# Xsolla

# HOW TO GROW YOUR VIDEO GAME IN SOUTH KOREA

## THE GAME DEVELOPER'S GUIDE TO THE SOUTH KOREAN VIDEO GAME MARKET
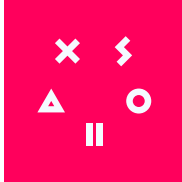
When it comes to video game success, one of your most important considerations are your target markets. Where you choose to distribute and promote your game determines growth potential, dictates the payment types you need to support and informs which features you must factor into game development.

The challenge is that uncovering each market's nuances can be difficult, time-consuming and costly–especially if you're unfamiliar with the local resources and language.

We created this guide to help you understand key information about launching and growing your game in South Korea. Informed by Xsolla's in-house global gaming experts, the guide is designed to help you avoid pitfalls and missed opportunities while marketing to South Korea's massive gaming audience.

What's inside:

1. About the South Korean Gaming Market
2. Banking and Online Payments
3. Supporting the Right Payment Types
4. Understanding Game Ratings
5. Key Regulations that Impact Games
6. What's Next?

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## 1. ABOUT THE SOUTH KOREAN GAMING MARKET

If you're thinking big when it comes to growing your video game audience, you need to think about South Korea. The vast majority of the country is online–95.9% internet penetration, representing 44 million people, according to Statista, and it ranks high in the top ten largest ecommerce markets at $69 billion–above France, Canada, Brazil and Russia.

The gaming numbers tell an even more exciting story. According to New Zoo, the country has 30 million gamers, 85% of which have spent money on virtual goods or in-game items in the past six months. Overall, South Korea's gaming activity adds up to $5.6 billion–a huge opportunity for your growth and revenue.

