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WeLab Bank: Reimagining Financial Services for Hong Kong People

Whenever you do something disruptive, people will be suspicious at first.
~ Antonio Grasso, Digital Business Innovation Srl[1]

We want to democratize finance and provide banking for all.
~ Janice Chung, Manager for Growth Operations & Strategy, WeLab Bank[2]

As she waited in the queue for the Automatic Teller Machine (ATM), Ms. Janice Chung was thinking about which ATM card she should use for her withdrawal of cash. After making her decision, she then tried to remember the PIN number for the card she had selected. She also thought about whether she needed to transfer funds between her accounts, especially as she remembered that her utility bills would be due soon, and the payment amounts automatically debited from her bank account. Suddenly, instead of a simple withdrawal of cash, she realized she had a few different transactions she might need to complete. Unfortunately, she was on her lunch break, and still needed to get a quick bite to eat before heading back to her office for a meeting after lunch. As Manager for Growth Operations and Strategy at WeLab Bank, a virtual bank in Hong Kong, Janice had scheduled the meeting to discuss new products and services that WeLab Bank was considering. Janice knew that WeLab Bank's research indicated that many people in Hong Kong struggled to manage their finances. If their finances were in disarray, their financial well-being might be as well. As a digital-only bank, WeLab Bank had considerable technology resources it could leverage to deliver banking services. What Janice and her team had to consider was what unique products and services WeLab Bank could introduce that would improve the financial health of Hong Kong people, irrespective of their income level, so they could better manage their current finances while effectively planning to realize their financial goals and livelihood dreams.

1. Antonio Grasso, "Open Banking: Banks = Open Source : Software," 9 August 2019, https://antgrasso.medium.com/open-banking-banks-open-source-software-e63b586adeb, accessed December 2020
2. Janice Chung, WeLab Bank, communication to Case Writer, 26 March 2021.

Joseph S. Fernandez prepared this case under the supervision of Professor Veronique J A Lafon-Vinais solely as a basis for class discussion. The authors have disguised certain data to protect confidentiality. Cases are written in the past tense; this is not meant to imply that all practices, organizations, people, places or facts mentioned in the case no longer occur, exist, or apply. Cases are not intended to serve as endorsements, sources of primary data, or illustration of effective or ineffective handling of a business situation.

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The Hong Kong Banking Sector: An Overview

Hong Kong was known worldwide as a global financial center, with 78 of the top 100 banks in the world operating in the territory as of May 2020.[3] The vibrant banking sector comprised of 164 licensed banks together with 60 other financial institutions [see **Exhibit 1**].[4] Together, the locally incorporated financial institutions and the local representative offices of overseas banks operated over 1,200 branches in the territory, one of the highest concentrations of bank outlets in the world.[5] In aggregate, these banks generated operating profits of HKD287bn (USD36.84bn).[6]

Further contributing to its status as a global financial hub was the fact that Hong Kong, with no foreign exchange controls, ranked as the fourth-largest foreign exchange market in the world in 2019 and had the fifth-largest stock market in terms of market capitalization as of April 2020.[7] In addition, as of May 2020, 165 authorized insurers operated in the territory, and at the end of 2018, its asset and wealth management business was approximately HKD24bn (USD3.07bn).[8] Hong Kong was also the world's largest offshore renminbi (RMB) hub, accounting for the largest share of offshore RMB financing activities and offshore RMB foreign exchange.[9]

The local banking business included both retail and commercial banking, with the four largest banks in 2020 estimated to account for 62% of all deposits in Hong Kong [see **Exhibit 2**].[10] Covid-19 had a significant impact on the local banking sector as the aggregated pretax operating profits of retail banks declined 20% in the first half of 2020 compared to the same period in 2019.[11] This caused many local banks to reconsider their local operations, focus more on controlling costs and make adjustments to their strategy going forward. Among the things the banks considered were their footprint in Hong Kong, more flexible and remote working arrangements for their employees, and a greater emphasis on digitizing their various operations. Another issue the banks had to consider were the licenses issued to eight new virtual or challenger banks in the local market.

3. Hong Kong Financial Services and Treasury Bureau, Hong Kong, The Facts, Financial Services, July 2020.
4. "The Road to Smart Banking: Virtual Banks in Hong Kong—Module 2: Explained," Financial Services Development Council, 21 May 2020, https://www.youtube.com/watch?v=WamyNQdDLXg.
5. Hong Kong Financial Services and Treasury Bureau, Hong Kong, The Facts, Financial Services, July 2020.
6. "The Road to Smart Banking: Virtual Banks in Hong Kong - Module 2."
7. Hong Kong Financial Services and Treasury Bureau, Hong Kong, The Facts, Financial Services, July 2020.
8. Ibid.
9. Ibid.
10. Benjamin Quinlan and Eashan Trehan, "Branching Off: The Outlook for Hong Kong's Virtual Banks," Quinlan & Associates, March 2021, https://www.quinlanandassociates.com/insights-branching-off/, accessed April 2021.
11. HKMA, Half-Yearly Monetary and Financial Stability Report, September 2020.

Local Perceptions about Hong Kong Banks

While its global status was well established, the banking sector in Hong Kong was not without its challenges. Complaints about local banks were lodged with the Hong Kong Monetary Authority (HKMA), the de facto Central Bank with supervisory and regulatory authority over the banking sector in Hong Kong. Hong Kong people had many complaints about local banks [see **Exhibit 3**].[12]

Individual complaints notwithstanding, according to KPMG studies of the local banking sector, integrity and trust were cornerstones of customer loyalty [see **Exhibit 4**].[13] KPMG's research also indicated that while digitalization of banking was inevitable, even among Generation Z and millennials in Hong Kong, the personal touch provided by human interaction was irreplaceable.[14] That personal touch, though, could be communicated by delivering more personalized services that made the customers feel that their particular situation was understood and being addressed based on their needs.[15]

Wealth Distribution in Hong Kong

Buoyed by its thriving financial sector, Hong Kong had a healthy GDP of almost USD350bn at the end of 2020.[16] With a population of around 7.5 million, its per capita GDP was almost USD50,000, ranking among the top 20 in the world [see **Exhibit 5**].[17] Among its population, Hong Kong had over 5,000 ultra-high-net-worth individuals at the end of 2019, placing it 17th among countries and territories worldwide [see **Exhibit 6**].[18] Hong Kong's largest bank, HSBC, set up its Jade wealth management category in 2019 specifically to cater to Hong Kong's growing number of millionaires.[19] To qualify, a customer had to have a minimum total relationship balance with HSBC in Hong Kong of HKD7.8mn (approximately USD1mn). Expecting the number of high-net-worth individuals to grow by an average of 12% annually, the bank announced plans earlier in 2021 to spend USD3.5bn to hire up to 5,000 additional staff to bolster its wealth management resources in Asia, including qualified financial experts.[20]

Banking Services for the Rest of Hong Kong People

WeLab Bank's own research of the Hong Kong market provided some valuable insights. On average, Hong Kong people had bank accounts with 2.3 different financial institutions, though they primarily made use of one main account; the number of bank accounts increased to 3.5 for those with higher incomes.[21] Half of the bank customers saved their money in one primary account, earning minimal interest.[22] The low interest

