



Hong Kong

April 2019

## FIRST VIRTUAL BANKING LICENCES ISSUED IN HONG KONG

The Hong Kong Monetary Authority (**HKMA**) issued the first three virtual banking licences on 27 March 2019 allowing the licensees to operate as virtual banks in one of Hong Kong's first steps in ushering in the new era of smart banking announced by HKMA chief executive, Norman Chan Tak-lam, in September 2017. The move announced last week<sup>1</sup> comes just under a year after HKMA's update of its Guideline on Authorisation of Virtual Banks<sup>2</sup> (**Virtual Bank Authorisation Guideline**) and seven months after the 31 August 2018 deadline for the submission of applications for the first batch of virtual bank licences. Yet Hong Kong lags Mainland China which issued five virtual banking licences in December 2014. Virtual banking is also already well established in Europe and in other parts of Asia, particularly Japan. Seven Bank, a unit of Seven & I Holdings, has offered financial services since 2001 through automated teller machines in 7-Eleven convenience stores.

For details of the requirements for operating as a virtual bank under the HKMA's Virtual Bank Authorisation Guideline, please refer to Charltons' June 2018 newsletter.<sup>3</sup>

Hong Kong's newly licensed virtual banks are:

- Livi VB Limited which is co-owned by the Bank of China, Hong Kong;

- SC Digital Solutions Limited – a joint venture between Standard Chartered, HKT, PWWC and Ctrip; and
- Zhong-An Virtual Finance Limited, a joint venture between ZhongAn Online and Sinolink.

According to HKMA's announcement, the three virtual banks aim to launch virtual banking services within six to nine months. An article in the South China Morning Post<sup>4</sup> cites HKMA Deputy Chief Executive Arthur Yuen as having said that the joint ventures led by BOCHK and Standard Chartered will not be allowed to access their respective client bases without obtaining clients' prior consent, and will need to find new users. Livi VB, co-owned by Jardine's, will also not be able to access Jardine's retail operations - Wellcome and 7 Eleven - as bank branches. HKMA is apparently reviewing five other virtual bank licence applications, although the initial three will be allowed to operate for a year before further licences are granted.

A total of 33 financial service providers have applied for the virtual banking licences, among them WeLab Holdings Limited, which operates WeLend, an online lending platform in Hong Kong, and one of China's largest mobile lending platforms, Wolaidai, as well as an alliance between Australia's Airwallex, Bank of East Asia and Sequoia Capital. Virtual banks must have at least HK\$300 million of capital – the same amount required of bricks and mortar banks. The three new licensed virtual banks have an average capital of HK\$1.9 billion.

1 <https://www.hkma.gov.hk/eng/key-information/press-releases/2019/20190327-3.shtml>

2 <https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2018/20180530e3a2.pdf>

3 <https://www.charltonslaw.com/virtual-bank-hkma-new-guideline/>

4 <https://www.scmp.com/business/companies/article/3003496/hong-kong-hands-out-virtual-bank-licences-city-catches-china>

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