

# History and Background of Credit Card in Korea

## Development of Korean Credit Card Market

### 1960~1970

The first credit card was appeared in July, 1969 issued by Shinsaegae Department Store to Samsung employees. The purpose of issuing the credit card was simply to expand the sales volume (transaction volume) in the department store.

### 1970~1980

A specialized mono-line credit card company was **Korean Express Credit Card Company**, which appeared in 1978. The first VISA card was introduced by Korean Exchange Bank Credit Service Co., LTD (KEBCS) which joining venture was Visa International.

### 1980~1990

An aggressive growth of credit card industry was started in 1987 when the Law of Credit Card (currently the **Financial Law of Credit Business**) had amended. The major amendment was the capability of being divided from Mother Company in the form of subsidiary. At this stage, there were four mono-line credit companies established. For example, LG in 1987, Kookmin in 1987, Korean Exchange Bank Credit Service (KEBCS) in 1988, and Samsung in 1988. Since then, the type of credit card was divided into Mono-line and Bank credit cards.

The tax law was modified and created three major systems in the end of 1999. First, a tax deductible system, which the amount of credit card use could be take out from income before tax. Second, credit card-lottery system, a certain number of a chain number listed in the credit card receipt will be turns by lot. Last, the revolving payment system, a system which give free option for the payment due date. These three systems are main reasons for credit card to enter the Golden era.

The original purpose of the credit card was merely to expand the credit sales, so the service was limited in product selling. However, the service area was soon expanded to many other areas, such as cash advance, card loan and many other functions.

Credit card is usually be categorized into four types. Credit card issued by Department stores (Distributive industry), one issued by bank (BC card, Suhyup card, and Kwangju Card) and one issued by mono-line credit card company (LG, Samsung) and the one issued by Automobile or oil industries.

## Types of Credit Card Issuers and Credit Cards :

The standard way of classifying the type of credit cards depends on its characteristics of the issuers. Despite of its general functions of the credit cards, the purpose of issuing their cards is different. By October 2002, there are 64 kinds of credit card products in circulation. That includes 38 kinds of credit card issued by distribution industry. 10 credit cards from Mono-line (specialized) issuers, and 16 from bank which take credit card as a subordinate divisions. Type of Credit Cards has become more variable along with its extended functions.

The main characteristics of distributive credit card are having simple payment system, installment service without interest payment to maximize its sales.

When it considers the volume of transaction, there are four major credit card issuers, which are Lotte Department Store, Hyundai Department Store, Shinsaegae Department Store and Galleria Department Store. In this case, the system of management is quite simple. The industry is both selling the products and controls the member customers. Distributive Credit Cards serve as the most royal one among others. It has achieved the original purpose of increasing the sales and VIP customers.

Card issuers and merchants have been working so hard to provide high quality service. The basic structure of the Mono-line credit issuer is to maintain trilateral relationship. The transaction occurs if and only if there exists a relationship between issuer and members or issuer and merchants. The main income resources of the mono-line credit card issuers are entrance fee of merchant, annual fee for members, installment service fee and merchant usage fee. The representative mono-line credit issuers are Samsung, LG, Hyundai, KEB, Woori. The characteristic of Mono-line credit card issuer is to provide variety services since the operation contains only credit card service. Only Lady card, Age group card, Revolving Card, Transportation only Card, cellphone affiliate card, are all initiated by mono-line credit card. Structure of Mono-line (specialized) issuers is developed along with alacrity of credit card users. The business is maintained by collecting the service fee.

Another kind of credit card is the one which is issued by banks. Credit card service is one of subsidiary business to many banks and the credit operation is part of loan business. Bank issuers are Chohung Bank, Korea First Bank, Kookmin Bank, Industrial Bank of Korea, Hana Bank, Nonghyu, Daegu Bank, Pusan Bank, Kyungnam Bank, Hanmi Bank and most of them are cooperating with BC card. Hanmi, Nonghyup, Suhyup Bank, City Bank is cooperating with Kookmin card (KEB). Hana, Gwangju, Jenbook, Jaeju, Kookmin, Chohung are cooperating with Korean Exchange Bank Credit Service (KEBCS).