12. Hong Kong Monetary Authority, 2019 Annual Report, p. 102, accessed April 2021.
13. Andrew Weir et al., "Adapting to a New Reality" Hong Kong Banking Report 2020," June 2020, https://home.kpmg/cn/en/home/insights/2020/06/hong-kong-banking-report-2020.html, accessed April 2020.
14. Ibid.
15. Ibid.
16. Countryeconomy.com, "Hong Kong GDP – Gross Domestic Product," https://countryeconomy.com/gdp/hong-kong, accessed May 2021.
17. Ibid.
18. Marcus Lu, "The Top 20 Countries for Ultra High Net Worth Individuals," 15 March 2021, https://www.visualcapitalist.com/top-20-countries-for-ultra-high-net-worth-individuals/, accessed May 2021.
19. Rupert Walker, "HSBC Extends Product Range To Rich Clients," April 27, 2021 https://fundselectorasia.com/hsbc-extends-product-range-to-rich-clients/, accessed May 2021.
20. Ibid.
21. WeLab Bank, communication to Case Writer, May 2021
22. Ibid.

earned provided a disincentive to save, and combined with the easy access to the funds, increased the likelihood customers would spend the money instead.[23] In addition, Hong Kong people had, on average, 3.5 credit cards, though they usually used 1.7 of those cards regularly in order to maximise the rewards earned and to streamline their credit card spending.[24] A fundamental challenge for customers, therefore, was properly managing their finances across multiple accounts held with different institutions, with various fees and rewards involved.

Based on a survey conducted by Quantifeed, a Hong Kong based financial planning consultancy, Hong Kong people had three major challenges with their financial health: (1) Effectively managing their daily budgets and cash flow to meet their regular expenditures [see **Exhibit 7**] while reducing their financial vulnerability [see **Exhibit 8**]; (2) Proper financial planning - 68% of respondents believed that wealth management was essential for financial planning and reaching financial goals, yet 80% did not have clear financial goals [see **Exhibit 9**]; (3) Sufficient financial literacy to be able to identify and select the best investment options whether local or overseas stocks, mutual funds, ETFs or real estate.[25] Given that Hong Kong was the most expensive housing market in the world [see **Exhibit 10**], whether purchasing a home as a primary residence or rental property, proper due diligence and a solid understanding of real estate investments was particularly important. Yet, a majority of Hong Kong people according to the Quantifeed survey, indicated they did not have access to qualified financial advice.[26]

From Traditional to Digital Banking Services

In recent years, bank customers in Hong Kong and around the world began to gradually make use of internet banking, mobile banking and other digital financial services. Covid-19 served to greatly accelerate the adoption of digital banking services. As customers became accustomed to accessing their financial information anytime and to being able to complete banking transactions on-the-go, digital banking channels increasingly became a preferred way to interact with their banks [see **Exhibit 11**].[27] The challenge for traditional banks was to accelerate their internal transitions from legacy infrastructures and regimented procedures to more agile, digital means of interacting with their customers. Even before Covid 19, banks in Hong Kong had been taking measures to digitize their operations and to encourage interactions away from the bank's counters, or away from the bank's branches altogether. This included encouraging the use of ATM machines for routine transactions, such as check or cash deposit, the use of internet and telephone banking and use of the banks' mobile apps. Furthermore, P2P payment services, such as FPS, had been rolled out and actively promoted.[28] The largest bank in Hong Kong, HSBC, spent an estimated US$2.3 billion between 2015-2017 to expand their digital banking platforms and incorporate AI, facial recognition, chatbots and more.[29] Perhaps recognizing the changing behavior of their customers, some banks, such as Standard Chartered Bank (SCB) in Hong Kong, opted to join forces with others to establish a separate virtual bank, Mox Bank.

23.Ibid.
24. Ibid.
25. Alex Ypsilanti et al., "State of Wealthcare – Disconnects Between Hongkongers Desire and Action," July 2020, https://www.quantifeed.com/survey, accessed May 2021.
26. Ibid.
27. Jörg Erlebach et al., "The Sun Is Setting on Traditional Banks," Boston Consulting Group, November 2020, https://www.bcg.com/publications/2020/bionic-banking-may-be-the-future-of-banking, accessed March 2021.
28. Hong Kong Monetary Authority, Faster Payment System (FPS), 5 February 2021, https://www.hkma.gov.hk/eng/smart-consumers/faster-payment-system/, accessed April 2021.
29. Sam Van Horbeek and Annie Chan, "Virtual Banking and Digital Banking: Comparing Digital Disruptions Across the World" Wavestone, 3 December 2018, https://www.wavestone.com/en/insight/virtual-banking-open-banking-comparing-digital-disruptions-world/, accessed April 2021.

Virtual Banks in Hong Kong

With no physical branches or the need for employees to serve customers at those branches, virtual banks had lower overheads. They did not have to upgrade or restructure existing legacy I.T. infrastructure and, instead, could build flexible, agile and continuously evolving, cloud-based technology stacks anew. This agile cloud-based technology ecosystem, as well as Apps, enabled them to engage anyone with the relevant skill sets to develop value-adding financial solutions.

A key aspect of virtual banks was their management of data. Traditional banks also had access to considerable volumes of customer data, including ID details, demographics, transaction histories, credit records and product histories. This data could be used for credit assessment and to establish credit ratings, as well as for fraud detection. However, for traditional banks the structure and organization of that data in legacy systems, and internal constraints in sharing data between individual silos within the bank could somewhat mute the value of the data. Conversely, virtual banks were able to more intensively focus on data management as a core operating principle. Gathering data, undertaking extensive data analytics and incorporating machine learning and AI to deliver value-added services were ways that virtual banks sought to differentiate themselves from traditional banks.

Data management also entailed responsible handling of the data that virtual banks had access to. So, data privacy and security had to have a central role in the virtual bank's operations as well as undertaking all the relevant data protection measures to ensure compliance with HKMA regulations. While virtual banks had to comply with all the HKMA regulations pertaining to banks in Hong Kong, they were able to develop smart technology solutions and integrate them into their cloud-based infrastructure to more seamlessly ensure compliance.

Nurturing the Development of Virtual Banks in Hong Kong

While serving as the principal regulator of the Hong Kong banking sector, HKMA was also keen to ensure the global competitiveness of the sector. Therefore, while maintaining proper controls, they also sought to stimulate creativity and innovation in the sector. Moreover, just as digital transformations had already affected the telecommunications, retail, travel, hospitality and food delivery sectors, among others, the rapid global development of mobile or online money transfer and payment services, virtual lending and online shopping for insurance products, made it evident that the banking sector was likely a candidate for further disruptions. More than just facilitating disruption, though, HKMA was keen to address gaps in financial service delivery in the Hong Kong market that the traditional banks had not effectively addressed. In Hong Kong, most people had bank accounts, access to mobile phones and internet connectivity [see **Exhibit 12**].[30] The challenge in Hong Kong was the democratization of financial services so that individuals of all income levels could gain access to similar levels of financial services. On the part of HKMA, there was the expectation that virtual banks would proactively address those market gaps.

30. Benjamin Quinlan and Eashan Trehan, "Branching Off: The Outlook for Hong Kong's Virtual Banks," Quinlan & Associates (March 2021), https://www.quinlanandassociates.com/insights-branching-off/, accessed April 2021.

