

Greek crisis not just to hurt Euro

GLOBAL ECONOMY



Mauro Guillen
Wharton School professor of management
Emilio Ontiveros
Universidad Autónoma de Madrid professor

changes in the strategies of investors in public debt, the European crisis has made it to the top of the agenda of both the United States and China.

The U.S. President and the Chinese Premier have both visited Europe in recent weeks.

If European authorities and member governments fail to manage the continuing problems with the financing of Greek debt, it is entirely possible that we will witness a financial upheaval as severe as the one following the implor-

ations. In spite of the good intentions, the present situation in terms of solvency of both states and banks is no better than a year ago. This "euro-nightmare" is unlikely to remain contained within Europe.

The markets for public and private debt are among the most globally integrated. Moreover, Europe is tightly integrated into North America and Asia in terms of trade. A full-blown crisis in Europe will not be just a European crisis. It is therefore imperative that the U.S. and China play a constructive and supportive role in helping the beleaguered European economies.

The U.S. should take decisive steps to overcome its own debt problem, and China should be more willing to become a global economic and financial locomotive. Meanwhile, Europe must ensure that its hesitations when it comes to resolving the Greek crisis do not affect the common currency and do not wreak havoc on global debt markets.

Mauro F. Guillen is Director of the Lauder Institute at the Wharton School. Emilio Ontiveros is President of AFI and a Professor at Universidad Autonoma de Madrid.

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sion of Lehman Brothers, as a European commissioner recently pointed out.

A Greek default would have a first-order effect on the balance sheets of the leading bond holders, and not only those who lent money to Greece. French and German banks would be the most immediate victims.

Banks from other countries would also suffer to the extent that their bond

growth, further adding to the downward pressure on equities.

Pressure from financial markets has forced governments to engage in pro-cyclical fiscal repression.

In addition, overzealous regulators have imposed tough solvency standards on banks, going well beyond the international Basel III agreements, a move that has restrained credit and therefore slowed down investment and job cre-

The Eurozone has been suffering from a severe financial crisis for more than a year.

Markets for public debt of the most vulnerable economies — Greece, Ireland, Portugal, Spain, Italy and Belgium — are under more pressure today than during the first week of May 2010, when the problems with Greek sovereign debt became known.

The crisis has even called into question the viability of the world's second most important transactional and reserve currency, the euro, launched on January 1, 1999. It has also undermined the very institutional architecture underpinning European economic integration.

It is, indeed, an identity crisis affecting Europe, but the consequences are likely to be felt well beyond the 27 member countries. In addition to

PE bids for Woori are 'a good thing'

KOREAN ECONOMY



Shaun Cochran
CLSA Korea head of research

ment.

At that time we argued that Woori was too large and the domestic banking capital pool too constrained to make a timely sale in a single transaction likely. The passage of time has shown this to be a reasonable position.

Instead of a mega deal we argued that breaking Woori into smaller parts would be a faster and more profitable way to privatize it.

The idea was relatively simple. Selling Woori in parts would immediately

ward. Woori owns two regional banks that could be sold separately or together.

Woori Bank could be sold as a stand-alone banking entity which would be a more achievable deal size for local acquirers and also eliminate the financial holding company constraints.

Finally the group's stake in Woori securities could be sold separately. And this brings us to the role of private equity in the process.

The government's goal is to privatize Woori in as timely a manner as possi-

most likely to get the best result.

There are also substantial benefits for the industry. In a world of "too big to fail" and systematically important financial institutions, a plan to reduce the scale of any merged entity would be more in keeping with the direction of global regulatory policy.

Secondly, the constant delays to both the Woori sale and the Korea Exchange Bank sale have sapped momentum from the industry and embedded uncertainty about its future structure.

Clarity here could potentially enable companies to execute bolder strategies and investors to ascribe higher valuations. We could also see other industry goals advance such as the long hoped for consolidation of the brokerage sector if a broker could be enticed to bid for Woori Securities.