	Installment fee	Cash Advance Fee	Card Loan	Late Payment fee
Bank with credit card service	9.0~17.0	11.2~22.9	8.5~19.0	17.0~24.5

Mono- line credit issuer	10.0~16.7	11.9~23.6	6.6~21.0	24.0
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	Year 2000		Year 2001		Year 2002	
	Installment Fee	Cash Advance	Installment Fee	Cash Advance	Installment Fee	Cash Advance
BC	13.6 ~ 18.0	23.4	12.5 ~ 17.0	14.3 ~ 23.6	12.5 ~ 17.0	14.3 ~ 23.6
Kookmin	17.0	23.1	10.5 ~ 16.7	13.8 ~ 25.8	10.5 ~ 16.7	13.8 ~ 23.7
LG	15.4	28.5	11.0 ~ 16.7	15.5 ~ 25.8	11.0 ~ 16.7	14.0 ~ 23.8
Samsung	17.0	27.7	11.0 ~ 18.0	15.5 ~ 25.8	11.0 ~ 18.0	14.2 ~ 23.8
KEBCS	16.5	24.3	9.9 ~ 16.7	11.3 ~ 25.8	9.9 ~ 16.7	11.3 ~ 25.8
Hyundai	18.0	26.7	14.5 ~ 19.0	15.2 ~ 29.0	14.5 ~ 19.0	14.0 ~ 23.5

In 1978, Korean Exchange Bank which is joint venture of VISA International launched to issue the credit card to their client and the first group who received their credit cards was the people who applied for the cards for traveling purpose.

In 80's, a real Golden era of the credit card business has rise with the entrance of Korean top five conglomerates, such as LG, Samsung, Hyundai. They joined the credit card market to target the Seoul Olympic in 1988.

## **Types of Credit Card by its Functions and Utility**

### **Credit Card**

credit card is part of consumer credit. Cardholder who made contract with issuer purchase products and service from the member merchants, cardholder put signature on check when they purchase the service or product. Cardholder have to deposit before payment due date.

### **Direct Payment Card (Debit Card)**

Purchasing the product or service in a store which is registered as a direct payment cardmerchant. Furthermore, it also can withdraw cash from ATM machine. If customer

purchase the products using the direct payment card, the amount due will be withdrawn from the customer's account and be deposited to the merchant account.

### **Check Card**

Same mechanic of the credit card applies to check card, but the only small amount of credit is allowed and the amount of card use will be directly withdrawn from the customer's account as soon as the purchasing activity occurs.

### **Prepaid Card**

Cardholder deposits cash in an account or charges the card and uses the card within the budget

Cardholder can choose the amount of the credit limit. It can prevent cardholders from overspending, but is inconvenient to re-charge (deposit) the card.

## **Main Products of Major Credit Card Issuers**

### **Kookmin:**

- Pass Card

- Bonus point accumulation service/ discount on transportation/ discount on gas consumption/ movie discount

- eQueens Card

- Shopping/ Culture/Fast Food and other services for female.

- Department store/ Apparel/ and discount on shoes

- Discount on sports related products/ free interest in electronic products department

### **Lotte:**

- Gold Card

- Golf booking service, discount in hotel/ discount in duty free shop/ discount on airline/ free installment interest up to three months in Lotte department store

○ Blue Card

- 50% Discount in Mega box blue day, discount in Amex DC shops, discount on internet book purchase

**BC:**

○ BC TOP card

Free membership fee and lots of opportunities to accumulate the bonus point.

**Samsung:**

○ Anypass

- Discount on public transportation, amusement park, movie theater, gas, car repairing service.

○ Intellect and Beauty card

Department discount, discount on luxury brand, restaurants, movie, educational (learning) products.

**Shinhan:**

○ Shinhan D.O (Dream & Opportunity)Card

- First year free membership fee, amusement park, movie theater, free medical examination service, traveling service, discount on gas.

