

## MEASURES TO PROMOTE FINTECH SCALE-UPS

The FSC announced measures to promote fintech scale-ups on December 4, which includes 24 key tasks in 8 different policy areas.

### **BACKGROUND**

The government has been promoting the fintech industry as part of its innovation-led growth strategy amid digital transformation and the 4<sup>th</sup> industrial revolution. To this end, the government has introduced a financial regulatory sandbox, open banking, regulatory reforms and budget earmarks for fintech. In order to further develop Korea's fintech industry and its ecosystem, the government plans to implement the following fintech scale-up strategies, which builds upon the progress made so far.

### **KEY MEASURES**

#### **I. IMPROVING THE CURRENT REGULATORY SANDBOX SYSTEM**

- ▶ Designate more than 100 'innovative financial services' by the end of March 2020, which marks the one-year anniversary of launching the regulatory sandbox
- ▶ Improve rules and practices in operating the regulatory sandbox: (i) protect innovative ideas and technologies through patents and intellectual property rights (e.g. providing legal counsel or expediting patent dispute resolution); (ii) impose a minimum level of additional requirements on 'innovative financial services;' and (iii) grant continuation of designation status through M&A
- ▶ Provide continuous support (e.g. costs on testing, security inspection, office space, etc.) for the entire cycle from designation of 'innovative financial services' to commercialization of innovative financial solutions.
- ▶ Set up a supervisory framework tailored to the promotion of fintech firms – e.g. conducting supervision and inspection aimed at providing counseling or establishing regulatory grounds to grant fintech firms immunity in case of minor violations.

#### **II. PERFORMING REGULATORY REFORMS TO FACILITATE FINTECH DEVELOPMENT**

- ▶ Promote a flexible and dynamic regulatory environment<sup>1</sup> where testing of 'innovative financial services' can lead to commercialization and ultimately to an

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<sup>1</sup> If certain 'innovative financial services' are found to add more utility and convenience, the government will consider modifying the relevant regulations even before the expiration of the testing period.

improvement in regulatory reforms.

- ▶ Conduct regulatory analysis and reforms to facilitate introduction and adoption of successful foreign-based fintech services in the Korean market
- ▶ Regularly visit innovative fintech firms in the field to monitor ongoing changes and developments in the fintech industry and to improve their business environment

### **III. LOWERING ENTRY BARRIERS TO FINANCIAL INDUSTRY**

- ▶ Extend the regulatory exemption period in the case that relevant regulations have not been modified prior to the expiration of the testing period<sup>2</sup>
- ▶ Grant provisional licenses to fintech firms if there is no licensing unit for them in place or if they cannot meet the current requirements to obtain a license after the completion of their testing in the regulatory sandbox
- ▶ Introduce 'small licenses' to facilitate development of new financial services and their entry to the market

### **IV. ESTABLISHING REGULATORY FOUNDATIONS FOR DIGITAL ERA**

The Electronic Financial Transactions Act, which was enacted in 2006 and has not seen major changes since, needs to be updated on a par with digital transformation in the financial industry.

- ▶ Promote electronic payment services, such as 'My Payment,' which lowers transaction fees and provides simpler transaction procedures, while improving regulations on simple payment services
- ▶ Provide a legal framework that allows the use of newly emerging authentication methods, such as biometrics, decentralized ID (DID), etc.
- ▶ Improve financial stability by introducing protective measures which require e-payment service providers to safely manage user funds in external institutions and by strengthening the preparedness for cyber security risks in financial sectors

### **V. DEVELOPING NEW GROWTH ENGINES FOR FINANCIAL INNOVATION**

- ▶ Continue to implement innovative initiatives in e-payment infrastructure with the introduction and expansion of open banking system, which is scheduled to be launched on December 18
- ▶ Set up legal foundations and infrastructure to promote the use of big data in financial sectors: a revision of the Credit Information Use and Protection Act,<sup>3</sup> financial big data open system 'CreDB,' data exchange platforms and institutions specializing in big data (e.g. Korea Credit Information Services and Financial Security Institute)
- ▶ Facilitate the adoption of new fintech-based solutions in the areas of P2P lending and artificial intelligence

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<sup>2</sup> Revision to the Special Act on Financial Innovation Support

<sup>3</sup> The revision bill is currently pending in the Legislation & Judiciary Committee of the National Assembly.

