

BANKS' FINANCIAL PAYMENT SYSTEM TO BE OPEN TO FINTECH FIRMS

The FSC proposed its plan to establish an open banking system which would grant fintech firms access to banks' payment network, in an effort to encourage development of new payment services and greater competition in the financial sector. The FSC also plans to overhaul the current regulatory framework on electronic financial business to promote innovation and competition in financial payment services.

OPEN BANKING SYSTEM TO BE INTRODUCED

The current financial payment network has a closed system accessible only by banks. Under the current system, even banks are allowed to process their own bank account-based transactions only. Although banks jointly launched an open API system in August 2016, the access to the API system has been limited only to small fintech firms, charging relatively high fees, about KRW400 to 500 per transaction.

Against this backdrop, the transition to an open system will proceed in three phases:

▶ **[Phase 1] Banks' voluntary agreement on open banking system**

Banks agreed to open their payment network to all fintech payment service providers as well as other banks. That would enable customers to use a single application to access their accounts at different banks and make payments. Fees charged on fintech firms for using the network will be lowered to one tenth of the current level to ensure fair competition.

▶ **[Phase 2] Legislation on Open Banking**

The FSC will propose amendments to the Electronic Financial Transaction Act to provide clear legal grounds for the open banking system. The amended Act will mandate all banks to offer payment service providers with standardize APIs for money transfer. It will also prohibit banks from any discriminatory action against payment service providers using their payment system in processing money transfer and charging fees.

▶ **[Phase 3] Fintech firms' direct access to financial payment system**

In the medium to long term, the FSC will consider allowing qualified fintech payment service providers direct access to the payment system without relying on banks' services. To be eligible for such direct access, fintech payment service providers will have to meet certain requirements in financial soundness and digital capabilities.

REGULATORY REFORMS FOR PAYMENT SERVICE PROVIDERS

The Electronic Financial Transaction Act, adopted in 2007, has limitations in keeping up with digital transformation in the past 10 years and reflecting new developments in payment services. The current regulatory framework, therefore, will be overhauled to embrace more flexibility and scalability in response to the emergence of diverse financial payment services.¹

Under the new regulatory framework, licenses on electronic financial business will be granted on a business-function basis, rather than a business-sector basis, to better reflect diversification of payment services sector – e.g. payment initiation service provider (PISP) and E-money business providers.

The scope of electronic financial business will be expanded to include new types of payment services such as “My Payment” Business or “Comprehensive Payment & Settlement Business” (tentatively named).²

SCHEDULE

- ▶ Banks will finalize details about their voluntary agreement on the open banking system in the first half of 2019 (scheduled to be in a full operation in 2019).
- ▶ The FSC will submit its proposal to amend the Electronic Financial Transaction Act in the third quarter of 2019.

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For any inquiry, please contact Foreign Press & Relations Team at fsc_media@korea.kr

¹ Details about regulatory reforms on Electronic Financial Transaction Business will be announced in the second quarter of 2019.

² (i) ‘My Payment’ Business is a Payment Initiation Service Provider (PISP) which enables a user to access his/her all accounts at different banks for payment or money transfer just by logging into his/her My Payment application. (ii) A comprehensive payment settlement service will be allowed to offer customers independent services – e.g. opening and managing an account for payment and money transfer – without signing in a partnership agreement with banks.