Is the Strategic FinTech Policy “ZeroPay” Failed?

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ABSTRACT

ZeroPay was implemented to improve the card fee problem of small businesses, help them manage them, and consequently contribute to a positive economic cycle. However, ZeroPay, which started in 2018, was introduced to reduce fees for small business owners but is now being ignored by small business owners. Also, ZeroPay did not show successful results in bringing new changes to the financial market and citizen participation. In this paper, we discussed how ZeroPay proceeded after 4 years, how the initial issues were resolved, what the critical issues were, and how to resolve them. We also discussed why the “ZeroPay” service has been neglected by small business owners.

Keywords: Engagement, FinTech, Government, Mobile Payment, QR Code, ZeroPay.

I. INTRODUCTION

FinTech is now widely applied in the public and private sectors. ZeroPay is a “zero-fee payment service,” which is designed to help small businesses, which is a QR code-based mobile secure payment service. Because this service started with government policy, ZeroPay started with many controversies, and these issues need to be addressed for the service to settle down stably.

For the past four years, the city of Seoul has been working hard to establish and spread ZeroPay. In particular, various efforts have been made to overcome the issues raised at the beginning of the project. Cho (2020) discussed the issues of ZeroPay and considerations for success. So, how has ZeroPay changed now after 4 years? For some reason, ZeroPay is being ignored by small business owners.

In Fitch aspects, ZeroPay is a new FinTech service to advance on technological breakthroughs in multiple areas, such as mobile networks, big data, trust management, mobile embedded systems, cloud computing, and data analytic techniques (Castiglione et al., 2015; Gai et al., 2018; Lee & Kim, 2015; Zhang et al., 2016).

Governments play an essential role in the global financial markets. Rajan and Zingales (2004) and Glaeser et al. (2001) suggest that governments centralize authority and are needed to create financial markets. Acharya et al. (2016) find that governments in developed countries provide an implicit guarantee to large financial institutions.

The participation of citizens, small business owners, retailers, and financial companies is the most critical point of the ZeroPay service. Lukensmeyer and Torres (2006) call for a more robust framework and infrastructure of public agencies and high public administrators' trust in public participation benefits.

However, ZeroPay, which was started as a strategic policy, did not show successful results in bringing new changes to the financial market and citizen participation.

In the paper, we discuss why the “ZeroPay” service has been neglected by small business owners and heading toward failure.

II. CURRENT STATUS OF ZEROPAY

ZeroPay was implemented to improve the card fee problem of small businesses, help them manage them, and consequently contribute to a positive economic cycle.

ZeroPay is a project implemented in 2018 under the slogan of easing the burden of card fees for small business owners. At the time of opening, the number of franchise stores exceeded 10,000, but as of 2019, it exceeded 120,000. The daily average payment amount exceeded 100 million won. And as of May 2020, the settlement amount was about 146.5 billion won, a sharp rise to an average of about 5 billion won per day.

And the government came up with a plan to innovate the financial settlement infrastructure. Various tasks were proposed, such as support for simple payment public transportation, permitting foreign exchange easy payment, and promoting tax incentives. This is the basis for increasing the number of platforms equipped with a zero-pay payment system by expanding the number of fintech operators with the content of reducing the cost of fintech account transfer service by 1/10. In addition, by allowing deferred payment up to a limit of 500,000 won, it was intended to increase the use of ZeroPay through the app. K-Bank pre-implemented this, and the zero-pay usage rate soared.

Meanwhile, the ZeroPay payment method has also been expanded to include gift certificate payment, NFC transportation payment, online payment, and bill QR payment, enabling various payment methods.

And if you look at the recent situation, after 2020, when the coronavirus was prevalent, the use of financial aid and corona coexistence national support has been used as ZeroPay, so the usage has increased rapidly. (Fig. 1) This acted as a means of supporting small business owners and the people amid a national crisis, and at the same time had a publicity effect that introduced them directly to people, resulting in positive results.
As a result, it exceeded 1 million affiliated stores in 2021. And in 2021, the monthly average reached 180 billion won, which more than doubled compared to 70 billion won in the same period last year. (Fig. 2) This spread was active not only in Seoul but also outside of Seoul, increasing the proportion of affiliates outside of Seoul.

