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Virtual banks will compel Hong Kong to embrace the Mobile Banking Era

To be sure, such seismic changes don't happen overnight. After all, Hong Kong is home to over 187 traditional banks – a list that includes venerable heavyweights such as HSBC. But last year the Hong Kong Monetary Authority (HKMA) – following extensive consultations with key stakeholders such as the Hong Kong Banking Association - released revised guidelines for virtual banks, resulting in a surge of interest and approximately 30 virtual bank license applications.

Non-physical locations, a lack of burdensome cultures and legacies, and nimble digitized operations give these virtual banks a unique advantage in expanding operations in mainland China or Southeast Asia. This is due in part to their 'asset light' business models: setting up in new markets does not require heavy investments in new office locations – and can be a matter of just adding a few more servers.

For a corollary, one need to look no further than the rapid growth of China's e-commerce giant Alibaba. As the company grew, it didn't need to add new stores to expand because their entire sales process is online.

Compared to Hong Kong, Australia and the UK are more at the forefront of virtual banking – all of which means Asia's 'world city' has some catching up to do. But that shouldn't take too long. For context, see the story of Australia's Volt bank – which is classified as a 'neo' or 'challenger' bank. Volt was the first bank of its kind to get a full banking license, and was able to launch in a mere six months.

With that in mind, here are the major banking trends driving the evolution of Hong Kong's virtual banking industry.

1 Banking is becoming more customer-centric

Virtual banking initiatives have created new opportunities for banks to become more customer-centric, as they offer a single, aggregated view of a customer's entire financial holdings. With this enhanced view, banks can now provide better advice to customers. At the same time, virtual banking offers new service models that break down product silos in favor of a more holistic-yet tailor-made – service approach. Lastly, this new form of banking allows banks to offer more third-party products and thereby fulfill more of a customer's financial needs than could be met by the bank's own products.

2 Banks will provide more tailor-made and specialized value propositions

In their attempt to be everything to everyone, traditional banks – due in part to their massive size – understandably struggle to enact change at the pace demanded by the mobile banking era. Virtual banks, however, are focusing on tailor-made services due to their nimble nature. This tailor-made approach includes:

- Using data driven insights to deliver more 'personalized banking'
- Developing stronger relationships with consumers due to a more detailed understanding of a customer's transaction history
- Providing seamless access to banking services anytime and anywhere, 365 days a year

3 Banks are becoming more agile

Traditional banks take weeks if not months to come up with new products with better interest rates; or innovative repayment schedules. But customers in the mobile era expect results in days, if not hours. Moving into the next decade, agility is going to be one of the major criteria for banking success. If they want to survive, traditional banks need to ask themselves:

1. How quickly can they bring a new product or service to the market?
2. How securely can they adapt to the changing needs of user experience?
3. How efficiently can they embrace new regulatory compliance requirements

4 Banks are starting to see data as 'the new oil'

Data on its own doesn't deliver any value; it takes investing in deep analytical solutions. Thus, moving forward, banks will need to build internal digital cultures, and weave data analysis across all of the bank's departments and disciplines. Banks will need to embrace new techniques in machine learning to leverage data that draws insights from a consumer's interactions. In this way, banks can focus on customer journey mapping, modelling all the touch points in order to anticipate customer needs and, when permission has been given, act upon those needs.

5 Banks are updating their technology

Traditional banks have legacy platforms that require updating, while virtual banks will have to deliver the very best technology in order to build trust and attract customers. The top trends shaping the technological transformation of banks includes:

Cloud banking is a necessity.

The banking industry is undergoing rapid structural transformation and embracing cloud technologies is required– as it is the only effective way to grow in a cost-effective manner. Moving forward, all banks – both traditional and virtual – will need software that is built, deployed and run to exploit the advantages of modern, elastic cloud environments.

