



Press Release

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PLAN TO SUPPORT CONVERGENCE OF FINANCE AND TECHNOLOGY

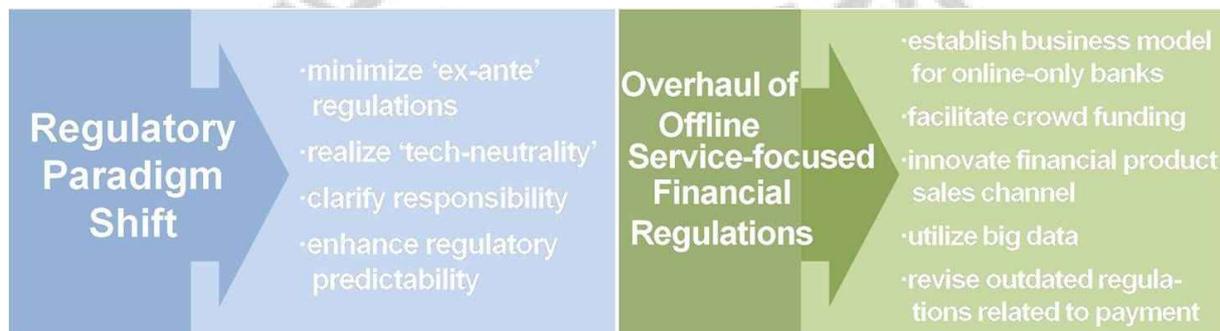
OVERVIEW

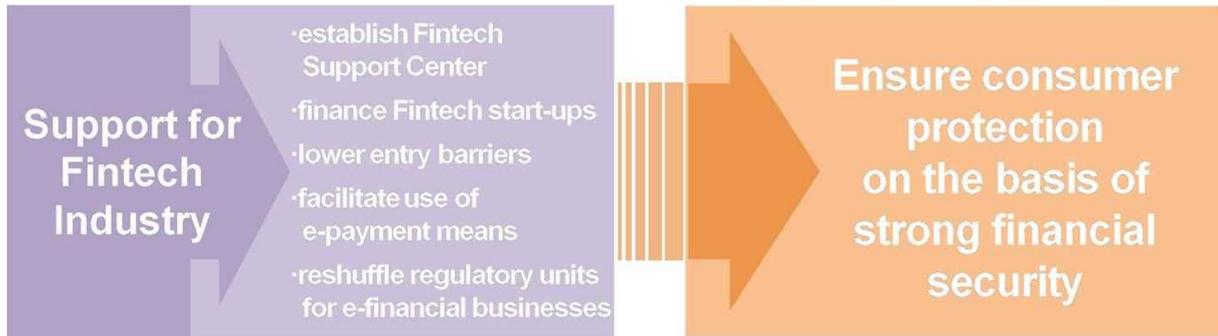
The convergence of IT and financial sectors, or ‘financial technology’ (hereinafter ‘Fintech’), has emerged as a global trend. The trend also affects transaction pattern and payment environment for domestic consumers and industries with rapidly growing cross-border commerce and financial transaction on online or mobile platforms.

Investment into the Fintech industry continues to grow around the globe, particularly in the U.S. and the U.K. with high expectation about the sector’s growth potential. As global IT leaders such as Alibaba and Apple entered payments market, the Fintech services began to draw attention of the financial sector. Advanced countries including the U.K. actively support the growth of the Fintech industry to seize new growth opportunities.

Korea has been less active in fostering the Fintech sector so far due to regulatory barriers and financial security concern. As an IT powerhouse with the advanced financial industry, Korea has great potential for growth in the Fintech sector. In order for Fintech to bring innovative changes to financial services, we need to overhaul current financial regulatory framework mainly focused on offline services. The FSC will also support financing of Fintech businesses and significantly lower barriers to entry for electronic financial businesses. Financial security, however, is a prerequisite to the growth of Fitech sector. To this end, the FSC will maintain a strict stance on security and consumer protection, while allowing financial service providers more room in their business operations.

