



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



Presentation Focus

- Why institutional frameworks matter for personal debt resolution
- How Korea's layered public resolution system works and play complementary roles
- What lessons Korea's experience offer for public resolution system design



Relevant for

- Building staged and coordination debt resolution systems
- Understanding the roles of public AMCs
- Connecting debt relief with rehabilitation, financial inclusion, and economic re-entry





Agenda

Overview of 4 Main Sections



Why Institutional Frameworks Matter

Economic impact of personal debt distress, balancing timely support and sustainability, transition from programs to frameworks

Personal Debt

Economic Impact

Sustainability



Korea's Layered Public Resolution System

Overall institutional architecture, borrower routing and stage-based channels, key design elements analysis

Institutional Architecture

Borrower Routing



KAMCO's Role in Public Debt Resolution

1997 Asian Financial Crisis and NPL resolution, credit recovery support flow, evolution of KAMCO's role

KAMCO

NPL Resolution

Credit Recovery



Practical Lessons

Design around borrower journey, match tools to distress type, targeted and disciplined operation

Practical Lessons

Policy Design



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1. Personal Debt Distress Beyond Recovery

Core idea

Loan recovery lens

Focuses on arrears, collections, and creditor recovery. Useful for asset management, but insufficient for system-wide distress.



Resolution framework lens

Considers repayment capacity, social protection, access to finance, borrower rehabilitation, and return to economic activity.

What this means for policy design

- Define the objective as restoring sustainable repayment and borrower viability, not simply short-term recovery.
- Treat social welfare and financial stability as connected objectives: unresolved distress can create wider economic costs.
- Build mechanisms that help borrowers re-enter normal finance and economic activity after resolution.

Macro-financial channel

Household debt overhang can weaken consumption and feed back into unemployment, asset prices, and bank balance sheets.

Borrower channel

For vulnerable households, debt distress limits access to formal finance and may prevent normal participation in economic life.

Policy channel

Resolution systems should prevent distress from becoming either permanent exclusion or uncontrolled default.

Key takeaway

- Well-designed debt relief can reduce debt overhang and support economic re-entry, but its effectiveness depends on targeting, repayment-capacity assessment, and institutional coordination



2. Balancing Timely Support and System Sustainability

Policy trade-off

Too little / Too late

Defaults, foreclosures, fire sales, social distress, and deeper consumption contraction.

Timely but disciplined support

Too broad / Too generous

Moral hazard, fiscal burden, credit culture damage, and distorted lending incentives.

Timely support requires

- Early identification of distressed but viable borrowers
- A simple intake route before legal enforcement escalates
- Capacity to process large numbers of small household claims

Sustainability requires

- Predictable eligibility rules and repayment-capacity assessment
- Burden sharing among borrowers, creditors, and public sector
- Monitoring, reporting, and auditing where public resources are utilized

Risk controls require

- Avoiding blanket forgiveness where targeting is feasible
- Discouraging strategic default and repeated ad hoc relief
- Maintaining credit discipline and future access to finance

Policy Implication

- Household debt resolution should be early enough to prevent avoidable defaults, but sufficiently rules-based and targeted to preserve repayment incentives and system sustainability

* Sources: IMF, *Principles of Household Debt Restructuring*, IMF, *Dealing with Household Debt*, World Bank, *Debt Relief for Households in Developing Economies*.



3. From Individual Programs to Institutional Frameworks

From measures to architecture

(1) Access: how borrowers enter support

- Multiple entry points may be needed: counseling, out-of-court workouts, public purchase/management programs, and formal insolvency procedures
- Access routes should be understandable for vulnerable borrowers and linked to objective eligibility criteria
- Early guidance can reduce unnecessary enforcement, repeated delinquency, and informal exclusion

(2) Coordinate and Restructure: how frameworks make collective action possible

- Frameworks need rules for information sharing, creditor participation, and treatment of secured and unsecured claims
- Credible enforcement remains necessary, but should be balanced with temporary stays and restructuring tools where resolution is warranted
- Out-of-court or quasi-judicial mechanisms can reduce court burden when case volumes are large