Finally the oft cited goal of developing Korea's financial industry would surely be given both a tangible skill and credentials boost from the capability demonstrated and experience gained in executing such a transformational deal.

Despite the skepticism we could all benefit from opening our minds about the potential for Korean private equity to come of age with such a substantial and important transaction.

Here's to hoping the bidders are thinking something similar.

Instead of a mega deal, breaking Woori into smaller parts would be a faster and more profitable way to privatize it.

reduce the impact of size constraints on the deal and so broaden the available pool of buyers.

It would also allow the seller to match each part of the business to the buyers that ascribed them the greatest value. This would allow the government to extract the greatest possible premium.

If one thinks about the basic options for a break up and sale of Woori Financial group they are quite straight for-

ward while maximizing their return.

If the Korea Deposit Insurance Corp. were to sell a 30-percent stake in Woori financial to a private equity firm, but retain an almost equal 27-percent stake, they could both extract a premium and realize immediate cash flows. Importantly, they would retain upside to a well executed divestment plan.

Most importantly, such a deal would put the sale process under the control of specialist deal makers who are the

FSS shares tips with foreign firms

A great soccer game requires a combination of good players, a stadium, spectators and referees. A good game is ensured not by the number of whistles blown but how well referees implement the rules of the game.

When players believe that the game's officiating is fair, they can concentrate wholly on the game itself without resorting to unnecessary confrontation.

The financial market works in much the same way. Trust between market participants and regulatory authorities ensures a thriving market for the benefit of financial consumers.

The negative ripple effects of the 2008 global financial crisis on Korea's financial market might have been a revelation of the inherent weaknesses of the domestic financial system. However, the real culprit was higher volatility caused by an asymmetry of information both in and outside the market.

Certain media outlets said Korea was more likely to experience a financial crisis than Pakistan, while international credit-rating agencies expressed concerns using overblown statistics on Korea's financial and economic conditions. Amid rising negative sentiments toward and suspicions about the market, the Financial Supervisory Service (FSS) prioritized the presentation of an accurate assessment of the market and resolving the lack of information on the Korean supervisory and regulatory system.

needs, Fn Hub Korea, an FSS division responsible for assisting the launch and expansion of financial companies in Korea, launched the "FSS SPEAKS" conference in 2009. The annual event is a forum where foreign financial companies and foreign media in Korea can hear from the FSS governor and senior executives about the financial watchdog's initiatives and priorities in supervision.

updates on the Korean economy and financial market, and major supervisory issues by sector. The FSS staff also listened to difficulties and recommendations from market participants.

For example, foreign banks asked about how they can strengthen their compliance and internal control as some had been found by the FSS to have issues in these areas.

Instead of just using the regulations

of their head office in English, the FSS asked companies to complement their compliance monitoring manuals and internal control standards with Korean regulations and make them available in Korean for reference by all staff and to strengthen internal control of dealing rooms.

In the insurance sector, questions were raised about how the move from "file & use/use & file" to "file & use/no-file" under the revised Insurance Business Act would affect FSS inspection of insurance products. FSS explained that file & use products would be screened for any violation of the principles for preparing and changing basic docu-

ments (article 128-3 of the Insurance Business Act) and the principles for calculating premium rates (article 129 of the Act) before they go on sale. As for no-file products, which are more prone to questionable selling, FSS explained that some products will be selected for intensive review every quarter to prevent customer losses.

Participants lauded the event as being very helpful in discussing key topics of interest for foreign financial institutions, such as issues raised during inspections, while enhancing their understanding of the direction of FSS supervision. Based on this success, the conference is growing into an important channel of communication between financial players and supervisory authorities.

Fn Hub Korea systematically keeps track of the difficulties and recommendations raised by foreign financial companies on its database and communicates with FSS departments in charge to offer prompt feedback to companies.



Ban Young-hee serves as director of the Financial Supervisory Service, and also as deputy head of Fn Hub Korea.

