Guideline on Authorization of Virtual Banks

The following is issued on behalf of the Hong Kong Monetary Authority:

The Hong Kong Monetary Authority (HKMA) published today (May 30) a revised Guideline on Authorization of Virtual Banks following the completion of a public consultation.

During the public consultation, the HKMA received submissions from a total of 25 respondents, including the Hong Kong Association of Banks, the DTC Association, the Consumer Council, chambers of commerce, an industry association from the fintech community, technology companies and professional firms.

All respondents supported the introduction of virtual banking in Hong Kong. Most of them agreed that virtual banks should be subject to the same supervisory requirements applicable to conventional banks. No respondents raised objection to allowing both financial and non-financial firms to operate a virtual bank in Hong Kong, and there was broad support for virtual banks to operate in the form of a locally-incorporated entity with no physical branches.

Specific comments were, however, received on several principles in the Guideline. Firstly, while many respondents agreed that virtual banks, like conventional retail banks, should play an active role in promoting financial inclusion, a few respondents questioned the reasonableness of this supervisory expectation and did not favour the requirement on virtual banks not to impose minimum balance requirements or low-balance fees on customers. The HKMA would like to point out that a key objective of introducing virtual banks in Hong Kong is to help promote financial inclusion by leveraging on these banks' information technology (IT) platforms that would lower the incremental cost of taking in additional customers. The HKMA therefore remains of the view that virtual banks should not impose any minimum balance requirements or low-balance fees on customers.

Secondly, a few respondents did not support requiring virtual bank applicants to produce an exit plan, on the ground that no similar requirement applied to conventional bank applicants. Given that virtual banking is a new business model in Hong Kong, the HKMA considers it prudent to require virtual bank applicants to develop an exit plan. The purpose of an exit plan is to ensure that, should it become necessary, a virtual bank can unwind its business operations in an orderly manner without causing disruption to the customers and the financial system. Leading overseas supervisory authorities have introduced similar requirements for virtual bank applicants.

Thirdly, several respondents requested the HKMA to lower the minimum paid-up capital requirement of HK$300 million for virtual bank applicants. It should be noted that the minimum paid-up capital requirement of HK$300 million is stipulated in the Banking Ordinance and is applicable to all licensed banks. It is neither possible nor appropriate to lower the minimum capital requirement for virtual bank licensees.

A number of respondents requested the HKMA to elaborate on some of the principles contained in the Guideline. The HKMA has taken on board many of these comments, and has made suitable changes to the relevant paragraphs in the Guideline. A detailed summary of the comments received during the public consultation and the HKMA's responses can be found in the Consultation Conclusions at Annex 1. A revised Guideline, highlighting the key changes compared with the version published for consultation, is at Annex 2.

Since the HKMA announced its intention to encourage virtual banking in Hong Kong last September, it has received enquiries and indications of interests from over 50 companies. While it is unclear at this stage how many of these companies will eventually put in applications to operate a virtual bank, they should appreciate that the vetting and approval process entails extensive resources and efforts by both the applicants and the HKMA. For those companies that have not been able to submit a substantially complete application to the HKMA by August 31, 2018, they are most unlikely to be included in the first batch of virtual bank applications to be processed by the HKMA. In processing these applications, priority will be given by the HKMA to those applicants which can demonstrate that (i) they have sufficient financial, technology and other relevant resources to operate a virtual bank; (ii) they have a credible and viable business plan that would provide new customer experience and promote financial inclusion and fintech development; (iii) they have developed or can develop an appropriate IT platform to support their business plan; and (iv) they are ready to commence operation soon after a licence is granted.

The Chief Executive of the HKMA, Mr Norman Chan, said, "We are pleased to have broad support received during the public consultation for the development of virtual banking. Interested parties are beginning to submit applications to the HKMA. We will evaluate the applications carefully and expeditiously, applying the principles set out in the revised Guideline. We hope to be in a position to start granting licences to virtual banks towards the end of this year or in the first quarter of next year."