Building a Democratic Financial Sector in Hong Kong

While it was a small market in terms of its population, Hong Kong was a highly mature banking market. For the eight virtual bank licensees, the mandate given to expand digital financial services to people in Hong Kong certainly represented a significant business opportunity. The revenue potential for virtual banks was estimated to be as much as HKD76bn (USD9.8bn) from 1.9 million customers [see **Exhibit 13**].[31] For each virtual bank, it also represented a chance to interact and engage with customers in entirely novel ways, more precisely segment customers, and provide them with more targeted and personalized financial solutions by leveraging their banking platforms and open application programming interfaces (APIs) to create an ecosystem of life-enhancing financial resources.

In a crowded field of eight virtual banks, WeLab Bank focused exclusively on individual retail bank customers. In addition to a numberless Mastercard debit card, WeLab Bank had introduced a unique, community-oriented time deposit called GoSave.[32] The more individuals who signed up for the time deposit, the higher the interest rate everyone earned.[33] GoSave was a product developed by WeLab Bank that reflected the innovation, new customer experience, and inclusion that HKMA promoted. Moreover, it leveraged the aggregate power of community to provide a return on the cumulative deposits for all community members that was higher than what each member could otherwise earn on their individual deposit.

The GoSave time deposit was consistent with WeLab Bank's vision and mission to improve the financial well-being of all Hong Kong people. Recently, WeLab Bank had also launched its loan product, GoFlexi, and had plans to introduce wealth management products later in the year. One of the flagship promotion was GoFlexi-Link, the first promotion of its kind in Hong Kong that links the loan Annualized Percentage Rate to Core Account deposit. This meant the customer could earn interest on their Core Account deposit at the same rate as the GoFlexi loan APR, offering great flexibility for the customer to manage their money and to borrow at a low interest rate, and save on a high rate.

More than anything, Janice and her colleagues were passionate about democratizing financial services in Hong Kong by helping all their customers manage, save, and grow their money and wealth and take control of their financial lives.

31. Benjamin Quinlan and Eashan Trehan, "Branching Off: The Outlook for Hong Kong's Virtual Banks," Quinlan & Associates (March 2021), https://www.quinlanandassociates.com/insights-branching-off/, accessed April 2021.
32. WeLab Bank, communication to Case Writer, May 2021.
33. Ibid.

Conclusion

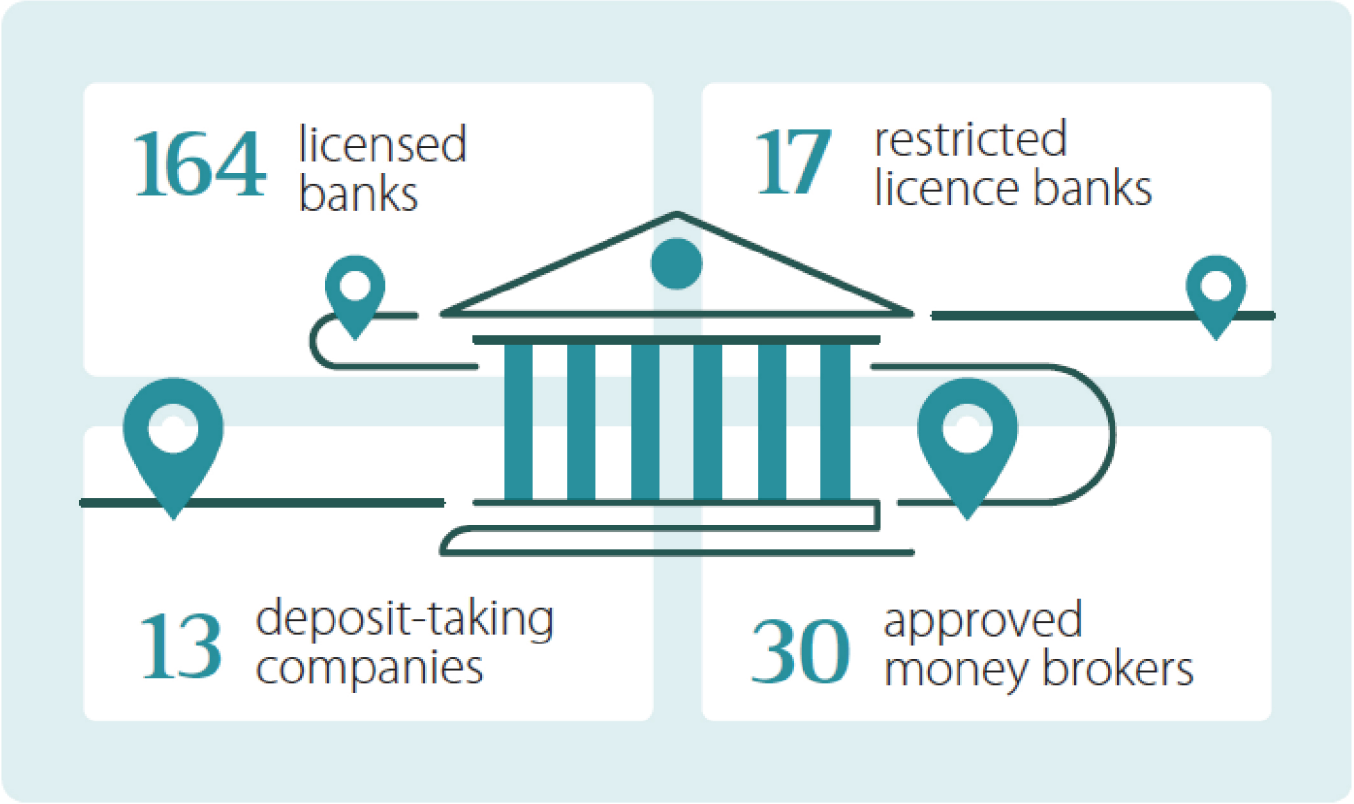
In being granted a virtual bank license by the HKMA, WeLab Bank had a unique opportunity to help transform financial services in Hong Kong. Taking its place in a crowded Hong Kong market, it set about to attain the objectives it was given by the HKMA, including to expand access to banking services to all income groups. Janice and her colleagues were keen to introduce new products and services that would generate recurring revenues for WeLab Bank while being in alignment with its values and passion to democratize financial services in Hong Kong.

With a lower cost structure than traditional banks, it was able to create savings to pass back to the general public in the form of better rates, more flexibility, and smarter ways to grow their money. By leveraging the power of big data insights, finance and technology, WeLab Bank could also provide value-added services that were personalized to each customer. Most importantly, by adopting a customer-centric approach, WeLab Bank aimed to understand needs and co-ideate with the HK people, in order to deliver the best banking services to help with their financial lives.

WeLab Bank was now looking for innovative ways to solve retail customers' major pain points in managing their daily finances and planning for the future by providing products and services that would make banking accessible, convenient and easily understandable to the Hong Kong customers.