## SOUTH KOREAN GAMING BY NUMBERS

**95.9%**
internet
penetration

**44M**
online
consumers

**$69B**
ecommerce
market

**21%**
annual online
shopping sales
growth

**30M**
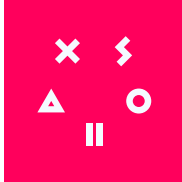gamers

**4th**
globally in mobile
game revenue

**$5.6B**
in game revenue

Sources: Statista, New Zoo, App Annie via eMarketer

## 2. BANKING AND ONLINE PAYMENTS

Not that long ago, South Korea was behind the global curve in online payments. The culprit was a 1999 law that required citizens use Internet Explorer exclusively for shopping and banking. While the law brought some consistency to South Korean ecommerce, it became outdated as technology evolved and mobile devices proliferated.
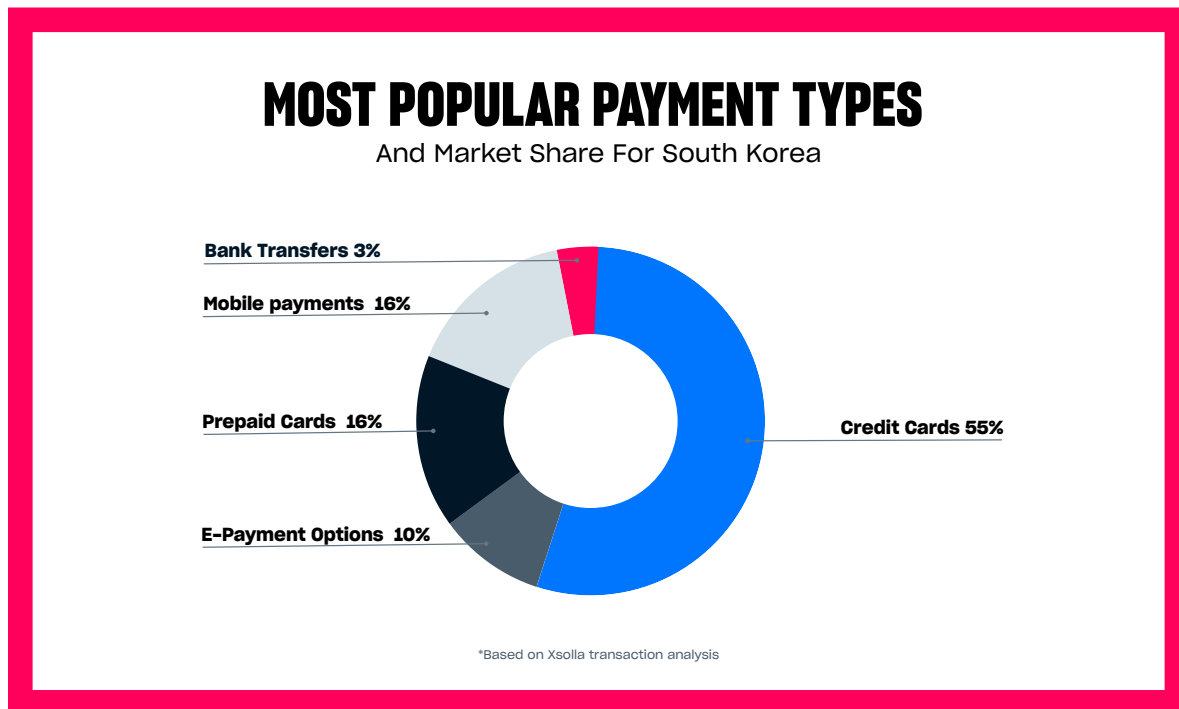
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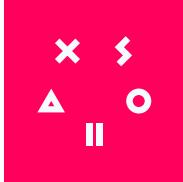
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To keep up with the ecommerce times and stimulate growth, South Korea eventually eased the Internet Explorer requirement. A range of global and regional ecommerce payment types emerged, including mobile digital wallets that transformed the landscape. Today, instead of being behind the curve, by many accounts, South Korea is a leader in digital transactions with one of the world's biggest ecommerce markets.

There's more innovation coming, too. South Korea is working on the Open Banking system, which would allow consumers to transfer money and make payments all from a single platform.  Meanwhile, Bank of Korea is leading a "coinless society project", where consumers deposit small change left from transactions into prepaid mobile cards for use later at places like convenience stores.

## 3. SUPPORTING THE RIGHT PAYMENT TYPES

Each market has a unique payment landscape which means, to give your game the best opportunity for growth, you really need to know which types matter most in each region. In this section, we'll cover key payment types for South Korean gamers.

## MOST POPULAR PAYMENT TYPES
### And Market Share For South Korea

Bank Transfers 3%

Mobile payments  16%

Prepaid Cards  16%

E-Payment Options  10%

Credit Cards 55%

*Based on Xsolla transaction analysis

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## Credit Cards

Credit cards are extremely popular in South Korea. There are over 100 million cards in the marketplace, with an average of four cards per household. Further, 76% of retail payments are made with cards–even higher than in the US.

