

FSC ANNOUNCES PLANS TO PROMOTE DIGITAL FINANCE

The FSC unveiled its plans to promote digital finance on July 24, focusing on improving regulations for the industry, ensuring strong protection for digital finance users, building foundations and infrastructure to facilitate large volumes of digital financial transactions and strengthening data security to ensure stability in the financial system.

BACKGROUND

Digital finance as a major ‘untact’ industry has grown significantly with the development of simple payment and money transfer services, authentication technologies and platform businesses. With the introduction of new technologies and the expanded use of e-commerce and telecommuting, digital transformation of the financial industry has been accelerated. The convergence of digital finance with ICT sectors and platform businesses will not only lead the transformation toward a digital economy but also help enhance financial inclusiveness.

Recognizing the significance of digital finance, major economies have made changes to their regulatory framework to promote competition and innovation. Meanwhile, the Electronic Financial Transactions Act in Korea has not seen major updates since it was first enacted in 2006. As such, the current regulatory framework cannot fully accommodate the changes taking place in the financial industry which pose the following obstacles—a) relatively high entrance barriers for innovative electronic financial business entities, b) lack of strong user protection measures to guarantee safety in digital transactions and earn consumer trust, c) need for new infrastructure fit for new financial environment, and d) need to ensure financial data security.

With the revisions to the Electronic Financial Transactions Act, the FSC will boost both convenience and safety of digital finance users, promote innovation and competition in the financial industry, and contribute to the government’s digital new deal initiative.

KEY POLICY AGENDA

I. PROMOTE GROWTH OF INNOVATIVE DIGITAL FINANCE PLAYERS (INDUSTRY)

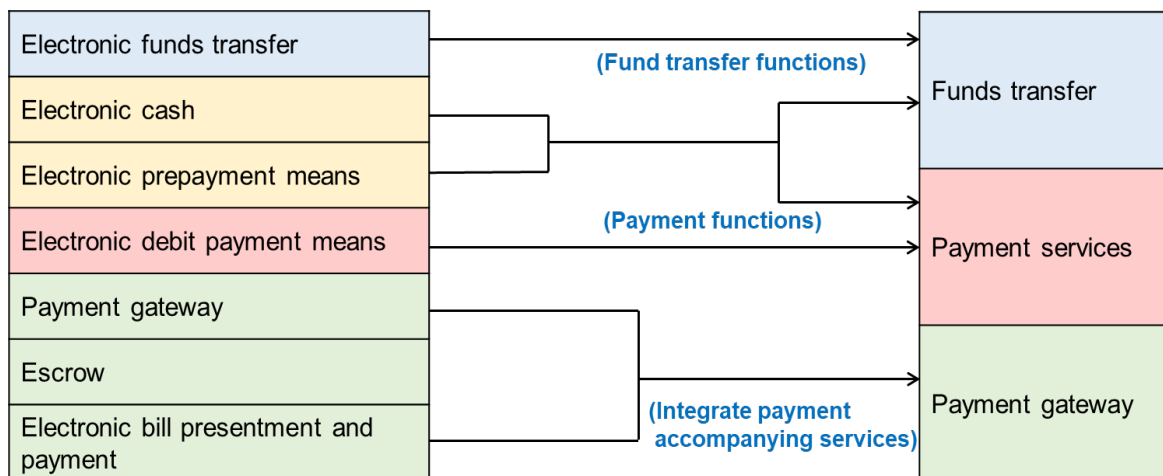
► Introduce MyPayment & One-stop payment service providers

- a) (MyPayment) Introduce MyPayment businesses which will carry out payment and transfer orders without actually holding customers’ funds
- b) (One-stop payment service providers) Allow ‘one-stop payment service

providers' designated by the FSC to issue and manage customers' payment accounts while enabling them to provide multiple digital financial services including payroll transfers and payments for credit card, insurance premium, utilities, etc.

► **Integrate and simplify categories of electronic financial businesses**

Streamline the regulatory framework for electronic financial businesses by reorganizing the current sub-sectors into three functional categories



► **Lower entry requirements to promote growth of innovative firms**

Lower the minimum capital requirement for small-sized startups from the current KRW0.5~5 billion to KRW0.3~2 billion depending on the size of their business operation

► **Expand the scope of work allowed for electronic financial business entities**

- a) (Small-sum charge) Allow payment service businesses to provide up to KRW300,000 in small-sum charges to customers while restricting other credit card functions and ensuring consumer protection measures
- b) (One-time deposit cap) Increase the one-time deposit cap for prepaid cards from the current KRW2 million to maximum KRW5 million, enabling the usage of prepaid cards in diverse sectors including home appliances and tourism
- a) (Regulatory sandbox) Improve the relevant regulations that have been temporarily eased or exempted for particular 'innovative financial services' to ensure the steady operation and provision of such financial services