○ My sense card

- Restaurant, wedding service, first year free membership fee, amusement park, movie, medical examination, traveling, gas.

**KEBCS:**

○ Empree

- discount on Hotel, airline, rent car/ Movie, restaurant, gas, free interest for installment in Department stores and discount at duty free shop.

○ KEBCS Platinum

- provide two free domestic airline tickets, free accommodation at Hayatt Hotel in Jaeju Island, traveling damage insurance service

**Woori:**

○ Woori Flex Card

- free personal credit information service, discount on amusement park, movie theater, mobile, gas, car repairing service.

○ Woori gathering card

First year free membership fee, discount on mobile monthly fee, movie, free interest for installment at Lotte department store and e-mart. Free insurance service, gas discount.

**Hyundai:**

○ Hyundai M Card

- Lots of bonus in purchasing car related products

○ Actress Card

- Discount on beauty products/ Restaurant discount

- Department store free installment interest

-Free cancer insurance fee

**LG:**

○ LG 2030 Card

- Discount on Movie/ sports

-Discount on gas(oil) consumption

Hotel/rent car discount

○ LG Lady card:

-Free application fee for plastic surgery

-discount on Wedding package service

-Discount on beauty product/ service and Fashion

-No interest for department installment

## **Method of Payment**

### **1) Lump-Sum Payment**

Base on initial contract between cardholder and card issuer, cardholders make full payment of credit card service on the day specified in the contract.

○ Advantage : No extra fee

○ Shortcomings : pressure from the one time payment

### **2) Installment**

Cardholder purchases product or service in an affiliate merchant and make an installed payment and interest in 2 month or more.

○ Advantage : capital operation is freer

○ Shortcomings : interest payment besides principal

### **3) Revolving Payment**

A cardholder make a prearranged portion of the credit balance and the rest of the payment will be automatically deferred to the next bill. And the member can keep using the credit card within available credit amount.

○ Advantage : Members can decide and control the amount of payment and payment due day.

○ Shortcomings : Very high revolving payment service fee

## **Laws and Regulations of Loan Business/ Financial Institution**

### **Law:**

#### a. Credit card related law/rules

- ◆ Specialized law for loan business
- ◆ Enforcement of the loan business
- ◆ Enforcement regulations for specialized loan business
- ◆ Supervisory regulations of special financial law
- ◆ Detailed regulations of special financial supervisory law
- ◆ Authorization guideline of special financial business

#### b. Consumer protection law

- ◆ Loan business registration and loan consumer protection law
- ◆ Loan business registration and financing user protection law enforcement
- ◆ Overdue interest law of loan business institution according to item2 of Para. 92 of the Loan business registration and financing user protection law enforcement
- ◆ Law related to credit information treatment and protection
- ◆ Credit information treatment and protection enforcement law
- ◆ Credit information treatment and protection enforcement regulations
- ◆ Supervisory regulations of credit information business

- ◆ Authorization guideline of credit information business
- ◆ Law of installment transaction
- ◆ Enforcement of installment transaction
- ◆ Enforcement regulations of installment transaction
- ◆ Consumer protection law
- ◆ Consumer protection enforcement

## **Regulations:**

### **◆ Credit card income tax return system**

**Definition:** If the amount of credit card use from Dec (previous year) to Nov. (current year) is over 10% of yearly salary, 20% of the extra expenditure other than 10% of the salary will be deducted from income tax

Amount of tax deductible: choose between smaller amount than 5 million Korean won and 20% of the extra expenditure other than 10% of the salary

Range of application: Cardholder himself, wife/husband and direct family (parents/children)

**ex)** Yearly salary of USD 50,000 with credit card used for USD 12,000

$\$50,000 * 10\% = \$5,000$

$\$12,000 - \$5,000 = \$7,000 * 20\% = \$1,400$  will be deducted from tax payable/get tax refund

Way to confirm the amount of credit card use and its tax deduction procedure: Credit Card Company is responsible to send the list of yearly credit card use to the cardholder. The cardholder will submit the list and the application of income tax when they report the income tax.

