

## THE VIRTUAL BANKING REALITY

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**Virtual banking looks to be making headway and breaking new ground in Asia, with implications for the region's high-net-worth population**

**HEADS UP,** Asia's rich investors! The era of virtual banking is about to begin.

After gaining prominence in Japan, China and South Korea, virtual banks are finally making their way to Asia's other financial hubs.

This year, Hong Kong started granting licences to online-only banks, with units of Standard Chartered, Tencent and Alibaba among the eight institutions to have qualified. The Monetary Authority of Singapore announced in May that it is also studying the viability of allowing digital banks in the city-state.

A virtual bank is a financial institution that delivers banking services through the internet and other forms of electronic channels instead of physical branches.

The immediate beneficiaries of these new institutions are expected to be relatively underserved retail customers and small and medium enterprises. However, according to experts, high-net-worth individuals (HNWIs) are on the radar.

'Over time we expect a number of virtual banks will look to offer targeted wealth products and wealth management solutions through digital channels,' said Harjeet Baura, PwC's Hong Kong financial services consulting leader.

Similarly, Musheer Ahmed, general

manager of the FinTech Association of Hong Kong, believes that it will take about two years for virtual banks to provide products and services for wealthy clients.

Research by consulting firm Capgemini has found that HNWIs are looking for banks to engage with them digitally and be more transparent with fees. Wealthy investors also want to have lower transaction costs, in addition to a better range of products suited to their risk appetite.

As such, some virtual banks will likely integrate a robo advisory service customised to the local Asian markets, combine it with money market products and then target HNWIs, said Sankar Krishnam, Capgemini's executive vice president of banking and capital markets.

Given their propensity to use technology for transactions and other services, rich millennial investors are likely going to be the biggest users of digital banks, Ahmed said.

### POTENTIAL FOR PARTNERSHIPS

However, servicing HNWIs is no mean feat, be they millennial or otherwise. The super-rich require a high level of personalised services involving complex transactions, wealth management and estate planning.

'A virtual bank will need to invest heavily in human-centred design and technology to be able to offer such hyper-personalisation,' Baura said.

That's where partnerships with private banks come in. Today, virtual banking platforms around the world are working towards aggregating products from partner

organisations, including financial institutions, travel agencies and e-commerce firms.

'By creating this platform, virtual banks can co-create products with private banks. It is a win-win collaboration,' said Venkatesh Srinivasan, group vice president at Oracle Financial Services.

According to him, for virtual banks, it could mean a new revenue stream as they deepen their customer engagement. Their private bank partners, meanwhile, can benefit from a new distribution channel that allows them to tap into other technological capabilities and potentially more millennial clients.

However, a private bank will first need to decide whether it wants to offer virtual banking services, and whether it wants to do so in-house or through partnerships.

Standard Chartered, for instance, is open to partnerships with digital banks. 'With the future of private banking being a hybrid "human-digital" model, we see digital banks as an additional source of innovation that ultimately benefits clients,' said Jean Nabaa, chief operating officer for private banking and wealth management.

Nevertheless, any virtual banking-related service will require overhauling legacy systems at private banks. According to Srinivasan, traditional models will need to be replaced by open and cloud-based technology and a strong application programming interface strategy to integrate new digital service experiences, devices and user interfaces.

### NOT ANOTHER ROBO ADVISOR

The advent of virtual banks brings back memories of when robo advisory was touted as a major threat to the private banking industry. However, after all the hype, various reports have found that the uptake of standalone robo advisors has been low among HNWIs.

This time it's different, Ahmed says. Robo advisors are usually small-scale start-ups that have a licence for robo advisory or investment management, whereas virtual banks have a full banking licence. In Hong Kong, the latter even has minimum capital requirements of HKD 300 million (\$38 million).

This implies that virtual banks can be used for making day-to-day transactions and not just for pure investments, warranting greater uptake among HNWIs. ■