Korea Banking: Stepping into the next decade

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Special Strategic Partnership Relationship: Korea and India

Korea and India have been extending economic exchanges and co-operation since establishing diplomatic ties in 1973. India is Korea's seventh-largest trading partner, and the volume is ever growing. As of 2017, it reached 20 billon US dollars which is a 29.8% increase year-on-year. I have heard that Korean home appliances such as Samsung TVs and LG washing machines are very popular with Indian families. At the Hyundai Motor's Chennai Plant, millions of automobiles have been produced over last two decades. In addition, cultural imports such as K-pop and Korean drama are gathering steam.

With Korean President Moon Jae In's state visit to India last July, Korea and India have been making special efforts in the overall industry in order to strengthen the "Special Strategic Partnership" relationship. To that extent, we expect to be able to correspond to the recent trend of global protectionism together as well as achieve common prosperity through an extension of trade and collaboration.

The financial industry is no exception. Recent business agreements between KB Finance Group, which is one of the prominent commercial banks in Korea and Bank of Baroda in India to build digital payment ecosystem including mobile payments, would be an excellent example. As the global financial industry is currently experiencing structural and fundamental changes driven by digital technologies, collaborations with India, a leader in the global ICT industry, seems to be extremely effective.

In this article, I would like to discuss recent challenges facing global financial market and introduce our response of Korean financial regulatory authorities and banks. Also, I would like to propose market participants' tasks to lead the way in the future financial industry. Lastly, I would like to comment on financial policies which can support innovation systematically.

Fintech, and Korea' cases

Digital transformation in the financial field has been underway globally since the application of digital technologies on finance, such as AI, Big Data, Block Chain and IoT. This shift is invigorated by non-financial companies' active participation in the field of payments, money transfers, retail banking, investments and asset management, of which traditional companies were in charge. It resulted in fundamental changes in the current financial ecosystem.

This process is accelerated by each government's wholehearted support and de-regulation in addition to ICT development, the rapid, increased universality of mobile devices, changes in consumers' experiences and seeking ways for alternative finance after the global financial crisis. In the long term, the boundaries between financial and non-financial companies are becoming less distinct and their naturally monopolistic features are fading. This

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results in aggravating the current value chain in the form of functional segmentation, decentralization, and dis-intermediation.

In Korea, the digital transformation is rapidly spreading with the development of innovative products and services by Fintech companies as well as traditional banks. The Korean government has strived to create and activate Fintech ecosystem.

In particular, Korean financial authorities announced a "Plan to Support the Convergence of Finance and Technology" in January 2015, and provided clear signals to market participants that the current financial regulatory framework paradigm shifted to nurture and reinforce the Fintech industry in omnidirectional ways.

First of all, internet-only banks such as Kakao Bank and K-bank begun operations and the barrier of entry for electronic financial businesses was lowered. In order to extend Fintech services, robo-adviser asset management and many other services were offered. At the same time, an excessive authentication process and ineffective mandatory security systems were abolished in order to trigger new easy payments and remittance services.

Also, a "Fintech Support Center" was established by the Korean government in March, 2015 to effectively provide support to foster the Fintech ecosystem. The center constructed Fintech co-operation networks with private institutions to provide incubating services by stages including start-up, commercialization, overseas expansion, and listing. The center also provides policy funding to support innovative businesses.

From the standpoint of finance supervisory, the government has been developing an advanced regulatory system which is more relevant for the finance and IT fusion trend. More specifically, the government prepared an investor and financial consumer protection plan according to financial platforms and changes in services. In addition, the government is striving to respond to digital risk by activating RegTech and enhancing IT inspections for financial stability.

Tasks for market participants to emerge as leaders in the future financial industry

Still in order to lead innovation, the role of market participants is crucial. Traditional banks, fintech companies, and financial consumers need to create a virtuous cycle as consumers, producers, and mediators which can drive each other. To be more effective, the following tasks are recommended for them.

First, traditional banks should offer more personalized services by collaborating with fintech companies. Services should be designed with consumers' lifestyles, sensibilities and consuming trends in mind. This means the financial products and services

[Table 1] Korea Internet-only Banks' New Business Fields

Stage 1 (2017)	Stage 2 (2018)	Stage 3 (2019)
- deposit and credit loans - mobile bancassurance	- mortgage loans - mobile key money deposit / rent deposit loans - app to app payment services	- Credit cards - Robo advisors - beneficiary certificate sales - open market SME loans - Open API - Universal point

Source: Finance Supervisory Service, Hana Finance Research Center, January 2018

development process should be improved to be more customer-centered by utilizing digital technologies.

