

## FSC UNVEILS MEASURES TO IMPROVE CORPORATE FINANCIAL DATA INFRASTRUCTURE TO SUPPORT MORE BUSINESSES

The FSC announced a plan to make improvements to the corporate financial data infrastructure to assist micro-enterprises, SMEs and innovative businesses for which the availability of relevant data infrastructure has been inadequate thus far. The key measures include (a) revamps of the corporate data management system operated by the Korea Credit Information Services (KCIS), (b) expansion of data sharing with financial sectors on innovative businesses in new industries, (c) improvement of the entry regulation for business credit bureaus (business CBs) more reasonable and enablement of CBs for data-specialized institutions and (d) reviewing a launch of MyData service tailored to the needs of sole proprietors. As these measures have been discussed at the 5<sup>th</sup> financial regulatory innovation committee meeting held on December 20, authorities will seek prompt implementation of the detailed measures.

### **BACKGROUND**

Financial authorities have successfully introduced various systems, including the financial MyData service and improvements to the personal credit rating system, to bring about innovation in consumer finance.

In corporate finance, too, authorities have subdivided business CBs into several licensing units<sup>1</sup> and lowered their entry requirement.<sup>2</sup> However, there still exists insufficiency of credible data on micro-enterprises, SMEs and innovative businesses.

For SMEs and micro-enterprises, there is not enough data being produced and distributed to be utilized in corporate finance, and business CBs' capabilities of data management remain inadequate. As such, even when a company has decent repayment capacity, it may be asked for an excessive level of collateral or guarantee, or face the burden of unfavorable borrowing conditions such as a low level of maximum loan amount or high interest rate.

For innovative businesses, due to inadequate information on new industries, financial institutions face difficulties in evaluating the growth potential and the innovativeness of new industries and new technologies. Thus, startup businesses in new industries and existing businesses that are pursuing corporate restructuring to make a transition into a new industry sector face difficulties in raising funds efficiently.

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<sup>1</sup> Authorities subdivided business CBs into corporate data inquiry business, corporate credit rating provider and tech credit bureau.

<sup>2</sup> Corporate data inquiry business: Authorities lowered the capital requirement from KRW5 billion previously to KRW500 million and the financial institution's investment requirement (50% or more) has been lifted.

## **KEY DETAILS**

### **I. REVAMP KCIS'S CORPORATE CREDIT DATA MANAGEMENT SYSTEM**

Corporate data that is centrally registered and made available for utilization through KCIS<sup>3</sup> will be expanded and subdivided, and the timeliness in business data sharing with financial institutions will be improved.

- a) **(DATA CATEGORIES)** Currently, the types of data being provided consist of only a broad outline of corporate data, such as the balance of business loan, the amount of overdue principal payment and debt delinquencies. This will be changed to expand and diversify the data categories being provided, which will include information on specific details about business loans and overdue status,<sup>4</sup> as well as about the history of corporate credit card usage, insurance policy loans, etc.
- b) **(DATA PROVISION BY ACCOUNT)** Currently, corporate data are centrally registered and managed on a business-by-business basis sorted by different borrowers. This will be changed to an account-by-account approach<sup>5</sup> sorted by different accounts through which data users can more easily figure out the status of corporate finance usage by different usage purposes.
- c) **(TIMELINESS)** Currently, corporate data that is centrally registered at KCIS is shared with financial sectors after four business days. Authorities will change this to make the sharing of corporate data available immediately after corporate data is centrally registered at KCIS to bolster the timeliness in data sharing.
- d) **(ANTICIPATED EFFECT)** Financial institutions will be able to make use of the more sophisticated types of corporate financial data to make advancement in business credit rating and risk management for micro-enterprises and SMEs.

### **II. PROMOTE DATA SHARING ON INNOVATIVE BUSINESSES IN NEW INDUSTRIES**

Various types of data on innovative businesses in new industries that are centrally registered at KCIS will be more widely shared with financial sectors.