EXHIBIT 1

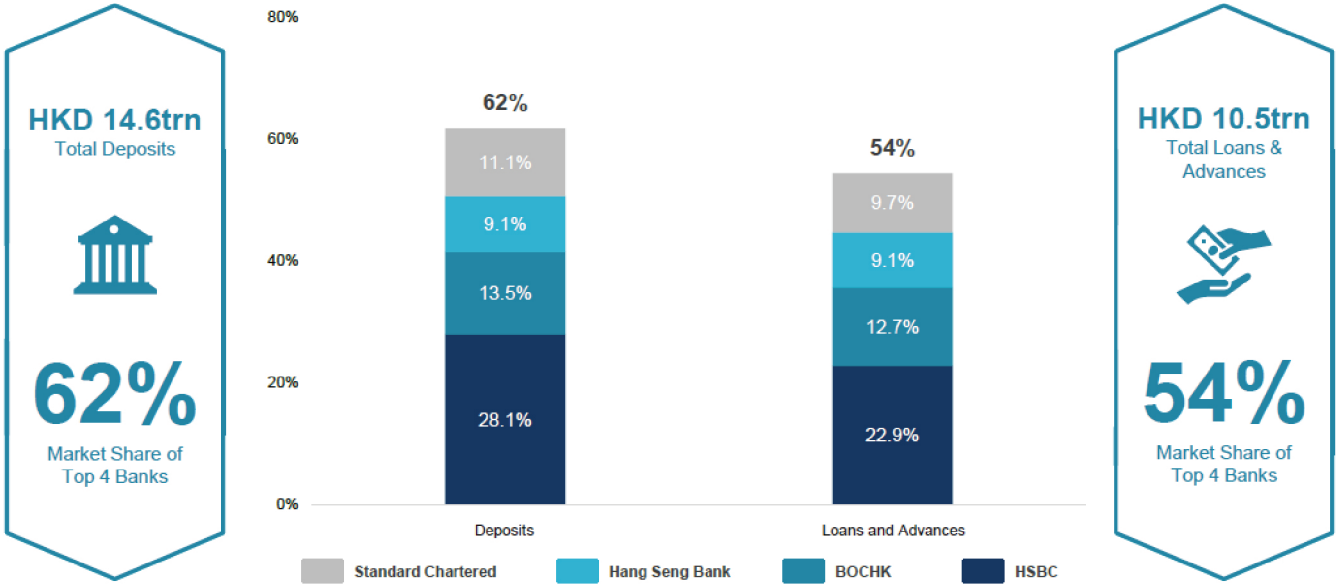
AUTHORIZED FINANCIAL INSTITUTIONS



Source: Hong Kong Monetary Authority, 2019 Annual Report, p. 101, accessed April 2021.

EXHIBIT 2

HONG KONG BANKING INDUSTRY MARKET SHARE (2020E)



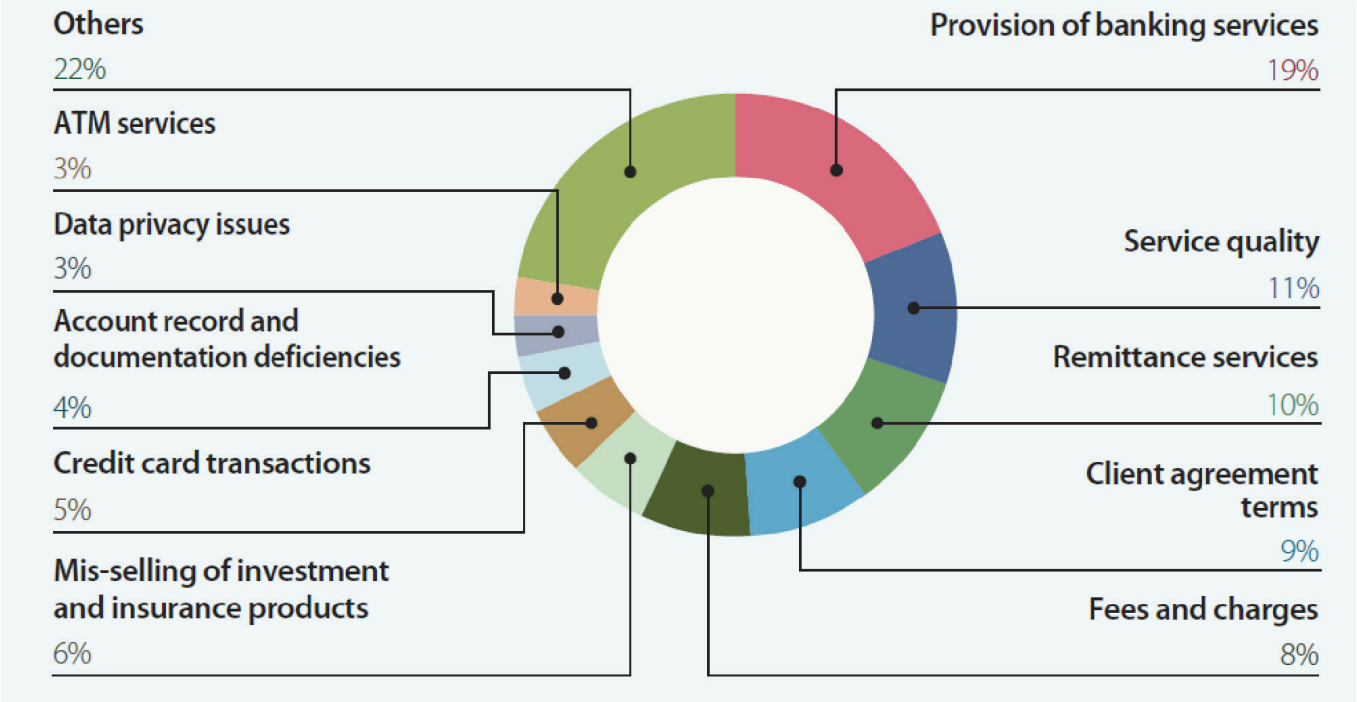
	Deposits	Loans and Advances	Non-Interest Income*	Revenue*
HSBC	HKD 4.1 trillion	HKD 2.4 trillion	HKD 40.8 billion (42.8%)	HKD 95.35 billion
BOCHK	HKD 2.0 trillion	HKD 1.3 trillion	HKD 10.3 billion (28.0%)	HKD 36.80 billion
Stan Chart	HKD 1.6 trillion	HKD 1.0 trillion	HKD 20.7 billion (44.7%)	HKD 46.23 billion
Hang Seng	HKD 1.3 trillion	HKD 1.0 trillion	HKD 25.2 billion (52.2%)	HKD 48.22 billion

*Estimated non-interest income and total revenue includes Retail (wealth management and personal banking), Commercial (SME), and corporate (excluding investment banking and global markets) banking segments only.

Source: Quinlan & Associates analysis and estimates, including of HKMA, company annual reports, March 2021.

EXHIBIT 3
BANKING COMPLAINTS

Types of Products and services involved in banking complaints received by the HKMA



Source: Hong Kong Monetary Authority, 2019 Annual Report, p. 102, accessed April 2021.