III. Is ‘ZeroPay’ Okay?

‘ZeroPay’ has been a hot topic for some time, and has since disappeared again. When the first disaster aid was paid out in 2021 due to the pandemic, zero-pay was one of the hot issues. However, at some point, ZeroPay was pushed to the background, and there were only rumors that the performance was good. Did ZeroPay, which cost 35 billion won, become a useful payment tool for merchants and consumers?

For example, there was a ZeroPay affiliate sticker at the entrance of Restaurant A and a ZeroPay QR code next to the counter, but the customer took out a credit card and paid for the meal without glancing.

After the customer left, I asked the staff, “How many customers pay with ZeroPay per day?” “not much. It’s probably not even 10% of your daily sales. Customers in their 30s and 40s pay with ZeroPay, but the elderly find it difficult to use it.” Another owner, Mr. B, said, “There are not many customers who use ZeroPay”.

Thanks to the efforts of the Market Merchant Association and local governments, the number of ZeroPay franchisees has increased significantly in the market, but merchants say...
that “there are not many real benefits from ZeroPay.” Why?
The ZeroPay system is as follows. Consumers can open the ZeroPay app installed on their smartphone and register the payment amount by recognizing the ZeroPay QR code in the store. The money will then be transferred from your account to the seller’s account. ZeroPay is a system for small business owners rather than consumers. If a small business with less than 5 full-time workers joins the ZeroPay franchise, the settlement fee is 0% if the previous year’s sales were less than 800 million won.

If sales are between 800 million won and 1.2 billion won, you only need to pay a 0.3% commission, and even if it exceeds 1.2 billion won, you only need to pay a 0.5% commission. This means that if consumers pay with ZeroPay instead of credit cards, the fees that small business owners have to pay can be reduced that much.

But why can't small business owners feel this 'good system'? If you look at the performance of ZeroPay, you can guess why.

The problem is the bare face of ZeroPay revealed in the numbers. As of 2020, the accumulated payment amount of ZeroPay is KRW 1,152.9 trillion, and the number of accumulated merchants is 729,000.

If calculated based on this, the average accumulated zero-pay payment per merchant is only 1,581,481 won. Considering that ZeroPay started on December 20, 2018, the average ZeroPay payment per merchant stays at 2,137 won per day. 1.1529 trillion won is a shabby performance hidden by a huge total number.

The problem is that this is not all. The original purpose of ZeroPay is being blurred. The purpose of ZeroPay is to reduce the fees that small business owners have to pay. If so, consumers will have to pay a lot of debt. However, there is little need for a direct payment service because there are no big benefits from the consumer's point of view.

It is for these reasons that the effect of the zero-pay project, which started to help small business owners, does not reach the skin of small business owners. This is why experts point out that helping small businesses in this way is not the ultimate solution.

IV. PREVIOUS DISCUSSION

From the survey at the starting point of ZeroPay service, we got negative results shown in Table 1.

Since 2018, the SMG and local governments continued efforts to expand affiliate stores and applied various value-added services, such as payment of multiple vouchers and utility bills. SMG made efforts to make it clear to small business owners that the ZeroPay service aims to reduce costs for small business owners and create various benefits. Also, they have been providing legal and institutional support necessary for this. (Cho, 2020).

The concerns raised in the initial zero-pay survey are now appearing four years later. It is not settled in the market, and there is little participation and interest from users or affiliates, and above all, conflicts with private card companies have occurred. If so, what were the efforts to solve these problems? It is questionable whether it will be able to solve the problems and settle down as a payment service.

V. DISPUTATION

ZeroPay has received a lot of expectations as a project that can innovate the government-led national payment system, but it has been criticized as it faces realistic limitations as its goal is large. The first of these is the paradox of the benefit of fee waiver. ZeroPay provides benefits close to 0 won to small business owners. General merchants also receive lower commissions compared to credit cards. However, the cost required to provide benefits is passed on to banks and platform companies that receive payment requests, not the government. In other words, the contradiction of the business to provide benefits to all members of society occurred. In other words, banks and platform companies have no choice but to participate in a semi-compulsory manner in a way that cuts their skin, which has to give up fees.

