Guideline on Authorization of Virtual Banks

Media Briefing
30 May 2018
Public Consultation

• From 6 February to 15 March

• 25 respondents:
  – HKAB and DTC Association
  – Consumer Council
  – Chambers of commerce
  – A fintech industry association
  – Technology companies
  – Professional firms
General Feedback

• All supported introduction of virtual banking

• Most agreed applying same supervisory requirements on conventional banks (CBs) and virtual banks (VBs)

• Specific views received on several principles
  – Financial inclusion
  – Exit plan
  – Capital requirements
Financial Inclusion

• Many agreed VBs should play an active role in promoting financial inclusion

• A few questioned the reasonableness of this requirement and did not support requiring VBs not to impose minimum balance requirements/low-balance fees
Financial Inclusion

HKMA’s responses

• Key objective of introducing VBs

• Leverage on VBs’ IT platforms to lower incremental costs of taking in additional customers

• VBs should not impose minimum balance requirements / low-balance fees
Ownership

• Several expressed support for local incorporation but one hoped to retain flexibility to operate a branch

• Many agreed VBs majority-owned by non-financial firms to be held through an IHC

• Clarification requested on supervisory conditions to be imposed on IHCs and not to exclude smaller firms to operate VBs
Ownership

HKMA’s responses

• Local incorporation due to VBs’ focus on retail banking

• Provided more details about supervisory conditions to be imposed on IHCs

• Avoided confusion that only firms with strong parents are allowed to operate VBs
Ongoing Supervision

• Predominant support for maintaining a level-playing field

• A few suggested a more flexible supervisory framework for VBs, whereas one argued more stringent supervision

• Clarification requested on how requirements will be adapted to suit the business models of VBs
Ongoing Supervision

HKMA’s responses

• VBs and CBs should observe same supervisory requirements

• HKMA to follow a risk-based and technology-neutral approach in considering adaptation of supervisory requirements
Physical Presence

- No objection to maintenance of a physical presence and no physical branches, but some confused that face-to-face customer verification has to be undertaken by VBs

- Questioned whether books and records needed to be located in Hong Kong

HKMA’s response

- Made suitable clarifications in the Guideline
Risk Management

• Importance of system resilience and business continuity planning to VBs

• Requested submission of independent assessment reports on information system controls by phases

HKMA’s responses

• Suggestions taken on board
Exit Plan

- A few respondents did not support this requirement because it is not applicable to CBs. Many requested more guidance.

HKMA’s responses

- Prudent for VBs to produce an exit plan, given this is a new business model. Leading overseas authorities have similar requirements.

- Provided more guidance on key elements of an exit plan.
Capital Requirement

- Several recommended lowering capital requirement
  - Start-up VBs not to meet capital requirement but subject to business restrictions
  - Capital requirement same as deposit-taking companies but with flexible deposit amounts and terms of maturity

HKMA’s responses

- Minimum paid-up capital requirement stipulated in Banking Ordinance and applicable to all banks
- Neither possible nor appropriate to lower the requirement for VBs
Processing of Applications

• Enquiries and indications of interest received from over 50 companies

• Vetting and approval process entails extensive resources and efforts

• Companies that cannot submit a substantially complete application by 31 August 2018 are most unlikely to be included in the first batch of applications to be processed
Processing of Applications

• Priority will be given to applicants which can demonstrate:
  – Adequate financial, technology and other relevant resources
  – Credible and viable business plan to provide new customer experience and promote financial inclusion and fintech development
  – Appropriate IT platform to support business plan
  – Ready to commence operation soon after a licence is granted

• Applications to be evaluated carefully and expeditiously