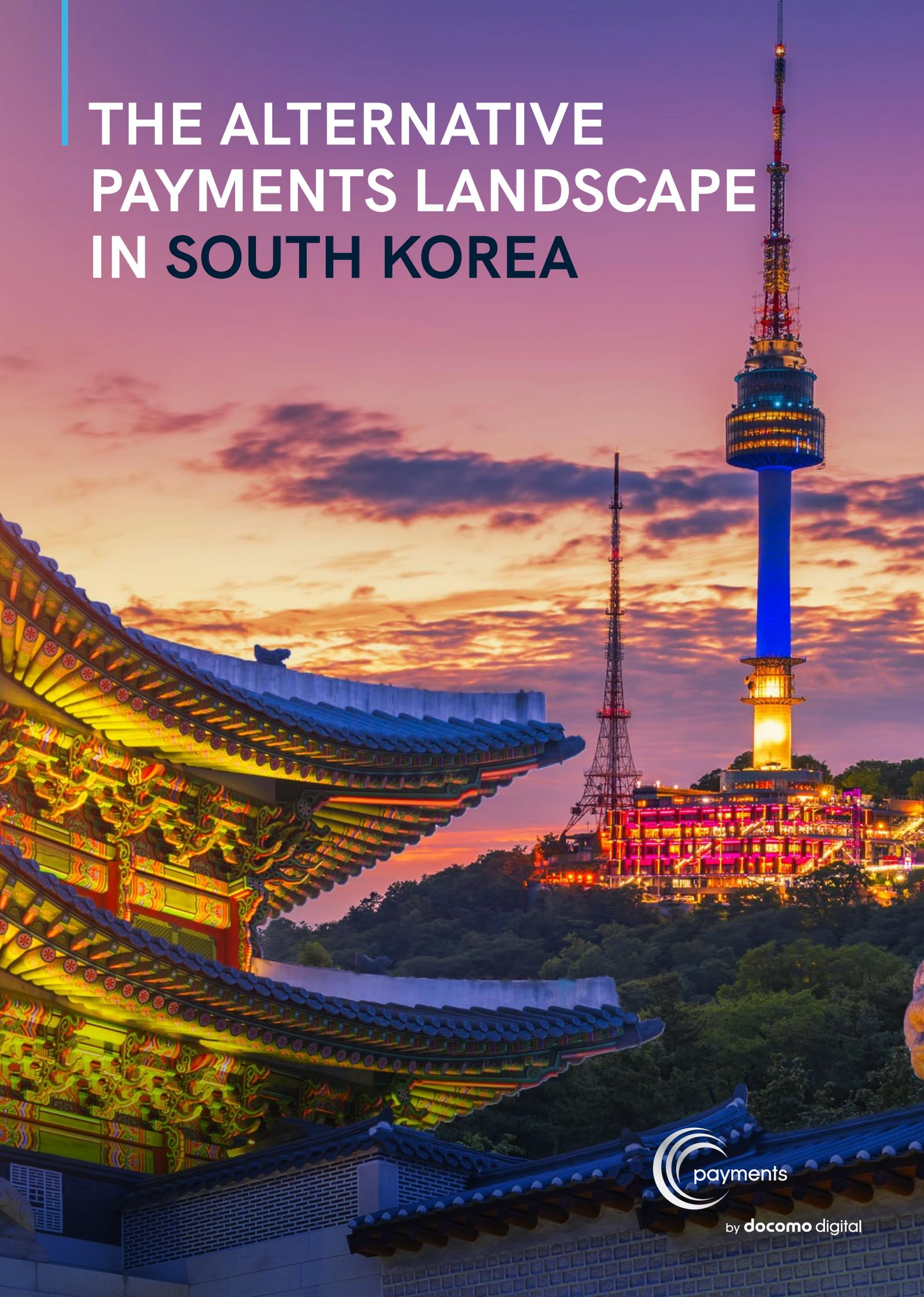


THE ALTERNATIVE PAYMENTS LANDSCAPE IN SOUTH KOREA



by **docomo** digital



Card-centric South Koreans embrace the digital wallet

Popular depictions of South Korea tend to focus on K-pop, its political positioning, its several multinational conglomerates or its dominance in semi-conductor production. However, it is also home to one of the fastest-growing fintech hubs in the world. Despite not having the scale of China or the technological reputation of Japan, South Korea has been recognised for the strides it has made in the digital payments sphere.

A 2018 study found that South Koreans “lean hard away from cash”,¹ a statement borne out by the fact that credit card-use dwarfs cash in everyday life,² thanks to a combination of strong fintech infrastructure, high interment smartphone penetration rates, corporate promotions and government policies.³ The country ranks as the world’s third least cash-reliant nation, with only Sweden and New Zealand performing better.