The second disadvantage is that the anti-compulsory participation project through the waiver of fees is inevitably an antipathy for companies that prioritize profitability maximization. As a result, the participation rate of various payment companies and banks is low. Currently, 38 banking and easy payment apps are linked with ZeroPay. Although the number has gradually increased from the beginning of the business, simple payment companies that are used by many people are not included. Kakao Pay and Toss are representative simple payment methods. These two companies, along with Naver Pay, are simple payment companies that account for most of the domestic simple remittance market share. However, when the government regulates interest income or even earns a fall from deposits, it was judged that there was no business benefit and withdrew its intention to participate. In other words, ZeroPay, which requires only unconditional corporate sacrifice, has enormous limitations in terms of nationwide expansion.

Third, it can negatively affect the survival of card industry workers. Existing credit card companies offered a 15% income deduction, but unlike ZeroPay, they have provided services more ta by returning various benefits to customers in the form of monthly payback. This is because the benefits were related to shopping and cultural life that customers frequently use in real life. However, credit card use is gradually declining due to excessive incentives such as tax credits provided to consumers to encourage the use of ZeroPay.

Fourth, there is a possibility of hindering the development of various simple payment systems. ZeroPay currently uses the QR code method for payment. Since only this one payment method is used so far, there is a limitation that various payment methods cannot be used due to the biased use of technology. Before the launch of ZeroPay, various
simple payment systems were being developed and advanced. Not only the QR code method but also the near field communication method (NFC) and the magnetic secure transmission method (MST) are representative examples. MST is a technology used by Samsung Pay and is led by the largest smartphone maker in Korea. If you have a smartphone with a credit card registered, you can pay through terminals in most stores. And NFC is a technology used by both Samsung Pay and Apple Pay. Although high security and various payment services have various advantages, a new payment terminal is required. However, if only the QR code method is used, the establishment of a device necessary for the newly developed technology will be insufficient, thereby preventing the spread of other payments. In addition, 50 and 60 generations who are not familiar with the QR code method may feel uncomfortable because the payment process is longer and feel burdened with using ZeroPay. This shows that the advancement of technology and the achievement of the goal of spreading the use of ZeroPay can be a constraint.

VI. PROBLEMS & ISSUES

The problems and issues that ZeroPay has as of now, after 4 years, are as follows.

First, the QR code payment method of ZeroPay may not match the consumption patterns of the people. This is because the domestic credit card usage rate is close to 60%, but the account transfer and cash usage rates are in the mid-10% range, respectively. ZeroPay uses QR codes as its main payment method to simplify the payment method and reduce fees. Also, there are China's successful models, 'Alipay' and 'WeChat Pay', which are benchmarked.

One major difference from ZeroPay is culture. 90% of payment methods in China are simple payments through transfers. This was possible because credit card penetration in China was less than 10%, and the introduction of simple transfer and payment methods through QR codes was smooth. Also, it cannot be said that there is no pressure from the government to refrain from using cash. However, in the Korean market, the use of credit cards is high, and especially the higher the income, the higher the credit card use rate is close to 90%. In particular, the key is whether ZeroPay can provide competitive benefits in response to the benefits that can only be obtained when using a credit card.

The second problem is that the incentives to attract ZeroPay users are not attractive. Currently, the benefits that ZeroPay provides to consumers are only a 30% income deduction, a discount on parking fees for public institutions, a discount on cultural facilities such as parks operated by public institutions, and a discount on the use of T'areungu. Even though the income deduction, which was the biggest advantage, was 40% at the beginning, it was lowered to 30% through various criticisms due to economic limitations. This is the same as the income deduction rate of the existing debit card. A debit card provides various benefits, discounts, and points accumulation, although not as much as a credit card. However, this is also relatively more attractive to consumers compared to ZeroPay. In other words, it gives discounts on facilities that people do not use often, and the income deduction rate is the same as that of a debit card, so they do not feel the need to use ZeroPay. This can be seen as a problem caused by not considering the position of consumers who use ZeroPay directly by prioritizing the interests of small business franchisees and government offices.