- a) **(TECH CREDIT DATA)** Currently, tech credit bureaus (TCBs)<sup>6</sup> evaluation reports on technology company is centrally registered at KCIS, but not shared with financial institutions. This will be changed to allow sharing of TCBs' evaluation results and key tech-related assessment details,<sup>7</sup> which form the foundation of the evaluation reports, with the banking sector to support advancement of tech evaluation.

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<sup>3</sup> KCIS centrally manages credit data and public data of all financial sectors and provides them to financial institutions in support of effective supply of funds and risk management of financial companies.

<sup>4</sup> Loan maturity date, interest rate, collateral, overdue principal and interest payment amount, cause of overdue payment, etc.

<sup>5</sup> Businesses usually open and use different accounts for different business sites and purposes.

<sup>6</sup> Tech Credit Bureau: Evaluates the technological prowess, technology business capacity and creditworthiness of businesses and provides tech businesses with tech credit evaluation ratings, which can be used for bank loan application (tech credit loan, etc.), securing investments (venture capital, public funds, etc.), special listing track application for tech growth companies, the Public Procurement Service's bidding process, etc.

<sup>7</sup> Technology rating (T-rating), number of R&D personnel, accreditation and award history, number of intellectual property rights in possession, etc.

- b) **(EXPANDED PARTICIPATION FOR IGS<sup>8</sup>)** Currently, the list of policy funding cases being provided to new industries and related outcome data are utilized only by policy financial institutions such as the Korea Development Bank (KDB), Industrial Bank of Korea (IBK) and Korea Credit Guarantee Fund (KODIT). This will be changed to allow data sharing with private sector financial institutions who extend funding support to innovative businesses as a way to help discover and develop innovative businesses. The types of data to be shared will include the case list of financing support, such as loans, investments and guarantees, and the outcome of financing support, such as the financial statement and employment status of businesses.
- c) **(ANTICIPATED EFFECT)** Financial institutions can utilize high-quality tech credit information as well as data on finance cases and the outcome of policy funds in order to make advancement in credit rating models. Based on this, authorities expect that supply of funds to innovative businesses in new industries will be boosted.

### **III. MAKE ENTRY REGULATION MORE REASONABLE FOR BUSINESS CBs AND ALLOW CBs TO BE SELECTED AS DATA-SPECIALIZED INSTITUTION**

- a) **(ENTRY REGULATION)** The entry requirement for CBs specializing in business credit data will be made more reasonable to enhance their expertise and strengthen the role as business-specialized CBs.
- **(CORPORATE CREDIT RATING PROVIDERS)** Currently, only corporate entities that have received 50 percent or more investment from financial institutions can get a license as a corporate credit rating provider. Authorities will abolish the requirement of financial institutions' investment to allow the entry of new CBs equipped with an array of non-financial and non-typical types of business data.
  - **(TCBs)** Currently, only a corporate entity that has received 50 percent or more investment from financial institutions, a patent law firm or an accounting firm is eligible to get a license as a TCB. Authorities will allow other types of professional institutions<sup>9</sup> equipped with sufficient tech evaluation capacity to apply for TCB business license, thereby helping to bolster the level of expertise in tech evaluation.
- b) **(DATA-SPECIALIZED INSTITUTION)** As the convergence of data is a core foundation for promoting big data analytics and artificial intelligence (AI), it is necessary to continuously increase the number of data-specialized institutions.
- CBs are currently unable to be designated as a data-specialized institution due to statutory restrictions on their concurrent and ancillary business affairs even though they have quality data, experience in managing pseudonymized data and the infrastructure needed. Therefore, authorities will expand the scope of concurrent and ancillary business affairs for CBs to enable CBs to become data-specialized institutions that can help accelerate data convergence as well as opening up and

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<sup>8</sup> Innovation Intelligence Growth System (IGS): IGS manages and provides data on the status of policy funds sorted by business and industry for analyzing the status of policy funds being provided, effectiveness of policy funds support, as well as information about the employment, financial, tech competitiveness, patented technology of businesses.

