

## FINANCIAL REGULATORY REFORM COMMITTEE DISCUSSES WAYS TO PROMOTE PLATFORM-BASED FINANCIAL SERVICES

The financial regulatory reform committee held its 2<sup>nd</sup> meeting<sup>1</sup> on August 23 and decided on plans to (a) promote platform-based financial services from financial institutions and pilot online platform-based financial intermediary services to help enhance consumer convenience and facilitate digital innovation and to (b) make improvements to the operation of the financial regulatory sandbox program. The key measures include the following.

a) Support balanced growth of platform-based financial services in financial industry

- **(FINANCIAL INSTITUTIONS)** Pursue regulatory reforms to enable consumers to use a variety of financial and non-financial services such as banking, insurance, card, securities, etc. through platforms (integrated apps) designed by financial institutions
- **(FINTECHS)** Pilot operation of services (through financial regulatory sandbox program) that can offer comparisons and recommendations on various financial products including loans, savings, insurance, peer-to-peer (P2P) lending, etc. through a single platform
- **(MINIMIZING NEGATIVE IMPACT)** Prepare safeguards against the negative effects of platform-based services by ensuring fairness in algorithms, preventing mis-selling, requiring sufficient provisions to be set aside for damage compensation, preventing anti-competitive behaviors of big tech platform companies.

⇒ Out of 36 specific financial regulatory reform initiatives, #8: Promoting health care related services offered by insurance companies, #9: Improving rules to introduce digital universal banks, #10: Reviewing introduction of online platform-based financial intermediary services, and #11: Promoting card companies' platform business

b) Upgrade the financial regulatory sandbox program so that it can continue to play the role of facilitating financial innovation

- Make early notification available to those that have been designated as “innovative financial service providers” about whether a regulatory change will be introduced or not prior to the termination of their designation period and draw up a targeted support system for SMEs and prospective fintechs through an exclusive mentoring service, etc.

⇒ Out of 36 specific financial regulatory reform initiatives, #16: Making improvements to the operation of the financial regulatory sandbox program by enhancing the predictability of changes in necessary regulation.

Prior to the 2<sup>nd</sup> financial regulatory reform committee meeting, authorities held a series of meetings with diverse stakeholders and industry groups including banks,

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<sup>1</sup> Attended by committee chairman Bahk Byung-won and 15 other private sector committee members, FSC Chairman Kim Joo-hyun, FSS Governor Lee Bok-hyun, heads of banking, insurance, financial investment and fintech industry groups, Korea Institute of Finance and Korea Capital Market Institute, etc.

financial holding firms, insurers, securities firms, other nonbank financial institutions, fintechs, big techs as well as consumers and took their opinions into account.

**MEASURES IN DETAIL**

**I. PROMOTING PLATFORM-BASED FINANCIAL SERVICES**

(a) Support development of platform-based financial services by financial institutions

*Government will support financial institutions to grow into platform-based services taking advantage of their own strengths by easing business restrictions and regulations on making investment in subsidiaries.*

(1) **(BANKS)** To support the development of digital universal banks, the following reform measures will be pursued.

- Provide a more flexible interpretation on whether business types fall into an ancillary business category to allow banks to provide a variety of financial and nonfinancial services

<Examples of ancillary work types expected to be allowed through more flexible interpretation>

<p>* <b>Electronic document intermediary service:</b> Access to national pension subscription status, national health insurance pay history and tax and utility bills will become available through banks' mobile apps for one-stop management.</p> <p>* <b>Personal identity verification service:</b> Online verification and authentication of personal identity using a mechanism other than user's resident registration number (e.g. PASS from major telecom services)</p> <p>* <b>Other platform services:</b> e.g. Provision of an integrated platform service for businesses combining the function of supply chain management (purchase, contract, order, etc.) and that of financial services (wire transfer, remittance, loan, etc.)</p>
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- Remove legal uncertainties<sup>2</sup> to enable banks to provide services of affiliated businesses such as insurance, payment card, securities, etc. in an integrated app (platform)<sup>3</sup>
- Allow provision of customer information to an affiliated business entity without additional procedure requiring registration of an ancillary business, etc. if prior consent has been given by the customer<sup>4</sup>

(2) **(INSURERS)** To support the development of health care related financial platforms, the following reform measures will be undertaken.

- Expand the scope<sup>5</sup> of digital health care related services that insurers can offer (through coordination with the Ministry of Health and Welfare)
- Allow a variety of health care related business areas<sup>6</sup> to be undertaken by health care related subsidiaries of financial institutions

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<sup>2</sup> (a) Allow operation of integrated app (platform) as an ancillary business area and grant exemption from registration duty, (b) clarify standards for intermediary services under the Financial Consumer Protection Act, (c) clearly allow linking and providing nonfinancial services offered by affiliated entities

<sup>3</sup> The same measure will be applied to the integrated apps (platforms) of insurers and card companies.