(3) Re-enter and Monitor: how borrowers return

- Resolution should create a path back to normal repayment, formal finance, and economic participation
- Fresh-start principles and repayment-capacity-based plans help avoid permanent exclusion
- Institutions should monitor outcomes, not only collections: re-default, financial inclusion, and borrower stability

Why institutions matter

- A framework turns isolated measure into a repeatable public resolution function: clear roles, transparent access, creditor coordination, borrower protection, and a route back to economic participation



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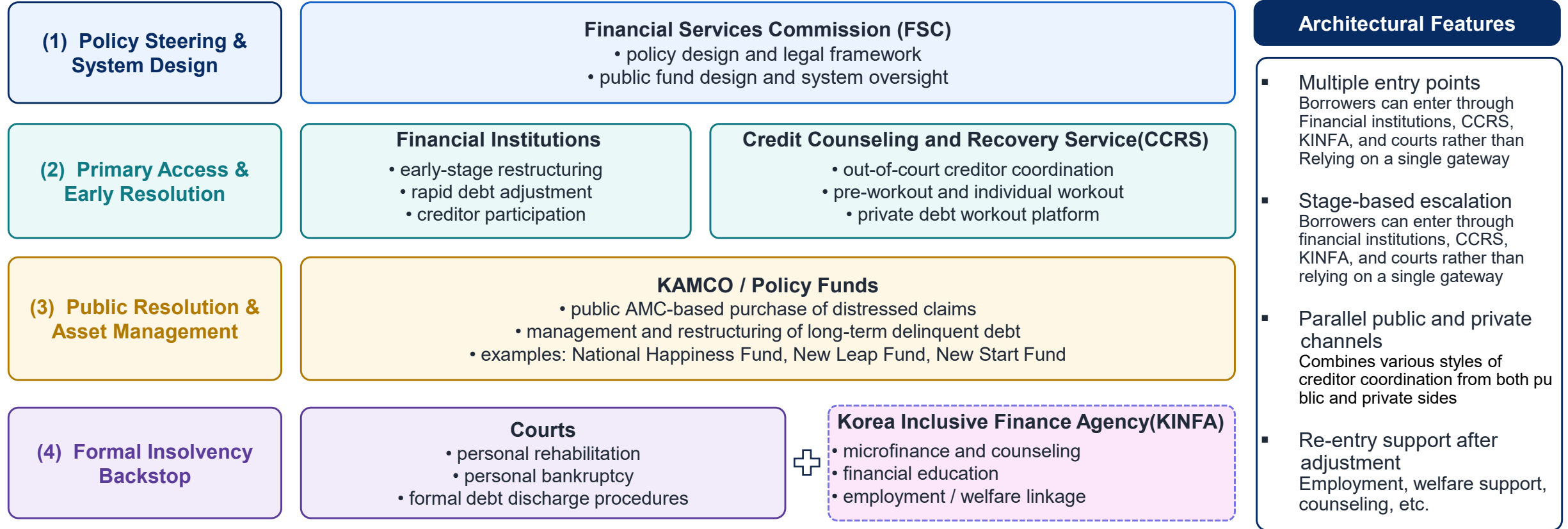
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1. Overall Institutional Architecture