<sup>9</sup> e.g. Technology evaluation agencies specified by the Technology Transfer and Commercialization Promotion Act and evaluation institutes specified by the Invention Promotion Act.

sharing of data.

- c) **(ANTICIPATED EFFECT)** First, it is expected that the entrance of new players that have diverse types of business data, professional personnel and evaluation techniques will help advance business and tech-based credit evaluation and boost the competition for quality in the business credit rating market. Second, with regard to data-specialized institution, the entrance of CBs as data-specialized institutions will support data-driven innovation by offering data recommendation service for data convergence, consulting on data analysis, etc. Facilitating data convergence is expected to lead to the development of diverse innovative services such as advancement in alternative credit rating models for sole proprietors.

#### **IV. REVIEW LAUNCH OF MyDATA SERVICE FOR SOLE PROPRIETORS**

Currently, individuals can use financial MyData service to quickly and conveniently access a variety of personal financial data and public institution-stored data with a single sign-on and receive diverse types of personally tailored services based on this integrated inquiry. Authorities will review introducing MyData service tailored to the needs of sole proprietors to enable them to more easily collect and manage their own financial data, business transaction data and public data and get various services tailored to their needs.

- a) **(CURRENT SITUATION AND PROBLEM)** It is difficult for sole proprietors to request data directly from data holding institutions such as financial institutions or e-commerce platform businesses. Even if they get their hands on relevant data, it remains difficult to make use of the data for the purpose of business management and improvement of financial transaction conditions due to personnel and budgetary constraints.
- b) **(MEASURES FOR IMPROVEMENT)** Authorities will review ways to introduce MyData service intended for sole proprietors after having sufficient discussions with data providers from diverse sectors as well as current MyData service providers. Authorities plan to look into the essential data sectors and categories needed for sole proprietors after having demand surveys on sole proprietors as well as MyData service providers and discussions with relevant industries. Authorities will examine the specific actions such as the scope of business and data transmission method of MyData service providers and pursue revision of the Credit Information Use and Protection Act and set up relevant infrastructure.
- c) **(ANTICIPATED EFFECT)** MyData service providers can provide innovative services to sole proprietors such as asset management tailored to individual business needs, support for policy funds application, management consulting, etc. With an advancement of credit evaluation resulting from more active production and distribution of data on sole proprietors, it is expected that funding supply to sole proprietors from financial institutions and risk management will be improved. As sole proprietors will be able to more easily submit their own data to financial institutions and public institutions, they can make use of the data to boost their business credit rating and to apply for policy funds.

## **FURTHER PLAN**

Authorities will promptly pursue detailed measures to bolster financial sectors' corporate finance capacity.

- a) **(KCIS's CORPORATE CREDIT DATA SYSTEM)** Authorities plan to launch a new corporate credit data system in Q1 2023 after system development and a test run across financial sectors.
- b) **(SHARING OF DATA ON INNOVATIVE BUSINESSES)** Authorities plan to expand the base of financial institutions participating in the Innovation Intelligence Growth System (IGS) to include banks in Q1 2023 and build a system for the banking sector to make use of tech credit data in Q2 2023.
- c) **(ENTRY REGULATION FOR BUSINESS-SPECIALIZED CBs AND DATA-SPECIALIZED INSTITUTIONS)** Authorities plan to revise the regulation on the supervision of credit information businesses in Q1 2023 to allow CBs to assume the role of data-specialized institution and carry out revision of the Credit Information Use and Protection Act and its enforcement decree in 2023 to make entry regulations more reasonable for CBs specializing in business credit data as well as TCBs.
- d) **(MyDATA SERVICE FOR SOLE PROPRIETORS)** Authorities plan to set up a working group in Q1 2023 to gather wide-ranging opinions from relevant stakeholders and review and prepare measures to introduce MyData service intended for sole proprietors in Q2 2023.

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