¹ American Express. South Korea’s B2B and Global Payments System Landscape. Available online at: <https://www.americanexpress.com/us/foreign-exchange/articles/b2b-and-global-payments-system-of-south-korea/>

² Vice. What It’s Like To Live in a Cashless Society. Available online at: <https://www.vice.com/en/article/93wz3p/cashless-country-experience-china-sweden-korea-wechat-alipay-swish-samsungpay>

³ GlobalData. Card payments will surpass cash in South Korea by 2020, says GlobalData. Available online at: <https://www.globaldata.com/card-payments-will-surpass-cash-in-south-korea-by-2020-says-globaldata/>

Local names drive wallet adoption

Two factors are driving South Korea’s transition toward digital wallets: the widespread acceptance of credit cards—there are a reported 6.2 credit cards per adult, as of end-2020⁴—and social media. Unlike other countries like Indonesia and India, where digital wallet players are aplenty, South Korean favourites are strongly determined by their relationships to existing structures.

OEM-backed digital wallets such as Samsung Pay are a strong presence in smartphone-centric South Korea, though players from the Western hemisphere have managed to break through.

By far, the most popular service is Samsung Pay, a service launched in 2015 by the titular tech giant.⁵ Samsung Pay’s success has been driven by the strong sales of Samsung handsets,⁶ the company’s widespread use by online and offline retailers,⁷ as well as the poor performance of rivals such as Apple Pay. Apple has been busy wrangling with South Korean regulators over alleged anti-trust violations,⁸ while local card firms have struggled to launch Apple Pay due to the US company’s demands for high commissions and terminal instalment fees.⁹ Other OEM-wallets like LG Pay and Huawei Pay also exist in the market. Google Pay has not yet launched in the country, despite a constant stream of rumours.¹⁰

To really get to grips with South Korea’s digital wallet landscape, you have to look to the country’s social

media-backed wallets, namely Naver Pay, a wallet offered by Japanese internet search company Naver; and KakaoPay, the offering from messaging service KakaoTalk.¹¹ Both these companies have built solid user bases off the backs of their popular social media services and their ubiquity among South Korea’s young, internet-savvy middle class. According to the Kagan 2020 Asia Consumer Insights survey, Naver Pay and KakaoPay enjoy 43% and 38% adoption rates, respectively.¹²

South Korea’s highly mobile economy has also spurred the natural development of fintech solutions from telcos, such as KT Corp’s CLiP app,¹³ and SK Telecom’s T Smart Pay service,¹⁴ both of which were launched in 2015 with the intention of leveraging the dominance of credit cards. Another area that could prove lucrative for telcos is the direct carrier billing (DCB) space, with some reports noting the segment reaching an annual \$3.5 billion in value.¹⁵ Furthermore, DCB is also popular among South Koreans, with the average transaction size in 2020 amounting to \$5.10,¹⁶ a huge difference from the average \$1.83 spent across Asia in 2019.¹⁷

Some local firms have begun to pay attention to the DCB space, with big tech players LG and Softbank forging strategic deals with regional partners,¹⁸ and KT Corp looking towards China for blockchain based systems that leverage 5G technology.¹⁹

⁴ Verisk Financial Research. South Korea Country Report. Available online at: <https://www.veriskfinancialresearch.com/reports/country-reports/asia-pacific/south-korea.html>

⁵ Samsung. Samsung Announces a Successful Payment Launch in South Korea with \$30 Million in Accumulated Transaction Volume in First Month. Available online at: <https://www.samsung.com/uk/news/local/samsung-announces-a-successful-payment-launch-in-south-korea/>

⁶ Statista. Share of smartphone models sold in South Korea during the month of July 2020, by model. Available online at: <https://www.statista.com/statistics/755689/south-korea-smartphone-market-share-by-model>

⁷ Statista. Leading reasons for using Samsung Pay in South Korea in 2019. Available online at: <https://www.statista.com/statistics/1062731/south-korea-reasons-for-using-samsung-pay/>

⁸ GSMArena. Apple settles an antitrust case with South Korea for more than \$89 million. Available online at: https://www.gsmarena.com/apple_settles_an_antitrust_case_with_south_korea_for_more_than_89_million-news-47567.php

⁹ The Korea Times. Apple’s arrogance angers Korean card issuers. Available online at: https://www.koreatimes.co.kr/www/biz/2020/01/513_282027.html

¹⁰ Business Korea. Android Pay’s Debut in Korea Likely to be Delayed to Next Year. Available online at: <http://www.businesskorea.co.kr/news/articleView.html?idxno=19481>

¹¹ ResearchGate. South Korea FinTech Landscape. Available online at: https://www.researchgate.net/publication/330701592_South_Korea_FinTech_Landscape