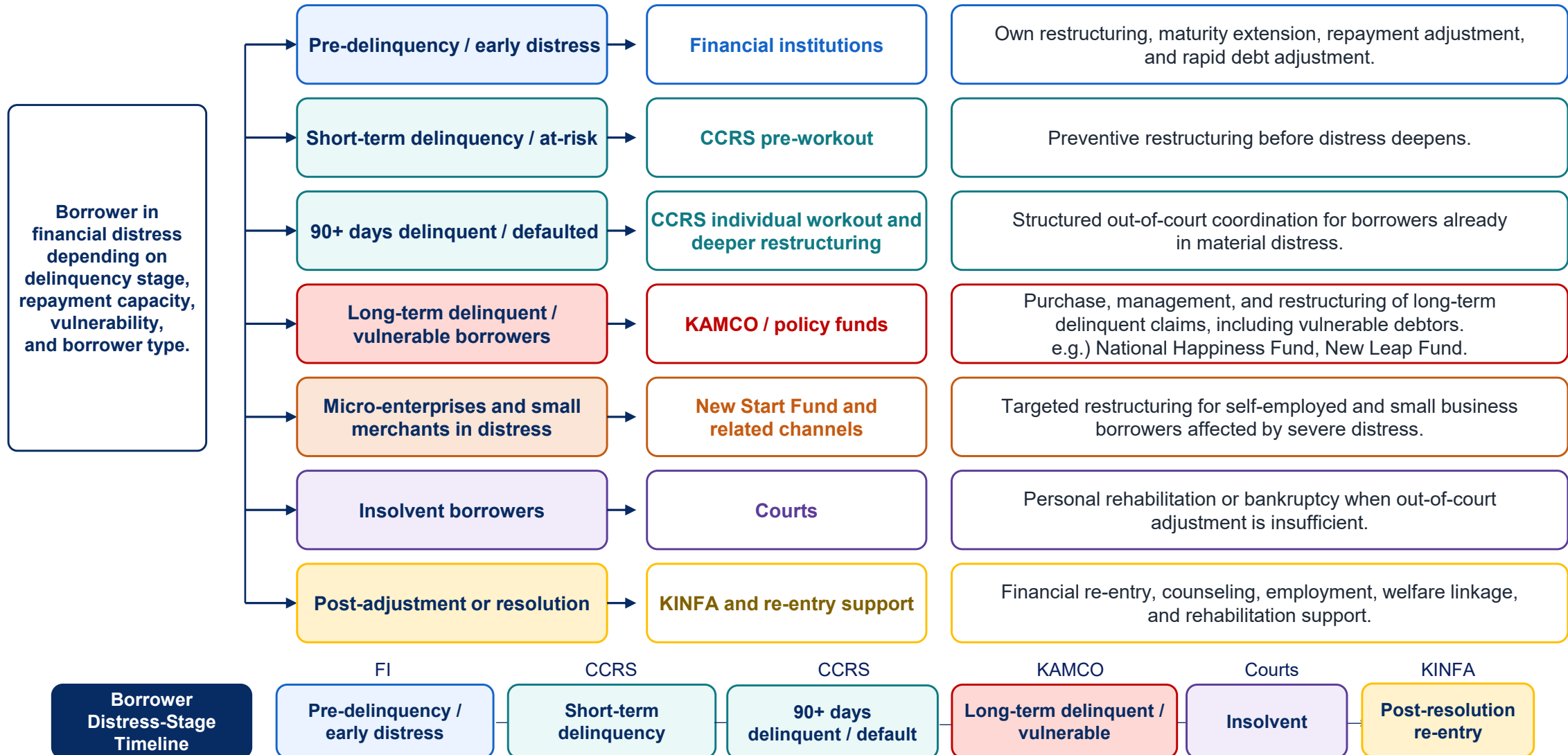


Key takeaway

- Korea's system is layered not because one institution does everything, but because different institutions perform different functions along the borrower distress cycle



2. Borrower Routing Across the System





3. Key Design Features of Korea's System

Multiple entry points

- Borrowers can enter through financial institutions, CCRS, KINFA, and courts rather than relying on a single gate way

Stage-based escalation

- Borrower segmentation differ by delinquency stage, repayment capacity, vulnerability, including households and micro-enterprises.

Parallel public and private channels

- Combines various styles of creditor coordination from both public and private sides

Re-entry support after adjustment

- Employment, welfare support, counseling, etc.



