

Improvement on Fintech Regulations and Its Implications

ABSTRACT

The financial authorities are reforming regulations to boost fintech business; however, the insurance industry demands more regulatory reform. In response, the Financial Services Commission formed the 『Task Force for Improvement on Fintech Regulations』 and initiated the task of “customized regulatory innovation” in order to implement global business models in Korea.

The financial authorities should reform the financial regulations from a blank slate to build a better regulatory environment for fintech business. In addition, both the insurance companies and the financial authorities should attract the young generation, increase consumer convenience and benefits, and boost the insurance market by developing various products, such as insurance using alias information and P2P insurance.

1. Efforts to Improve the Fintech Related Regulations

After the Financial Services Commission (FSC) announced the 『Roadmap to Strengthen Competitiveness of Insurance Business』 on October 19, 2015, the government has devised measures and reformed regulations to boost fintech business; however, there have been some limitations to the governmental activities. For example, since the announcement of the introduction of the 『Financial Regulations Test Bed』 in March 2017, the financial authorities have designated 『Innovative Financial Services』 to support Fintech business. Nevertheless, only a few insurance services have been designated as 『innovative financial services』, such as 『ON-OFF-type Overseas Traveler Insurance』, 『Simple Sign-up for Leisure Insurance』 and 『Reward-type Pet Insurance Platform』, among the 68 『Innovative Financial Services』.

Moreover, although 『Health Promotion-type Insurance Product Guidelines』 was announced and implemented in November 2017, insurers have not launched many health promotion-type insurance products because healthcare devices are regarded as

“special benefits” for policyholders, which are prohibited under the Insurance Business Act. In order to resolve this issue and promote the development of health promotion-type insurance products, the financial authorities announced a revised guideline that allows insurers to provide policyholders with healthcare devices, which are worth up-to one hundred thousands KRW on November 1, 2019.

Regarding the use of cloud by financial institutions, the financial authorities declared a 「Plan to Expand the Use of Cloud in the Financial Industry」 in July 2018. In January 2019, the 「Regulation on Supervision of Electronic Financial Transactions」 was amended and implemented, so that “important information” such as personal credit information and personally identifiable information can be processed in cloud. However, foreign insurance companies are still suffering inconvenience as the cloud server processing the “important information” must be in Korea.

In July 2019, the 「Enforcement Decree of the Insurance Business Act」 was revised to encourage insurance companies to invest in fintech companies and in October, the government enacted the 「Guidelines on Financial Companies’ Investment in Fintech Business」.

Unlike the regulation improvement at the financial authority level, the revision of the “Three Acts related to Data” (Personal Information Protection Act, Credit Information Use and Protection Act, Act on Promotion of Utilization of Information and Communications Network), which requires legislation, have not proceeded smoothly due to delays in the National Assembly. The amendments to the Enforcement Decree (e.g. the use of personal disease information by insurance companies), which are the next plan after the revision of the Credit Information Use and Protection Act, are also being postponed.

In response, the FSC held the first meeting of the 「Task Force for Improvement on Fintech Regulations」 on October 15, 2019, and discussed measures to innovate regulations tailored for fintech. Despite the efforts of the FSC to improve regulations, it has been argued that the regulation is still an obstacle in boosting the fintech business. Therefore, the purpose of this conference was to directly promote regulatory improvement to implement the global business models in Korea. The insurance business models include Friendsurance (P2P insurance) and Lemonade (simple sign-up and

insurance claim). After reviewing measures to improve regulations and conversations among the FSC, the FSS, and related institutions, the financial authorities will announce plans for regulatory innovation in the first quarter of next year.

2. Implications

A regulatory environment suitable for fintech business may require a shift in financial authorities' perceptions and a new frame on financial regulations. Merely revising extant financial regulations has limitations in establishing a regulatory system that is fit for fintech business and it is difficult for insurance companies or start-ups to carry out marketable business by partial regulatory improvements. Therefore, regulations should be reviewed from a blank slate. In addition, the financial supervision should be industry-friendly, and insurance companies should be given discretion to develop various insurance products. Financial authorities have shown their intentions to promote consumer-centered finance by selecting Friendsurance (P2P insurance) and Lemonade (simple sign-up and insurance claim) as insurance models for "customized regulatory innovation". Friendsurance and Lemonade are representative of customer-friendly product/service, and thus, they display the intention of financial authorities to focus more on customer benefits and to change the insurance market through new products and services.

Under these circumstances, insurance companies should develop new types of products, and financial and supervisory authorities should fully support them in order to increase consumer benefits and stimulate the development of insurance market. If the "Three Acts related to Data" is amended, it is expected that insurance companies can use "alias information", which expands the scope of data use, thereby enabling insurers to develop various products. In addition, the introduction of P2P insurance will help insurers develop versatile products aimed at niche markets. The emergence of various insurance products will attract the attention of the young generation, who are indifferent to insurance and create new insurance demand by invigorating the insurance market.

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