7ᵀᴴ Digital Finance Meeting Discusses Guidelines on the Use of AI Technologies in Financial Services

Vice Chairman Doh Kyu-sang held the 7th consultative body meeting on digital finance via teleconference on April 13 and discussed potential risks of digital transformation in financial sectors, establishing guidelines on the use of AI technologies in financial services and plan for the operation of the consultative body subcommittees. At the meeting, Vice Chairman Doh spoke about the progress made by the consultative body meetings as they helped to resolve differences of interests between big techs, fintechs and financial companies. Amid a deepening digital convergence taking place throughout the economy, Vice Chairman Doh stressed the importance of continuing with efforts to seek innovative solutions in financial sectors.

The following is a summary of Vice Chairman Doh's remarks.

(Digital Transformation and Potential Risks in Financial Sectors) Digital transformation is an inevitable change throughout the world. Although there are positive effects, such as expanded consumer choice and increased efficiency, there also needs to be policy efforts to prepare for potential risks. As such, the FSC will first strengthen risk management on the impact of a growing number of new players entering the financial markets. As competition between big techs and financial institutions deepens, the authorities will keep a close eye on for any changes in their sales behavior, potential damages to consumers and the possibility of debilitating soundness of financial companies. Second, the FSC will lay the groundwork upon which new technologies can be used safely. The authorities will work to ensure transparency and fairness in the process of using AI and other innovative technologies in financial services, while closely inspecting for the possibility of skewness which may result from financial companies using similar algorithms. Third, the authorities will closely monitor financial sector risks, such as the possibility of risk transfer in the process of non-financial firms engaging in financial services or the growth of shadow financing, etc.

(Guidelines on the Use of AI in Financial Services) The FSC will draw up its policy on the use of AI technologies according to the following three objectives. First, with regard to the AI-related infrastructure development, the authorities will set up a big data infrastructure and provide testbeds through which the validity of AI algorithms can be verified. Second, in order to improve fairness and transparency, the FSC will come up with guidelines that can provide a balanced solution to the issue of bias in data processing and decision making. Third, the FSC will work to protect consumers from newly emerging financial crimes. The authorities will preemptively respond to deepfakes and other AI-based financial frauds and work on suptech to enhance consumer protection measures. Based on the result of the

research on AI, the authorities will draw up guidelines on the use of AI in financial services in the second half of this year.

(PLAN FOR SUBCOMMITTEES)   From now on, the subcommittees of the digital finance consultative body will be reorganized around the following four sections. First, the platform and open banking section will focus on creating the necessary infrastructure to promote fintech development. Through legislative efforts, the authorities will work to promote financial companies' investments in fintechs and their overall efforts at digital transformation. The authorities will also discuss making fintech support available at each business development stage in a more systematic way, and work to further improve the open banking system in order to make 'open finance' possible.

Second, the regulatory innovation section will seek to further improve the financial regulatory sandbox program. Through the introduction of a digital sandbox program, early stage fintech startups will be able to test their ideas and the authorities will seek ways to introduce more innovative financial solutions in various areas.

Third, the data sharing section will work on ways to promote data economy. The connectivity between the financial and non-financial sectors will be boosted through the growth of MyData industry and the authorities will work on data infrastructure development, such as data mapping.

Fourth, the financial data security section will focus on building a safe and secure system for financial innovation. It will seek to transform the traditional principles and ideas of financial data security from a regulation-based perspective toward a principle-based approach. The authorities will also draw up measures to improve the rules on authentication and personal identification system as well as the rules on network separation.

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