



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