¹² S&P Global Market Intelligence. Banks, big techs plumbing non-card payment systems in APAC. Available online at: <https://www.spglobal.com/marketintelligence/en/news-insights/research/banks-and-big-techs-plumbing-non-card-payment-systems-in-apac>

¹³ The Korea Herald. Mobile carrier KT rolls out new mobile wallet app. Available online at: <http://www.koreaherald.com/view.php?ud=20150818000586>

¹⁴ Payments Cards & Mobile. SK Telecom launches T Smart Pay. Available online at: <https://www.paymentscardsandmobile.com/sk-telecom-launches-t-smart-pay/>

¹⁵ The Paypers. Boku launches e-wallet payments in South Korea for global video games partner. Available online at: <https://thepaypers.com/mobile-payments/boku-launches-e-wallet-payments-in-south-korea-for-global-video-games-partner-1244615>

¹⁶ Statista. Average carrier billing transaction value in South Korea from April 2019 to April 2020. Available online at: <https://www.statista.com/statistics/1122544/south-korea-average-carrier-billing-transaction-value/>

¹⁷ Statista. Average carrier billing transaction value worldwide in 2019, by region. <https://www.statista.com/statistics/1121663/average-carrier-billing-transaction-value-region>

¹⁸ The Korea Times. LG U+ to offer blockchain-based overseas payment service. Available online at: https://www.koreatimes.co.kr/www/tech/2018/09/133_255620.html

¹⁹ Ledger Insights. KT Corp, China Mobile partner for blockchain inter-carrier payments. Available online at: <https://www.ledgerinsights.com/kt-corp-china-mobile-partner-for-blockchain-inter-carrier-payments/>



South Korea's e-wallet dark horses

Though most digital wallet users are most likely to use KakaoPay and Naver Pay, other wallets are jostling for a slice of the pie. Perhaps the most interesting is Toss Pay, the maverick fintech whose former dentist founder made waves for his persistent lobbying of the South Korean government. Toss Pay was born when fintech Viva Republica first launched the service in 2014 with a P2P money transfer business model, which has since evolved to include a digital wallet function.

Toss Pay has since become a cultural phenomenon partly for its underdog status—to “toss” someone some cash has become a common catchphrase—and success despite lacking the resources of its competitors. Though the company achieved unicorn status and its 14 million strong user base²⁸ still lags behind other services, Toss announced they had broken even amid the 2020 pandemic, and was planning to build more online banking units.²⁹

CHAI is another startup-created digital wallet that is looking to make its own mark with an API that would enable merchants to accept payments regardless of which wallet consumers choose to use. CHAI's digital wallet and debit card has accrued 2.5 million since its mid-2019 launch – definitely a small user base, when compared to the heavy hitters, but the region is clearly paying attention. In December 2020, the startup announced an impressive \$60 million in funding from a roster of big-name investors including Softbank.³⁰

Technocrats in South Korea spur fintech growth

With the rising prominence of digital wallets among South Koreans, policymakers and regulators have over the last decade attempted to push South Korea as a cashless society by 2020. In 2016, the government announced a “coinless society” project that included a coin-buyback programme—which was met with reportedly tepid response³¹—and a number of other policies that have been gradually rolled out since.

The country's financial regulator, the Financial Services Commission (FSC), announced in summer 2020 that they would be submitting proposals to amend laws governing electronic financial transactions, in order to make the environment more fertile for innovation, but also safer by introducing user protection and security. In particular, the amendments would introduce the MyPayment transmission service, and streamline the regulations for new market entrants.³²

Digital wallet operators are likely to get more rules, but also more opportunities for licensing amid the heavily regulated South Korean banking sector.

South Korea has also introduced a regulatory sandbox scheme that came online in April 2019³³ and an open banking project.³⁴ The FSC's sandbox project will open the previously closed interbank payment network to non-bank financial companies, thus giving e-wallets an important foot in the door to test innovative new payment methods,³⁵ and customers access to various bank accounts through a single mobile interface. The FSC's platform—which has garnered 20 million users—is designed to make banking easier for South Koreans, reduce transaction costs, and make the industry more competitive for e-wallet operators, especially as the number of options on offer will only grow and grow.³⁶

A sampling of popular e-wallets across markets and their fees

KakaoPay charges merchants between 1.04% to 2.5% as transaction fees.