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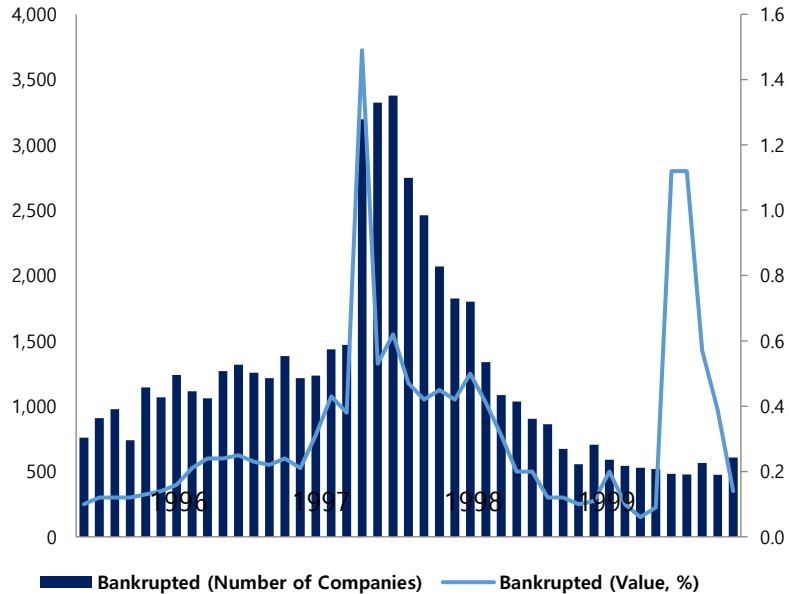
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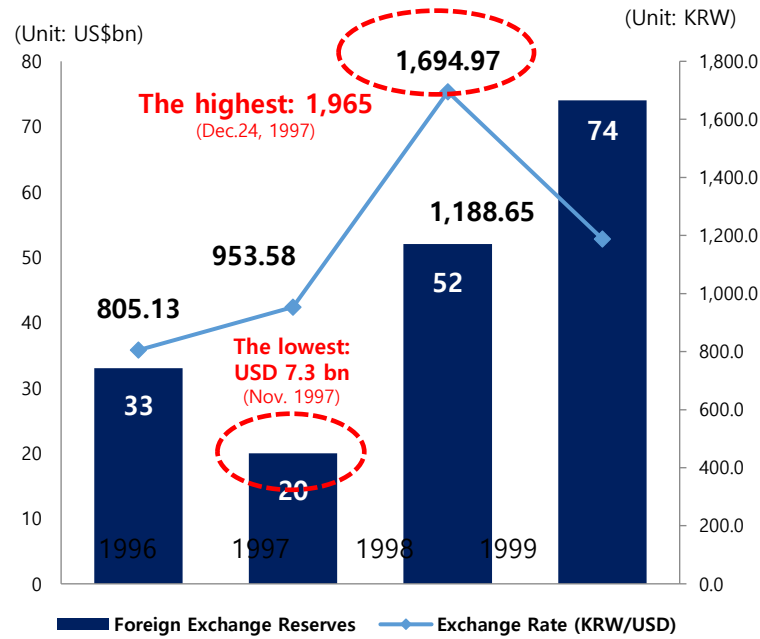
1. KAMCO & 1997 Asian Financial Crisis

[Bankrupted Corporates]

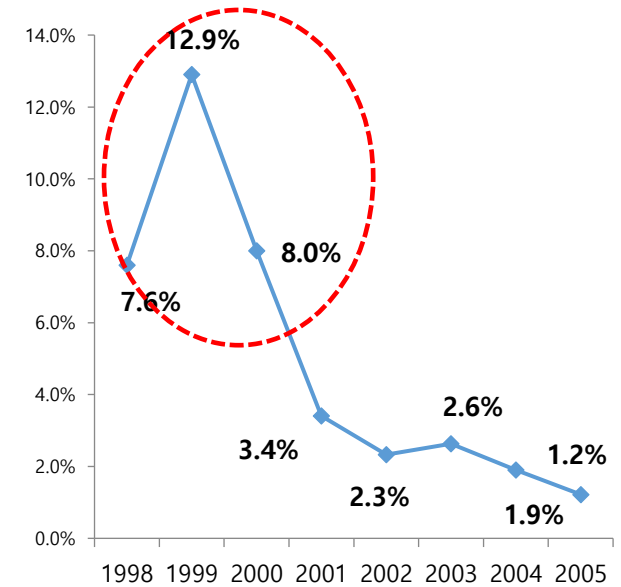


(Source: Bank of Korea, Financial Supervisory Service)

[Foreign Exchange Rate and & Reserve]

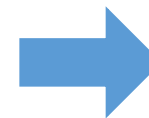


[NPL Ratio in the Banking Sector]



