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SOUTH KOREAN MARKET INTELLIGENCE REPORT 2022

FINTECH

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01 INTRODUCTION

South Korea (Korea) offers significant opportunities for British fintech companies as the country's major technology leaders, its online and offline banks and financial institutions, as well as a number of local startups investing heavily in the field. While regulations in this traditionally conservative sector have acted as a break on growth to date, the Korean government is now actively supporting innovation by deregulating and creating a favourable policy environment. The industry is highly competitive and companies are keen to engage with world-class UK companies to gain an advantage over rivals.

The country's main financial players have all established fintech innovation labs and are actively investing in fintech startups. The B2C market has seen particularly strong growth: Korean consumers are now relatively experienced with fintech products and keen to embrace new solutions. Average daily transaction values for electronic payments in September 2021 was KRW 559bn (GBP 365m) while the average number of daily online payment transactions increased 48.5% year-on-year to stand at 16.79 million in 2020.

The use of financial services for non-face-to-face transactions is increasing and simple payment systems for e-commerce are diversifying. With the rise of cryptocurrencies, interest in blockchain-based solutions has also increased. IT giants such as Naver and Kakao have emerged as major market players by including financial services in their platforms. Major online and offline banks, as well as securities firms, insurers and technology companies, are partnering with fintech leaders to stay relevant in a rapidly changing market.

Regulations that have acted as an obstacle to the development of the fintech industry are being lifted and policy support for fintech R&D such as artificial intelligence, big data and blockchain is expanding. The implementation of policies such as the Regulatory Sandbox Program is encouraging companies to develop and deploy new solutions and gain market validation by providing a roll-out environment free from certain regulations. Open Banking and MyData, allowing financial cloud services, easing entry barriers to the financial industry, and promoting additional approval of Internet-only banks are some of the other steps taken to remove or revise regulations to ensure Korea offers appropriate opportunities for new solutions.

In 2016, Korea signed a FinTech Bridge agreement with the UK which aims to increase coordination on regulation and help financial technology firms and investors gain access to each other's markets. By establishing links between the respective governments, regulators and private sector firms, the Bridge reduces barriers to entry into Korea and links fintech businesses in both nations with opportunities for trade and investment.

British companies looking to enter the market should find a warm reception as the country is well recognised within Korea as a fintech powerhouse. The key areas of growth and potential for British businesses include digital payments and blockchain technologies but there are also opportunities in artificial intelligence (AI) applications for finance, robo-advisors and insurtech, among others.

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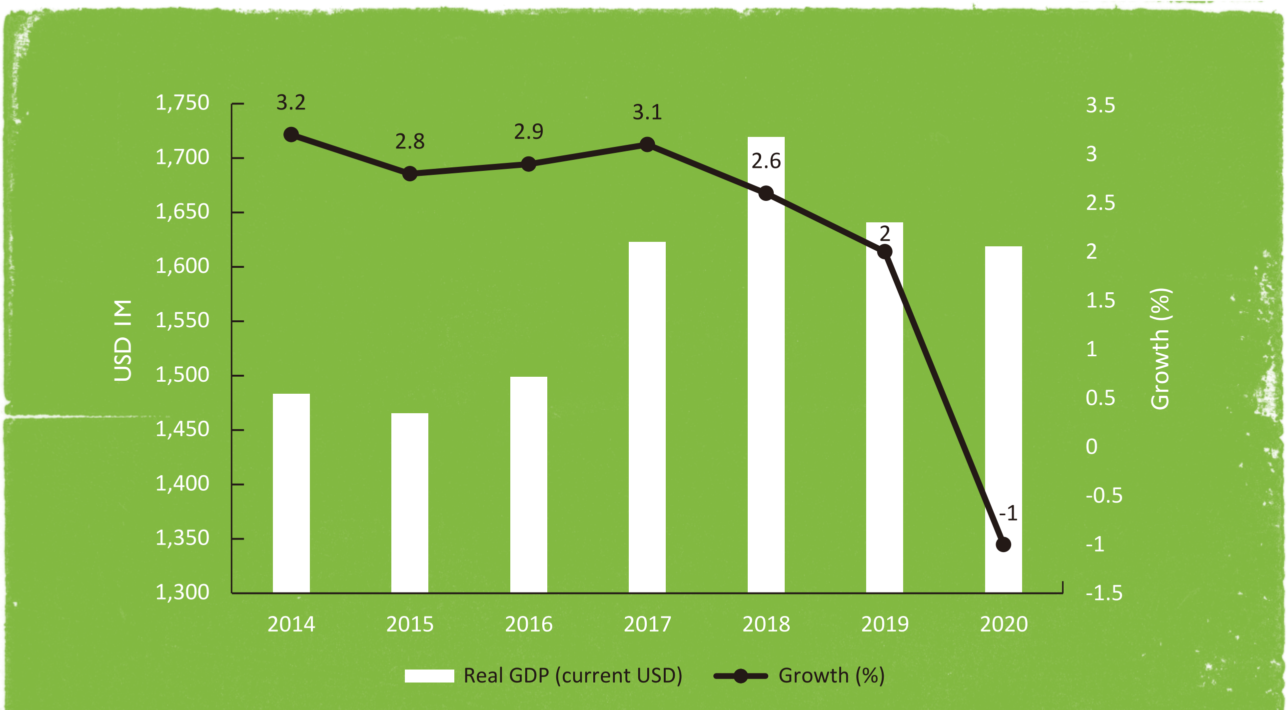
KOREA: AN OVERVIEW

In the space of just 60 years, Korea has transitioned from an agricultural economy to one driven by high value industries such as automotive, shipbuilding and advanced manufacturing. Perhaps most remarkable of all is the country's success in the area of information communications technology where the country has become world class in terms of semiconductor, consumer electronics and ICT infrastructure.

With a population of 51 million people, Korea boasts the 10th largest economy in the world, a GDP of £1.21 trillion ($1.63 trillion) in 2020 and a per capita GDP of £23,300 ($31,500) that same year. Whilst no longer experiencing the dizzying growth rates that characterised its early growth phase in the second half of the twentieth century, Korea has maintained strong growth for a developed economy of close to 3% in the years prior to the outbreak of the COVID-19 pandemic.

Total trade (exports and imports) between the UK and Korea was £13bn in the four quarters to the end of Q2 2021, an increase of 6.1% or £749m over the preceeding 12-month period. Of this, UK exports to Korea totalled £7.5bn while its imports from Korea came to £5.5bn. Korea is the UK's 22nd largest trading partner and accounts for 1.1% of total UK trade. The UK and Korea signed a continuity free trade agreement in 2019 which largely replicated the EU-Korea agreement.