### ◆ Credit card receipt as lottery ticket system

**Definition:** A system which award the cardholder and merchant through drawing the lottery(credit card receipt) in order to prevent the tax evasion and expanding credit card transactions. - Public open drawing lottery every month

(Every 4th Saturday at 4 pm at KBS 1TV, 'SHOW, LUCKY CREDIT CARD')

Award and beneficiary:

-Payment method: the director of the office of national tax administration award the beneficiary directly

- The office of national tax administration deliver the award to the related credit card company and then the company deliver the amount of the award to the cardholder, if the cardholders have bank account with them, the amount of reward will be deposited to the account

### ◆ Phony merchant report award system

Background: Along with the increasing credit card usage, fake merchant appeared in order to evade from tax impose. In order to effectively regulate the fake credit card merchant which evades tax, it is encouraged to reports fake merchant.

**Definition:** Sell the products or services and practice credit card transaction in the other store/place is called fake merchant

## Special Law for Loan Business

### Chapter 1. General law

#### Art 1 Purpose

This law supports credit card business, facility lease business, installment financial business and new technical financial business to develop a wholesome and inventive business operation.

#### Art 2 Definitions

Para 1. so called "special loan financial business" is referring to credit card business, facility lease business, installment financial business and new technical financial business.

Para 2. so called "credit card business" should provide at least two services from belows

Issue and manage the credit card

Payment related to credit card

collect and manage the credit card merchant

b of 2. so called "credit card business" is referring to a firm which is registered according to item 1 of Para. 3 of the Special Financial Law of Credit.

Para 3. so called "credit card" is a symbolic item with which people can purchase the products or services repeatedly in a member merchant

Para 4. so called "credit card member" is the one who had credit card issued according to the contract with the card issuer.

Para 5. so called "credit card member merchant" is referring to the following operators.

Member who provides its products and services to the credit card holder who has their card issued according to the contract with credit card issuer.

an agency who carry out the services to the credit card members who provides products and services to the cardholder on behalf of credit card firm, also called payment agency business

Para 6. So called "Direct payment card" is a tool to make a payment when customer purchases products and services through electronic financial transaction between direct payment cardholder and the issuer

Para 7. "member of direct payment card" is the one who had the direct card issued according to the contract

Para 8. "prepaid card" is a card which contains a certain amount of deposit which cardholder paid in advance. This type of cards can be used in limited merchant areas

Para 9. "facility leasing business"

Para 10. "facility lease"

Para 11. "Subletting"

Para 12. "installment financial business" is a business whose main service is financial installment

Para 13. "installment financing" is financial tool by which the amount of the services or products can be paid in contract period.

Para 14. "Financing business for new technology"

Para 15. so called "Specialized financing company" is one who is registered in the Financial supervisory service according to the Item 1 or 2 of Art 3 of the Special Financing Law of Credit

## **Chapter 2 Registration and Permission**

### **Art 3 (Registration and Permission of Business Operation)**

① It is required to approved by the Financial Supervisory Service to start the credit card business. However, the one is belong to the item 2 of Para 3 of the Special Financial Law of Credit can register as a credit card firm.

②A firm which wish to applied Special financing Law like Facility Lease business, Installment Financial Business or Financing business for New technology is required to register in Financial Supervisory Service

#### **Art 4 (Application of the Registration and Permission)**

A firm who wants to register or get permission according to item 1 or 2 of Art 3 has to fill out the application which contains information about below questions.

- ◆ Company's Name and the Address of the company
- ◆ Capital and shareholder's name and the amount of the occupancy
- ◆ Name of committee
- ◆ Type of financing business wish to operate
- ◆ Intention of the financial loan business
- ◆ Kind of services that the firm wants to operate

#### **Art 5 (Capital)**

Para 1. A company whose capital stock is above of the below list can be registered as corporation to the Specialize Financing Business

Item 1. Operating less than 2 Specialized financing business- 20 billion won

Item 2. Operating less than 3 Specialized financing business- 40 billion won

#### **Art 6 (Requirement for the registration and Permission)**

Para ① The one who is belong to any of following item can not register or get permission of item 1 of Art 3

Item 1. A corporation or the largest shareholder who registered for the corporate termination within 3 years

A corporation or the largest shareholder is in the procedure of the termination according to the Law of corporation termination

Credit delinquent defined in the item 7 of Art 2 of Law related to credit information treatment and protection

The one who is fined or received punishment for violating the laws related to Finance in 3 years.