Results of the Asian Financial Crisis in Korea

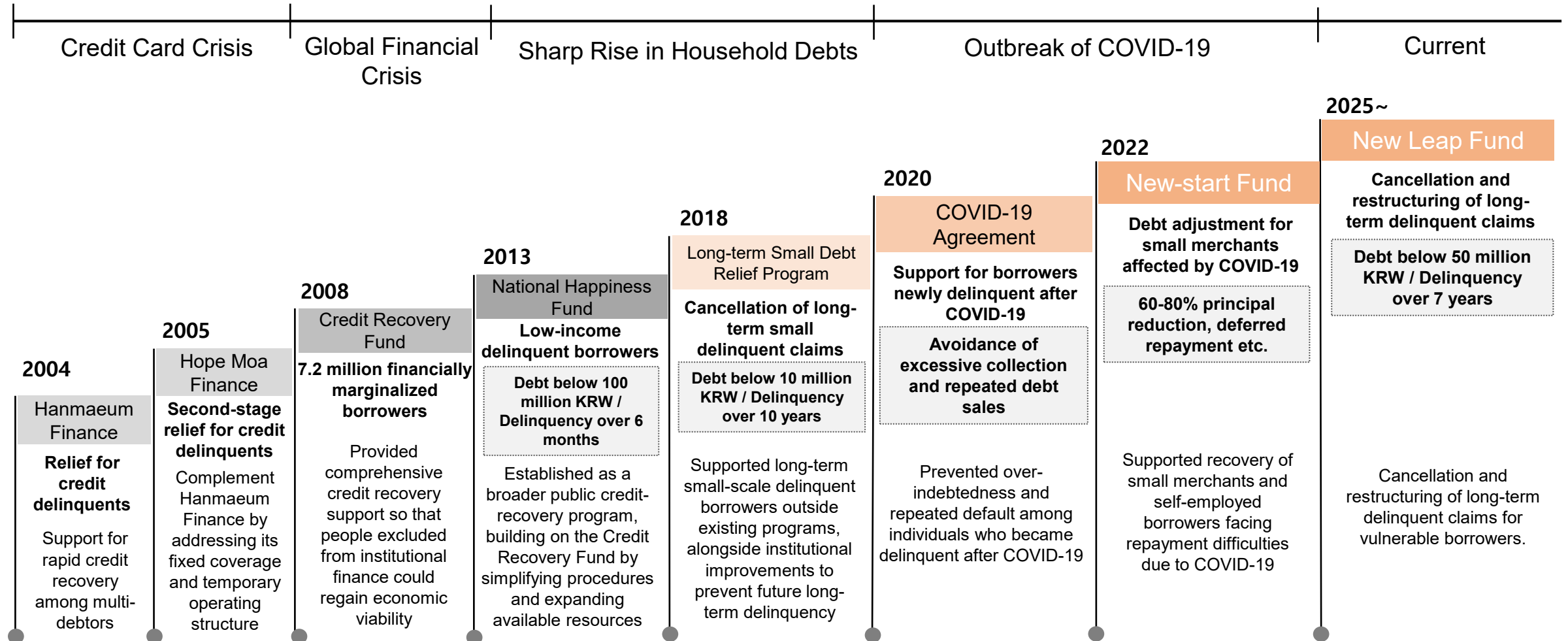
- Consecutive insolvencies of major corporates
- Significant depreciation of KRW & Near-depletion of foreign exchange reserve
- Massive amount of non-performing loans (NPLs)