Figure 1: GDP and Growth Rates (2014-2020)



Source: World Bank

03

KOREA'S FINTECH ECOSYSTEM

Key Points

- Korea is one of the leaders in Asia in terms of fintech adoption with a 67% adoption rate in 2019
- The Korean government is committed to deregulation in the fintech sector
- Digital wallets are the most popular sector. Key players include Naver Pay, Kakao Pay, Payco, Samsung Pay and Toss
- There are three online-only banks – K Bank, Kakao Bank and Toss Bank

There were approximately 579 fintech companies active in the market as of 2019, 44.5% up from 2018 (400). The Bank of Korea is the country's central bank, and the financial sector is overseen by the Financial Supervisory Service (FSS) and Financial Services Commission (FSC). The FSS regulates banks and implements financial policies established by the FSC.

There are 19 major commercial banks and 80 saving banks at the end of 2021. The country's largest banks and financial institutions – Shinhan Financial Group, KB Financial Group, KEB Hana Bank, NH NongHyup Bank, Woori Bank, Industrial Bank of Korea (IBK) and Hanwha Life – all run fintech innovation labs and are actively competing to secure their position as hubs for new technologies. And after Seoul Metropolitan City's declaration in November 2021 that it would be the first major city to enter the metaverse, IBK announced that it had signed an MOU with Cyworld Z (a renewed version of Korea's first social platform, Cyworld) to set up a 'IBK Dotori Bank' on the metaverse based on Cyworld Z playform, with its own virtual currency Dotori used within the platform. KB Kookmin bank is also looking to open its virtual branch through a potential partnership with game platform Roblox, and Hana Bank established a task force for digital innovation with metaverse a major focus.

In 2021, Gallup Korea surveyed 5,100 people nationwide on the use of financial services, including groups of users from teens to people in their 60s and above. 62% of the respondents have used mobile banking vs. 40% for desktop website, 29% have used digital payments, 26% internet-only banks and 13% mobile stock trading services, marking an increase for all mobile services compared to the same study conducted in 2020, while the use of desktop-based banking declined. Across all mobile categories, usage rate was highest for people in their 20s, 30s and 40s – up to 94% for mobile banking and 58% for digital payments.

Based on a survey by the Bank of Korea in 2019, approximately 8 out of 10 people used smartphone banking instead of visiting a physical branch, a number that is only expected to increase. It is important to note that the survey also found that usage of mobile banking is also growing for people in their 50s, 60s, and 70s – with the proportion of people in their 60s recording the highest growth, from 18.7% to 32.2%.

Figure 2: Digital financial services usage

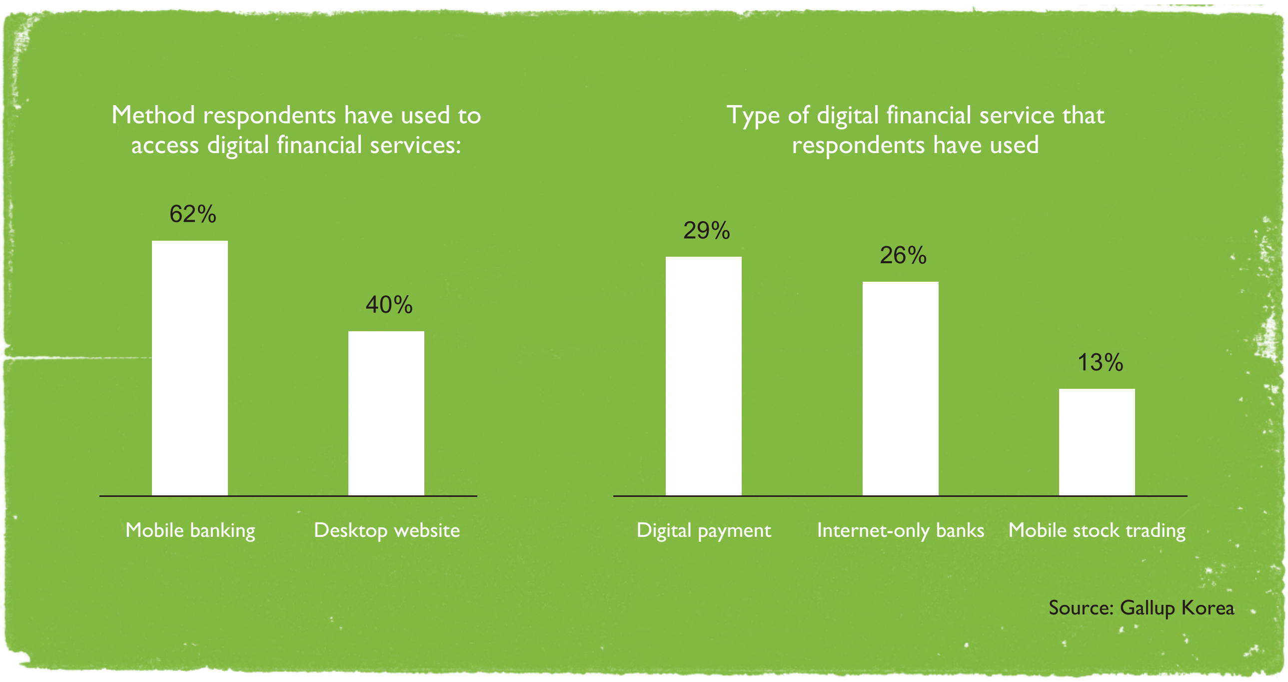
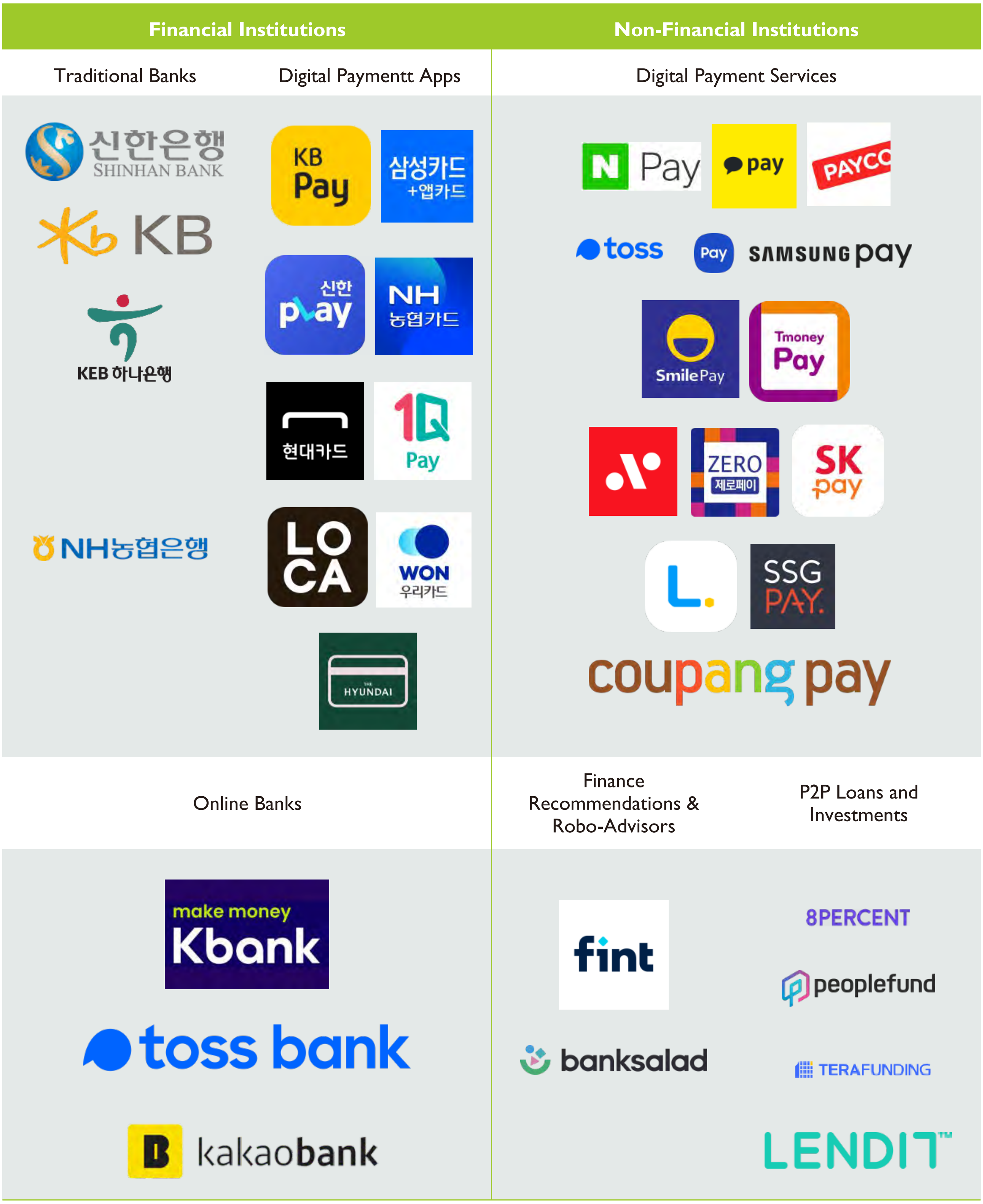


