KIEP Opinions
January 22, 2020

FinTech Everywhere, but in Different Contexts

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A widespread buzz was generated for mobile payments in Korea when President Moon Jae-in personally experienced the convenience of QR-code payments during his visit to China in late 2017. Earlier that year, two internet-only banks began operations in Korea and fund transfers became possible even without the account details of recipients. These positive user experiences with mobile payment systems drew the general public's attention to financial technology, or FinTech, which is now springing up at every corner of financial services. It covers a wide range of business models including digital payments, digital lending, investment crowdfunding, financial analytics, digital asset management, trading and capital market solutions, enterprise technology for financial institutions, enterprise financial management, and insurance.[1] These innovations in financial services are mostly initiated by IT firms, trying to expand their applications into a new territory.

[1] CCAF, ADBI, FinTechSpace (2019). *ASEAN FinTech Ecosystem Benchmarking Study.* Cambridge, UK.

In advanced economies FinTech firms are focused on enhancing the efficiency and profitability of financial institutions. As a result, the field of financial analytics is now more reliant on AI, machine learning, and big data. Also, financial advisory services such as wealth management provide a streamlined and automated consumer experience with the help of new technologies. Financial inclusion, however, is an important dimension relevant to emerging economies. According to the World Bank, 69 percent of adults around the world have an account at a financial institution or through a mobile money provider but the account ownership rate varies by country: roughly 94 percent for high-income countries and 63 percent for low or middle income countries.[2] About 1.7 billion adults remain unbanked and nearly half of them live in the seven economies of China, India, Indonesia, Pakistan, Nigeria, Mexico, and Bangladesh. Without bank accounts, a large fraction of convenient financial services are limited such as payments, remittances, credit access, and secured savings. FinTech can alleviate these difficulties posed by limited access to financial services.

Mobile payment services are blooming in China. Why is this the case? Consider how the main drivers of FinTech include robust macroeconomic growth with a young urban population, low banking penetration, ripe digital adoption, consumer's readiness for FinTech solutions, and change-embracing regulators.[3] China's case fits well into these categories. In addition, limits have been placed on cash transactions due to an abundance of counterfeit banknotes. Chinese mobile payment service providers are operating based on popular mobile platforms which increase matching probability and lower transaction failure. As of 2018 the number of active users of Alipay and WeChat Pay has reached 900 million and 1.1 billion, respectively.

Chinese users can now use these services to purchase goods and pay bills not only at domestic shops or even street merchants, but also at overseas stores. Equipped with a stable working system, Chinese service providers are trying to expand their territory into nearby countries where payment systems remain underdeveloped. However, problems are arising before the official launch of these services. Cases have been reported where Chinese-owned shops in these countries use unauthorized Chinese-issued payment POS machines and settle the transactions in RMB for Chinese tourists. Cross-border payments without proper surveillance may result in illicit activities such as money laundering and tax evasion. Hence, the cross-border expansion of these services requires cooperation and coordination among countries.

[2] Demirguc-Kunt, Klapper, Singer, Ansar, and Hess (2018). *The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution.* Washington, DC: World Bank.

[3] UOB (2017). State of FinTech in ASEAN.

Where is Korea now in FinTech innovation? Beginning from the early 2000s, the payment and settlement system of Korea has been reshaped and reinforced around credit cards, and this transition was made possible due to the well-penetrated banking sector. Not much room remains for these payment innovations. That is, financial inclusion in this direction has already been sufficiently realized. Still, there is room for further innovation in terms of consumers' convenience built into a robust payment and settlement system, but regulation reforms should precede for ideas to materialize in this direction. KIEP