One is below the standard of healthy financial status

The largest shareholder is belong to the item 1 or 5 of Para.1

Para ② Following items are requirements to register a Credit card business according to item 1 of Art 3

Item 1. It is required to provide the amount of capital stock which is described in the Art 5

Item 2. It is required to have the ability of protecting the proceed the transaction and operating the business with computerized facilities and financial specialists

3. Business plan has to be appropriate

4. The main capital provider has ability to supply full financial ability and hold for healthy financial status and credit in the society.

Para ③ Deleted <2002.3.30>

### **Art 7 (Practice of the Registration and Permission)**

Para ① The financial Supervisory Committee has to inform the applicant about the result of the application within 3 months

Para ② The Financial Supervisory Committee has to inform the applicant right away if there is no indication of any violation of applicant.

Para ③ The Financial Supervisory Committee can request the applicant to correct the error if there is error in the application within 10 days.

~~Art 8 deleted<1999.2.1>~~

~~Art 9 deleted <1999.2.1>~~

### **Art 10 (Request of Canceling the Registration)**

Para ① One can register for the cancellation according to the Item 1 or 2 of Art 3 Para ② The Financial Supervisory Committee should proceed the register cancellation right away

### **Art 11 (Official notification about the Permission)**

The Financial Supervisory Committee is responsible to inform the public through media or newsletter when registration/ Registration Cancellation/command to stop the operation.

## **Chapter 3 Special Financial Law**

### **Credit Card Business**

### **Art 12 (Application range)**

This applies to the additional business area for a corporation whose main business area is credit card

### **Art 13 (Additional Service of the Credit Card Company)**

Para ① A corporation with credit card business can operates additional business which listed below

Item 1. Financing services to the credit card member

Item 2. Issuance and payment for the Direct payment card

Item 3. Issuance and payment for the prepaid card

Para ② A corporation with credit card business can allot/assign its services and business areas to third party according to the item 1 of the Para 1

③ Deleted <1999.2.1>

### **Art14 (Issuance of the Credit card and the Direct payment card)**

① Credit Card Company can issue credit card or direct payment card in response of members' request

② Credit Card Company has to check out for the requirements listed below before issuing the new credit card

Applied by the applicant himself

Item 2. To confirm whether the credit limit is within the amount that is estimated by credit card operation. However, following items has to be included while estimate the credit limit

Income and asset

Being financial Guarantor for third people

The ability to pay for the credit card

The amount of credit left with other financial institution at the point of the credit card issuance

③ Credit Card Company can issue the card to whom meets the following list

One does not belong to the any of the list in item 2 of Para2

The age of the applicant is above the standard age for credit card application.

Other important factors that affect the card issuance

④ Credit card business can not gather the card members through following method.

- A pyramid network style gathering method

- through internet
- Other method indicated in the regulations.

⑤ Credit Card Company has to issue official letter of regulations and rules about the credit card's usage to the credit card members and direct card members in order to protect the consumer right

### **2 of Art 14 (Gathering of Credit card member)**

① Only the one who meets one of the items can gather the credit card member.

Staff of the credit card company

An agent who manages the contract of card issuance for credit card company

Affiliate company which specialize in gathering the credit card members

### **3 of Art 14 (Registration of the collector)**

① It is required to register to the Financial Supervisory Committee in order to be an gathering agent.

② One belongs to any of following items can not be a gathering agent

- a person adjudged incompetent or quasi-incompetent
- The one who is bankrupted
- The one who is sentenced or imposed fine according to this law
- One's gathering license has been cancelled less than 2 years

### **4 of Art 14 (Canceling the Registration)**

① the Financial Supervisory Committee can command agent to discontinue the gathering procedure within 6 months if they violate any of following items

Violate managerial rules and disobey the punishment.