Figure 3: Korea's Fintech Ecosystem



TRADITIONAL BANKS

Several top banks have made significant strides to develop technologies internally or partner with solution providers to increase the competitiveness of their services. They are concentrating heavily on digital banking, mobile payment, security as well as blockchain solutions for both customer-facing and internal procedures.

Table 1: Korea's Top Banks in 2020

Bank	Net Profit*	Highlights
KB Kookmin Bank	£1.44bn [KRW 2.29tn]	• Biometric and blockchain-based authentication mobile app • Working with fintech startups on cloud-based platforms • Ranked 39th in the Global Finance list of 50 Safest Commercial Banks in the world
Shinhan Bank	£1.3bn [KRW 2.07tn]	• Korea's most profitable bank for 10 of the past 12 years • 1st place in a 2021 bank reputation big data analysis • First to implement blockchain in financial procedures • Ranked 40th in the Global Finance list of 50 Safest Commercial Banks in the world
KEB Hana Bank	£1.26bn [KRW 2.01tn]	• First to adopt a smartphone banking system • Joined Hyperledger and Enterprise Ethereum Alliance, global blockchain consortia to help launch its digital platform • In 2021 for the first time included in the Global Finance ranking of 50 Safest Commercial Banks in the world on expectations of higher government support
NH NongHyup Bank	£863m [KRW 1.37tn]	• Diversifying services beyond traditional banking services • Opened its first London office in August 2021 as part of its new aggressive global expansion strategy • In 2021, announced collaboration with Samsung Electronics to develop metaverse and blockchain-based financial services
Woori Bank	£866m [KRW 1.36tn]	• Uses machine learning and visual data mining with SAS Viya to facilitate recommendations • In 2021 for the first time included in the Global Finance ranking of 50 Safest Commercial Banks in the world for its improving asset quality metrics versus domestic peers

Source: Intralink research, multiple sources

Online-only Banks

Korea's first online-only bank, K Bank, was launched in April 2017, followed by Kakao Bank in July of the same year. Over 20,000 users registered with K Bank on its first day and 6.75m users had registered by August 2021. K Bank was formed with capital of KRW 250bn (GBP 166.9mn) from 20 shareholders, including one of Korea's top five banks, Woori Bank, which owns 19%. K Bank recorded its first profit in Q2 of 2021 on the back of a newly established partnership with Korea's largest cryptocurrency exchange, Upbit.

Korea's second online-only bank, Kakao Bank, managed to reach 187,000 customers on its launch date, 3.3m in the first month and 6.3m in the first year. This is not surprising, as one of Kakao Bank's shareholders is Kakao Corp – operator of the most popular social messenger in Korea with more than 45.6 million users in a country with a population of 51 million people. Aside from Kakao Corp's 34%, 9.86% of Kakao Bank is owned by KB Kookmin Bank. Kakao Bank recorded its first profit in Q1 2019 since being established and in September 2021 its market capitalisation stood at GBP 21.86bn, ahead of the country's two largest financial groups, KB Financial Group (GBP 13.88bn) and Shinhan Financial Group (GBP 12.68bn).

After Toss Bank received final approval from FSC to operate Korea's third mobile-only bank, it launched in October 2021, with the backing of overseas partners including US-based Altos Ventures and Goodwater Capital, as well as Hana Bank and Standard Chartered Bank Korea. Toss Bank plans to integrate its mobile app into the Toss app, in order to create an all-in-one super app offering banking, stocks, insurance and payment services.

Table 2: Online-only Banks

Bank	Established	Users	Total Capital Base	Deposit Volume*
K Bank	April 2017	6.75m*	£1.37bn***	£7.21bn
Kakao Bank	July 2017	17.17m*	£1.81bn***	£17.49bn
Toss Bank	October 2021	1.2m**	£0.35bn****	£No data

* As of August 2021, ** September 2021, *** May 2021, **** October 2021.