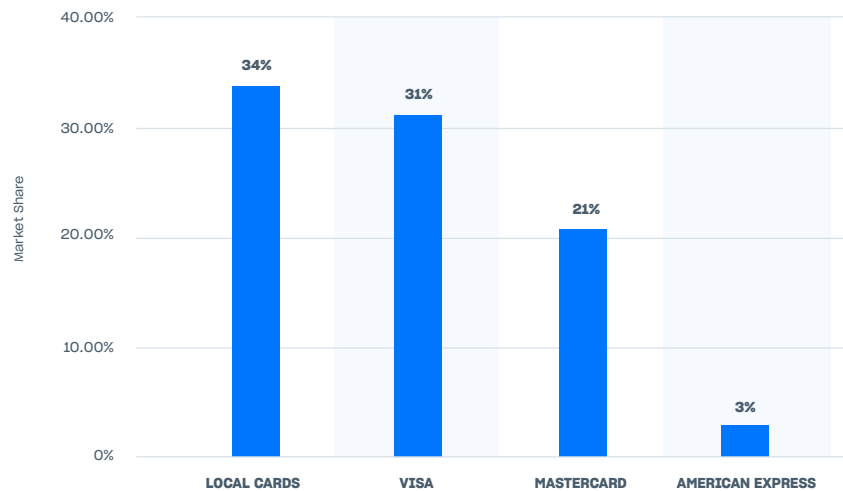### SOUTH KOREAN CREDIT CARDS BY NUMBERS

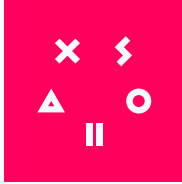Over **100 million** cards

Average **4 cards** per household

**76%** of retail payments made with cards

Source: Cross-Border Ecommerce Community (CBEC)



Market Share

| LOCAL CARDS | VISA | MASTERCARD | AMERICAN EXPRESS |
|---|---|---|---|
| 34% | 31% | 21% | 3% |

*Based on PPRO Almanac data

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## Mobile Payments and Digital Wallets

While South Korea struggled with the limitations of its Internet Explorer-based system, mobile created an opportunity to modernize ecommerce. Several large South Korean corporations developed mobile payment solutions, which were adopted quickly by a market that was eager for change.

Today, about two-thirds of South Korean ecommerce happens on mobile and the country ranks fourth worldwide for mobile ecommerce, according to eMarketer.
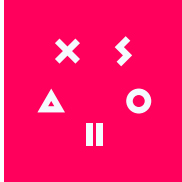
- Kakao introduced **Kakao Pay** in 2014, a mobile digital wallet that shoppers used by registering via KaKaoTalk, a popular and free messaging app. It was adopted quickly–according to Kakao Pay, the system is used by over half of South Korea's population of 50 million, processing upwards of three trillion transactions a month.

  Kakao Pay was initially only available to domestic companies. This has recently changed, with Xsolla among the very first companies that can offer Kakao Pay to game developers and studios outside of South Korea.

- **Naver**, Korea's leading portal site operator, launched mobile payment system Naver Pay in 2015. According to eMarketer, Naver Pay is the most popular mobile payment app, used by 58.6% of the South Korean market. Xsolla is adding support for Naver Pay, with expected roll out in 2020.

- Another popular app is **Payco**, which accounts for 30% of South Korean mobile payments, according to eMarketer. Payco is known for being among the first local payments to connect to Google Play and YouTube. This unique advantage will drive further growth; the payment system has already reached more than five million downloads and enabled $1.5 billion in payments. In fact, its success has created a "turnaround" of sorts for its parent company, NHN Entertainment, which had been struggling before launching Payco.

- **TOSS eWallet** is another widely-used solution. With an audience of 11 million users and 20 million downloads, it works with all South Korea's financial institutions. TOSS' differentiator is security–according to self-reported statistics, the payment system has had zero security incidents related since its launch.

| MOBILE PAYMENT SYSTEM | SHARE OF RESPONDENTS USED* |
|---|---|
| NAVER PAY | 58.6% |
| KAKAO PAY | 49.1% |
| SAMSUNG PAY | 32.5% |
| PAYCO | 30.6% |
| TOSS | 26.6% |

*Based on Nasmedia's 2018 Netizen Profile Research Summary Report

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## QR Code Payments

Another emerging but notable payment type in South Korea is the QR code payment. It's a simple option where shoppers simply scan barcodes that connect to their bank accounts.

The popular Kakao Pay launched a QR payment service in 2018, which was adopted quickly. As of December 2018, **Kakao QR Pay** had 190,000 partner stores, handling three trillion in transactions.

Recognizing the opportunity to eliminate card payment processing costs for small merchants, the South Korean government launched its own QR payment app called **Zero Pay**. Adoption was slow initially, so the government created competitive incentives to boost transactions. Consumers were offered a 40 percent tax deduction for spending 25 percent of their total income through Zero Pay.