DETAILED PLAN





1. Regulatory paradigm shift

Minimization of ‘ex-ante’ regulations

Security review and evaluation for means of authentication will be abolished to allow financial firms to deliver consumers innovative convenient financial services and introduce more efficient authentication means on their own responsibility. (Revision to regulations related with electronic financial transaction within the second quarter of 2015)

Instead, financial companies will be required to bolster their internal inspections and assessment, while the FSS will strengthen security oversight with regular and spot inspections. The FSC will establish a legal ground to issue business improvement recommendation and order based on internal inspection results by revising the Electronic Financial Transaction Act.

‘Tech-neutrality’

The FSC will abolish and revise mandatory regulations that force use of specific technology such as authorized certificates in order to encourage development of various financial transaction methods and products applying internet technology.¹

Clarification of responsibility

In order to encourage active partnership between financial and IT companies, the FSC will revise the Electronic Financial Transaction Act to stipulate non-financial firms with capability to take responsibility of accidents be jointly held responsible for such accidents with financial companies in partnership relations.

In order for electronic financial businesses to effectively compensate consumers in case of accidents, the current coverage limit of liability insurance will be increased based on transaction volume and past accident history.

2. Overhaul of offline service-focused financial regulations

Internet-only banks

The FSC will draft a business model for online-only banks after reviews and discussion of

¹ The abolition of mandatory requirements is not meant to ban the use of such technology by financial companies. It is to give financial firms options to choose whether or not to use such technologies. Therefore, conventional practices and methods could be still in use until financial companies develop or introduce new identification and security means.

relevant factors – e.g. overseas cases, ownership structure,² possible means to replace the current principle of face-to-face identification, capital requirement, business scope, etc. Details will be set out in June 2015 with an aim to submit a relevant bill to the National Assembly within the third quarter of this year.

Crowd funding

The FSC will continue to carry forward parliamentary approval for the revision to the Capital Markets Act now pending in the National Assembly in order to lay a legal foundation for introduction of crowd funding. In addition, the FSC will complete follow-up measures within August 2015 such as designation of central archival institution³ and introduction of registration scheme for small-scale online investment brokerage.⁴

Utilization of big data

The FSC will establish favorable environment for utilization of big data by nurturing related experts, establishing database and strengthening big data studies. Card companies will be allowed to issue mobile cards without issuing plastic cards as a means to enhance consumer convenience. Outdated regulations such as the ‘principle of distinction’⁵ will be abolished or improved.

3. Support for Fintech industry

Fintech Support Center

The FSC will co-establish ‘Fintech Support Center(tentatively named)’ with related organizations⁶ to effectively provide support to foster Fintech industry. The center will offer comprehensive consultation services related to legal, regulatory, and financial matters. The center will be operated in close cooperation with ‘Center for Creative Economy’ which is under establishment by the MOSF to maximize synergies.

Financing for Fintech start-ups

Financial support will be provided in various forms through policy banks. The KDB and IBK will give out loans and make investments worth KRW200 billion(KRW100 billion each) within 2015. KODIT and KIBO will provide guarantees.

Lowering entry barriers

Minimum capital requirement eligible for electronic financial business registration will be lowered by 50% or more in the mid to long term. ‘Small-scale business unit for electronic financial business’ will be newly established to allow limited scope of business for PG and payment deposit businesses. Entry barriers will be lowered for Fintech startups with small amount of capital.

Facilitate use of electronic payment means

² Korean laws currently ban non-financial capital from owning banks.

³ Archival institution that manages investor’s crowd funding investment records and issuer’s issuance records

⁴ Brokerage business that sells and offers crowd funding securities through online pending portal

⁵ making a distinction between an electronic financial transaction medium and transaction authentication medium, such as a one-time password(Article 34-2-5, Regulation on Supervision of Electronic Financial Transactions)

⁶ Ministry of Science, ICT and Future Planning, Small & Medium Business Administration, Financial Supervisory Service

The FSC will revise the Enforcement Decree of the Electronic Financial Transaction Act within the second quarter of 2015 to expand payment ceiling of electronic means to enhance consumer convenience with increasing e-commerce transaction.