## **VI. PROMOTING INVESTMENT IN FINTECH & FOSTERING A PRIVATE SECTOR-DRIVEN VENTURE CAPITAL ECOSYSTEM**

The government will provide fintech firms with funding opportunities at different stages of their business cycle.

- ▶ Prompt the acceleration of fintech innovation and internalization of fintech firms by financial institutions
- ▶ Expand the scope of fintech business in which financial companies are allowed to invest and encourage financial firms' investment in fintech labs and start-ups
- ▶ Increase funding sources for fintech: Banks and other financial institutions will create and operate a Fintech Innovation Fund to provide KRW300 billion<sup>4</sup> over a 4-year period; and policy banks will provide KRW3.35 trillion over a 3-year period in government-backed investments, loans and guarantees.
- ▶ Modify KOSDAQ listing requirements to facilitate fintech IPOs

## **VII. ASSISTING FINTECH FIRMS WITH OVERSEAS BUSINESS OPPORTUNITIES**

- ▶ Launch more than 5 fintech labs in ASEAN countries<sup>5</sup> by 2020 to give overseas business opportunities for both Korean financial companies and fintech firms
- ▶ Strengthen inter-governmental cooperation with other countries through a referral mechanism to support fintech firms' overseas expansion in each other's countries<sup>6</sup>
- ▶ Operate a 'global regulatory sandbox' scheme which will help expedite the process of evaluation and testing for domestic fintech firms planning to expand overseas and foreign-based fintech firms wishing to enter the Korean market

## **VIII. EXPANDING PUBLIC SECTOR SUPPORT FOR FINTECH FIRMS**

- ▶ Boost fiscal support from KRW10.1 billion in 2019 to KRW19.8 billion in 2020 to support new programs, such as operation of educational programs designed to foster fintech professionals as well as support for the development of new technologies utilizing financial cloud services
- ▶ Enhance the function of the Korea Fintech Center in line with growing fintech projects
- ▶ Introduce fintech-friendly tax incentives

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<sup>4</sup> KRW150 billion from financial institutions, such as banks and KRW150 billion from the private sector

<sup>5</sup> Association of Southeast Asian Nations comprised of 10 countries

<sup>6</sup> MOUs signed with Vietnam, the UK, Singapore and France

## **SCHEDULE**

8 Policy Areas	24 Key tasks	Implementation schedule
Improving the current regulatory sandbox system	Designate more than 100 'innovative financial services' by March 2020	Ongoing
	Ensure protection of innovative ideas and technologies through patents and IP rights	In Q4, 2019
	Set up a supervisory framework tailored to the promotion of fintech firms	In Q4, 2019
Performing regulatory reforms to facilitate fintech development	Promote flexible and dynamic regulatory environment	Ongoing
	Facilitate introduction and adoption of successful foreign-based fintech services in the Korean market	In H1, 2020
	Regularly visit innovative fintech firms in the field to monitor ongoing changes and developments in the industry	Ongoing
Lowering entry barriers to financial industry	Extend the regulatory exemption period if necessary	In H1, 2020
	Grant provisional licenses	In H1, 2020
	Introduce 'small licenses' and subdivide licensing units to facilitate development of new financial services	Ongoing
Establishing regulatory foundations for digital era	Promote e-payment services, such as 'My Payment'	In H1, 2020
	Provide legal framework that allows the use of newly emerging authentication methods, such as biometrics and DID	In 2020
	Strengthen preparedness for cyber security risks	In 2021
Developing new growth engines for financial innovation	Continue to implement innovative initiatives in e-payment infrastructure through open banking system	Q4, 2019
	Modify laws, infrastructure, etc. to facilitate the use of big data in financial sectors	In 2020
	Facilitate adoption of new fintech-based innovative solutions in the areas of P2P lending and artificial intelligence	Q4, 2019
Promoting investment in fintech	Increase funding sources and investment for fintech start-ups	Ongoing
	Expand Fintech Innovation Fund and other financing support	Ongoing
	Modify KOSDAQ listing rules for fintech IPOs	In Q4, 2019
Assisting fintech firms with overseas business opportunities	Launch more than 5 fintech labs in ASEAN by 2020	Ongoing
	Strengthen inter-governmental cooperation with other countries through a referral mechanism	Ongoing
	Launch a 'global regulatory sandbox' system	In 2020
Expanding public sector support for fintech firms	Expand fiscal support for fintech	In 2020
	Enhance the role of the Korea Fintech Center	In 2020
	Introduce fintech-friendly tax incentives	In 2020

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