The popularity of QR payments also caught the attention of South Korean credit card companies. BC Card, Shinhan Card and Lotte Card recently teamed up to launch a QR code scan payment service of their own.
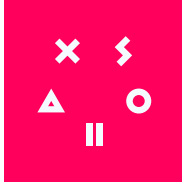
While still relatively new, it's likely that these QR payment systems will draw more transactions away from credit cards.

## Pre-Paid and Gift Cards

South Korea also has a very developed system of pre-paid/gift cards. According to Xsolla transaction data, these cards are as popular as mobile payments (16% market share). Their appeal can be attributed to several factors:

- They're multipurpose. That is, they can be used to purchase a range of products.
- They offer an alternative payment system for the "unbanked" population, particularly kids and teens, and some, like T-Money, can be refilled.
- They're secure because customers can use cash to top the cards, which minimizes the risk of fraud.

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## Cash

While older generations still use it, cash is on the decline in South Korea. A survey by the Bank of Korea reported that households were carrying 33 percent less cash in 2018 compared to 2016. Along the same lines, cash accounted for only 20 percent of all payments in South Korea in 2018. It's not just a consumer-driven shift; the Bank of Korea has made efforts to phase out cash from the market to reduce the cost of producing new currency.

# 4. UNDERSTANDING GAME RATINGS

South Korea's Game Industry Promotion Act dictates that games promoted and distributed in the marketplace must apply for a rating.

There are a few entities involved here. The GRAC, Game Rating and Administration Committee, launched in 2013 to foster a healthy, prosperous game culture. The Game Content Rating Board (GCRB) was established in 2014 to classify game content, while the Minister of Culture Sports and Tourism empowers other businesses, such as Google Play or Apple's App Store, to provide independent ratings through the IRCB (Independent Rating Classification Business Entity).

Ratings range from ALL, 12+, 15+ and ADULT ONLY, for mobile games, PC-online games, console games, arcade games, etc. Ratings come with content warnings about sexuality, violence, language, gambling, etc.



GAMING RATINGS

FOR ALL     12+     15+     18+     FOR TESTING
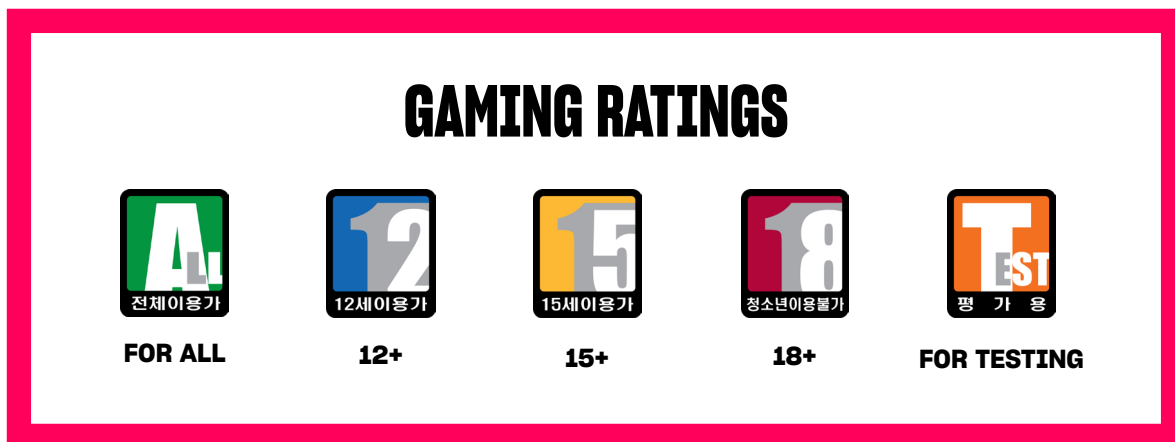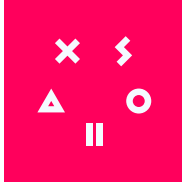
## Applying for Game Ratings

Game developers apply for ratings by completing a number of online documents. In most cases, if you are a non-local game developer, you'll need to apply with a local distributor as a publisher or proxy.

