

# WHAT FACTORS INFLUENCE PROFITABILITY IN THE KOREAN CREDIT CARD BUSINESS?

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## ABSTRACT

This study investigates the hypothetically influential factors in the profitability of Korean credit card firms based on the findings of previous studies. By using recent Korean credit card business data, the study determines whether internal and external factors affect profitability in the operating activities of credit card firms. The main findings are as follows. First, Korean credit card firms are mainly affected by the portion of the interest margin contribution from the perspective of business diversification. Second, the level of risk management in Korean credit card firms plays a critical role in enhancing their profitability. Third, large asset investment is not helpful in increasing the profitability of Korean credit card firms.

**Keywords:** Hypothetically Influential Factors; Interest Margin Contribution; Level of Risk Management; Large Asset Investment.

## 1. INTRODUCTION

Until recently, the policy for disputes over reducing the fee rate for self-employed small business credit card affiliates had been progressed in Korea. Small business owners argued that 1.5~2.0% of the current credit card affiliate fee, which is to be paid to credit card firms in order to receive the proceeds of sales in advance, is too high for them to manage their businesses. In addition, small-sized credit card affiliate owners have held that credit card firms could make an operation profit regardless of the change in the card affiliate fee because they benefit from the huge interest margin from the card loan and cash advance services.

On the contrary, credit card firms have argued that the reduction in the affiliate fee places a serious burden on the credit card industry because the diversification of the Korean credit card business is not well performed.

However, the Korean financial authority recently announced a 0.7% cut in the fee rate for small business owners. To protect small credit card affiliates with sales amounts less than USD 270,000 per year, some members of the opposition party in the Korean Congress strongly argued that the government should reduce the fee to a low percentage but only for small business owners despite the opposition of credit card firms since early 2015.

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