Violate the regulations of law of gathering the credit card member

② The Financial Supervisory Committee should cancel the registration of the gathering agent who was found out to be belonging to Art 14-3 or registered using illegal method

### **Art 15 (Restriction on yield possession)**

Credit card can not be yield or receive from the third person

### **Art 16 (Card members responsibility)**

① Credit Card Company is responsible for all transaction occur after the missing/stolen report from the cardholder.

② Credit Card Company take part of the responsibility for the transaction occurred before missing report.

③ Credit Card Company can impose part or all of the responsibility to the cardholder if the contract has been made. However, if the transaction cause was not the cardholder's mistake, this is not applicable.

④ Credit Card Company should confirm the cardholder about the status of the missing card report

⑤ Credit Card Company is responsible for the transaction originated from fake credit card

⑥ Credit Card company can impose part or whole responsibility to the cardholder if they prove that the transaction is counterfeited by the cardholder.

#### **2 of Art 16 (Gathering the merchant)**

Credit card company should visit the business location of prospect card merchant and confirm whether the operation is going on or not.

#### **Art 17 (Responsibilities toward merchants)**

① Credit card company can impose part or whole responsibilities to the card merchant if the credit card company prove the transaction is faked by the credit card merchant.

Transactions caused from lost and missing

Transaction caused from fraud credit card

#### **Art 18 (Responsibility of transaction condition)**

Credit card company is responsible to present the below items which is regulated by the ministry of Finance

Interest rate, discount rate, and arrear rate decided by other credit card company

Method of payment of the credit card and direct payment card

other items assigned by the ministry of Finance

#### **Art 19 (observance of merchant)**

① Card merchant should not refuse to sell the products or services or provide unfair treatment to the credit cardholder.

② Card merchant should observe whether the card is used by the real cardholder

③ Card merchant should not impose the service commission to the credit card users

## **Art 20 (Prohibition of debenture transfer)**

① A debenture occurred by credit card transaction can not be transferred to the third party other than credit card company.

### **Art21 (Obligation of surrendering the membership)**

A credit card company received the report of violation made by a merchant and no specific reason for the violation, the merchant has to surrender the membership right away.

### **Art 22 (Withdraw and Return the Prepaid Card)**

Prepaid Card issuer should withdraw the card and reimburse the left amount of the money in the prepaid card for following reasons

Card holder cannot use the card due to discontinuing service from the merchant which is damaged by natural disaster

Merchant cannot provide the service due to the defect of the prepaid card

The left money is less than 10% of the prepaid card

### **Art 23 (Gathering the merchant and limitation on using method)**

① Range of the credit merchant is defined by president as a Loan company has credit card business as a sub business area

② To increase the convenience of the credit card usage and to achieve the efficient credit card operation, the Financial Supervisory Committee can allow credit company to assign/divide the service areas to the special agency

### **Art 24 (Limitations on the credit limit)**

Financial Supervisory Committee should indicate or suggest the following amount of the credit limit while issue the credit card

Maximum limit on Financing by credit card

Daily max limit on direct payment card

Maximum credit limit of the credit and direct payment card

### **Art 25 (Deposition)**

① Financial Supervisory Committee can order the card issuer to deposit 10% of total credit issue to the card members.

② Deposition has to be applied to the head office of the company where issue the prepaid card

③ The one who was assigned for the deposition has to report to the Financial Supervisory Committee

④ Credit card company can have the deposition returned with the permission of the Financial Supervisory Committee

⑤ Type of Deposition, time of the deposition, about the deposition is defined by ministry of Finance.

**Source: 1. <http://www.creditcard.or.kr/>**

**2. [lawkorea.com](http://lawkorea.com)**

**3. [Creditcard.or.kr](http://creditcard.or.kr) (신용카드홍보, 교육위원회)**

**4. Financial Supervisory Committee**