EXHIBIT 4

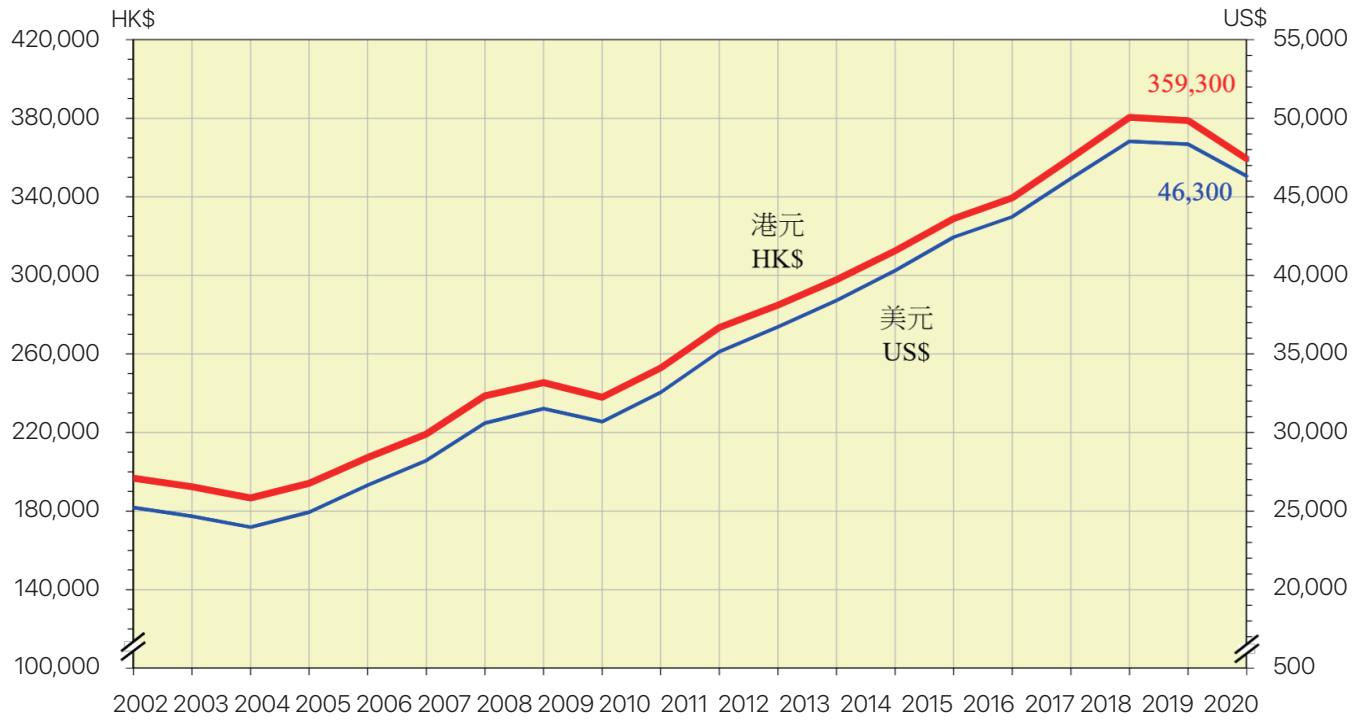
TRUST FRAMEWORK

Reputation	• Moral purpose • Stand for something • Dependable and consistent
Act in my best interest	• Treat me fairly • Consider my wellness • Put me in control • Be open and honest • Care about the outcomes
Ability	• Be likable • Demonstrate expertise, skill, competence • Resourceful
Behavioral integrity	• Commit to standards • Communicate credibly • Consistency in interactions • Congruence of words and actions • Keep commitments and deadlines • Deliver on promises

Source: Andrew Weir et al., "Adapting to a New Reality," Hong Kong Banking Report 2020, June 2020.

EXHIBIT 5

HONG KONG'S PER CAPITA GDP AT CURRENT MARKET PRICES



Source: https://www.hkeconomy.gov.hk/en/pdf/domestic_eng.pdf, 2020.

EXHIBIT 6

ULTRA-HIGH-NET-WORTH POPULATIONS (2020)

Rank	Country	Number of Ultra Wealthy	Growth Since 2015
#1	U.S.	180,060	16%
#2	China (Mainland)	70,426	137%
#3	Germany	28,396	43%
#4	UK	16,370	-8%
#5	France	15,503	22%
#6	Japan	14,755	36%
#7	Italy	10,441	-4%
#8	Canada	10,025	27%
#9	Russia	8,015	19%
#10	Switzerland	7,553	12%
#11	South Korea	7,354	16%
#12	Saudi Arabia	7,020	227%
#13	India	6,884	27%
#14	Spain	5,938	9%
#15	Sweden	5,243	27%
#16	Brazil	5,140	-9%
#17	Hong Kong SAR	5,042	48%
#18	Singapore	3,732	37%
#19	Mexico	3,287	-4%
#20	Australia	3,124	57%

Source: https://www.visualcapitalist.com/top-20-countries-for-ultra-high-net-worth-individuals/.
* UHNW individuals had a net worth of at least USD30mn.

EXHIBIT 7

HOUSEHOLD CONSUMPTION EXPENDITURE

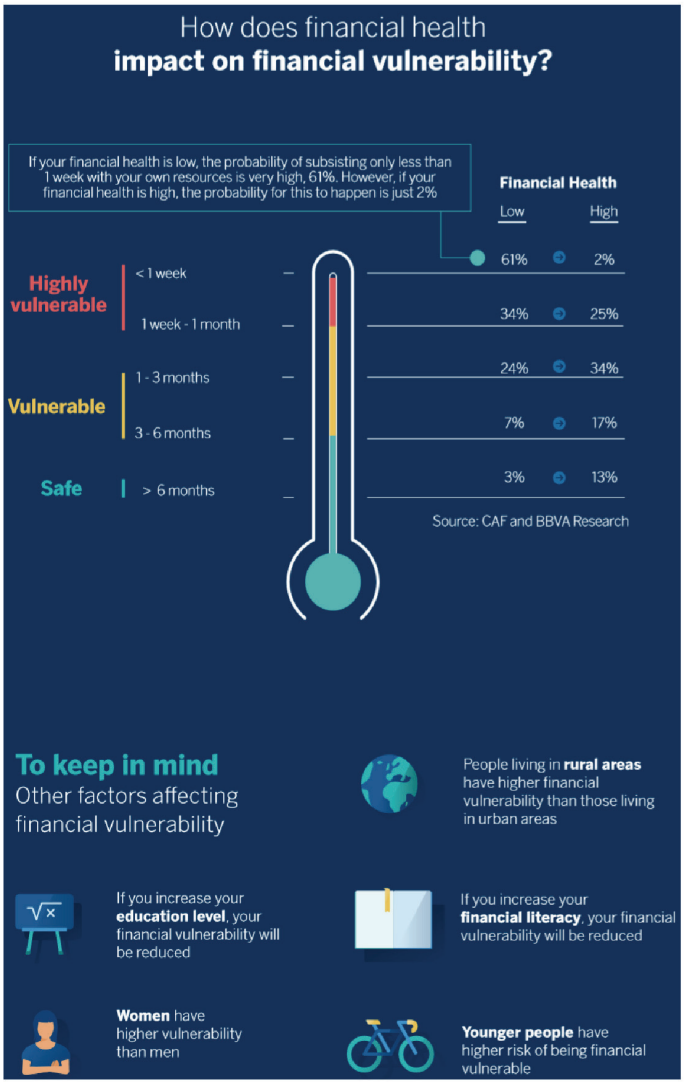
Sector	Percentage
Housing	34.5%
Food	32.0%
Miscellaneous services	13.2%
Transport	6.7%
Miscellaneous goods	3.6%
Electricity, gas and water	3.4%
Clothing and footwear	3.0%
Durable goods	2.6%
Alcoholic drinks and tobacco	0.7%

Source: Census and Statistics Department, Hong Kong Special Administrative Region, Household Consumption Expenditures as presented by Banco Santander, SA – 2020, https://santandertrade.com/en/portal/analyse-markets/hong-kong/reaching-the-consumers, accessed May 2021.