Man in charge

Pursuit of retirement happiness is 'up to you'



Stuart Solomon
MetLife Korea chairman

temptations of today's high caloric, high fat food offerings.

And while Koreans seem eager to experiment with elixirs that tout keeping you young, the important thing here is the desire to take care of one's health.

More than 60 percent of the baby boomers are engaged in health-promoting activities including exercise and regular check-ups.

The baby boomers strongly believe that family is fundamental for personal happiness — this despite the ongoing changes in the concept of the family and despite the sacrifice of family time to a work dominated pre-retirement.

Besides the family, Koreans have access to a multitude of other networks to draw on.

I am amazed at the number of school associations, clubs, professional societies, sporting, hobby groups, travelling clubs, religious associations to name a few, that exist here in Seoul.

Add to this the close circle of one's own friends that baby boomers meet with seven to eight times a month and you wonder if there is enough time in a day to accomplish everything.

Just as the boomers expected dependence on one's children for retirement support continues to ebb, we are witnessing the rise of retirement communities, "silver

In March 2011, the MetLife Mature Market Institute and Seoul National University Institute on Aging jointly announced findings on their study of 4,668 Korean baby boomers across the nation.

According to the study, Korea's baby boomers, born between 1955 and 1963, are generally optimistic about their retirement despite concerns over expenses and reduced income that will necessitate a simpler lifestyle.

But retirement is not only about assets and income and the baby boomers clearly indicated this by ranking "staying productive and useful" as their biggest concern in

The baby boomers must continue to educate themselves, develop new interests, take classes, volunteer and try to learn something new each day.

retirement.

Let's assume you have built and executed on a good financial plan and retirement income is not an issue.

Let me speak of conditions that exist here in Korea that leads me to believe that the baby boomers, if they choose to do so, can pursue a fulfilling and happy retirement.

Life expectancy continues to increase and weakening of the family as the primary caretaker system is becoming more apparent in Korean society.

And while the healthcare system provides generous coverage at present, there is no guarantee that the government will be able to maintain this level of coverage in the future given rapidly rising costs.

The answer is good health.

There are many parks to walk, jog, and cycle in thanks to the efforts of the Seoul City government and provincial cities to provide an exercise-friendly environment.

It is routine for me to jog along the Han River Park and witness senior citizens running along in their track suits with oversized visors and pronounced arm swings.

In the mountains of "Namsan," "Bukhansan" or "Taemosan," it is refreshing to see the legions of senior hikers.

And witness the number of health clubs in Seoul that cater specifically to the senior set.

Korea's traditional diet of vegetables and fish is as healthy as it gets.

One just needs to resist the

towns," which can serve as an extended family for retirees.

In many locations throughout the world where we see the elderly living to extreme old age, the common thread between them has been the strength of the bonds between residents of these close-knit communities.

Only 10 percent of the boomers participate in a volunteer activity once a month.

If pursued more pro-actively, this can result in another important source of social networking and relationship building, not to mention the strong sense of personal gratification that comes with it.

Okay. We have family, a social network and a healthy lifestyle.

There are lots of opportunities to cultivate outside interests but the desire to further your personal development must be self-driven.

Korea is now at the forefront of a technology infrastructure — everyone has a cell phone and Internet penetration is among the highest in the world.

The baby boomers must continue to educate themselves, develop new interests, take classes, volunteer and try to learn something new each day.

In the wise words of Plato, "The man who makes everything that leads to happiness depends upon himself, not upon other men, and has adopted the very best plan for living happily."

Stuart Solomon concurrently serves as chairman of MetLife Foundation.

For inquiries or advertising

Overall inquiries: businessfocus@koreatimes.co.kr
Consulting: consulting@koreatimes.co.kr
Business education: mba@koreatimes.co.kr
Opinion: focusopinion@koreatimes.co.kr
Advertising: ktmkt@koreatimes.co.kr