II. ESTABLISH STRONG USER PROTECTION SYSTEM FOR DIGITAL FINANCE (USERS)

► **Establish protective measures for consumer funds held by electronic financial business entities**

- a) Require electronic financial business providers to deposit or trust consumers'

prepaid money at outside entities (e.g. banks) and subscribe to payment guarantee insurance

- b) Introduce a fund protection scheme which ensures consumers get back their money first in case of bankruptcy

► **Set up rules and principles for platform business models**

- a) Clarify responsibilities for producing, selling and promoting financial products between financial companies and big techs which are increasingly working in partnership through platform businesses
- b) Establish rules and principles to ensure transparency and accountability in platform business models

► **Strengthen accountability standards of electronic financial business entities and financial companies for financial accidents and require more caution from digital finance consumers**

- a) Extend responsibilities by financial companies, currently limited to technical incidents (e.g. fraud, hacking), to include accidents caused by electronic financial transactions unauthorized by consumers
- b) Promote cooperation between electronic financial businesses and financial companies in preventing electronic financial accidents and sharing responsibilities in a balanced and reasonable manner

III. SET UP FOUNDATIONS FOR DIGITAL FINANCIAL TRANSACTIONS (INFRASTRUCTURE)

► **Establish legal basis for open banking and digital clearing businesses**

Ensure stability, scalability and sustainability of open banking services and digital clearing businesses by establishing a legal basis

► **Develop more innovative and safe authentication and ID verification mechanisms**

- a) Provide technological standards for safe authentication and identity verification mechanisms and strengthen authentication requirements for high-risk transactions
- b) Introduce new, alternative authentication tools such as facial recognition system and decentralized identity

► **Expand the coverage of user protection and financial data security**

- a) Introduce 'extraterritorial application provisions' in the Electronic Financial Transactions Act, through which domestic regulations can be applied to regulate domestic operations of foreign businesses if their business activities are deemed to impact domestic consumers and businesses
- b) Broaden the scope of electronic financial transactions from contact-less transaction to digital financial transaction in order to provide a wider range of

protection for consumers

► **Encourage big tech companies' entrance in the financial industries while minimizing negative side effects, such as regulatory arbitrage**

- a) Introduce conduct regulations for platform business, partnerships and affiliations between big techs and financial companies
- b) Set up rules and principles for big techs entering digital financial business –e.g. compulsory liquidation, approval of mergers and acquisitions, business transfer, protection of consumers' capitals, extraterritorial application of domestic regulations, etc.
- c) Level the playing field for financial companies, fintechs and big techs to ensure fair competition and prevent regulatory arbitrage

IV. STRENGTHEN FINANCIAL DATA SECURITY (STABILITY)

► **Manage and supervise newly emerging digital risks**

- a) Shift the supervisory focus from post-accident measures to prevention and provide security guidelines to help private sector business entities beef up their security capabilities
- b) Strengthen the management of the third party risk arising from IT outsourcing by establishing regulatory foundations for inspection and supervision on cloud service providers

► **Bolster private sector financial institutions' internal governance system over digital finance risks**

Support financial companies to build up security capability by establishing a risk management governance framework and strengthening the authorities of chief information security officers as well as responsibilities of boards

► **Continue to promote digital transformation of the financial industry**

Extend the requirement of establishing business continuity plans to institutions that operate key financial infrastructures and gradually ease regulations on network separation in financial sectors

► **Establish a cyber security management system**

Conduct cyber security exercise with financial infrastructures on a regular basis and strengthen the role of the Financial Security Institute in responding to cyber hacking and information sharing

EXPECTATION

Along with the financial regulatory sandbox program and the revisions to the three data-related laws, the amendments to the Electronic Financial Transactions Act will

help improve the regulatory framework on digital finance. The revisions are expected to a) support Korea's innovation-led growth strategy by providing a roadmap for the development of digital finance, b) improve consumer convenience by boosting the efficiency and safety of digital finance, c) increase stability of digital finance by building financial market infrastructure on a par with global standards, and d) ensure cyber security by establishing a user-centric digital financial security system.

Overall, the parallel development of digital finance and data economy will significantly help accelerate Korea's advancement toward a digital economy.

FURTHER PLANS

The revisions to the Electronic Financial Transactions Act will be submitted to the National Assembly in the third quarter this year. The government will begin to implement parts of the revisions that do not require legislative changes through enforcement decrees, supervisory and administrative guidelines, and regulatory sandbox.

In addition, the government will set up a public-private joint consultative body to promote close communication and cooperation between the traditional financial institutions, fintechs and big techs.

More detailed plans for each policy area will be announced throughout the second half of this year.

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For press inquiry, please contact Foreign Media Relations Team at fsc_media@korea.kr.