

FINTECH & DIGITAL FINANCE POLICY FOR 2020

The Financial Services Commission announced on February 25, 2020 its key policy plans for fintech and digital finance, which include advancing digital finance, promoting data economy, cultivating new fintech industry and services, working on regulatory reform in fintech and digital sectors, and strengthening the foundation for innovation.

KEY POLICY

I. ADVANCING DIGITAL FINANCE

In order to ensure long-lasting innovation and stability in the financial sectors, the government will work to promote innovation in digital finance and establish a digital risk management system.

A) Improve digital finance's infrastructure, industry and market

- ▶ Open banking: a) expand functions and scale by allowing participation by mutual finance and financial investment businesses, and work on measures to enhance security and safety of financial consumers; b) push for the enactment of a legislative provision (Electronic Financial Transactions Act) that requires banks to provide their money transfer function through open API
- ▶ Electronic financial businesses: introduce MyPayment and integrated payment businesses to promote the development of financial platforms offering a variety of services, while promoting innovation in personal authentication services, such as biometric authentication
- ▶ Consumer protection: bring up the level of safeguards and protections for digital finance users on a par with advanced economies

B) Maintain appropriate balance between innovation and stability by strengthening the management and supervision of digital risks

- ▶ Financial data security: establish principles to properly respond to new types of digital security risks by requiring internal risk control mechanisms in financial companies, operating a public-private joint risk management framework and bolstering response mechanisms for the incident response team
- ▶ Risk management for third party: strengthen security management for IT outsourcing and set up a risk monitoring system using regtech for possible risks that can be transferred from non-financial sectors

II. PROMOTING DATA ECONOMY

In order to help data industry play a leading role in financial innovation, the government will work to further develop data industry, build data infrastructure and establish a framework for data protection

A) Develop new data businesses

- ▶ Introduce new data businesses in the financial sector, such as MyData business, non-financial credit bureau and individual business credit bureau to provide a variety of new services tailored to different needs

B) Improve the personal credit evaluation system

- ▶ Adopt a score-based personal credit evaluation system (1~1,000 points) in place of the current credit rating system (1~10 ratings) and set up an independent monitoring committee to make sure that new data businesses such as professional and specialized credit bureaus function properly

C) Develop infrastructure for safe and secure data protection

- ▶ Work with the Financial Security Institute (FSI) and the Korea Credit Information Services (KCIS) to establish appropriate infrastructures and procedures to protect consumer rights and promote safety and security in data usage

D) Expand the availability of big data infrastructure in the financial sector

- ▶ Facilitate the usage and distribution of big data with the implementation of the three new legislations on data economy starting August 5, 2020 by expanding the KCIS's CreDB, launching a financial data exchange platform at the FSI and setting up a designated institution specializing in data convergence

E) Establish an open database for standardized financial information

- ▶ Launch a public open data system through open API showing financial data held by 9 state-backed institutions,¹ including information on corporations, financial institutions, public disclosures, capital markets and government sales of state-owned assets

III. CULTIVATING NEW FINTECH INDUSTRY AND SERVICES

The government will work to create an environment that facilitates the development of new fintech services while preemptively managing risks in the areas of consumer protection, security, etc.

¹ Financial Supervisory Service, Korea Deposit Insurance Corporation, Korea Credit Guarantee Fund, Korea Development Bank, Industrial Bank of Korea, Korea Securities Deposit, Korea Asset Management Corporation, Korea Housing-Finance Corporation and Korea Inclusive Finance Agency

A) Create a sound peer-to-peer lending ecosystem

- ▶ Work to provide relevant rules and regulations for the implementation of the Act on Online-linked Financing as the new legislation on P2P lending will take effect on August 27, while setting up necessary infrastructures in support of P2P lending businesses and ensuring sufficient safeguards for investors

B) Promote the adoption and use of AI in the financial sector

- ▶ Create an environment to promote financial companies and fintechs to test out new business ideas using AI by setting up a testbed that provides data for machine learning and verification of algorithms, working on ethics and regulatory guidelines for AI-based financial services, and establishing a security assessment framework specifically focusing on AI

C) Expand the application of regtech in the financial sector

- ▶ Promote regtech to ensure that financial companies and fintechs are complying with relevant regulations by testing out AI technology in the FSI's regtech platform and expanding the application of regtech and AI technology to anti-money laundering (AML), know your customer (KYC), etc.

D) Promote accounts receivable financing for small merchants

- ▶ Facilitate financing of small merchants by promoting accounts receivable financing based on their sales data

IV. WORKING ON REGULATORY REFORM IN FINTECH AND DIGITAL SECTORS

The government will continue to work on easing entry barriers to the financial industry and improving regulations to fit the needs of different businesses in sync with the financial regulatory sandbox program.

A) Create a virtuous cycle between financial regulatory reform and the operation of financial regulatory sandbox

- ▶ Select more than 100 innovative financial services for the regulatory sandbox until March 2020, which marks the one-year anniversary of sandbox program, while continuing to review and reform regulations in connection with financial solutions tested in the regulatory sandbox

B) Introduce small licenses to ease fintech firms' entry barriers to the industry

- ▶ Offer temporary licenses or extension of regulatory exemptions for fintech service providers which have completed tests in the sandbox if regulatory barriers in entry or operation have not been cleared until the tests were completed
- ▶ Introduce small licenses to facilitate the establishment and entry of smaller and

specialized financial businesses – e.g. MyPayment business, personal CB, individual business CB, corporate CB, etc.

- C) Work on regulatory reform to foster the growth of globally successful fintech business models in domestic markets
 - ▶ Analyze successful business models of global fintech firms from regulatory perspectives and seek regulatory reforms to support the development of such fintech solutions in domestic markets

V. STRENGTHENING THE FOUNDATION FOR INNOVATION

The government will support fintech start-ups and scale-ups by making more infrastructure, investment and business support available.

- A) Expand fintech incubating facilities
 - ▶ Provide fintech start-ups with office spaces at the Mapo Front 1 and connect them to accelerators and corporate investors
 - ▶ Continue to support the growth of fintech start-ups through fintech labs established by financial companies and state-run banks
- B) Promote fintech investment
 - ▶ Launch a Fintech Innovation Fund in March to provide fintech businesses with KRW300 billion over the next four years
 - ▶ Provide support for fintech start-ups' fundraising by having KDB and other relevant organizations hold IR and networking events on a regular basis
 - ▶ Launch an investment platform in April, run by the Fintech Center Korea, which will provide investment information for both fintech firms and investors
- C) Support overseas business expansion
 - ▶ Expand overseas fintech labs and provide networking opportunities to support Korean fintech firms pioneering into overseas markets
 - ▶ Launch an one-stop information platform in the second quarter of this year, run by the Fintech Center Korea, to provide fintech firms with analysis on overseas markets and industry trends
 - ▶ Organize the Korea Fintech Week 2020 in May to provide fintech firms and investors with opportunities for networking
- D) Provide fiscal support
 - ▶ Ensure an efficient implementation of fintech budget for this year, which has doubled from the previous year at KRW19.8 billion to promote fintech, strengthen digital security and create more jobs

E) Strengthen functions of the Fintech Center Korea

- ▶ Enhance the capacity of the Fintech Center Korea so that it can function as a main platform that provides fintech start-ups and scale-ups with tailored supports, including consulting for fundraising & overseas expansion, education programs, job search and application for financial regulatory sandbox

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