NPL Resolution Fund



2. Kamco's Credit Recovery Support Role Flowchart





3. How KAMCO's Role Evolved

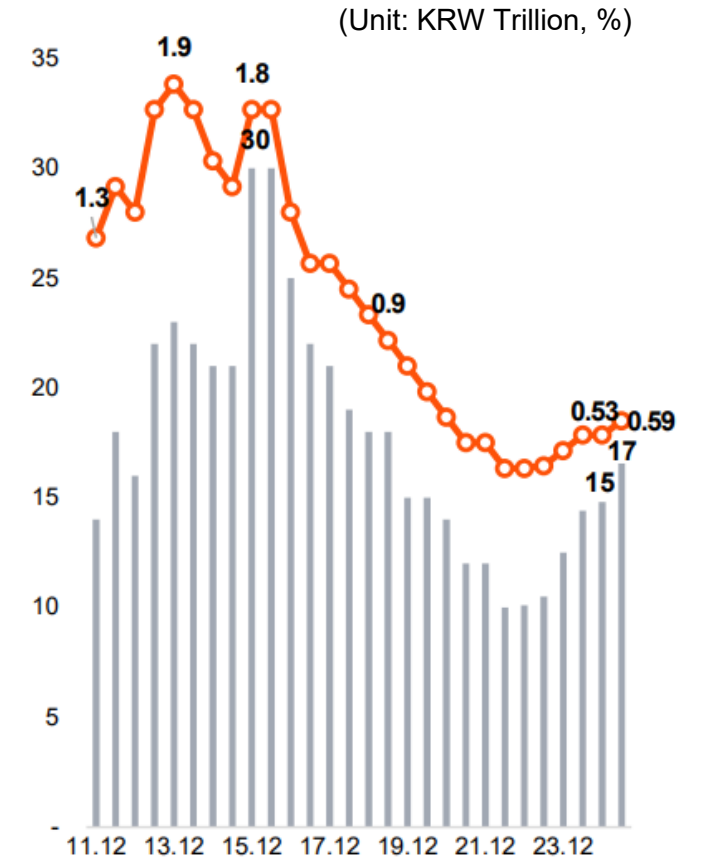
From Crisis-Era NPL Cleanup to Policy-Fund-Based Debt Resolution

Crisis-era	<ul style="list-style-type: none"> Asian Financial Crisis and systemic NPL resolution NPL Resolution Fund and Corporate Restructuring Fund Focus on removing distressed assets from financial institutions and stabilizing the financial system
Expansion into household credit recovery	<ul style="list-style-type: none"> Hanmaeum Finance, Hope Moe, Credit Recovery Fund National Happiness Fund Shift toward long-term household delinquent claims and financially marginalized borrowers
Policy-fund-based targeted resolution	<ul style="list-style-type: none"> New Start Fund for distressed small merchants and micro-enterprises New Leap Fund for long-term, small-scale, and vulnerable delinquent claims Greater focus on repayment capacity assessment, collection suspension, debt reduction, and post-resolution rehabilitation

Strategic Shift

•As the private NPL market developed, KAMCO's role became more selective and policy-oriented: not to compete with private investors for profitable claims, but to manage debt segments where public intervention is needed for borrower rehabilitation, market stability, and inclusive finance.

Trends in NPL Ratio



* Source: Bank of Korea, Economic Statistics System (ECOS)



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From Relief Measures to a Resolution System

- Korea’s experience shows that household debt relief becomes more effective when it is embedded in a staged public resolution system, rather than delivered as isolated relief programs.

<p>Design around the borrower journey</p>	<p>[From early distress to re-entry]</p> <ul style="list-style-type: none"> • Start from how borrower distress evolves over time • Match each stage with an appropriate institutional channel • Avoid treating all distressed borrowers as the same group.
<p>Match tools to the type of distress</p>	<p>[Coordination, purchase, insolvency, rehabilitation]</p> <ul style="list-style-type: none"> • Creditor coordination works for viable borrowers with repayment capacity • Public AMC tools are useful for long-term, fragmented, vulnerable, or market-unresolved claims • Court procedures remain necessary for insolvency cases.
<p>Balance public value and sustainability</p>	<p>[Relief must be targeted and operationally disciplined]</p> <ul style="list-style-type: none"> • Protect vulnerable borrowers without weakening repayment incentives • Prevent re-default after adjustment • Use data-based repayment capacity assessment and post-resolution support

Closing Note

- The Korea’s experience offers a reference for designing staged and complementary institutions, while each country will need to adapt the approach to its own legal framework, market maturity, public capacity, and data infrastructure.



Q & A

We welcome your questions. Please feel free to ask about the presentation content or request additional materials.



Email Inquiry

For additional materials and detailed information, please email us at: **km0709@kamco.or.kr**



Phone Inquiry

If you need phone consultation, please leave your contact information: **02-3706-0709**





THANK YOU!

Thank you for your attention to our presentation on
Institutional Frameworks for Personal Debt Resolution.

— We hope Korea's public resolution system provides valuable insights for your policy design. —