The third problem is the government's anti-compulsory allocation. This can be said to be a problem based on the above two fundamental problems. Anti-compulsory allocation refers to the fact that the government mobilizes public officials to increase franchise membership performance, but the method is compulsory. As mentioned before, an agreement was reached with convenience stores and 60 franchisees nationwide, but the use of ZeroPay was low, so government-affiliated organizations are now allocating the use of ZeroPay. Although it is not said to be mandatory, it seems that the government-led anti-coercive pressure is being applied given that the allocation is set in a certain part of the budget execution process. This is because they were trying to expand their business without winning the hearts of consumers. When the zero-pay usage rate was low, even the chief executives were mobilized to increase the number of franchisees. This occurred when the Seoul Metropolitan Government began to burden the city with a differential payment of 30 billion won in special grants distributed to autonomous districts. In a similar case, after the Ministry of SMEs and Startups decided to provide rebates for franchisees prohibited by law as support expenses, the mandatory quota system for 10,000 franchisees was introduced. As can be seen from these examples, the anti-compulsory method of increasing the zero-pay usage rate was also wrong, but it did not win the hearts of consumers in the first place, so even providing a large amount of subsidy is like pouring water into the bottom of the poison.

Finally, various regulations in the fintech sector have a negative impact on the spread of ZeroPay. In February 2019, the government came up with a plan to innovate financial settlement infrastructure, and many things were implemented and achieved positive results. However, even after these regulations are lifted, there are still many obstacles to the growth of fintech companies. This lacks continuous dialogue with the government and fintech companies, and even if they do, they often come up with effective ways to solve the mentioned problems in real life but do not put them into practice.

VII. HOW TO IMPROVE?

The first thing that needs to be improved is consumer benefits. As mentioned in the problem, the tax deduction rate of 30% among the benefits of ZeroPay is the same as the deduction rate of the check card, and other benefits such as discounts on cultural facilities and parking lots do not come as a big advantage to consumers. Therefore, it is necessary to understand the dynamics of consumers and provide the benefits they want. To this end, it is necessary to benchmark the benefits of cards and debit cards of various companies. Usually, there are movie theaters, restaurants, travel mileage, gift certificates, etc. Of course, it is difficult to provide benefits such as cards because government businesses are tax-based. However, compared to a debit card, the benefits should be similar or higher. Because it is a debit card that
ZeroPay can compete with as a benefit. If there is no competition with debit cards, there will be no development of ZeroPay even if they support as much support as they do now. Among the methods of determining benefits, there is a method that uses big data to analyze all classes, such as youth, youth, middle-aged, and elderly, to derive common interests and materialize them into benefits. In addition, rather than applying the same benefits to everyone, different benefits should be given according to the amount used. We provide the same benefits to everyone, but if we provide better benefits than we have now, not only will the government run out of money, but it will also make it difficult to sustainably operate.

In addition, it must be equipped with ‘credit and additional service benefits. ZeroPay has a payment structure in the form of a bank transfer, in which payment is made from the consumer's bank balance. However, it must be upgraded so that consumers can selectively use additional service benefits such as interest-free installments and credit functions. In other words, providing a credit extension function is necessary so that payment can be made even when there is no balance in the consumer's bank account. As mentioned in the first improvement direction, this can be seen as combining the strengths of credit cards to have the advantage of competing with debit cards and further differentiate ZeroPay. Of course, a very high limit like a credit card cannot be allowed, but if you provide credit extension benefits by setting a limit based on a low amount, this is the same as a debit card, but the benefits are competitive and have the characteristics of a credit card. It will make ZeroPay a competitive payment method. There is a case in which K-Bank provided credit grant benefits up to a limit of 500,000 won, and the number of ZeroPay users increased significantly. This was a preliminary implementation, but if it is applied and expanded, there is a possibility that it can play a big role in increasing the number of users of ZeroPay.