EXHIBIT 8

FINANCIAL VULNERABILITY

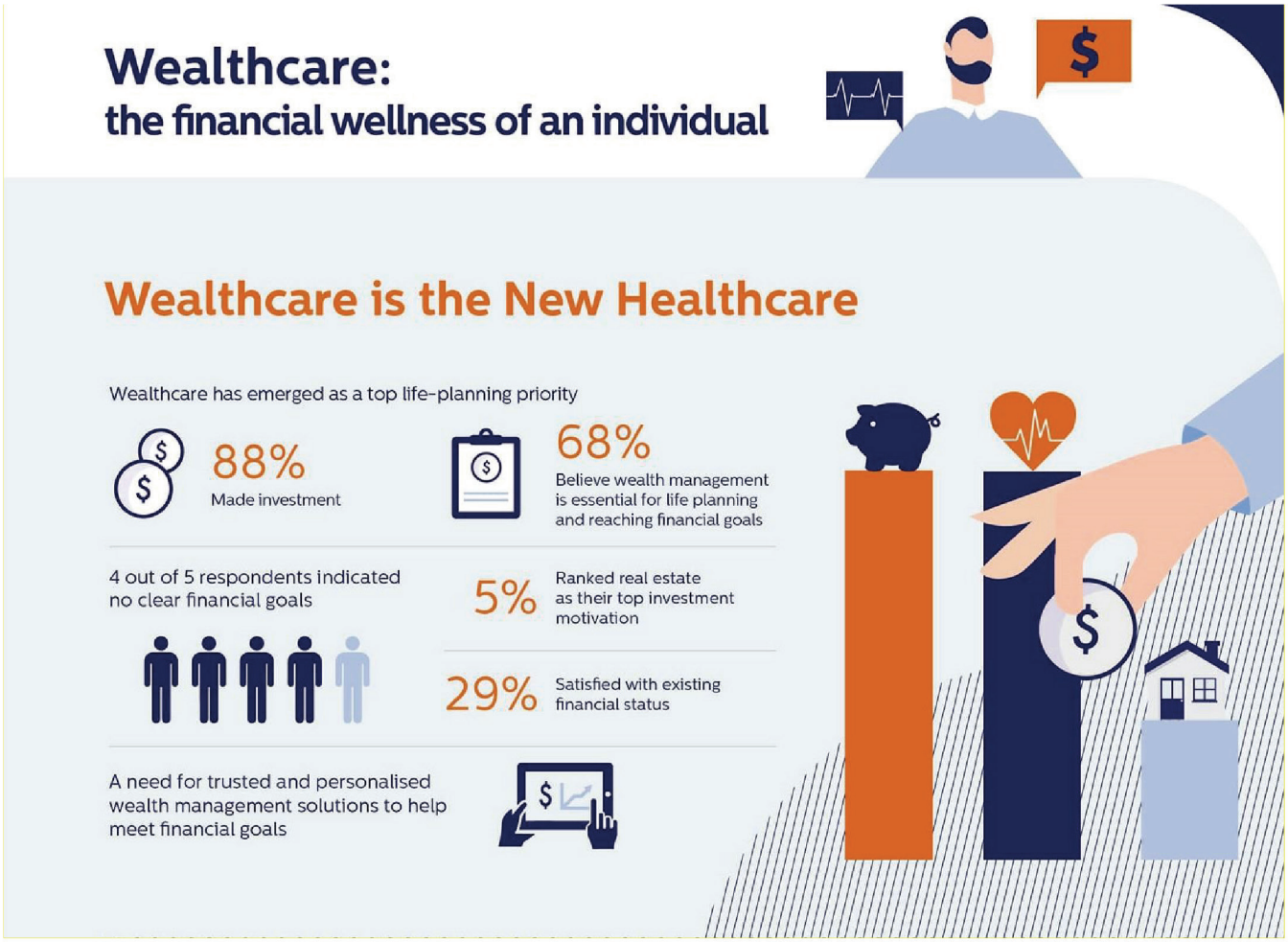




Source: https://www.bbvaresearch.com/en/publicaciones/peru-financial-health-shapes-consumer-welfare..

