



# ▶ THE SOCIALISATION OF KOREAN BANKING

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### **Which Asian nation has the fastest internet speeds on earth and the highest broadband services per capita in the world?**

With all the media coverage about the government-led investment in its microchip industry and artificial intelligence capabilities, you might have reasonably guessed the answer to be China. That would be wrong.

Korea topped Bloomberg's Innovation Index country list again in 2017 based on its R&D intensity, value-added manufacturing and patent activity and with top-five rankings in high-tech density, higher education and researcher concentration. Scant progress in improving its productivity score – now No.32 in the world – helps explain why South Korea's lead narrowed in the past year, but that is largely a function of its aging population.

Samsung and more recently LG both have launched mobile payment services which have global ambitions. Meanwhile, Korean fintech startups are popular investment attractions

for VCs. Cryptocurrency, blockchain, P2P crowdfunding, money transferring, and P2P lending startups continue to get funding in Korea. In October 2016, the government announced a pledge of 3 trillion won (approximately USD2.65 billion) over the next three years to financially support Fintech startups to boost the industry.

Yet, innovations in banking services have come comparatively slowly. South Korea's online banking infrastructure has had a development delay due to its long-time dependence on Explorer and Active X for security. Banking security had been built into downloadable applications by banks in the past rather than provided through consumer driven password protection and identification. The high entry barriers and ownership regulations for financial institutions in Korea have also been credited with effectively hindering adaptation of disruptive innovations in the banking market.

However, changing socio-economic trends mean that younger South Koreans are looking online for financial services and products, like credit card applications, personal loans, and mortgages and want easy access through smart phones. Different banks offer different digital strategies aimed at the youth market.

The launch of a new sub-brand, Sunny Bank, is Shinhan Bank's transformation to lead the digital

banking era. Sunny bank is an online banking platform that aims to expand the client base to younger generations<sup>1</sup>. In addition, Shinhan is the first bank in South Korea to introduce digital kiosks with palm-print identification technology. These kiosks were installed in domestic branches, enabling 24-hour non-face-to-face banking services for retail clients.

KB Kookmin has launched Liiv, a mobile financial platform made for daily life. The application includes a calendar, personal ledger and banking service, allowing users to manage their money without cash transactions. They can also purchase mobile gift certificates and use

the application as a travel card. Through its “go Dutch” function, users can also easily split bills and transfer money. An attractive function of the app is that it allows users to change foreign currencies when the rate is favorable for them and let customers keep the money within the application for future use<sup>2</sup>.

However, these

bank-developed offerings don’t advance Korea’s reputation as the #1 global innovator. The era of over-banking in Korea (18 commercial banks, 79 savings banks, 7,322 off-line branches, 52,815 ATMs) is over, but there is still no material difference among the value propositions banks offer customers. The issue with the digital offerings from banks may be the perceived conflict in disrupting their legacy business through digital cannibalization.

However, research shows that consumer behavior globally has already shifted away from brick and mortar reliance.

***“Their fundamentals seem poised to suffer in longer term if the internet-only bank keeps gaining ground among the young population.”***

▶ **In the US, customers interact with their banks more through mobile devices than any other means including traditional online channels and ATMs, while 75% say they would prefer financial services from the likes of Google, Amazon and Paypal**

▶ **70% of Chinese citizens would bank with a strictly internet bank<sup>3</sup>**

▶ **In a consumer banking study in China, respondents ranked brand, personalisation, ease of use, convenience and pricing ahead of branch access in deciding where to bank**

▶ **On average, customers visit bank branches 1-2 times per year vs. interacting with their bank 20-30 times/month through their mobile device**

Another offering launched in April is closer to the mark as Korea’s first internet bank. K-Bank, an online bank formed by a consortium led by KT Corp., the largest fixed-wire operator, Woori Bank, POSCO ICT, GS Retail, and NH Investment & Securities, has responded to research which shows 48% of customers switch banks for lower fees. K-Bank has brand recognition from KT and is able to offer reduced costs because of its lower labor component/no branch strategy.

A second digital non-bank Bank, Kakao Bank, has been growing explosively since its launch in July. The growth at Kakao Bank is attributed to:

- 1. Leveraging the user base of KakaoTalk, Korea’s dominant messenger platform**
- 2. Offering convenient and competitive services; and**
- 3. Rolling out a user-friendly app. Traditional banks are facing growing concerns due to the popularity of Kakao Bank.**

Indeed, their fundamentals seem poised to suffer in the longer term if the internet-only bank keeps gaining ground among the young population.

Kakao Bank benefits from the massive user base of KakaoTalk, Korea's dominant messenger service with over 40 million monthly active members, with users viewing Kakao Bank as a related app even absent aggressive marketing by the bank via the messenger platform. The bank also designed debit cards featuring KakaoTalk characters and enabled money transfer via the messenger. Kakao Bank's growth and related effects are turning out much stronger than those at K-Bank (the nation's first internet-only bank), which speaks volumes about the importance of platforms.

Kakao Bank, since opening in July 2017, has attracted 3.07 million clients, lent KRW1.4 trillion, received deposits of KRW2 trillion, and issued 2.16 million debit cards. Over August 1-11, Kakao Bank's household loans increased by KRW540 billion, equivalent to 24.9% of overall household loan growth. This seems all the more impressive considering the absence of sales via branch tellers, loan brokers, or credit card solicitors.

However, both K-bank and Kakao Bank are still stuck with the Korean legacy security requirement of the Public Key Certificate ("PKC") or digital certificate, necessitating a PC download and telephone identity process. PKC is used in Korea as a digital identification certificate, mainly for financial transactions<sup>4</sup>. Handheld devices can only be deployed after the PC has been authenticated.

The financial services sector has lagged behind some other sectors in its comprehensive adoption of social media and technology due to regulatory complexity and a traditional cultural mindset.

But things are moving very quickly. Many companies are springing up from social and digital media to revolutionize the traditional business models that the finance sector has relied on for decades, through changes in:

- 1. Customer Service**
- 2. Marketing**
- 3. New Product/Service Development**
- 4. Reducing Costs and Improving Efficiencies**
- 5. New Business Models**

Social media platforms such as WeChat, Viber and Facebook increasingly provide a broad range of services to their users either directly or through partners, making them central to people's lives.

Financial institutions are starting to recognize the opportunities social media can bring to their businesses. It remains to be seen who will be the ultimate winners, emerging as the dominant force in finance - the traditional firms creating a digital offering, the online retailers diversifying into financial services or the new challengers combining social media and fintech.

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Sources: <sup>1</sup><http://www.theasianbanker.com/updates-and-articles/south-korean-banks-rely-on-fintech-as-they-contest-for-dominance-in-digital-retail-banking>  
<sup>2</sup><http://www.theasianbanker.com/updates-and-articles/south-korean-banks-rely-on-fintech-as-they-contest-for-dominance-in-digital-retail-banking>  
<sup>3</sup><http://www.mckinseychina.com/wp-content/uploads/2015/01/mckinsey-china-pfs-survey-2014.pdf>  
<sup>4</sup><http://www.techforkorea.com/2017/04/06/k-bank-and-kakao-bank-signal-the-era-of-banking-everywhere/>

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