<sup>4</sup> Considering the issue of equity as big tech platform businesses, fintechs, communications and distribution service providers are allowed to more freely make use of their customer information if prior consent is given.

<sup>5</sup> e.g. Allow types of services such as health care related statistical analysis (disease risk analysis, etc.) that are not considered as medical treatment.

<sup>6</sup> Personal health management service for individuals or businesses, wholesale and retail sales of health care related products, related software development and sales, facility management, etc.

- Increase the limit of reward<sup>7</sup> offered by insurers to policyholders based on their efforts to manage personal health conditions

(3) **(CARD COMPANIES)** To help facilitate the development of financial platforms that offer services closely related to daily life activities, the following reform measures will be carried out.

- Expand the scope of ancillary business areas which can be assumed by credit finance companies without filing a report<sup>8</sup>
- Seek ways<sup>9</sup> to allow credit finance companies to use business and corporate information without consent from the data subject as it is currently allowed in other sectors (consent is required only for personal information)
- Allow card companies that have been granted an approval to engage in MyData services to offer recommendation services on products offered by other card companies according to the needs of consumers<sup>10</sup>

(4) **(FINANCIAL HOLDING FIRMS)** Financial holding firms will be permitted to plan and develop, manage and maintain integrated mobile apps (platforms) to facilitate systematic operation of integrated apps within their enterprise (through an authoritative interpretation).

- Consider ways to allow financial holding firms to directly manage their own integrated apps (platforms) through revision to relevant law on a medium- to long-term basis

(b) Pilot operation of online platform-based financial intermediary business

*Making comparisons and recommendations on diverse financial products will be promoted based on consumer needs.*

**(AS OF NOW)** Currently, offering comparisons and recommendations about financial products to consumers fit in the category of financial intermediary business, requiring a registration or a license. Except for loan products, there currently exists no registration system that takes into account particular characteristics of online platform services, which makes it difficult to introduce such comparison or recommendation services.

**(TO BE CHANGED)** Considering an enhancement in consumer convenience, pilot operation of online platform-based financial intermediary services will be allowed (through financial regulatory sandbox program) for deposit, insurance and P2P lending products. However, they will be allowed on a pilot operation basis with certain conditions<sup>11</sup> as there are concerns about issues<sup>12</sup> related to financial

<sup>7</sup> Reward limit to be increased from KRW30,000 currently to KRW200,000, which is the same level offered for personal health management devices (e.g. smartwatch)

<sup>8</sup> e.g. Communication sales business → communication sales business + communication sales intermediary business, etc.

<sup>9</sup> Revision of law to be considered.

<sup>10</sup> Currently in place through designation of “innovative financial service” → revision of law to be considered.

<sup>11</sup> As there are concerns about loss of principal investment and mis-selling related to fund products, authorities will review whether to authorize platform service providers to assume investment intermediary service after seeing the progress of pilot operation for deposit and insurance products (e.g. for six months).

<sup>12</sup> (Deposit products) Potential movement of funds in large-scale following a small difference in interest rates, a financial company without financial soundness keeping customers intact with high deposit rates, etc. (Insurance products) Mis-selling of complex insurance products in particular, large-scale insurance subscription

market stability, consumer protection, etc. while authorities maintain close monitoring of risk factors.

#### <Measures for Each Product Type>

##### (1) Deposit products

- Financial institutions as well as tech companies will be permitted to pilot online services offering comparisons and recommendations on deposit products from multiple financial companies.<sup>13</sup>
- Providing intermediary services will be allowed on time deposits and periodical installment savings products<sup>14</sup> prescribed as deposit-type products under the Financial Consumer Protection Act and which are provided by banks as well as savings banks and Credit Union.

##### (2) Insurance products

- MyData service providers and electronic financial service providers will be permitted to pilot online services offering comparisons and recommendations on insurance policies offered by multiple insurance companies.<sup>15</sup>
- Regarding the scope of insurance coverage, particular types of insurance policies that are considered to be highly risky for consumer damage will be excluded,<sup>16</sup> but within the boundaries of permitted coverage, they will be allowed to handle insurance products intended for sale via face-to-face, telemarketing, or cyber-marketing channels.

#### c) Prepare safeguards such as consumer protection mechanisms to control risks

##### (1) Bolster consumer protections for the operation of an integrated app (platform)

- Sellers' identities will need to be clearly indicated and communicated to prevent confusion or misunderstanding by consumers.
- Establishing a consumer protection system will be required such as complaints handling and conflict resolution, information protection and security, etc.
- In the case that damages are incurred to consumers due to a lack of information about seller's identity or display of wrongful information or advertisement, the integrated app (platform) operator will face the burden of damage compensation along with the seller.