Source: Intralink research, multiple sources.

04

KOREA'S FINTECH MARKETS

Korea's strong push towards digital payments has boosted growth in the sector, however the legacy of heavy regulation – or sometimes lack thereof – has hampered the growth of insurtech and regtech and slowed the momentum of P2P lending and investments. The government, aware of these issues, has been working on not only deregulating the financial sector in general and creating new policies, but also on providing incentives to companies to experiment with new, disruptive products and services.

DIGITAL PAYMENT PLATFORMS

Digital payments is the largest fintech sector in Korea and continues to grow rapidly. According to the Bank of Korea, the daily total transaction values for electronic payment service usage in September 2021 was KRW 559bn (GBP 365m) while the average number of daily online payment transactions increased 48.5% year-on-year to stand at 16.79 million in 2020. Electronic prepayment services through mobile payment platforms such as Kakao Pay and Toss also jumped 59.4 percent year-on-year to a daily average of KRW 467.6bn (GBP 291m) in 2020.

Korea's well-organised, three-party payment network, coupled with the fastest internet speeds in the world creates an environment where credit cards are still considered more convenient than digital payment methods such as, for instance, QR codes. With no outstanding option currently available, some digital platforms such as Toss or Kakao Pay offer physical cards to boost offline payments. The cards are connected to the users' commercial bank accounts and include added benefits such as cashback services or automatic loyalty point collection for most locally available membership point programmes.

Korea is also one of the world's largest e-commerce markets, valued at KRW 123.2tn (GBP 78.3bn) in 2020, up from KRW 111tn (GBP 70bn) in 2018. Mobile purchases amounted to 70% of the total online shopping transaction value. As social distancing has been prolonged and people have reduced unnecessary outings due to COVID, the frequency of online shopping has naturally increased. The e-commerce industry has spurred the spread of simple payment services – as they are completed with just a few clicks, they helped lower the threshold for online shopping. In 2021, simple payments constituted 89.3% of the total e-commerve transaction value and only 6.4% of shoppers selected bank transfer as payment method. 35% of the 89.3% simple payments were made via app cards of financial companies – connected either to a debit or credit card – and 31% via social media payment gateways.

The sector is dominated by mobile payment platforms started by established online service giants (Kakao Pay, Naver Pay, Payco), Korea's global conglomerates (Samsung Pay, Shinsegae's SSG Pay, and Lotte Group's L Pay) as well as startups (Toss from Korea's first fintech unicorn, Viva Republica). The e-commerce pay war is also moving to the deferred payment market – Coupang offers Buy Now Pay Later (BNPL) services via its Coupang PayLater service, and Naver through its Naver Pay simple payment system.

Table 3: Main Players – Digital Payment Sector

Company	Users	Highlights
Kakao Pay	35m	• Launched in 2014 by DaumKakao and LG CNS • First fintech service to reach 10m users • Remittance services competing with Viva Republica's Toss
Toss (Viva Republica)	20m	• Launched in 2015, Toss disrupted fintech in Korea • P2P payment app transformed into platform with 50 financial services (credit score, customized loan, insurance, stocks) • Achieved unicorn status in 2018 after securing GBP 80mn in funding • In 2021 secured GBP 309mn in the latest round of funding, raising value to GBP 5.6bn
Naver Pay	28m	• Launched in 2015 by Naver Corp – largest search engine in Korea • Complete shopping experience from online search to purchase through partnered merchant stores via Naver Shoppint • User can check status, return or exchange products, and points • Increases customer platform loyalty through B2C services such as Naver Passbook, Naver Pay, and Naver Plus membership
Payco	10m	• Debut in 2015 – NHN Entertainment's mobile payment system • Used in Google Play and for in-game purchases • Signed MOU with Shinhan Bank for 'customized financial services for MZ generation'
Samsung Pay	14m	• Payments by users placing smartphone near a card reader • Built into Samsung and available on Android devices • No. 1 in the local offline market with 24% market share
Zero Pay (member stores)	0.9m	• Payment method introduced by the Seoul Metropolitan Government in December 2018 • Aimed at creating 0% transaction fees for small vendors • Higher income deduction rate as main user incentive

Source:Intralink research, multiple sources

The digital payments market is yet to see a truly dominant player emerge. Companies focus on expanding their platforms by acquiring or collaborating with service providers from other segments to include a variety of products beyond simple electronic payments and create super-apps; a move to ensure high retention and engagement rates. The presence of multiple leaders in online payments means increased competition. This in turn, is likely to see companies be receptive to solutions that might give them a competitive advantage and so creates cooperation opportunities for British firms.

Additional opportunities lie in foreign remittance, as local mobile platforms are now able to partner with overseas companies for such services. Samsung Pay launched international wire transfers in January 2019 and as of June 2019, non-financial institutions are also able to offer overseas payments – until this point, foreign exchange was limited to banks and licensed financial firms.

Industry Insider's Thoughts

Overseas fintech companies can bring value to the Korean market by contributing to the digital payment segment – it is still a hot topic and there is much to be done.

Senior Manager of the Future Visioning Team at K Bank

Industry Insider's Thoughts

Cross-border payments will become more important in the near future, which creates new partnership opportunities between Korean and overseas fintech firms, such as those from the UK.

Member of the C-suite at Kakao Pay

P2P LOANS AND CROWDFUNDING

The P2P loan market is growing quickly with additional support and security measures provided for by the government as a result of a number of scandals relating to fraud and misappropriation of funds early on. Accumulated lending reached KRW 10.3tn (GBP 6.52bn) in June 2020, 106% up from KRW 5tn (GBP 3.16bn) by the end of 2018 – which was a more than eight-fold increase from 2016.

Korea passed The Marketplace Lending Act in August 2020, the first law in the world dedicated to digital lending, focused on regulating marketplace lenders and protecting P2P consumers. It allows licenced P2P lending startups to operate as an authorized financial institution, making them eligiblele to lend, raise capital both domestically and internationally, and provide loan referral services to customers. The number of P2P platforms fluctuated heavily due to the change in regulations – after the initial surge from 16 in 2016 to 237 in August 2020, it fell to 102 in May 2021. The number of individual investors has exceeded 800,000 as of August 2021.

Despite this growth, insufficient regulations caused the market to experience difficulties, with some large players facing a fraud investigation, and many smaller companies filing for bankruptcy. Many laws are focused on real estate related products, as these constituted 68% of total lending as of November 2021, followed by personal credit loans with 10%. PeopleFund is Korea's first marketplace lending platform fully integrated with a commercial bank for consumer loan processing, and reached an accumulated loan volume of KRW 1.17tn (GBP 745m) in 2021 up from KRW 334bn (GBP 224.5m) at the end of 2018.