Moreover, financial companies should put more effort on expanding their innovative mobile services to overseas. For instance, some Korean banks have launched customized mobile banking platforms in Southeast Asian Countries such as Vietnam and Cambodia. The number of users there has been rapidly increasing in the initial phase.

In India, certainly, Korean banks are making headway and trying to offer convenient and innovative services. With Indian government-leading policy, known as "Digital India", Indian fintech industry mainly with mobile payment has been dramatically advancing. Also the bio-identification system known as "Aadhaar" was set up very successfully and it can positively effect on the growth of retail banking business of India. In this regards, I expect Korean Banks in India to develop new financial products and services more actively utilizing those technologies.

[Table 2] Korean Banks in India

Bank Name	# of branches (or offices)	Location
Shinhan	6	Mumbai, New Delhi, Kancipuram, Pune, Ranga Reddy, Ahmadabad
Woori	3	Mumbai, Chennai, Gurgaon
KB Kookmin	1	Gurgaon
Hana	1	Chennai
IBK	1	New Delhi

Source: Each bank's website as of July, 2018

Second, fintech companies should be able to improve quality of financial consumers' daily lives by leading finance innovation based on creative ideas and advanced technologies.

As India is the leading ICT software country with intelligent human resources, the collaboration between Korean Banks' financial infrastructure, and Indian fintech companies is expected to create great synergy.

[Table 3] Korean ICT competitiveness

Classification	Rank of Korea	Reference
ICT Development Index	8.85 (2nd)	ICT Development Index, 2017
Network Readiness Index	5.6 (13th)	World Economic Forum, 2016
Fin-Tech adoption rate	32% (12th)	Ernst Young, 2017

Last but not least, financial consumers should play the role of "prosumer", which is both consumer and producer by experiencing different levels of fusion and complex financial services such as customized banking services. Also, financial consumers are expected to stimulate financial innovation by offering constructive feedbacks to traditional banks, fintech companies, and financial regulatory authorities.

Financial Regulation and Policy

Korean financial authorities will enact a special bill called the "Special Act to Foster Financial Innovation" that allows pilot authorization or regulatory relief for the launch of innovative financial services. Although the current regulatory sandbox in the financial sector already allows fintech businesses to entrust their innovative services to financial institutions to test within the range of existing financial regulations, they are striving to make it more active through legislation.

Furthermore, they are planning to facilitate the use of Big Data, which is mostly limited by the "Personal Information Protection Act", by processing the data to de-identified information, which can be presumed to be non-personal. This shed light on developing

[Table 4] KBI's Digital Finance Programs

Category	Program
Digital Finance	19 Smart Banking Programs including Practices of Fintech Businesses, Finance ICT Trends and Technical Analysis
	12 Big Data Programs including Case Studies in Financial Big Data Analysis, Data-Collecting Strategies for Big Data Analysis

personalized financial services by financial companies. Also it can be applied to various fields such as financial security by upgrading the Fraud Detective System that detects un-common transactions.

The digital transformation could be eventually driven by every single talented person involved and their collective intelligence. This means educational support and on-going training for them is essential.

The Korea Banking Institute (KBI) takes the initiative in developing various educational programs in the field of smart banking and big data targeting current and potential employees working in fintech. KBI also provides a number of regional expert programs, which can support Korean financial companies to open businesses overseas, Financial Consumer Protection Program, Auditing Academy, and more than 600 different programs. That is, KBI endeavors to foster financial experts to strengthen their global competencies.

Let's lead the future banking industry together!

In this article, I have discussed the roles and challenges of financial authorities and market participants to enhance the competitiveness of the financial industry through the development of the Korean fintech industry. I think that Korea and India can be developed to a co-operative and complementary relationship. By this, I hope we can dedicate ourselves to lead world future industry as well as global financial market. I also expect we can closely co-operate for the development of financial education. Finally, I would like to offer my sincere congratulations on the 90th Anniversary of the Indian Institute of Banking & Finance and wish your continued progress.