed the required review of the Evaluation Materials, including review of the publicly available information, and that the FSC/FSS provided the Working Group with information relative to Section A through Section G of the Evaluation Methodology to update and supplement the identified public information. The Working Group further finds that interested parties will be given an opportunity to provide public comments on the FSC/FSS application. Further, appropriate notice was provided to the FIO and the USTR. Based on the information provided by the FSC/FSS and the review of the Evaluation Materials, the Working Group has determined that there is no indication that the Republic of Korea fails to adequately and promptly enforce final U.S. judgments and arbitration awards.

Finally, the Working Group notes that the FSC/FSS and the California Department of Insurance are signatories to the IAIS Multilateral Memorandum of Understanding (MMoU), and that California has consented to act as the Lead State for purposes of regulatory cooperation and information sharing under the Qualified Jurisdiction Process, and further that the FSC/FSS has consented to the designation of California as the Lead State. This Lead State designation for purposes of regulatory cooperation and information sharing should not be confused with the Lead State designation by the Reinsurance Financial Analysis (E) Working Group for individual certified reinsurers for passporting purposes.

The Working Group has reached the conclusion that the FSC/FSS's reinsurance supervisory system achieves a level of effectiveness in financial solvency regulation that is acceptable for purposes of reinsurance collateral reduction, that the FSC/FSS's demonstrated practices and procedures with respect to reinsurance supervision are consistent with its reinsurance supervisory system, and that its laws and practices satisfy the criteria required of Qualified Jurisdictions as set forth in the Credit for Reinsurance Models. Therefore, it is the recommendation of the Working Group that the NAIC recognize the Republic of Korea as a Qualified Jurisdiction with respect to reinsurance companies regulated by the FSC/FSS and place it on the *NAIC List of Qualified Jurisdictions*, to be effective upon approval by the NAIC Executive (EX) Committee and Plenary. This designation as a Qualified Jurisdiction shall be valid on an ongoing basis, absent a material change in circumstances.