Reshuffling regulatory units for electronic financial businesses

The current 7 electronic financial businesses with overlapping functions⁷ will be integrated and be reduced to 3 to 4. Soundness standards and regulatory system will be improved to facilitate IT and innovative companies' entry into electronic financial industry.

4. Financial Consumer Protection with Stronger Financial Security

While pursuing measures to foster the Fintech services, the FSC will never compromise the principle of financial consumer protection with stronger financial security. Regulatory focus, however, will be shifted from detailed ex-ante regulations to ex-post ones that require thorough inspection afterwards and clear accountability.

Development of data security system

Financial firms and Fintech companies will be encouraged to obtain security certificates such as PCI-DSS or ISMS and in the long term to develop their own data security system corresponding to global standards and domestic financial environment.

Legislative works for data protection and security

Revisions will be made to the Electronic Financial Transaction Act to make it clear safety requirements for electronic financial transactions. The FSC will continue to work closely with lawmakers to pass the revision bill of the Credit Information Act to prevent a repeat of personal data breach by financial firms.

Stronger oversight on sales of financial services through online channels

Monitoring and supervision will be bolstered to prevent illegal or unfair business activities through online channels to sell online financial products or services.

TIMETABLE

	Task	Related Act	Schedule
1.	Regulatory Paradigm Shift		
a.	Minimization of 'ex-ante' regulations		
(1)	Revise security review system	Regulation on Supervision of Electronic Financial Transactions	June
(2)	Abolish evaluation for means of authentication	Regulation on Supervision of Electronic Financial Transactions	June
(3)	Ease excessive regulations related to financial security	Establish related plan	June
b.	Tech-neutrality		
(1)	Abolish regulations forcing usage of specific technology	Electronic Financial Transactions Act	June
(2)	Encourage banks and securities firms to abolish Active-x in financial	-	within 2015

⁷ e.g. electronic currency issuer + electronic prepayment business; PG + payment deposit business

		transactions		
c.	Clarification of responsibility			
	(1)	Establish legal basis to hold non-financial companies responsible for accidents	Electronic Financial Transactions Act	June
	(2)	Strengthen consumer compensation in case of accident	Regulation on Supervision of Electronic Financial Transactions	June
d.	Improve regulatory predictability		-	within 2015
2.	Overhaul of Offline Service-focused Financial Regulations			
a.	Establish business model for online-only bank		Banking Act, Act on Real Name Financial Transactions and Confidentiality	June
b.	Facilitate crowd funding		Financial Investment Business and Capital Markets Act	within 2015
c.	Facilitate online transactions channel		-	December
d.	Support online financial industry using big data		-	within 2015
e.	Revise outdated payment regulations		-	June
3.	Support for Fintech Industry			
a.	Establish system to support Fintech industry			
	(1)	Establish 'Fintech Support Center'	-	April
	(2)	Establish technology evaluation system	-	July
b.	Finance Fintech business		-	within 2015
c.	Lower entry barrier for electronic financial industry			
	(1)	Allow financial investment business to enter electronic prepayment industry	Regulations on Financial Investment Business	June
	(2)	Revise minimum capital requirement for electronic financial business license	Electronic Financial Transactions Act	June
e.	Facilitate use of electronic payment means		Electronic Financial Transactions Act	June
f.	Reshuffle regulatory units for electronic financial businesses		Electronic Financial Transactions Act	December
4.	Financial Consumer Protection with Stronger Financial Security			
a.	Develop data security system		-	within 2015
b.	Legislate acts for data protection and security		-	December
c.	Strengthen oversight on sales of financial services through online channels		-	December

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