Similarly, equity crowdfunding is becoming more relevant with market size estimates at KRW 1.1tn (GBP 700m), a staggering 816% up from KRW 120bn (GBP 80.6m) in January 2019. Online capital foundation was legalised by Korea's National Assembly in 2016 by amendments to the Capital Market Act. Wadiz, Tumblbug, Naver's Happybean and Kakao Makers are some of the most popular local crowdfunding services. Wadiz was the first crowdfunding platform to facilitate over KRW 100bn (GBP 676m) in investments in 2018. Investments in 2020 reached KRW 200bn (GBP 127m), a 40% YoY increase and 1787% increase compared to 2016. The same year, accumulative investments reached KRW 400bn (GBP 254bn).

The P2P market has undergone numerous changes in the past few years, and while there are a number of established players present, industry insiders suggest that there is a constant need for innovative services, which would be able to offer middle-rates and possess unique know-how related to calculating customers' credit ratings. Companies are searching for new ideas and solutions to dominate the market and British companies with expertise in the field should look to seize existing and future opportunities.

BLOCKCHAIN

With an impressive number of cryptocurrency exchanges, Korea has long been at the forefront of blockchain technology. The government identified blockchain as the third area for growth in the fintech space, behind digital payments and P2P lending. It has announced its intention to expand investment in New Deal policy projects, including KRW 2.6tn (GBP 1.62bn) to be spent on hyper connectivity industries, including metaverse, cloud computing and blockchain technology.

Blockchain-based Cryptocurrency

Koreans are perhaps among the earliest adopters with regards to cryptocurrency adoption. In 2017, Korea became one of the top global cryptocurrency markets and continues to be one of the largest markets in the world. The crypto market is experiencing a resurgence fueled by the COVID-19 pandemic and is seen by many as one of the few available options to build additional income for retirement. As of September 2021, there were 14.8m registered users of leading cryptocurrency exchanges with a total balance of KRW 61tn (GBP 38.6bn) in their accounts, and based on August 2021 data, approximately 60% of new cryptocurrency investors are in their twenties or thirties.

However, due to the fact that cryptocurrency is still highly volatile, the government has implemented laws to gain control over the market. The latest one – an anti-money laundering law, requires exchanges to provide real-name accounts backed by commercial banks and certification from the Korean Internet and Security Agency (KISA). Out of 66 exchanges operating in the country, 29 managed to submit applications within the assigned deadline and only four received final approval – Upbit, Bithumb, Coinone and Korbit. The Big Four, as they are called, account for 90% of crypto asset by trading volume. While the new law helps to weed out unqualified players, some worry that it also presents a barrier to entry for startups with great potential.

Blockchain-based Technology

Blockchain is well-established in Korea and the variety of applications towards which the technology is being tested is rapidly increasing. Local financial industry specialists consider smart contracts to be one of the most valuable aspects of blockchain, rather than cryptocurrencies themselves. Smart contracts are self-executing contracts with terms of agreement between parties directly written into the code and resistant to modifications, allowing for credible transactions to take place without the need for third parties. This technology is of real interest to financial institutions looking to prevent fraud and provide additional layers of safety and error protection, as well as lower transaction costs.

KB Kookmin Bank entered the Digital Asset Custody Service (DACS) market in November 2020 by establishing Korea Digital Asset Co. (KODA) together with domestic blockchain company Haechi Labs. Shinhan Bank and LG CNS, the IT services arm LG Corp, have unveiled a joint pilot platform for central bank digital currencies (CBDC) and completed the demo in early 2021. Woori partnered with Coinplug in July 2021 for a similar venture. The companies intend to become an intermediary for the Bank of Korea when it issues CBDC. Shinhan Bank also made an investment in the Korea Digital Asset Trust (KDAT), which is a consortium of startups that focus on digital asset custody.

British companies should explore this field by engaging with Korean banks, other financial institutions, technology companies and systems integrators to pinpoint bottlenecks that exist in the market.

Industry Insider's Thoughts

Currently, Korea has very well developed 'hardware' – the underlying structure of fintech, what we lack is good 'software'. Local blockchain and AI companies do not have the necessary core resources, which creates an opportunity for successful overseas solutions to thrive on the market.

– Senior Manager of the Digital Innovation Department at KB Card

AI IN FINANCE

Artificial intelligence in its various forms is becoming widely used in financial services in the Korean market. Not unlike other major economies in Asia, Korea has been investing heavily in AI. In November 2020, the government prepared an approach paper called The National Strategy for Artificial Intelligence, which presents a vision of Korea becoming a world leader in the global AI sector, further committing to its goal of becoming an AI powerhouse and the world's third most competitive digital economy by 2030. The government also pledged in 2019 to spend KRW 1tn (GBP 635m) over ten years to support the development of the AI semiconductor industry and invest to build AI capabilities through education. This process will take time, however, meaning that in the near term at least, there are opportunities for firms from the UK with clear value propositions.