EXHIBIT 9

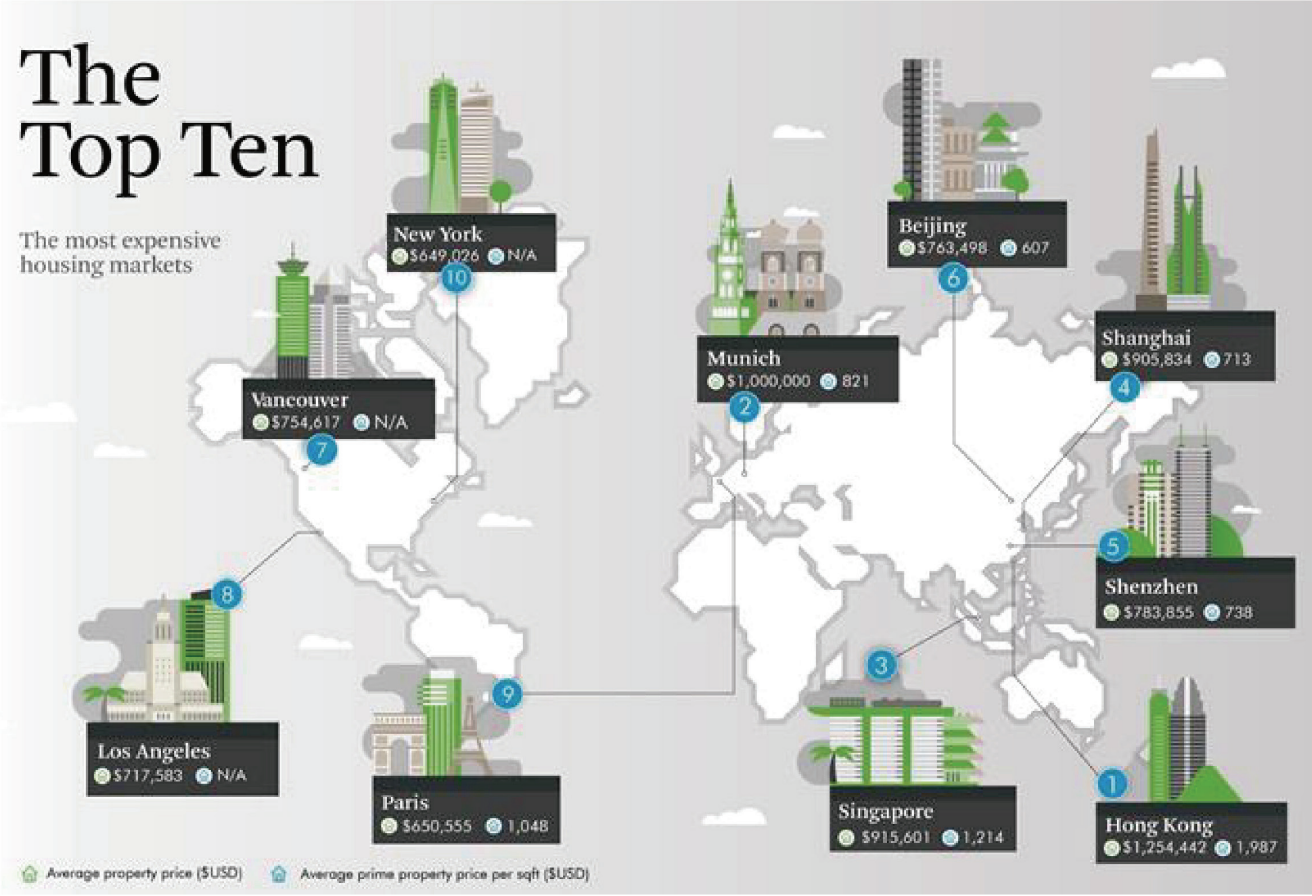
WEALTHCARE SURVEY



Source: Alex Ypsilanti, State of Wealthcare – Disconnects Between Hongkongers Desire and Action, https://www.quantifeed.com/survey, accessed May 2021

EXHIBIT 10

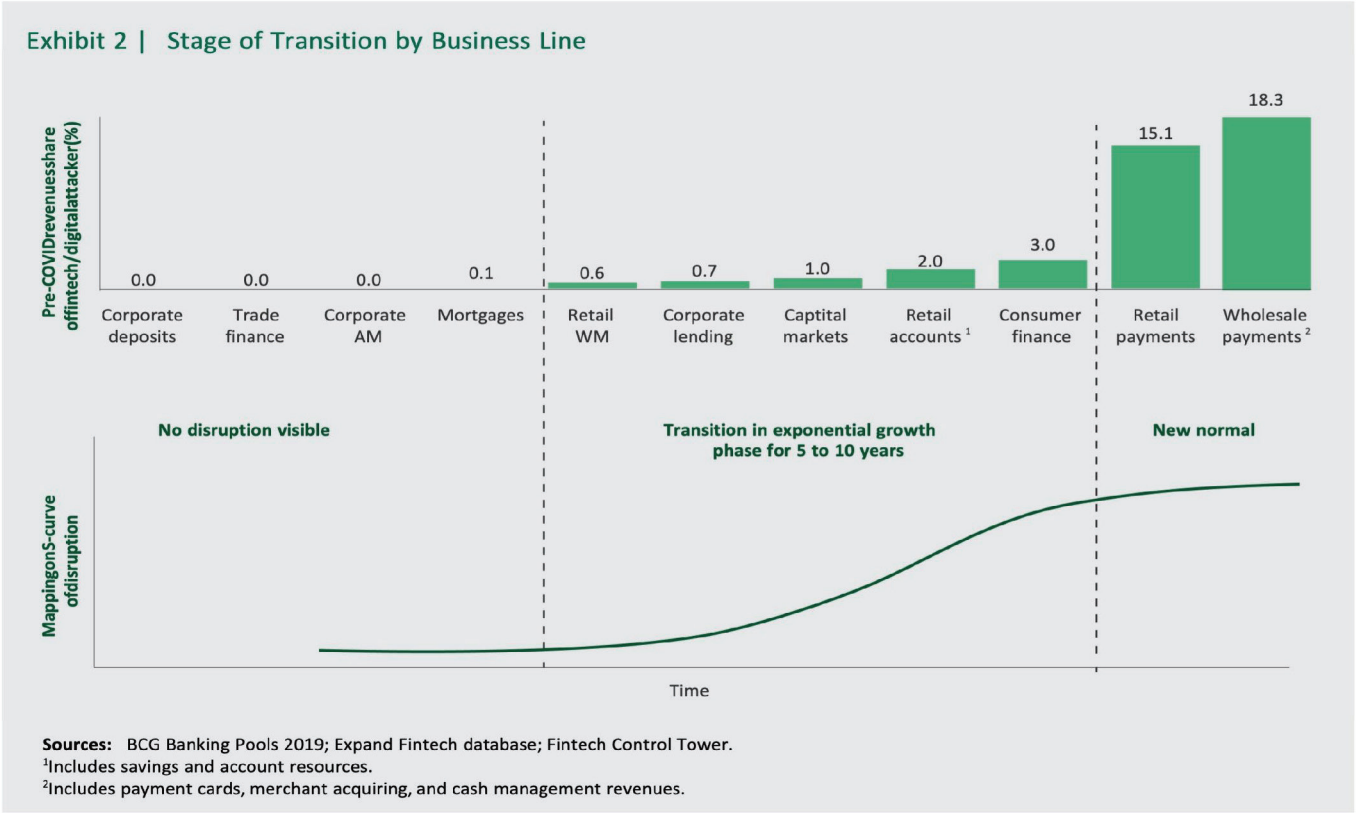
HONG KONG: MOST EXPENSIVE HOUSING MARKET



Source: https://www.cbre.com.hk/en/about/media-centre/hong-kong-holds-spot-as-worlds-priciest-residential-property-market, June 2020.

