

## LCQ8: Virtual banks

Following is a question by the Hon Chan Chun-ying and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (April 29):

Question:

The Hong Kong Monetary Authority (HKMA) granted a total of eight virtual bank licences between March and May last year. Up to the middle of April this year, one virtual bank has officially launched services, three others are conducting pilot trials through the Fintech Supervisory Sandbox, and the remaining four are doing preparatory work. In this connection, will the Government inform this Council:

(1) whether the progress of service launch by virtual banks has met the expectations of HKMA; if not, whether HKMA has looked into the specific reasons for that; whether HKMA knows if the four virtual banks that have not yet launched services or commenced pilot trials at present have adjusted their schedules for launching services;

(2) as there are still quite a number of institutions that have expressed an interest in applying for a virtual bank licence, whether HKMA will grant more licences shortly; if so, of the details; if not, the reasons for that; and

(3) whether HKMA will review in a timely manner the cybersecurity fortification initiatives implemented by the virtual banks that have launched services, and gather the feedback of customers on virtual banking services; if so, of the details; if not, the reasons for that?

Reply:

President,

Our reply to the various parts of the question is as follows:

(1) To promote fintech development and innovation as well as financial inclusion in Hong Kong, the Hong Kong Monetary Authority (HKMA) granted banking licences to eight virtual banks in the first half of 2019. As at April 24, 2020, one virtual bank has officially commenced operation, providing the public with innovative financial services such as remote account onboarding and online lending. Three virtual banks are piloting operation in the HKMA's Fintech Supervisory Sandbox, with services provided to a confined group of customers. The pilot trials enable the banks to collect customer feedback for refining their products and services, and help them get better prepared for the official launch of services at a later stage. The remaining virtual banks are also pressing ahead at full steam with the necessary preparatory work, with a view to providing services to the public as soon as practicable. Noting that the outbreak of the COVID-19 has

inevitably affected the virtual banks' preparation for launch of services, the HKMA considers the progress made by virtual banks towards business commencement on a whole satisfactory.

(2) Following the granting of the eight virtual bank licences, many institutions have approached the HKMA enquiring about or expressing an interest in applying for a licence to operate a virtual bank. The HKMA will monitor the operation of the existing virtual banks after they commence business, and assess user response to their services, the level of market acceptance and the impact on the banking system. The assessment results will be taken into account in considering the way forward, including whether to grant additional licences to virtual bank operators.

(3) The HKMA requires virtual banks to complete a series of preparatory work before commencing business, including developing IT systems and establishing robust risk management measures. On technology risk management, virtual banks are required to conduct comprehensive independent assessments of their technology risks, including an assessment of their cybersecurity risk under the Cyber Resilience Assessment Framework, before business commencement. Virtual banks should also establish procedures for regular reviews of their technology risk controls to ensure that these controls remain appropriate notwithstanding continued development in technology. The HKMA will conduct regular reviews on the effectiveness of virtual banks' technology risk management and cybersecurity controls following their commencement of operation. The HKMA will also collect customer feedback on their services through ongoing communications with the virtual banks in operation.