



The British
Chamber of Commerce
in Hong Kong
香港英商會

Technology Risk Team
Banking Supervision Department
Hong Kong Monetary Authority
55/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

15th March 2018

Re: Public Consultation on "Guideline on Authorization of Virtual Banks"

The British Chamber of Commerce welcomes initiatives to enhance Hong Kong as an international financial centre, which includes initiatives taken by the Hong Kong Monetary Authority (HKMA) to bring Hong Kong into a new era of smart banking.

Following the publication of the revised Guideline on Authorization of Virtual Banks (Guideline), we give below a number of comments and suggestions for consideration.

Article 3: We support the HKMA's statement welcoming the establishment of virtual banks in Hong Kong. The new statement clearly indicates the positive intention of the regulator to encourage the development of virtual banks. This clarity is important as companies consider the merits of establishing a virtual bank under the revised banking regime.

We also agree with the HKMA's belief that the development of virtual banks can achieve important benefits for Hong Kong's financial services industry and customers including:

- a. Promoting the application of financial technology and innovation in the financial services industry;
- b. Facilitating the improvement (of new kinds) of customer experience;
- c. Expanding financial inclusion – particularly for retail customers, but also of small and medium-sized enterprise customers.

Articles 8, 9, 10: It is important that a level regulatory playing field is maintained in Hong Kong. We support the HKMA's approach to ownership requirements for virtual banks as it maintains important supervisory elements of the regulatory system relating to capital adequacy, risk management and disclosure. Regardless of whether a bank is online or not these provisions are integral to managing risk in financial markets. We believe these ownership requirements appropriately balance those risks with the need to expand the types of companies that provide banking services to Hong Kong citizens.

Article 12: Article 12 specifically references that a bank may require a customer "to come to a physical office to verify the identity of its customers where necessary". The guidelines would

☎ +852 2824 2211

☎ +852 2824 1333

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📍 Room 1201 Emperor Group Centre,
288 Hennessy Road, Wan Chai,
Hong Kong



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benefit from a more explicit statement that virtual onboarding to meet "know your customer" (KYC) requirements is possible under these guidelines. Technology can be leveraged to compensate for situations where a customer is not physically present for account opening and for ongoing customer due diligence without a reduction in effectiveness of the onboarding process. These include real-time video facilities; biometrics, including facial recognition, fingerprints and voice pattern recognition, for authentication purposes; centralised databases and ledgers. It is important that the HKMA clarifies its position on this to avoid potential confusion in future applications.

Data privacy: New technologies like Big Data Analytics, Cloud, and Artificial Intelligence can improve services provided by retail banks to their customers. They require a modern approach to data privacy legislation to ensure that questions around cross border data transfers, consent and security are appropriate. We would encourage the HKMA to work closely with the Privacy Commissioner to ensure that any upcoming changes to Hong Kong's Personal Data Privacy Ordinance provides clarity around the use of new technologies and also does not act as a barrier to future traditional and virtual banks.

The **technology-neutral position of the regulator:** We appreciate that the HKMA is approaching the virtual bank application process, and all other processes, in a technologically neutral way. This is an important principle that helps ensure that fast moving technological developments do not encounter unnecessary barriers. We would encourage the HKMA to more explicitly note its technologically neutral position in the guidelines.

Yours sincerely,

Andrew Seaton
Executive Director

☎ +852 2824 2211

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288 Hennessy Road, Wan Chai,
Hong Kong