EXHIBIT 11

GROWTH OF FINTECH SERVICES

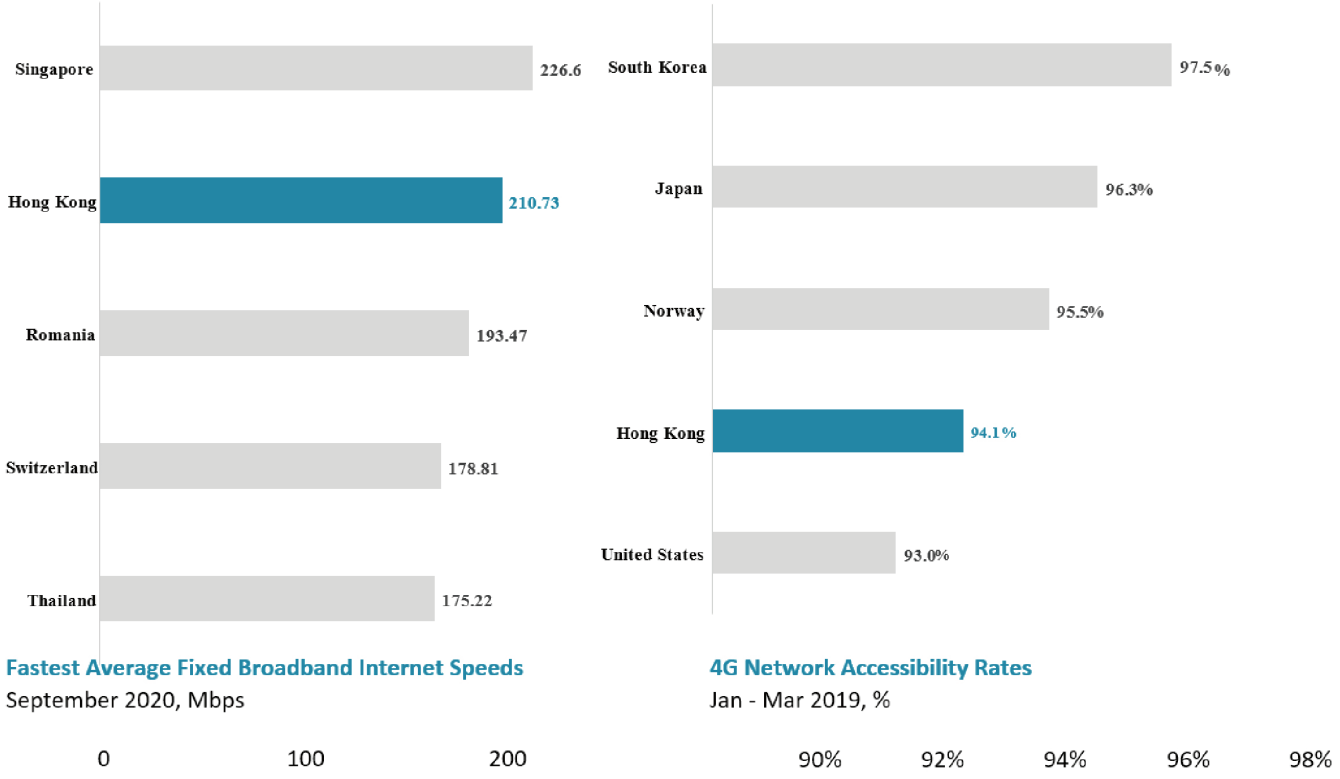


Sources: BCG Banking Pools 2019; Expand Fintech database; Fintech Control Tower.
[1]Includes savings and account resources.
[2]Includes payment cards, merchant acquiring, and cash management revenues.

SOURCE: Boston Consulting Group, "The Sun is Setting on Traditional Banking." November 2020.

EXHIBIT 12

INTERNET CONNECTIVITY



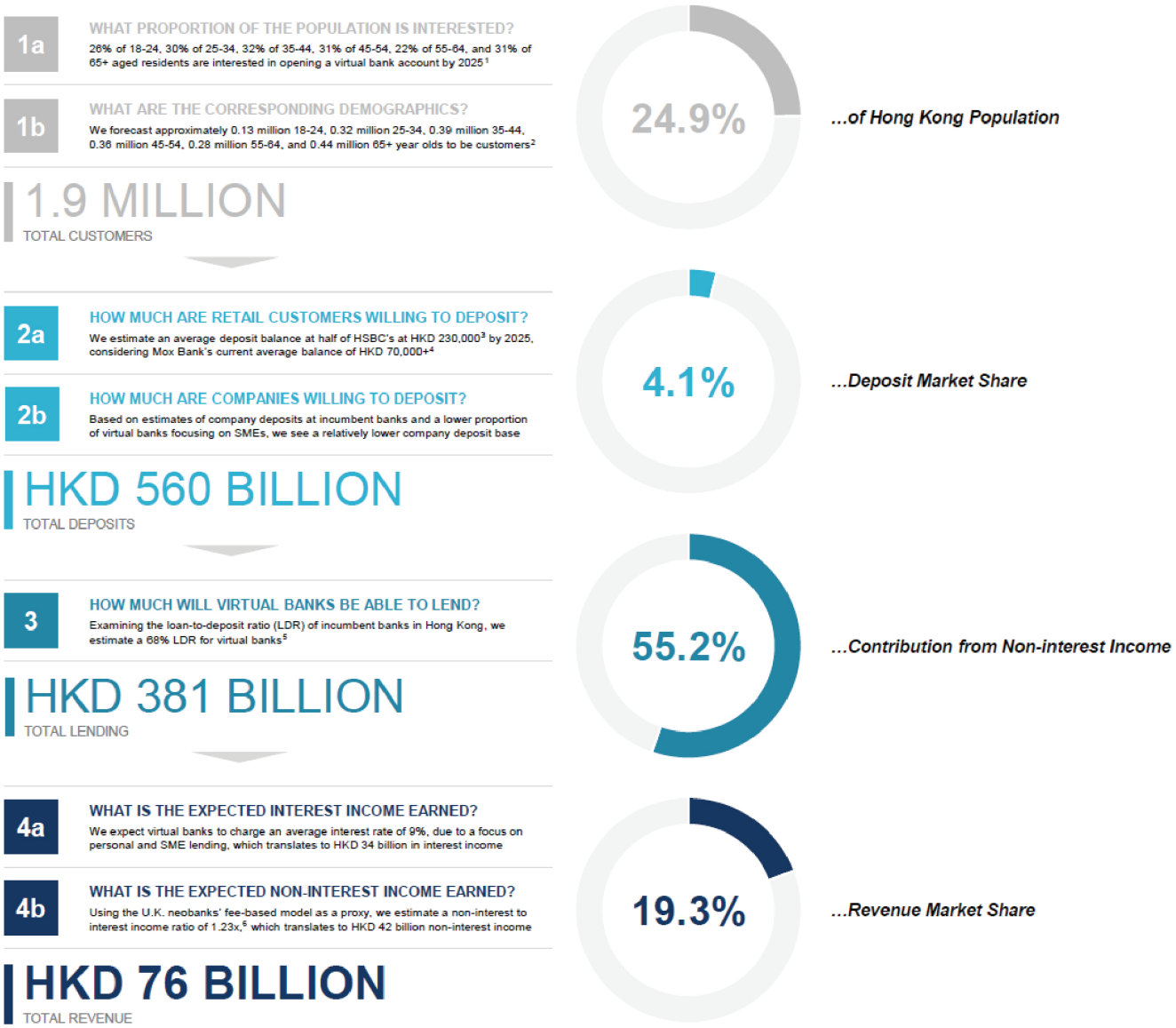
Fastest Average Fixed Broadband Internet Speeds
September 2020, Mbps

4G Network Accessibility Rates
Jan - Mar 2019, %

Source: Statista, Quinlan & Associates analysis, Branching Off: The Outlook for Hong Kong's Virtual Banks," Quinlan & Associates, March 2021.

EXHIBIT 13

ESTIMATED MARKET SIZE – VIRTUAL BANKS



[1]Finder.com, 'The rise of virtual banks', 7 September 2020, available at: https://www.finder.com/hk/virtual-banking-statistics
[2]Census and Statistics Department, 'Population Estimates', accessed 12 February 2021, available at: https://www.censtatd.gov.hk/hkstat/sub/sp150.jsp?tableID=002&ID=0&productType=8
[3]HSBC, 'HSBC Asia Factbook FY19', 30 March 2020, available at: https://www.hsbc.com/-/files/hsbc/investors/hsbc-results/2019/annual/pdfs/hsbc-holdings-plc/200330-asia-factbook-fy19.pdf?download=1
[4]Finextra, 'Hong Kong virtual bank Mox signs 35,000 customers in first month', 23 October 2020, available at: https://www.finextra.com/newsarticle/36811/hong-kong-virtual-bank-mox-signs-35000-customers-in-first-month
[5]Various bank annual reports and filings
[6]Various neobank bank annual reports and filings

Source: Quinlan & Associates analysis and estimates.

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