The third is to support CRM for consumers and franchisees. This is to provide a variety of services by providing customized information to consumers and sellers, not just in the accounting part. This means that ZeroPay can play a role in improving productivity from the point of view of both consumers and sellers beyond just a function of a payment method. This is an improvement plan for a payment system that provides multi-dimensional services by overcoming the limitation of having only a one-dimensional payment function. For example, by providing information such as monthly and daily sales and sales by specific products to franchisees, it is possible to easily analyze operating profit and identify areas for improvement and specialization. This provides efficiency in business operations. And by providing the results of the analysis on consumption patterns to consumers, it is possible to show information by day, month, and year. When such information is accumulated, individual consumption patterns can be visually compared and confirmed and can help rational consumption. Kakao Pay and Toss provide services that predict consumption this month by analyzing individual consumption patterns. If such a service is provided that goes beyond the payment function, it can attract consumers’ attention and play a big role in increasing the zero-pay usage rate.

The above improvement directions were generally established to reinforce the differentiation of ZeroPay. Because ZeroPay is currently being criticized for being a non-substantial project with a high goal, a differentiated function is essential. Therefore, we proposed an improvement plan that can bring the advantages of credit cards and simple payment companies and assimilate them to fit ZeroPay. Of course, there are still many restrictions on fintech-related regulations, but since the government's policy direction is gradually moving toward lifting restrictions, I believe that ZeroPay will be able to develop significantly in the future.

VIII. CONCLUDING REMARKS

ZeroPay, launched by SMG, is meaningful because it is the first mobile payment service launched for small business owners. ZeroPay is a service implemented to improve the card fee problem for small businesses and help them manage and contribute to a positive economic cycle.

The purpose of introducing ZeroPay, a simple payment system introduced to alleviate the burden of paying fees for small business owners, is being distorted. Debit payment, the original function, has long since been pushed back. As of the first quarter of this year, payment for gift certificates accounted for more than 90% of the total payment for ZeroPay. A bigger problem is the total flaws in the zero-pay system. As a result of the Journal coverage, more than half of the 850,000 or so merchants were merchants with “zero” performance without even making a single payment. The merchant application system was poor enough to pass even if false information was entered.

The fundamental problem with ZeroPay is that the government intervened in the payment and settlement market, which was well centered on the private sector. After unnecessarily entering the market, it did not have a good effect, and various side effects appeared. It can be said that ZeroPay corresponds to both market failure and policy failure. ZeroPay’s poor franchise management system is a serious problem that can cause the financial disorder. If the franchisee qualification verification process, which is directly related to sales, taxes, and payment commission rates, is performed incorrectly, it is a serious issue that can lead to system failure and further financial damage.

The damage caused by the ZeroPay operation goes to the people. When ZeroPay is activated, it is activated, and if it is inefficient, the tax burden increases. Therefore, under the guise of supporting small business owners, the current ZeroPayment method, in which no one takes benefits, should be stopped, and the entire payment business should be left to the private sector. The problem will be solved.

There were concerns from the beginning of the introduction of ZeroPay. The time when the government intervenes in the market should be when the market has failed or is not ready. Since it is a government fund, it must be effective to receive a good evaluation. However, the government intervened in a situation where the payment and settlement market was already active. They paid taxes and brought money from financial institutions. It didn't go well when I came in. Consumers and small business owners alike turned away from ZeroPay due to the inconvenience of use and insignificant benefits. It is a market failure and a policy
failure.

In addition, many merchants do not have actual payment. As a result of the Sisa Journal coverage, more than half of the 850,000 ZeroPay merchants were merchants with no payment history at all. The fact that there are not many places where actual payments occur is proof that ZeroPay is not very useful. I continued to recommend joining a merchant, so I signed up, but many places do not use the zero-pay payment system. Because the benefits aren't great. That is why many places are searching for a zero-pay merchant, but do not accept payment if you go directly.

The government should release ZeroPay to the private sector and make it possible to compete within it. You should think about lowering overall market fees through fair competition with other simple payment services. In the case of handing over to the private sector, poor system or procedural verification problems can be resolved more quickly.

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