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**Virtual banks and financial inclusion in Hong Kong: a regulatory perspective**

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Abstract

Implicit in the promise of virtual banks is the mission of promoting financial inclusion in Hong Kong, through offering increased accessibility and brand-new customer experiences through the internet which are said to be easier, more personalised and “customer-centric”. Nevertheless, while regulators encourage using technological solutions to reduce barriers to access and friction, there is a need to strike a balance between promoting technological innovations, protecting customers, and enhancing the returns to investors. Through our content analysis of the recent speeches and guidelines from the regulator, we have observed that the regulation of virtual banks tends to focus predominately on promoting technological innovations above all else. For instance, on customer protection, there seems to be a tendency to replicate existing regulations such as applying the Treat Customers Fairly Charter to virtual banks without additional amendments for this different business model. This, in our opinion, is unlikely to be sufficient to replicate the trust and confidence in the traditional banking environments due to lack consideration to incorporating human factors between banks and clients. This paper explains the importance of improving the following three areas which could be incorporated into future amendments to future regulatory guidelines. First is to review and accommodate the differences in the bank-customer relationship under the new interaction model. Second is to enhance transparency and disclosure of the technology involved in virtual bank operation. Third is to provide greater assistance to customers so that customers could comprehend better in the increasing complexity of bank operation, particularly for those who do not have high financial literacy and those who might be further discouraged to make an enquiry due to lack of human interaction with the banks. We believe that these would improve accessibility and make a meaningful impact to financial inclusion.