

ANALYSIS: VIRTUAL BANKING



SC Digital Solutions is a joint venture between Standard Chartered, HKT, PCCW and Ctrip

China firms bag first two of three virtual bank awardees

The first batch of licences were granted to two applicants that already have experience in running a deposit-taking and lending business.

When Hong Kong officially granted the first batch of virtual banking licences to Livi VB, SC Digital Solutions and ZhongAn Virtual Finance, it signalled a long overdue step to bring the city's traditional financial services industry into the digital age.

Two of the approved players are backed by major banking players that forged strategic partnerships with established merchandising and telcos. Livi VB is a co-owned entity by Bank of China (Hong Kong) whilst SC Digital Solutions is the result of a joint venture between Standard Chartered, HKT, PCCW and Ctrip.

The collaboration will allow new virtual banks to offer e-commerce related services and customer experiences different from their parent incumbent banks, Sonny Hsu, VP-senior credit officer, financial institutions group at Moody's Investors Service said in a note. "With the cost efficiency of running a totally branchless business, they should also be able to offer extremely good rates to attract new customers and retain their existing base. They will also have the advantage of knowing first—

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hand what traditional banking is doing right and what are the existing customer pain-points," said **Anthony Chiam**, regional practice leader, global business intelligence - Asia & Australia at J.D. Power.

Only ZhongAn Virtual Finance has no backing from a big banking player, although it can count on the formidable support of securities company Sinolink and online P&C insurer ZhongAn Online, which has extensive experience in running a web-only business. "This venture will enhance ZhongAn's franchise and accelerate its expansion outside of China. However, it will also put

pressure on its capital because of the potential capital needs associated with supporting the virtual bank's growth and infrastructure investments, said Zhu. "ZhongAn has a limited operating track record in the banking industry, which indicates there could be a higher execution risk compared with the other two virtual banks."

The prize is a market that has expressed growing dissatisfaction with existing retail banks, with 57% of customers in Hong Kong ready to try out virtual banks as they lament growing problems with their existing e-banking platforms, according to a survey from J.D. Power. "There will be a period of test and learn. With a population of just over 7 million, time will tell if there is room for more players in the industry," said Chiam.

Virtual banking storm

With no need to set up branches, virtual banks can deliver the full suite of retail banking services like loans, deposits and payment services to individuals and small businesses through an app or a website.

The Hong Kong Monetary Authority (HKMA) subjects virtual banks to the same prudential regulatory requirements with minimum capitalisation of HK\$300m and deposit insurance capped at HK\$500,000 per eligible account.

The regulator is processing five other applications in addition to the three licences that have already been issued. The virtual banking initiative is amongst efforts by the HKMA to transition to an era of Smart Banking following the launch of Faster Payment System, enhanced Fintech Supervisory Sandbox and the rollout of a policy framework on open API.

Summary of first batch of Hong Kong virtual bank licencees

Virtual Bank	Capital (HKDm)	Shareholders	Ownership
Livi VB Limited	2,500	BOC Hong Kong (Holdings) Limited	44%
		JD New Orbit Technology (HK) Limited	36%
		JSH Virtual Ventures Holdings Limited	20%
SC Digital Solutions Limited	1,611	Standard Chartered Bank (Hong Kong)	65.1%
		HKT Trust and HKT Limited (Baa2 stable) & PCCW	25%
		Ctrip Financial Management (HK) Co., Limited	9.9%
ZhongAn Virtual Finance Limited	1,500	ZhongAn Online P&C Insurance Co., Ltd	51%
		Sinolink Worldwide Holdings Limited	49%

Source: Hong Kong Monetary Authority, HKEX and Standard Chartered Bank (Hong Kong) Limited, MOODY'S