##### (2) Set up a multi-layered management system for risks associated with platform businesses → Indirect regulatory oversight through financial institutions + direct regulatory oversight (through new and existing regulations)

- Inspect whether financial institutions outsourcing sales to platform service providers are appropriately controlling and managing the risks of outsourcing and make recommendations when deemed necessary (FSS)
- Apply the financial consumer protection regulations currently in place for the

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by affiliated firms, etc.

<sup>13</sup> Intermediary business for loan products: Banks, insurers, savings banks and card companies are currently allowed to provide intermediary services for loan products, along with fintechs.

<sup>14</sup> Particular types of deposit products such as equity-linked deposit (ELD) products with variable yields are excluded.

<sup>15</sup> Financial companies such as banks can register as insurance agents through bancassurance.

<sup>16</sup> Products considered to be highly risky for mis-selling due to complexity in product structure or high contract amount such as life insurance, variable insurance, foreign currency insurance policies.

sellers and intermediaries of financial products alike on platform service providers including a duty to prepare internal control standards, a duty to explain and a prohibition on making undue recommendation or solicitation

- Apply new regulations to protect consumers, prevent unfair activities and ensure financial market stability considering particular characteristics of platform-based services<sup>17</sup>

⇒ The preceding three points will be reflected as entry requirements and supplemental conditions when designating “innovative financial services.”

## II. MAKING IMPROVEMENTS TO FINANCIAL REGULATORY SANDBOX PROGRAM

### a) Upgrade the evaluation process

*A more prompt and accurate evaluation system will be established based on expertise and objectivity.*

- (1) Overhaul the organization and operating method of the innovative financial service evaluation committee to promote autonomous evaluation decision based on the private sector committee members’ expertise and objectivity, for instance, by newly creating a position of the joint committee chairperson appointed from the private sector
- (2) Organize the expert support group on financial innovation with legal and patent experts to enhance the expertise of the relevant workforce at the FSC and FSS and provide support for prompt and accurate evaluation
- (3) Make the evaluation criteria (“innovativeness” and “consumer convenience”) that serve as the basis of regulatory exemption more concrete

<p>* <b>Innovativeness:</b> Apply a broad interpretation of the innovativeness factor to facilitate testing of a variety of services, but for the same or similar types of services, recognize the innovativeness of the first applied entity in principle (exemption allowed when service is expected to come under regulatory purview)</p> <p>* <b>Consumer convenience:</b> Carry out evaluation based on detailed statistical analysis, cases, etc. so that it can serve as a practical evaluation factor</p>
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### b) Improve the stability in operation and the predictability of necessary rules change

*Proceedings after the termination of the regulatory exemption period will be notified early and the scope of regulatory exemption will be expanded in stages.*

- (1) Make decision and notification of the post-regulatory exemption proceedings early to allow sufficient time for preparation and set up a preemptive response system in preparation for the risk of service suspension
  - The innovative financial service evaluation committee and the FSC will notify relevant service providers about the post-regulatory exemption proceedings including whether a regulatory change will be introduced or not until three

<sup>17</sup> Limit certain types of products for preventing mis-selling, impose a duty to ensure fairness in algorithms for comparison and recommendation services, prevent anti-competitive behavior of platform service providers toward insurance companies, etc.

months before the termination of the regulatory exemption period.

- In order to minimize damage to consumers and potential impact on the market in case service provision needs to be suspended, businesses applying for “innovative financial services” will be required to submit a consumer protection plan for business suspension at the time of application so that authorities can conduct evaluation in a substantive manner.

- (2) Limit the scope of regulatory exemption at the initial application stage where the risk associated with a particular service has not been tested yet but seek deregulation promptly as the testing goes on according to the level of risk evidenced through testing

c) Make changes to the fintech support system

*Provision of support will be focused on prospective fintechs while the accountability of designated innovative financial service providers will be strengthened.*

- (1) Operate an exclusive mentor designation system where individual fintech firms will be assigned to a particular mentor

- Provide assistance throughout the entire business process by assigning a mentor from the “expert support group” for those preparing to apply as an “innovative financial service provider”

- (2) Make available provision of data, analytical tools and mentoring to facilitate testing of business ideas open to everyone at any given time of the business stage (through establishment of a system within Fintech Center Korea)

- (3) Prepare mechanisms to ensure accountability of those that have been already designated as “innovative financial service providers” to facilitate a prompt service commercialization and operation<sup>18</sup>

## **FURTHER PLAN**

The government will continue to look for areas where regulatory reform is needed while prioritizing the areas that will have the upmost impact on digital transformation and consumer convenience and discuss these issues at the financial regulatory reform committee meetings. For the tasks requiring a medium to long-term review, the government will hold policy seminars to examine the effects of regulatory reform from multiple perspectives and keep communicating its policy direction with relevant stakeholders.

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<sup>18</sup> Require submission of their own business performance plans at the time of applying for “innovative financial services” and have their performance examined semi-annually, and require collection of support funds if there is a delay in service development without any unavoidable reasons, etc.