There is a cost to apply for ratings, too, which varies depending on several factors, including the game platform, genre and even language. When a game is developed for both the computer and console, a separate rating is required for each platform, with a separate cost for each.

Also, it's important to know that when your game is updated you are required to notify GRAC or GCRP of changes within 24 hours. You'll receive either a "notification of rating maintenance" which affirms the current rating, or a "notification of rating renewal" which indicates your game must apply for a rating again. These notifications take about seven days.

*An exception for mobile games:*
Mobile games are self-rated, which means you can assign your mobile games ratings without the online application. That said, you need to be sure to give your game the appropriate rating–failure to do so can result in a fine.
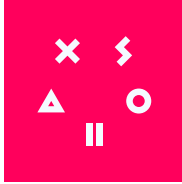
For more details on South Korean game ratings, cost and the application process, an English-language resource is available here: https://www.grac.or.kr/english

## How Rating Systems Are Enforced

In South Korea, online game ratings offer more than just a guideline–ratings determine a gamer's ability to access a specific game.

Age authentication is typically handled in one of two ways. Players choose if they want their mobile carrier to determine their ability to access a game–the more common process–or they can enter an i-PIN, an Internet Personal Identification Number that is obtained by registering on a South Korean government site.

To support authentication, game developers must integrate both flows into their game's authentication rules. This process can be made easier with the right partner. For instance, Xsolla has integrated both mobile carrier and i-PIN authentication and is fully compliant with the South Korean personal identification process.

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# 5. KEY REGULATIONS THAT IMPACT GAMES

There are a number of key regulations in the South Korean market that you need to understand in order to avoid complications and, in some cases, fines.

## Regulations that Protect Children

In 2011, as part of the Juvenile Protection Act, South Korea passed the Shutdown Law (also known as the Cinderella Law) that forbid children under the age of 16 to play online games from midnight to 6 a.m.

This was a controversial law, with many arguing that parents should have autonomy over their children's behavior. As a result, South Korea changed the law in 2016–still in place by default, parents could lift the ban at their discretion.

Also, the Juvenile Protection Act regulates the distribution of harmful media materials. Kids, eighteen and younger, are protected from harmful content by way of South Korea's rating system, covered in the previous section.
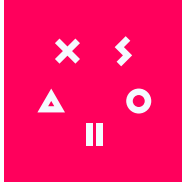
These laws impact game developers in a few ways:

· First, you need to make sure your game complies with all regional legal regulations by, for example, getting your game rated.

· Second, because the laws determine who can play your games and when they can play them, your overall reach and activity during specific hours of the day may be limited.

## Limiting Game Spending

In 2007, the South Korean government set a limit on how much an individual–adults included–could spend on games. In the interest of stimulating growth in the industry, that spending limit was raised over time from 300 000 KRW to 500 000 KRW. Today, the official limit of 70 000 KRW only applies to kids. Adults can set a self-spending limit in accordance with their buying history.

That said, South Korea still has concerns about excessive spending for adults. As a result, K Games (Korean Association of Game Industry) set up a self-spending limit system that allows adults to set their own payment limits. While games are not required to integrate with the K Games system, it is recommended and the biggest game companies in South Korea have already integrated.

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## Regulating Loot Boxes and Randomized Virtual Items

As popular as they are, the sale of "loot" boxes and other randomized virtual items has been somewhat controversial. The "black box" nature of these products makes it difficult for game players to trust the value of their investment, and they've been vocal about their concerns.

To address these consumer complaints, the Korea Association of Game Industry called on video game developers to self-regulate in 2015. Despite this, the consumer complaints kept coming, so new stipulations were added. Today, games that sell items via randomized systems such as loot boxes must be transparent about the odds of an item appearing.

