

Institutional Frameworks for Personal Debt Resolution: Lessons from Korea's Public Resolution System

I. Why Institutional Frameworks Matter

1. Personal Debt Distress Beyond Recovery

- Personal debt distress is not only a matter of loan recovery.
- It is also linked to household welfare, access to finance, protection of vulnerable borrowers, and participation in economic activity.

2. Balancing Timely Support and System Sustainability

- Debt resolution frameworks need to provide timely support to distressed borrowers.
- At the same time, they should remain predictable and sustainable for creditors, public institutions, and the financial system.

3. From Individual Programs to Institutional Frameworks

- The key question is not only what relief measures are available.
 - It is also how institutions divide roles, how borrowers access support, how creditors are coordinated, and how borrowers return to normal economic activity.
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II. Korea's Layered Public Resolution System

1. Overall Institutional Architecture

- **Financial Services Commission:** policy design, legal framework, and public fund design
- **Financial institutions:** early-stage restructuring and creditor participation
- **Credit Counseling and Recovery Service (CCRS):** out-of-court creditor coordination and private debt workout
- **KAMCO / policy funds:** public AMC-based purchase, management, and restructuring of long-term delinquent claims
- **Korea Inclusive Finance Agency (KINFA):** policy microfinance, financial

education, and employment/welfare linkage

- **Courts:** personal rehabilitation and bankruptcy procedures

2. Key Design Features of Korea's System

- **Multi-channel access:** multiple entry points through financial institutions, CCRS, KAMCO/policy funds, courts, and KINFA
- **Borrower segmentation:** differentiation by delinquency stage, repayment capacity, and vulnerability
- **Creditor coordination and public asset purchase:** parallel use of CCRS-style coordination and KAMCO-style public asset management
- **Linkage with formal insolvency:** connection with court-based rehabilitation and bankruptcy procedures
- **Post-resolution rehabilitation:** support for financial re-entry, employment, welfare, and business recovery

3. Borrower Routing Across the System

- **Pre-delinquency / early distress:** financial institutions' own restructuring, rapid debt adjustment
 - **Short-term delinquency / at-risk borrowers:** CCRS pre-workout and other preventive restructuring channels
 - **90+ days delinquent / defaulted borrowers:** individual workout and deeper restructuring mechanisms
 - **Long-term delinquent / vulnerable borrowers:** KAMCO, National Happiness Fund, New Leap Fund
 - **Micro-enterprises and small merchants in distress:** New Start Fund and related restructuring channels
 - **Insolvent borrowers:** court-based personal rehabilitation or bankruptcy
 - **Post-adjustment borrowers:** KINFA, employment/welfare linkage, financial re-entry support
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III. KAMCO's Role in Public Debt Resolution

1. KAMCO as a Public AMC and Policy Fund Operator

- KAMCO serves as a public asset management company within Korea's personal debt resolution system.
- It operates and supports policy fund-based mechanisms for resolving household, micro-enterprise, and small merchant debt distress.

2. Public Asset Purchase and Management Model

- Purchase or management of long-term delinquent claims
- Separation of distressed claims from financial institutions' balance sheets
- Suspension of collection, repayment capacity assessment, debt reduction, installment repayment, and debt cancellation
- Inclusion of long-term, small-scale, and vulnerable debts into a public resolution framework

3. Policy Fund-Based Resolution Programs

- **National Happiness Fund:** resolution of long-term household delinquent claims
- **New Start Fund:** debt adjustment for micro-enterprises and small merchants affected by business distress
- **New Leap Fund:** targeted response to long-term, small-scale, and vulnerable delinquent claims

4. Borrower Segmentation in KAMCO-Linked Programs

- **Defaulted borrowers:** borrowers already in serious delinquency, often requiring deeper restructuring or purchase-type resolution
- **At-risk borrowers:** borrowers facing repayment difficulty but not yet in long-term delinquency, often supported through intermediary-type adjustment
- **Long-term vulnerable borrowers:** borrowers with prolonged delinquency and limited repayment capacity, requiring stronger public intervention

5. Complementarity with Creditor Coordination

- CCRS-style coordination restructures debt while creditors retain their claims.

- KAMCO-style public asset management resolves long-term or structurally distressed claims through purchase, centralized management, and policy fund intervention.
- These two tools are complementary rather than substitutes.

6. Support Beyond Debt Restructuring

- Support for good-faith repayment
 - Small loans and financial re-entry support
 - Additional relief for vulnerable borrowers
 - Recovery support for micro-enterprises and small merchants
 - Return to normal economic activity through long-term delinquent debt resolution
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IV. Recent Updates and Emerging Challenges

1. Earlier and More Responsible Debt Adjustment

- Personal Debtor Protection Act
- Financial institutions' own debt adjustment
- Improvements in overdue interest, collection practices, and debt sale practices

2. Integrated Financial, Employment, and Welfare Support

- Integrated financial, employment, and welfare support
- Use of public MyData
- Linkage through KINFA and CCRS counseling channels
- Personalized support based on borrower circumstances

3. Strengthening Targeted Public Resolution Tools

- Recent refinement of fund-based mechanisms
- Stronger focus on long-term, small-scale, and vulnerable debts
- More tailored support based on repayment capacity and vulnerability

4. Remaining Policy Challenges

- Preventing re-default after debt adjustment
 - Maintaining fairness and incentives for good-faith repayment
 - Ensuring the sustainability of public fund intervention
 - Improving data-based repayment capacity assessment
 - Identifying borrowers outside existing support channels
 - Strengthening the effectiveness of financial institutions' own debt adjustment
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V. Practical Lessons from RoK

1. Design Around the Borrower Journey

- Institutional design should start from the stages of borrower distress, not from the creation of individual programs.

2. Match Tools to Different Types of Distress

- Creditor coordination, public asset purchase, court procedures, and rehabilitation support serve different functions.

3. Use Public AMC Capacity Selectively

- Public AMC tools are most useful for long-term delinquent, fragmented, vulnerable, or market-unresolved claims.

4. Link Debt Relief with Financial Re-Entry

- Debt relief should be connected with employment, welfare, policy finance, financial education, and business recovery.

5. Balance Public Value and Operational Sustainability

- A public resolution system needs to protect vulnerable borrowers while maintaining operational discipline and long-term sustainability.

6. Adapt Korea's Model to Local Conditions

- Korea's experience should be adapted to each country's legal framework, market maturity, public institutional capacity, and data infrastructure.