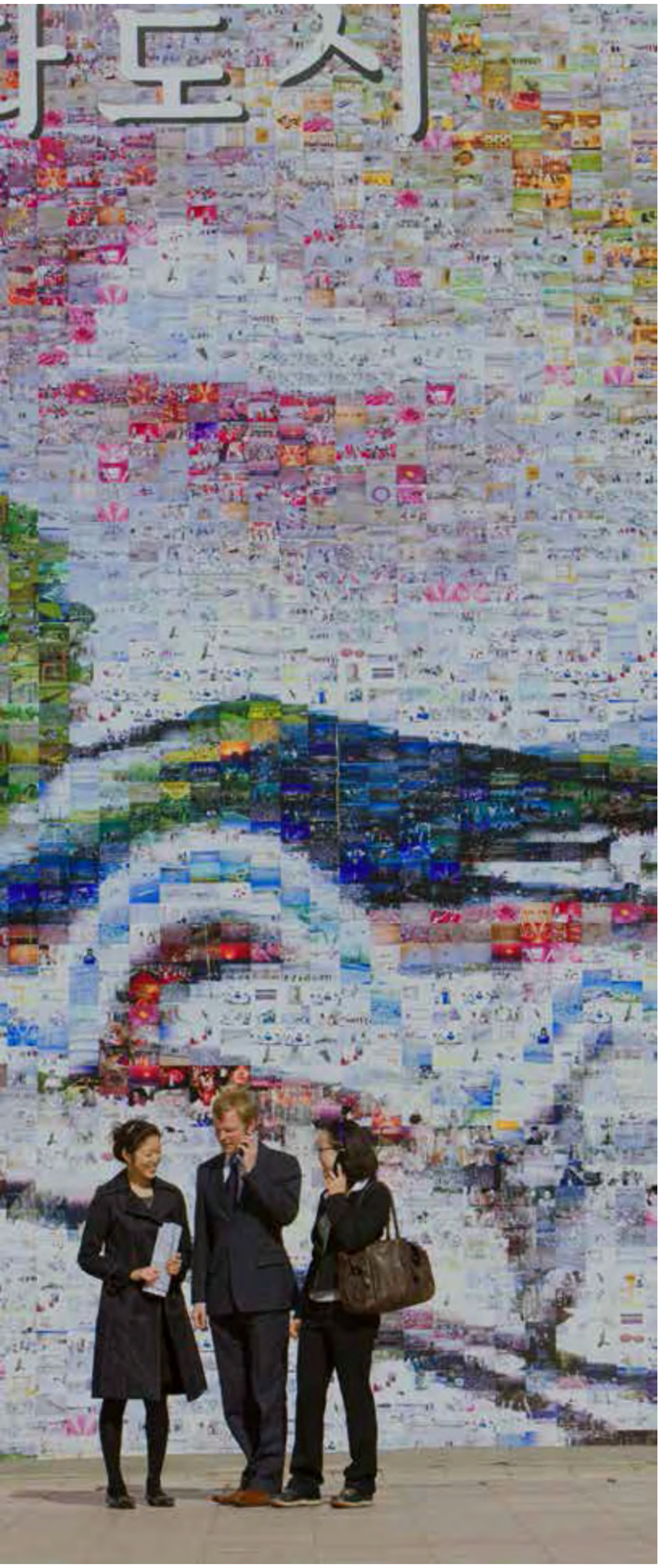
Banks offer chatbot services that apply AI technology to conduct conversations with customers via text to automate simple and repetitive tasks, voice banking and deep-learning based AI robo-advisory services. But despite heavy investment in AI, Korea faces challenges to growth. There still exists an engineering gap for skilled AI talent, which the country is addressing by starting at least six new AI schools by 2022. The sheer volume of investment coupled with a deficit of skilled individuals and the need for new technologies makes Korea an attractive target for British companies in all forms of AI.

INSURTECH

While still conservative, the Korean insurance market includes companies that are adopting new technologies and creating new business models to address modern customers' needs. Mobile transactions are seen as an obvious convenience in Korea and insurance providers recognise the need to join the trend. This fact, paired with the need for cuts in operating costs due to Korea's rapidly ageing society and, in the longer-term, a shrinking customer base, is expected to further boost innovation in the field.

Kyobo LifePlanet is the country's first online-only life insurance company, set up as a subsidiary of Kyobo Life. Carrot General Insurance, a non-life digital insurance platform launched in 2019 – major shareholders including Hanwha General Insurance, SK Telecom, Hyundai Motor Company – is famous for its pay-as-you-go car insurance. Hanwha Life, meanwhile, rolled out an AI-driven assessment system that automatically analyzes customer claims and approves or denies payouts without requiring human input. In June 2021, the FSC also granted a preliminary approval to Kakao Corp to start a non-life insurance business, with a focus on domestic travel and mobility-related insurance to synergise it with its online platforms, as well as self-designed and property insurance products.

Regulatory barriers still exist in Korea's insurtech space and could be said to be a brake on growth in an otherwise promising sector. British companies looking to get involved in the space should ensure they monitor recent developments in the insurance market in Korea and may expect further deregulation.



REGTECH

Regulation technology or ‘Regtech’ solutions are aimed at ensuring compliance with existing laws, monitoring financial transactions for unusual activities through AI data analysis, and easing regulation-related workload through the use of IT technology. Regtech in Korea manifests itself through the government’s regtech platform, the Financial Security RegTech Portal launched in December 2018, continuously updated to fit financial institutions’ requirements. The FSS also intends to introduce a data-based regtech ecosystem to assist companies in reducing operational costs and automate transmission of reports to the institution.

The general attitude towards regtech in the financial industry appears to be welcoming towards innovative solutions as compliance-related procedures are cumbersome, due to how heavily-regulated the financial sector has been. Some financial institutions have already taken their first steps towards integrating regtech into their businesses. Lambda256, a blockchain technology subsidiary of Dunamu, the operator of Upbeat, unveiled its regtech-based Blockchain-as-a-Service (BaaS) platform, Luniverse 2.0. It is an upgraded version of its former platform, Luniverse, used by approximately 2,600 companies. Luniverse 2.0 was created to help companies build, deploy and manage blockchain solutions and intends to position itself as the leading blockchain solution provider for regtech.

05

REGULATIONS

Key Points

- Financial regulations have held back Korean fintech to date, but deregulation is gathering pace
- Personal data laws, transaction security and data storage localisation requirements can cause difficulties for foreign firms and place them at a disadvantage versus their domestic competitors
- New cryptocurrency laws require exchanges to provide real-name accounts backed by commercial banks and certification from the Korean Internet and Security Agency (KISA)
- UK Department for Digital, Culture, Media and Sport (DCMS) announced that it will prioritise a data adequacy partnership with Korea to ensure ease of data exchange

Numerous laws safe-guarding the finance industry have traditionally made Korea a difficult market for fintech to flourish. However, the current government recognises the importance of the sector and the fact that regulations are limiting innovation as well as placing Korea at a competitive disadvantage. The government is actively looking to ease regulations making it possible for banks and fintech companies to develop solutions and forge new technology partnerships.

Financial activities fall under the FSC's and FSS's supervision. These include, among others, formulating financial policies, supervising financial institutions and markets, ensuring fair market practices, and supervising and examining financial institutions. At the moment, electronic issuance and management of currencies must be licensed under the FSC. Financial transaction security is protected under the Electronic Financial Transaction Act (EFTA).

Industry Insider's Thoughts

If there's a government drive, things can move very quickly. Recent improvements in flexible certification approvals and other liberalisation measures show change really is happening in Korea.

– Head of Big Data Center at leading domestic credit card company

Data and Transaction Security

Personal data protection in Korea falls under the Personal Protection Information Act (PIPA). PIPA is widely considered to be one of the strictest personal data protection regimes in the world. The regulations specify that for electronic transactions the data subject must be informed of and agree to the purpose and items collected as well as the duration the information will be kept. It must also be stated that the data subject may refuse to share the information and what the consequences of such a refusal are. Personal data should not be kept for longer than is necessary to fulfil the purpose for which it was originally collected, and prior consent must be secured before a data subject's data is transferred aboard.

