

Hong Kong Virtual Banks can generate up to HKD 76 billion p.a. in local revenues by 2025, capturing a combined market share of 19.3%

Quinlan & Associates sees consolidation on the cards for Hong Kong's virtual banks, though a sizeable wallet opportunity awaits a handful of winners

Hong Kong, 11 March 2021 – Quinlan & Associates, a leading independent strategy consultancy specialising in the financial services industry, with the support of the FinTech Association of Hong Kong (“FTAHK”), has released a report examining the virtual banking landscape in Hong Kong.

The report, titled *Branching Off: The Outlook for Hong Kong's Virtual Banks*, explores in detail the outlook for the Hong Kong virtual bank ecosystem in coming years.

As part of the report, Quinlan & Associates interviewed the CEOs of all eight virtual banks to understand the impact of COVID-19 on their launches, perspectives on their customer acquisition strategies, the challenges experienced to date, the various technology solutions being deployed, and what can be expected in years to come.

Highlighting Hong Kong's status as a global financial hub and the financial sophistication of its residents, the report discusses the highly banked nature of the city's populace, drawing attention to the dominance of a few key traditional banks in the Hong Kong market. In its foreword to the report, FTAHK believes that Hong Kong is uniquely positioned as a global financial centre that bridges Mainland China (the world's largest and most innovative TechFin market) with the rest of the world's well established financial services organisations and global FinTechs.

'We estimate the size of Hong Kong's retail (wealth management and personal banking), commercial (SME), and corporate (excluding investment banking and global markets) banking market to be HKD 373.9 billion, with the top four banks – HSBC, BOCHK, Hang Seng Bank, and Standard Chartered – accounting for 62% of total deposits and 54% of the total lending market' said Benjamin Quinlan, CEO & Managing Partner of Quinlan & Associates and lead author of the report.

The report goes on to discuss the lingering pain points being felt by many retail customers and small and medium-sized enterprises in Hong Kong that the incumbent players are failing to address, opening gaps that can serve as pockets of value for the new virtual banks entering the market.

'The virtual banks have deployed a variety of technology solutions across the entire customer value chain; from leveraging social media platforms to drive customer acquisition efforts, to biometric facial recognition to streamline onboarding times, and using chatbots to provide 24/7 customer support, technology has been fundamental in the quest for the virtual banks to deliver a more seamless customer experience,' continued Mr. Quinlan.

Despite their differentiated approach towards banking, through “branchless banking” via digital means, the authors believe that significant roadblocks remain, particularly with regards to gaining customers' trust, building a profitable business model, maintaining cybersecurity, and handling talent management needs.

'In addition to the legacy incumbents, with all eight virtual banks entering the market in the same year, there is proving to be stiff competition to win over customer hearts and minds, making it important for virtual banks to build a trusted franchise, create a differentiated value proposition, effectively safeguard customer privacy, and assemble a top-notch stable of talent,' said Mr. Quinlan.

Although the virtual banks are focused on delivering financial services via their mobile apps, some virtual banks have garnered much stronger reviews than their peers on App Store and Play Store.

'We have noticed that some virtual banks, such as Mox, Fusion, and ZA Bank have taken an early lead with strong reviews on App Store and Play Store, sending a clear indication as to which players are winning the battle for the hearts and minds of Hong Kong's banking community,' continued Mr. Quinlan.

The authors stressed the importance for virtual banks to look beyond traditional financial services and integrate lifestyle offerings to become a one-stop shop for a wide range of customer needs, plugging potential revenue leakages across the customer journey.

'A highly personalised, full-service closed ecosystem could be a powerful idea that incentivises customers to remain loyal to a particular virtual bank, rather than sourcing solutions from a mix of alternative providers that do not have nearly the same level of understanding of their specific needs or preferences', stated Mr. Quinlan.

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The authors forecast a market opportunity for the Hong Kong virtual banking industry of HKD 76 billion by 2025, translating to a combined 19.3% market share, powered by a fee-based, non-interest income driven business model.

'With an average revenue opportunity per virtual bank of ~HKD 9.5 billion p.a. up for grabs by 2025 (i.e. an average revenue market share of almost 2.4%), we believe there is scope for industry consolidation in years to come, with only a handful of players truly thriving,' said Mr. Quinlan.

The report also sheds light on the potential for virtual bank expansion into the Greater Bay Area ("GBA") and Southeast Asia.

'The opening of the Greater Bay Area and the future potential relaxation of HKMA's geographic restraints on virtual banks could present an opportunity to tap into a vast customer base over 71 million people, nearly 10x that of Hong Kong. We also believe that countries such as the Philippines, Vietnam, and Indonesia, possessing vast underbanked and unbanked populations, could make a strong case for virtual bank introduction', stated Mr. Quinlan.

The report concludes that virtual banks are a catalyst for change; accelerating digital innovation and enhancing customer experience. While they are not expected to completely pull the rug from underneath their brick-and-mortar rivals, leading firms will be able to capture a meaningful revenue opportunity, with long-term profitability hinging on their ability to rapidly amass a sizeable customer base, commercialise user data, leverage cross-selling of products and services, form a robust ecosystem that goes beyond financial services, and build a trusted franchise. While a combined HKD 76 billion local revenue pool by 2025 may not provide a big enough monetary opportunity for all eight virtual banks to thrive, the report concludes that there is scope for a handful of players to flourish.

About Quinlan & Associates

Quinlan & Associates is a leading independent strategy consulting firm specialising in the financial services industry. The Company is the first firm to offer end-to-end strategy consulting services. From strategy formulation to execution, to ongoing reporting, communications, and employee training, Quinlan & Associates translates cutting-edge advice into commercially executable solutions. With a team of top-tier financial services and strategy consulting professionals, and a global network of alliance partners, Quinlan & Associates provides its clients with the most up-to-date industry insights from around the world, positioning the Company as a leader in its field.

For more information, please visit www.quinlanandassociates.com.

Contact:

Benjamin Quinlan | CEO & Managing Partner
+852 2618 5000 | bquinlan@quinlanandassociates.com

About the FinTech Association of Hong Kong

The FinTech Association of Hong Kong (FTAHK) is an independent, not-for-profit, member-driven organisation that is the voice of the FinTech community in Hong Kong. Members range from promising startups and passionate individuals to FinTech unicorns, global financial institutions, and leading professional service providers. FTAHK is led by a volunteer group of board members from the FinTech community who care about the future of FinTech in Hong Kong, mainland China, and Asia. The Association's three initial goals are to:

- Advocate – create the unified voice for the Hong Kong FinTech ecosystem
- Collaborate – bring together the diverse parts of the community
- Educate – learn from existing leaders and nurture the next generation of talent

For more information, please visit <http://ftahk.org/>.

Contact:

Helene Li | General Manager
+852 5591 6934 | generalmanager@ftahk.org

Dan Bradley | Director, Cognito Media
+852 6145 7455 | dan.bradley@cognitomedia.com