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Press Release

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Regulation on Supervision of Electronic Financial Transactions Taking Effect January 1, 2007

The FSC/FSS announced new rules and regulations on electronic financial transactions that pave the way for the oversight of financial service providers facilitating electronic financial transactions in support of the Electronic Financial Transactions Act that took effect January 1, 2007.* The new rules and regulations, which also took effect at the beginning of the year, are primarily aimed at ensuring the security of electronic financial activities and protecting consumers. The following is an outline of the newly announced rules and regulations.

Ensuring Security of Electronic Financial Transactions

- User authentication and OTP

User authentication programs must be used as a rule in all electronic financial transactions except for cases where the amount to be transacted is trivial, or the application of user authentication program is technically not feasible. One-time password (OTP) or other one-time security codes must be used in all online financial transactions. (A few exceptions may apply for cases involving the use of ATM for money transfers and other similar activities.)

- Use of PIN-pad

PIN-pads or other similarly secure input devices must be used when receiving customer PIN to keep it safe and secure from others.

- Contingency plans and operational disaster recovery centers

Financial institutions and other electronic financial service providers must maintain backup facilities or redundancies for the critical IT networks and telecommunication systems. Banks, securities firms, and other large financial institutions whose network failure can disrupt the IT networks and the telecommunication systems must maintain operational disaster recovery centers. Financial institutions must also develop operational manuals and personnel management for the protection of the critical IT systems.

* The English names of the new law and the regulation are not yet official.



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Consumer Protection

- Insurance for financial incidents

Financial institutions are to be held liable for damage for financial incident unless it occurred because of gross negligence or fraudulent intent of the customer. The risk for damage from financial incidents must be insured or otherwise covered with special reserves.

- Standard terms and conditions for electronic financial transaction services

Financial institutions must offer consumers standard terms and conditions for electronic financial transactions (separate from other standard terms and conditions for financial products and services).

- PIN protection, SMS and e-mail services

Financial institutions must inform customers of the due care that should be taken with the use of PIN to keep it safe from electronic interference or theft. Financial institutions must also maintain computer systems that enable customers to receive records of electronic financial transactions via SMS or e-mail.

Electronic Financial Service Providers

- Financial soundness criteria

Companies seeking to provide electronic financial services must meet certain financial soundness criteria at the time of registration or regulatory approval as summarized in the table below.

Financial institutions subject to FSS examination under the Act on Establishment of Financial Supervisory Organizations		Financial institutions not subject to FSS examination	
Financial institutions covered under the Act on the Structural Improvement of the Financial Industry	Financial institutions not covered under the Act on the Structural Improvement of the Financial Industry	Electronic money service providers (regulatory approval)	Other electronic financial service providers (registration)
Financial soundness above the level for prompt corrective action	Debt ratio lower than 200%	Debt ratio lower than 180%	Debt ratio lower than 200%



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- Capital adequacy, asset soundness, and liquidity of electronic financial service providers

Electronic financial service providers must comply with certain capital, asset, and liquidity ratio guidelines and requirements as summarized in the table below.

Capital adequacy	Minimum capital requirements	Meet capital requirements at the time of registration or regulatory approval; total assets must exceed total liabilities
	Ratio of capital relative to outstanding receivables	Greater than 20% for electronic money service providers and electronic prepayment service providers
Asset soundness	Ratio of low-risk investment assets to total assets	Greater than 20% for electronic money service providers and electronic prepayment service providers; greater than 10% for others
Liquidity	Current ratio	Greater than 60% for electronic money service providers; greater than 50% for electronic prepayment service providers; greater than 40% for others

- Prompt corrective action for electronic money service providers

Prompt corrective action including management improvement recommendation or order may be issued to electronic money service providers for failure to comply with the established management guidelines and requirements.

- Assessment of IT in management status evaluation

Assessment of financial institutions' IT management may be made and reflected in the management status evaluation.

Attached: Tables of electronic financial transactions and financial incidents



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Electronic Financial Transactions: 2005-2006

(In thousands of transactions, billions of won)

		2005		2006		
		Q3	Q4	Q1	Q2	Q3
Banking transactions	Total transactions	1,231,864	1,240,738	1,240,409	1,225,257	1,249,615
	Electronic transactions	938,655	956,710	918,302	945,516	964,839
	Percent	76.2%	77.0%	76.3%	77.2%	77.3%
Securities transactions	Total transacted amount	1,779,863	2,131,790	2,351,059	2,036,081	1,815,624
	Electronically transacted amount	1,077,361	1,331,267	1,532,118	1,245,989	1,089,474
	Percent	60.5%	62.5%	65.1%	61.2%	60.0%
Online consumer transactions	Transacted amount	2,722	3,084	3,148	3,233	3,454
	Amount increase	246	362	63	85	221
	Percent increase	10.0%	13.3%	2.1%	2.7%	6.8%

Financial Incidents: 2002-2006

(Number of incidents, in millions of won)

	2002	2003	2004	2005	2006
Internet banking	1 (71)	-	1 (3)	5 (149)	-
Telebanking	-	1 (10)	5 (162)	6 (262)	-
Cash/Credit card fraud	4 (452)	6 (66)	6 (26)	-	-
Total	5 (523)	7 (76)	12 (191)	11 (411)	-

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