

**IFPHK's Response to the Hong Kong Monetary
Authority's
Consultation Paper on Proposed Renaming of
“Virtual Bank”**

September 2024

Institute of Financial Planners of Hong Kong (IFPHK) - Profile

Background

IFPHK was established in June 2000 as a non-profit organization for the fast-growing financial services industry. It aims to be recognized in the region as the premier professional body representing financial planners dedicated to upholding the highest professional standards.

The Institute is the sole licensing body in Hong Kong authorized by Financial Planning Standards Board Limited to grant the much-coveted and internationally-recognized CFP® Certification and AFP® Certification to qualified financial planning professionals in Hong Kong and Macau.

Currently there are more than 213,000 CFP certificants in 27 territories; the majority of these professionals are in the U.S., China, Japan, Canada and Brazil, with approximately 4,000 CFP certificants in Hong Kong.

IFPHK has 7,100 members in Hong Kong including 1,200 Qualified Retirement Adviser (QRA) holders; and represents financial planning practitioners in diverse professional backgrounds such as banking, insurance, independent financial advisory, stock broking, accounting, and legal services.

IFPHK's interest in this consultation

As the leading professional body for the welfare of the financial planning industry, the IFPHK actively responds to policy changes that affect the industry or the financial system as a whole.

Though FinTech is not the expert area of IFPHK, we did provide comments in Consultation Papers on technology-related proposals. We responded to Consultation Paper on Online Distribution and Advisory Platforms in 2017. In 2020, we provided our views on a Listing Regime for Companies from Emerging and Innovative Sectors and WVR structure. In March 2022, we responded to HKMA's discussion paper on crypto-assets and stablecoin. A list of IFPHK responses to various consultation papers can be found on our website (<http://www.ifphk.org/ee/importance-of-advocacy>).

In light of the above, IFPHK is interested in the Consultation Paper and wishes to express its views on the proposed changes.

The HKMA Consultation

On 6 August 2024, the Hong Kong Monetary Authority (HKMA) issued a consultation paper on proposed renaming of “Virtual Bank” (the “Consultation Paper”), inviting views from the industry and public. One-month consultation period will end 5 September 2024.

As stipulated in the Consultation Paper that the word “virtual” appears to be not clear enough, especially to those who are less tech-savvy or familiar with the local banking industry. The HKMA considers that it may not be conducive to Virtual Banks’ conducting business or promoting financial inclusion by targeting the retail public and small and medium-sized enterprises as their main client base.

Thus, the HKMA considers that “Virtual Bank (虛擬銀行)” may no longer be the most appropriate description the adoption of a wide range of financial technologies and innovations in the operations of banks, and thus consideration should be given to renaming. In proposing a new nomenclature, the HKMA aims to place more emphasis on the banking model that virtual banks (VBs) are pursuing instead of focusing on the form of presence.

The Consultation Paper contains 2 questions. Questions in the Paper are set out below:

1. Do you agree that “Virtual Bank (虛擬銀行)” should be renamed? If not, why?
2. Do you have any comments on the proposed new name “Digital Bank (數字銀行)”?

IFPHK submission

The views expressed in this submission paper are not necessarily summaries of the views taken from the industry but may have undergone more independent and critical analysis and consideration by IFPHK as a professional body. As a result, not all the views collected by IFPHK are recorded in this submission paper and neither have all the views expressed in this submission paper been directly endorsed by those industry representatives or members consulted.

Question 1

Do you agree that “Virtual Bank (虛擬銀行)” should be renamed? If not, why?

On 6 August, the HKMA issued a report on its review of virtual banks (VBs). The HKMA first issued eight virtual banking licenses in 2019. At the end of 2023, they collectively accumulated 2.2 million customers with HK\$37 billion (\$4.7 billion) in deposits and HK\$19 billion in loans. Based on the results of the review, the development of VBs in Hong Kong has so far achieved the three policy objectives of introducing virtual banking. Therefore, the HKMA announced it will not issue any more digital bank licenses following its comprehensive review of virtual banks.

The HKMA also issued a Consultation Paper on the same day and proposed that “Virtual” be replaced by “Digital”. “Digital” has connotations of “Internet” and “technology” and therefore reflects better the use of the latest financial technologies and innovations by VBs. This change aims to eliminate the negative implications of the term in Chinese, where ‘virtual’ can suggest ‘fictional’. The renaming aims to clarify that these banks are not solely involved in virtual assets but provide a full range of regulated banking services. HKMA emphasizes the importance of accurate terminology in fostering the growth of Hong Kong's digital economy.

IFPHK has no major comments on the proposal of renaming the term “Virtual Bank” if “digital” bank is a common phrase using worldwide. Nonetheless, we would like to share with the HKMA our global consumer research conducted last year. From our studies, Hong Kong consumers are more tech-savvy than we perceived. Hong Kong is among the top market leading the way in technology usage to manage their finances. Close to 9 in 10 across generations are now using apps or websites to monitor or manage their expenses. This is significantly higher than the global average (7 in 10). When compared to the global results,

Hong Kong consumers also get the highest rate of investing in digital assets. Attention should be drawn to the high rate of baby boomers that have invested in digital assets. Majority invested in crypto assets for “long-term growth”. Please refer to <http://www.ifphk.org/pdf/GlobalConsumerSurvey/ValueofFPConsumerResearch2023.pdf> for the IFPHK report.

As what suggests in KPMG’s “The Future of Digital Banking” report, the enduring needs of the customers on digital banking are **simple, smart and secure**.¹ Aside from changing terminology, it is critical to improve financial literacy in digital banking and how to meet client expectations. By providing consumers with the knowledge and skills needed to properly use digital banking platforms, we can empower them to make informed financial decisions, seize opportunities, and build a more secure financial future.

Question 2

Do you have any comments on the proposed new name “Digital Bank (數字銀行)”?

The HKMA considers that “Digital Bank” appears to be a more update and relevant terminology in this era of digital transformation. In terms of the Chinese name, the term “數字” is a common formulation, while “數碼” may sound more technical (related to computer codes). The HKMA’s decision is in line with global trends, since comparable terminology has been adopted in Singapore, Malaysia, and Europe. When responding to consultation papers, one of the principles of the IFPHK is to determine if the suggestions are in line with global best practices. Based on the above principle, we agree to the proposals

As aforementioned, if policy changes are not supported by education, they will not be successful. It appears that “Internet”, “Digital” and “Online” are interchangeable terms, there are actually fundamental differences between digital and online banking. The term “digital” is broader and more inclusive and has associations with the terms “Internet” and “technology,” which makes it appear more appropriate to describe how financial advances and technologies are used in VBs’ operations. On the other hand, only a portion of the basic banking system’s transactional capabilities are available through online banking. The capabilities of an online banking system are limited and cannot be quickly expanded to provide additional banking services to consumers. The IFPHK anticipates that additional financial literacy initiatives will be implemented to inform the public about the distinctions between online and digital banking.

¹ KPMG, “The Future of Digital Banking”, 2019