It's important to know that there are real penalties for failing to self-regulate. According to *The Korean Times*, Video game developers Netmarble and Nextfloor received fines for not informing players of the correct odds for their goods in 2018.

Regulations around virtual items and loot boxes are not unique to South Korea–if you're selling globally, make sure you have current information for each market.

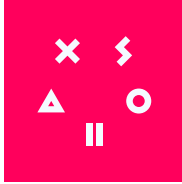## Regulations to Preserve Game Integrity

Given the popularity of gaming in South Korea, the country takes video game cheating very seriously.

"Boosting" – playing another account's game to increase their score – became a criminal offense in 2018 under the Game Industry Promotion Act, with an $18,000 fine and a two-year suspended prison sentence.

Match-fixing is another global problem in gaming culture. *Counter-Strike, Global Offensive, League of Legends* and *Overwatch* have been involved in match-fixing scandals in recent years. South Korea was home to one of the highest-profile incidents when *StarCraft II* protege "Life" was prosecuted for throwing two matches. He was sentenced to 18 months in prison and received a massive fine, along with being banned from playing in South Korea.

Hackers, too, face stiff penalties in South Korea. It is illegal for anyone to manufacture or distribute programs "that are not allowed by the game company and its Terms of Service."
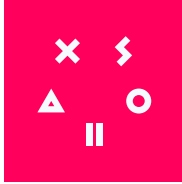
The goal here is to prevent aimbots and hacking programs–basically any modifications that create unfair advantages in games. A South Korean *Overwatch* hack creator received a suspended one-year prison sentence and two years' probation for this.

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# 6.  WHAT'S NEXT?

With its passion for gaming and high game spending, there's no question that South Korea can help you grow your game audience and revenue. The challenge, of course, is finding the right way to approach the market—one that gives you the strongest opportunity for success while also avoiding mistakes and costly fines. There are a few directions you can take:

1.  **Manage your own research and strategy:** It's tough to keep up with payments, ratings and regulations when most of the information is contained on local South Korean websites. Unless you know the language, you'll have a hard time navigating those online resources. So, while doing it yourself is certainly an option, you do risk burning a lot of time and still being vulnerable to missteps and penalties.

2.  **Find a regional consultant:** You can choose to work with a local legal consultant to help identify the requirements and regulations that are relevant to game distribution. The challenge here is that it can be difficult to find a trustworthy resource if you don't know the country and language. Plus, because laws do change frequently, you'd need to work with that consultant continuously—a cost that can really cut into your game profits.

3.  **Find the right partner:** The right distribution partner can help you keep your games up to date for the South Korean market without the high cost of consulting or the drain and risk of conducting your own research. Ideally, you can find a partner with a flexible cost structure and/or revenue share to limit your expenses.

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Xsolla as a partner:

As the video game business engine that helps you operate and sell more games globally, Xsolla dramatically reduces the amount of research and integration work required to stay on top of market trends. Xsolla is unique in the global gaming market because it's connected to most payment systems in South Korea, including the emerging QR code payments, and can serve as your Merchant of Record to dramatically reduce the amount of work required to support local payment systems. Xsolla has extensive experience supporting video games, large and small, in South Korea and globally. In addition to having resources dedicated to tracking changes in local regulations, ratings and other guidelines, Xsolla's platform has already integrated features like i-PIN to streamline access to South Korean gamers. In short, Xsolla takes care of a lot of the cumbersome work of game localization and distribution so you can focus on the best part–the game itself.

> **South Korea represents a massive market in which to grow your audience — you just need to find the right path to ensure you have all the current information and the best opportunity for your game.**

For new partners interested in operating in South Korea: contact business@xsolla.com to discuss further details.

For current partners: contact an account manager at am@xsolla.com in order to enable new payment methods options in South Korea.

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