Naver Pay charges merchants between 2.2% and 3.74% for debit card payments and 0.8% to 2.3% for credit card payments.²⁰

Top e-wallets: **Samsung Pay, Kakao Pay, Naver Pay and Line Pay.**²¹

Social drives the wallet boom

KakaoPay is the wildly successful payment platform that currently ranks as the country's most popular digital wallet. The service was launched in 2014 to support P2P payments and purchases from a handful of online retailers, but in 2017, the service got spun off into its own company, KakaoPay, which began to offer Kakao's users additional features such as its popular e-wallet, remittances and a forthcoming wealth management option. KakaoPay is expected to roll out its IPO in 2021 at a valuation of about \$8.5 billion, thus becoming one of South Korea's first fintech unicorns.²²

The second most popular digital wallet is Naver Pay, which started in 2015 as a QR-code based payments platform that linked users' credit or debit cards with the app. Unlike KakaoPay's social-centric services, Naver Pay had a particular focus on building partnerships with SMEs, local card brands and banks. One industry source described Naver as leaning on their e-commerce background to drive the service's take-up,²³ though it is likely Naver Pay is built off the strength of its integration with the LINE messaging service.²⁴

Naver Pay and KakaoPay are often pitted against each other because of their similar backgrounds as products of the internet age, but in terms of demographics, KakaoPay's users tend to skew towards the young,²⁵ which probably accounts for the size of its user base. As of mid-2020, KakaoPay registered more than 52 million monthly users,²⁶ while Naver Pay had 12.8 million as of May 2020.²⁷

²⁰ The Korea Times. Controversy continues over Naver Pay's fee rate. Available online at: https://www.koreatimes.co.kr/www/biz/2020/12/513_297251.html

²¹ Fintechnews. A Look into South Korea's Booming E-Wallet Scene. Available online at: <https://fintechnews.hk/9629/mobilepayment/e-wallet-south-korea-digital-wallets/>

²² The Paypers. Kakao Pay set to be Korea's first mobile-payment fintech to go public. Available online at: <https://thepayers.com/mobile-payments/kakao-pay-set-to-be-koreas-first-mobile-payment-fintech-to-go-public--1244861>

²³ The Korea Times. Naver Pay to compete against KakaoPay. Available online at: http://www.koreatimes.co.kr/www/news/tech/2015/09/419_181630.html

²⁴ LINE. [Japan] LINE Pay and Naver Pay Integrate Services for Global Alliance Concept. Available online at: <https://linecorp.com/en/pr/news/en/2019/2796>

²⁵ Statista. Most popular mobile payment services among Millennials and Gen Z in South Korea in 2020. Available online at: <https://www.statista.com/statistics/1029602/south-korea-most-popular-mobile-payment-services-by-young-people/>

²⁶ Statista. Number of global monthly active Kakaotalk users from 1st quarter 2013 to 2nd quarter 2020. Available online at: <https://www.statista.com/statistics/278846/kakaotalk-monthly-active-users-mau/>

²⁷ Business Korea. NAVER: No.1 Internet Player Also No.1 in Commerce, Fintech, and Webtoon Markets. Available online at: <http://www.businesskorea.co.kr/news/articleView.html?idxno=48416>

²⁸ CNBC. This dentist built a \$2 billion Korean start-up — after 8 failed businesses along the way. Available online at: <https://www.cnbc.com/2019/09/20/toss-koreas-first-1-billion-fintech-unicorn-inspired-by-8-failures.html>

²⁹ Bloomberg. 38-Year-Old CEO of Korean Fintech Leader Seeks \$200 Million. Available online at: <https://www.bloomberg.com/news/articles/2020-05-06/38-year-old-ceo-of-top-korean-fintech-startup-seeks-200-million>

³⁰ Kapronasia. CHAI aims to shake up Korea's payments market. Available online at: <https://www.kapronasia.com/asia-payments-research-category/chai-aims-to-shake-up-korea-s-payments-market.html>

³¹ Korea JoongAng Daily. 'Coinless society' still full of coins. Available online at: <https://koreajoongangdaily.joins.com/2019/10/13/finance/Coinless-society-still-full-of-coins/3068992.html>

³² The Legal 500. South Korea: Fintech. Available online at: <https://www.legal500.com/guides/chapter/south-korea-fintech/>

³³ The Law Reviews. The Financial Technology Law Review: South Korea. Available online at: <https://thelawreviews.co.uk/edition/the-financial-technology-law-review-edition-3/1226681/south-korea>

³⁴ Fintech Futures. South Korea to launch open banking system this month. Available online at: <https://www.fintechfutures.com/2019/12/south-korea-to-launch-open-banking-system-this-month/>

³⁵ Fintechnews. A Look into South Korea's Booming E-Wallet Scene. Available online at: <https://fintechnews.hk/9629/mobilepayment/e-wallet-south-korea-digital-wallets/>

³⁶ Fintech Futures. South Korea reports 20m subscriptions to open banking service. Available online at: <https://www.fintechfutures.com/2020/07/south-korea-reports-20m-subscriptions-to-open-banking-service/>

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