Data Adequacy

On 26 August 2021, the UK Department for Digital, Culture, Media and Sport (DCMS) announced the UK Global Data Plan. This includes an overview of the UK's approach to adequacy assessments and a statement to enable easier data exchange between UK organisations and important and fast growing economies, by prioritising data adequacy partnerships with six countries, including Korea.

Data Localisation Requirements

The rapid move from storing data locally to storing data in full or in part on the cloud has been one of the key elements of digital technologies development in recent years. Until recently, Korean financial institutions, including banks, insurance companies and investment firms have not been allowed to store identifiable customer information in the cloud. From 2019 however, based on new legislation formed by the FSC, such information may be stored on cloud servers, provided they are located in Korea.

The necessity of storing certain information on cloud servers located in Korea can cause difficulties for foreign fintech firms wishing to enter the market. Although the fintech market is growing, foreign firms that make use of regional or even global servers might decide that the Korean market is not large enough to warrant Korea-specific arrangements in order to service customers.

Cryptocurrencies

As crypto fraud reports increased by 42% in 2020, the government decided to implement new anti-money laundering rules – platforms serving Korean won-denominated trade in digital tokens had to register with the Financial Intelligence Unit (FIU), established under the FSC, by 24 September 2021 to continue operation or face closure.

Out of 63 cryptocurrency exchanges, only 28 – including the four main ones, Upbit, Bithumb, Coinone, and Korbit ¬– met the preliminary requirements i.e., being able to provide real-name accounts backed by commercial banks and be certified by the Korean Internet and Security Agency (KISA). The government also recently announced plans to implement 20% capital gains tax on cryptocurrency gains over KRW 2.5m (GBP 1,590) as of January 2023.

06

GOVERNMENT INITIATIVES AND POLICY ROADMAP

Key Points

- The Regulatory Sandbox Program eased companies' ability to test and roll out solutions
- The UK and Korea signed the FinTech Bridge and a Regulatory Cooperation Agreement in 2016
- The FSC amended the Credit Information Act to facilitate the use of big data in the sector
- The government pledged GBP 6.67bn to create a platform economy by 2023 with a focus on promoting big data and AI, and developing blockchain technology

REGULATORY SANDBOX PROGRAM

This is possibly the most important policy introduced to spur the development of the fourth industrial revolution and new growth industries such as fintech. The Regulatory Sandbox Program came into effect on 1 April, 2019 and focuses on encouraging local and overseas companies to innovate and prove out a product or service by providing an environment in which solutions can be tested free from specific regulations.

This approach enables companies to develop products while providing security to users. It is also hoped that the initiative will increase investment in the companies themselves, since the government is supervising the operation. Under the regime, fintech companies approved by the FSC will be able to test for up to two years, with a one-time, two-year extension possible. Once a system obtains a licence after successfully completing the testing period, the company can acquire exclusive operating rights for up to two years, which will prevent other operators from launching the same services in that period. By February 2021, 440 cases were approved, with 48 given temporary permissions and 332 exemptions for demonstrations and 30 cases were being reviewed by government officials providing policy recommendations.

More broadly, Korea is moving from a positive-listing approach to a negative-listing approach to regulation in new growth industries. Until now, Korea's innovation has been stymied as companies needed to secure licence and permits for their products, services or business models for which no specific laws existed due to the fact that these are new, disruptive solutions. This meant innovative startups having to waiting for the government to analyse and set regulations for the new venture. Under strong pressure from industry, the current administration has pledged to move to a negative-listing approach whereby if there are no regulations specified for a product, service or business model, companies will be free to move forward without seeking government consent beforehand.

Figure 4: Regulatory Sandbox Application Process

1. Registration: Company submits application documents to the ICT regulatory sandbox counseling center

2. Consultation and review: Application is filled out and supplemented through regulatory consulting

3. Receipt: When a company submits the final copy of application documents, the MSIT sends documents to relevant departments

4. Review and reply to comments: Relevant ministries review application and provide with feedback within 30 days

5. Result notice: Notification of expedited proessing results (Notice of Results, Letter of Answer)

5a. If there are restrictions, the company can papply for temporary permission or exception for demonstration

Source: Government Regulator Sandbox Program guidelines available on sandbox.or.kr

UK-KOREA FINTECH BRIDGE

In 2016, the UK and Korea signed the UK's Financial Conduct Authority's FinTech Bridge regulatory cooperation framework. The main purpose of the cooperation agreement is to share information related to the industry (such as service innovation for specific segments), regulatory issues and market trends, as well as reducing entry barriers between both countries.

Korea has been focusing on developing a regulatory environment that supports rapid growth of the fintech sector. Through growing cooperation with an industry leader, such as the UK, the country is hoping to emulate Britain's success in the field and grow its domestic market rapidly. Korea's regulatory sandbox and open banking policies have been modelled on existing UK regulations, meaning working in Korea should prove somewhat familiar to British businesses. The Bridge with the UK should also facilitate Korean startups' entry into the global marketplace.

OPEN BANKING

In order to increase innovation in the financial system and encourage the participation of fintech firms, the FSC established an open banking system to foster development and competition. It was officially launched in 2019 by allowing customers to use their preferred mobile banking app to use accounts in different banks. In May 2021, the FSC allowed access to the open banking platform to credit card users, fintech services have been granted access in July 2021, and the invitation was extended to insurers in November 2021. One of the key application is that the service providing companie to offer customised financial products by analysing customer information. The reform should further increase convenience for consumers, who are now able to access to different banking accounts and other financial services through one app, rather than download separate apps for each banks and other service providers. Since its launch, the open banking system had 166.8m registered accounts by the end of 2021.

MYDATA

The Korean government recognises that data will be a key foundation of the fourth industrial revolution and designed MyData service, a system intended to assist users in controlling their data. The MyData service initiative was officially announced in July 2018 and the FSC launched the MyData services pilot on 1 December 2021, with the intention of a full launch on 1 January 2023. 17 financial institutions and fintech companies are currently piloting the API-based services and applications.

Until now, the discussion about data utilisation was led by companies and thus benefitted them more than the user. The new MyData platform enables individuals to manage their own information, which are scattered across different institutions and companies. If they wish, users may allow thethird party companies to access selected data, which would then allow the companies to develop customised and diversified services such as data-based credit management, credit information inquiry services, financial status analytics, product recommendations andfinancial advisory services.

P2P LENDING

Rather than re-adjusting the rules related to traditional lending, the FSC announced in February 2019 that it planned to create new legislation to help ensure that P2P lending regulations do not hinder innovation, while at the same time protecting investors and borrowers and enhancing investor trust.

