

FSC CHAIRMAN UNDERSCORES BALANCE BETWEEN FINANCIAL INNOVATION AND DATA SECURITY

FSC Chairman Eun Sung-soo attended a seminar held by the Financial Security Institute commemorating the day of information protection on July 7 and delivered a keynote address underscoring the importance of maintaining a balance between financial innovation and data security.

The following is a summary of Chairman Eun's remarks.

(DIGITAL FINANCE) The COVID-19 pandemic has accelerated the trend for contact-less financial services and digital transformation amid the 4th industrial revolution. Consumer preference for online transactions, such as mobile-based simple money transfer or payment methods, has increased as well as the frequency of telecommuting and teleconferencing by financial institutions. The government has been actively pursuing policies to promote innovation in the financial sectors. As a result, a total of 106 'innovative financial services' have been designated through the regulatory sandbox program. As open banking became fully operational in December last year, more than seven of ten economically active individuals now use open banking, and the number of account views and transfers reached more than a billion. Moreover, the revisions to the three major data-related laws including the Credit Information Act will go into effect on August 5.

(NEW CHALLENGES) Innovation in digital finance poses new challenges. Unlawful activities, such as identity theft or vishing, can lead to financial crimes. With a growing number of big techs and other nonfinancial institutions playing bigger roles in the provision of financial services, the third party risk originating from nonfinancial sectors has increased. The scope of cyber threats has also become wider with the application of newly available digital technologies. In this regard, without a guarantee for the safe protection of personal wealth and identity, innovation in digital finance is nothing more than a house of cards.

(BALANCE BETWEEN INNOVATION & SECURITY) In order to maintain an appropriate balance between innovation in digital finance and information security, the government will (a) introduce comprehensive plans to improve digital finance through revisions to the Electronic Financial Transactions Act, which will provide legal grounds for MyPayment and one-stop electronic payment and settlement service providers while bolstering measures for data security and user protection (in July), (b) continue to protect the financial system and consumers from financial frauds, such as vishing,¹ (c) draw up plans to improve regulations on the personal authentication and

¹ Please see the press release, "[Government Unveils Plans to Root Out Vishing](#)" (June 24, 2020).

ID verification system in financial services to ensure both convenience and safety in the system (Q3 2020), (d) require financial data management institutions and other financial infrastructure management institutions to adopt business continuity plans for their risk management, and (e) encourage big techs' role in financial innovation and create an environment for fair competition by working on market stability, consumer protection and prevention of regulatory arbitrage.

In digital finance, user convenience and safety are often found in a trade-off relationship. Innovative firms will not be able to last long without the trust of customers. From a consumer's point of view, a bit of inconvenience can ensure the security of the whole community. In this regard, the government, financial companies, fintechs and big techs should all work together to find a balanced approach in seeking both innovation and security in financial services.

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