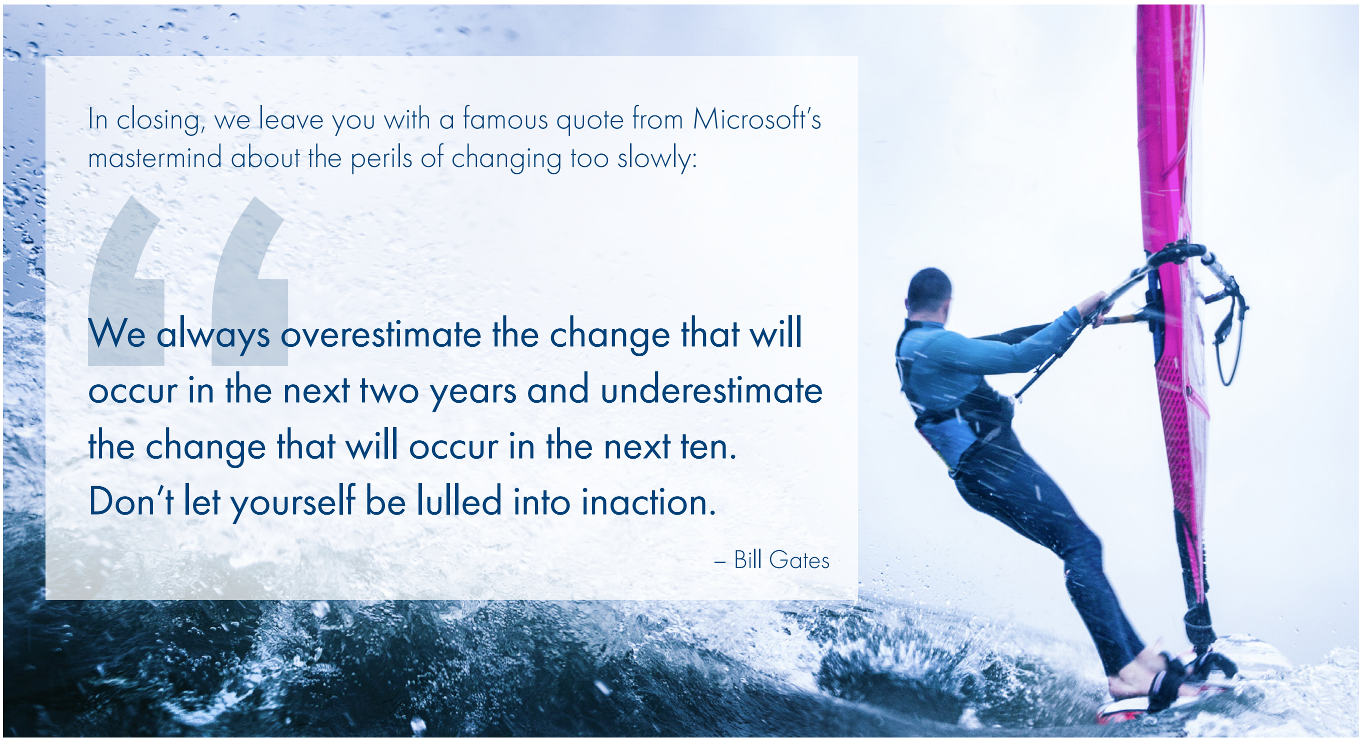
Open APIs are the way forward.

Moving into 2019 banks will need to choose third-party software built with open application programing interfaces– commonly known as APIs. Open APIs will allow for a faster pace of innovation, and will also empower banks to meet shifting expectations without having to spend time and capital on building in-house solutions for every new consumer demand.

Many banks will leverage existing technology rather than build their own.

To save on time and development costs, both virtual banks and traditional banks can leverage third party technologies, rather than attempt to build proprietary systems from scratch. This approach will also empower a faster pace of innovation, as banks can quickly absorb best-in-class platforms into their IT architecture, and tailor new technology to their own specifications.

Although seismic change to the traditional banking industry won't be easy to pull off, all signs show that Hong Kong is moving in the right direction from both a policy and innovation perspective. But change can't come soon enough. Whether traditional banks like it or not, the virtual banking revolution is here to stay. Moving into the next decade, virtual banks will enable new competition in a city that ranks as one of the most heavily saturated for banking services globally.



In closing, we leave you with a famous quote from Microsoft's mastermind about the perils of changing too slowly:

> We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don't let yourself be lulled into inaction.
>
> – Bill Gates

Mr. Gates is right: although not much seems to have changed in two years, an entire industry can change in ten. Just think of what the world looked like a decade ago. BlackBerry was still king of the smart phones for business use; iPads didn't exist. WhatsApp and Uber were incorporated in 2009.

Banks should take note if they want to thrive well into the 2020s.

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