While the P2P lending sector has seen rapid growth since 2016, initially little was done to establish a legal framework for the sector, and it went largely unregulated. Then, in August 2020, The Act on Online Investment-Linked Financing and User Protection was passed with the aim of banning P2P lending companies from lending money they themselves had borrowed from commercial banks and ensuring that P2P lenders have paid-in capital of at least KRW 500m (£310,000). Only three applicants were approved for a licence by the FSC in the first round – People Fund, 8 Percent and Lendit, although others such as Together Funding have since secured a licence.

REGTECH PLATFORM

The Financial Security Institute – a non-profit, member-funding association created under the intiaitive of the Financial Services Commission in 2015 – aims to manage the entire flow of financial information provided by 180 banks, insurers, brokerage houses and credit card firms in Korea. The Institute has built a common financial regtech platform to bring clarity to regulations in the financial services sector and help local companies operate in accordance with financial security laws.

The platform's main goals are supporting:
1) automation of compliance management,
2) automatic financial security reporting,
3) intelligence regulation search,
4) notification, as well as
5) financial security business support. It is currently only available in Korean through regtech.fsec.or.kr for registered local companies.

07

MARKET ENTRY STRATEGIES

Key Points

- Direct sales into the large banks, internet companies or conglomerates is possible but on-the-ground support is advised
- Using a sales team based outside of Korea is difficult due to language and cultural barriers and high expectations of after-sales support
- Partnering with local systems integrators or value-added resellers is advisable for foreign companies

Korea offers many opportunities for UK businesses, with many large Korean corporations, financial and non-financial, actively developing fintech solutions or partnering with other companies for innovative services. The government's dedication to become a leader of the fourth industrial revolution and a rapidly-developing local fintech market create a solid foundation for foreign businesses to test and introduce their fintech technology. However, UK businesses looking to engage in a strategic partnership or introduce their technology to Korea should take both business-related and cultural factors into account. UK businesses can approach the Korean market through direct sales from the UK, through a local partner, or by setting up an office in Korea.

Direct Sales from the UK

The simplest market entry option is for UK companies is to sell or license their product or service directly to Korean end-users. The main downside of a direct sales approach is the lack of local language and time-zone support, as Korean companies tend to be particularly demanding of their partners. This can be mitigated by using a local agent capable of bridging time-zone, language and cultural gaps without the long-term commitment of local incorporation and hiring. Market-specific factors to consider includes:

- Do we have a strong differentiator – something that sets us apart from our competitors in the market?
- Do we have a strong track record in other major markets? Korean companies are not easily convinced to use a new, disruptive technology as a first-mover without case studies
- Are we willing to localise the product for the market and/or for local regulations, if necessary?
- Are we ready to provide a Proof of Concept (PoC) at little or no cost to the customer? Korean companies will look to drive the price down and will not commit before proving the value through testing.
- How do we provide after-sales support? Korean customers expect high-quality, local-language support

Appointing a Reseller or Distributor

A more common way to approach the market is to seek a partnership with an established local company which complements your product, has experience in the target sector and can help navigate the legal environment. A local channel partner, perhaps a systems integrator (SI), can provide services such as pre-sales, sales, consulting, installation, technical training, service maintenance, technical support and system integration in the Korean market. Even large multinationals take this route in the early stages of market entry. Market specific factors to consider when seeking a partner include:

- Does the partner already serve the type of customer that we do?
- Does the partner have a good understanding of the market in general and my particular application?
- Does the partner already offer solutions similar or complementary to our offering?
- Is the partner focused on short-term wins or will they be able to drive our business in the long run?
- Does the partner have specific experience with public sector projects?
- Are we comfortable communicating with the local partner and are they transparent with us?

Establishing a Local Presence

There are broadly three ways of establishing a local presence: (1) a liaison office, (2) a branch office or (3) a local corporation through foreign direct investment (FDI). Setting up a liaison office is a simple process; but a liaison office can only perform non-profit generating activities in Korea such as market surveys, research and development and quality assurance. Setting up a branch office can be a complicated process that requires documentation to be translated, but it allows for sales activities and the exchange of

revenues with the head office. The most common process for an overseas company to establish local presence is by setting up the local corporation through FDI, where an initial investment exceeding approximately GBP 68,000 is made by the head office. Under this structure, the head office – or the parent company- owns the 100% share of its local corporation in Korea. The local corporation will be a separate and independent entitiy to operate in Korea with the permission to make direct transaction, and will led business activities in Korea. Market-specific factors to consider when establishing a local presence in Korea includes:

- Is our business generating enough revenue in Korea to consider a local presence? Businesses usually consider establishing a local presence after several years of sales (either direct or through a partner)
- Is Korea a strategic market for us, either in terms of securing user-cases or securing further funding?
- Do we need to engage in profit generating activities?
- Will we transfer staff from our head office or hire local staff? Korea has an Overall Assistance for Startup Immigration System (OASIS) programme operated under by the Minister of Justice and the Minister of Small and Medium Venture Businesses. This programme allows for entrpreneurs to obtain a visa to enter and work in Korea based on a points system. More information can be found at http://www.oasisvisa.com/about.html
- What location shall we pick for our local presence? Scouting, negotiating, and conclusion of contracts are time-intensive processes that often are hard to conclude without local support

ASSOCIATIONS AND EXHIBITIONS

Organisation	Description
Fintech Center Korea	• Established by the government, offers consulting services for fintech startups and pre-startups • Provides continuous support programs for Regulatory Sandbox in order to develop Korea's Fintech industry and its ecosystem Website: fintech.or.kr
Korea Fintech Industry Association (KORFIN)	• Promotes the development of the fintech industry and the use of fintech • Approximately 300 member companies, including main players such as Kakao Pay, Viva Republica (Toss), PeopleFund, Naver Financial, etc. Website: korfin.kr
Korea Fintech Week	• Organised by Fintech Center Korea and the Financial Services Commission • Conference covers topics such as data, payment and settlement, verification, AI, cloud, global trend, etc. Website: 2021.fintechweek.or.kr
Startupgrind	• Seoul branch of the largest independent startup company • 2,070 local group members • Startup Grind Seoul is a collaboration between startups and accelerators Website: www.startupgrind.com/seoul

For further information please contact:

Dominika Kustosz-Lee
Project Director, Intralink Korea
dominika.kustoszlee@intralinkgroup.com

Jonathan Cleave
Managing Director, Intralink Korea
jonathan.cleave@intralinkgroup.com

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Published May 2022
by Department for international Trade