

REVISED RULES ON ELECTRONIC FINANCIAL TRANSACTIONS TO TAKE EFFECT FROM SEPTEMBER 15

- The revised rules will help to close the regulatory loophole in protecting users of electronic prepayment means.
 - The revised rules also establish a legal ground for BNPL (buy now, pay later) services and increase transparency in prepayment transactions.
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The Financial Services Commission announced that the government approved a revision bill for the Enforcement Decree of the Electronic Financial Transactions Act at the cabinet meeting held on September 3. Together with the previously amended Act on Electronic Financial Transactions (approved on September 14, 2023), the revised rules will help to close the regulatory loophole on electronic prepayment means and strengthen protection for advance payments made for electronic prepayment means. The revised rules on electronic financial transactions are scheduled to take effect from September 15.

First, under the revised rules, prepayment service providers are required to separately manage the total amount (100 percent or more) of advance payments made by their customers, thereby strengthening protection for users. In addition, to prevent prepayment service providers from issuing advance payments at discounted rates in excessive levels, the revised rules will only allow them to issue advance payments at discounted rates or offer rewards points only when their debt ratio is 200 percent or below. In this case, the total amount of advance payments required to be separately managed by prepayment service providers includes the amount of monetary benefits offered to customers (discounts and rewards). Advance payments managed separately in the form of a trust or a payment guarantee insurance need to be managed only through investment in safe assets, such as Korea Treasury bonds and local government bonds, or through deposits at banks and Korea Post. The revised rules also make sure that customers are able to get refunds even when their prepayment service providers go bankrupt. In this case, the prepayment service provider will provide relevant information about refunds to the entity in charge of managing advance payments to facilitate the reimbursement of funds to customers.

Second, under the revised rules, the scope of prepayment service providers that are subject to the user protection duty and required to register their business is established in more concrete terms. The revised Act on Electronic Financial Transactions expands the scope of prepayment service providers subject to supervision by authority. However, to help prevent small-scale entities from being subject to the regulatory supervision, an exemption from registration is granted to small-scale business entities whose total balance of issuance and annual amount of issuance for electronic prepayment means fall under certain levels. Previously, mobile gift cards that are eligible for use exclusively at a single business sector were

mostly not recognized as electronic prepayment means. However, the revised Act abolished this requirement, so that most mobile gift cards can be recognized as electronic prepayment means, which will ensure 100 percent protection of advance payments on mobile gift cards.

Under the revised Enforcement Decree, the total balance of issuance for being exempted from the registration requirement is maintained at KRW3 billion or below, while the annual amount of issuance is set at KRW50 billion or below. Businesses that will be subject to the registration requirement under the newly established limits should prepare for registration and register as electronic prepayment service providers within six months from the date of enforcement (September 15).

Third, under the revised rules, BNPL (buy now, pay later) services will fall under the regulatory purview with a similar level of regulatory management and supervision currently in place for credit card businesses. Since 2021, BNPL service providers have been operating as innovative service providers on an interim basis under the regulatory sandbox program, since their contribution to financial inclusion and innovation has been recognized. Under the revised Act on Electronic Financial Transactions, a regulatory ground has been established to legally allow prepayment service providers to assume BNPL business as an ancillary service, subject to FSC's approval.

Since BNPL services constitute credit offering in essence, the revised Enforcement Decree prescribes that only stock companies with debt ratio of 180 percent or lower will be eligible to get approval for assuming BNPL business as an ancillary service. Under the revised Enforcement Decree, BNPL service providers will need to use an alternative credit scoring model to determine the maximum amount of credit offering available for individual customers. Information about their customers' overdue payment history can only be shared with other BNPL service providers.

The maximum amount a customer can use for BNPL services is set at KRW300,000, and the maximum credit offering allowed for a BNPL service provider for each quarter is set at 15 percent of the total amount of payments made out to customers through electronic prepayment means in the immediately preceding quarter. In addition, as in the case with the Specialized Credit Finance Business Act, BNPL services cannot be used to pay off personal financial debt, or for deposits or savings. The standards for determining the soundness of assets for BNPL service providers and the level of loss allowances and reserves required from them will be identical to those applied under the Enforcement Decree of the Specialized Credit Finance Business Act.

Fourth, under the revised rules, third-party transaction entities that carry out payment transactions through electronic prepayment means on behalf of prepayment service providers will be provided with information about third-party transaction, which will help customers to identify the actual provider of goods and services. The revised Act on Electronic Financial Transactions newly incorporates these third-party transaction entities alongside traditional merchants. Relevant information about merchant and third-party transaction is also required to be provided to financial companies to make sure that customers can have accurate information on the actual provider of goods and services.

These third-party transaction entities will need to register as payment gateways under the revised Enforcement Decree. Since unregistered entities will not be able to become an affiliated member of prepayment service providers, this will help to reduce illegal transaction activities involving third-party payment. Considering the period necessary for businesses to comply with this regulation, there will be a one-year postponement granted for enforcing this rule, and this registration requirement will take effect from September 15 next year.

Prior to the enforcement of the revised rules, financial authorities will distribute information material and hold meetings with relevant businesses to make sure a seamless implementation of the revised rules.

Since the protection of electronic prepayment means is only available for those issued by registered entities, financial authorities will make efforts to inform the obligation of registration to the entities that will newly become subject to this requirement under the revised rules, while ensuring strict management and supervision over both newly and previously registered businesses. In meetings with businesses, information about specific registration requirements¹ and procedures will be provided. In the future, registered entities are subject to site inspection or review to ensure compliance, and authorities may consider imposing sanctions when finding violation of rules.

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For press inquiry, please contact Foreign Media Relations at fsc_media@korea.kr.

¹ Minimum capital of KRW2 billion, debt ratio of 200 percent or below, and other personnel and facilities related requirements.