# CUSTOMER-CENTRICITY IN THE AGE OF HONG KONG VIRTUAL BANKING

# INTRODUCTION

Asia is fast-emerging as a hotbed of digital banking, especially in Hong Kong. Indeed, the country's banking regulator, the Hong Kong Monetary Authority (HKMA) was one of the first movers in the region by granting virtual banking (VB) licenses, with eight entities emerging as the winning licensees in the first quarter of 2019[1]. The tides are turning as other countries in Asia are following suit; with Singapore recently announcing it would grant five new licenses to virtual banks in the coming year[2].

To succeed in the already crowded Hong Kong banking landscape, which has 160 banking licenses[3], it will take more than digital transformation and slick customer journey designs; it is a race for retail and small medium enterprise (SME) customer acquisition and loyalty. These companies must aim at the heart of what customers expect from their banks today, and beyond. Leveraging expectations forged by the big techs from both the West's 'FANGs' (Facebook, Amazon, Netflix, and Google), and the East's 'BATs' (Baidu, Alibaba, and Tencent), customers have come to expect services that are easy to use and intuitive yet underpinned by complex functions and interwoven platforms.

The typical neo and challenger banks in the United States and the United Kingdom have clean and attractive interfaces, no minimum balances, free foreign exchange services, and personal finance tools or dashboards. These have proved popular with younger customer bases but converting this popularity into profit comes down to nailing down a differentiated product suite. According to a survey by Finder.com, a comparison-shopping website, 15% of 18-23 year old's and 9% of adults in the UK now have a neo bank account[4]. But this adds onto the challenge for the incoming virtual banks to convince their new users to take the leap and use them as their primary bank versus for occasional use or low margin transactions.

Adopting a human-centred approach to solve customers' needs begins with empathy. This requires a deep immersion into customer decision making process to really understand the motivation behind the user's specific choices and actions. It also requires more than a 'lift and shift' of what has worked in the West, but by taking stock of the emerging consumer trends, utilizing a data-driven and customer-centric approach specific to the Hong Kong and Asia market.

As the eight new virtual banking players battle it out for supremacy in Hong Kong, we unpack seven key digital trends in Asia that these new retail-focused entrants should consider as they build their products and services. We additionally outline design principles to help ensure that online services do not lose the human touch.

1.   https://www.hkma.gov.hk/eng/news-and-media/press-releases/2019/05/20190509-3/
2.   https://www.mas.gov.sg/news/media-releases/2019/mas-to-issue-up-to-five-digital-bank-licences
3.   https://www.scmp.com/business/article/3009574/hong-kong-issues-four-more-virtual-bank-licenses-spur-innovation-and
4.   https://www.economist.com/special-report/2019/05/02/neobanks-are-changing-britains-banking-landscape

# SEVEN CUSTOMER TRENDS IN
# HONG KONG & ASIA'S DIGITAL BANKING SPACE

## 1. The rise of the super app

The Chinese tech giant, Tencent, pioneered building the super app concept through WeChat, which have allowed its massive user base of one billion active users per month (as of 2019[5]) access to different services, such as travel and restaurant bookings, online shopping, gaming integration and financial services (payments and foreign exchange are amongst its current suite of services). WeChat was one of the first globally that ushered in the 'app within the app' concept, catapulting the it to first most used application in China[6] and the third most used messaging app in the world[7]. It has proven immensely popular with its active users who use the app not only for connecting with their network but also for other everyday transactions and services.

Indeed, Hong Kong consumers look for all kinds of applications that can help them with life's tasks. Borrowing from WeChat's innovation, new virtual banks can look at designing apps that not only assist users with making common transactions such as payments and transfers, but ones which also link to other favourite applications, such as cab hailing and restaurant reservations.

In the context of a new digital-only bank, today's customers look for the best one that can help them achieve their goals. The classic segmentation approach of tweaking product features and services for specific segments is no longer sustainable as the customer views the market differently. He or she simply has a task and looks for the best product or service provider to do this for him or her. The 'jobs-to-be-done' framework is applied by leading companies today, the whole premise being that customers 'hire' companies to make progress on specific circumstances for them.

In the case of a retail virtual banking customer, they will look to do most financial transactions such as lookup the account balance, pay bills, pay peers, do mobile transfers, and so forth with a click of an app. These services have already been rolled out by the traditional banks, but what has not yet been fully explored are 'mash up's' with other apps. Following WeChat's lead, virtual banks can look to integrate with other applications and partners to offer a virtual concierge experience.
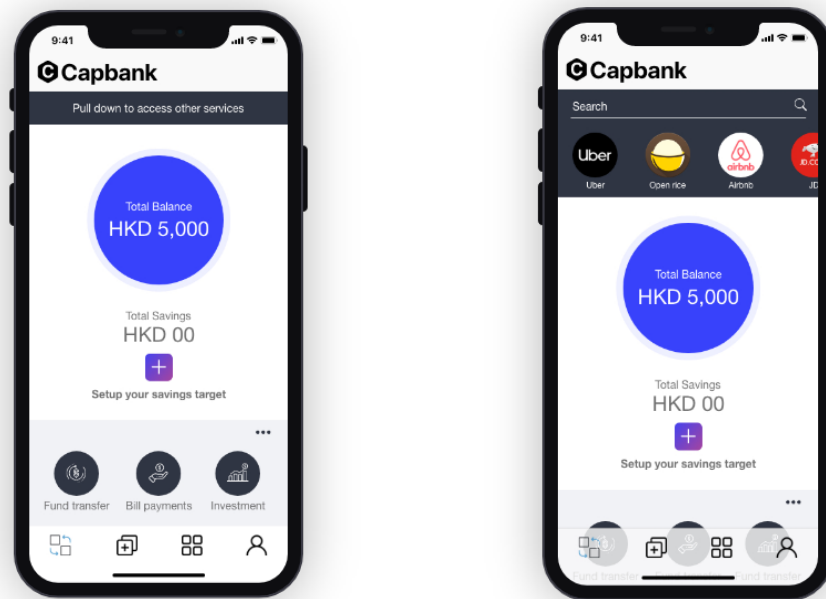
5.   https://www.businessofapps.com/data/wechat-statistics/
6.   https://technode.com/2019/03/15/wechat-alipay-qq-top-ranking-apps-in-february/
7.   https://www.messengerpeople.com/global-messenger-usage-statistics/

**Figure 1: The Super App**

Source: Capco Digital user experience research and design



*"Forget about your competitors,
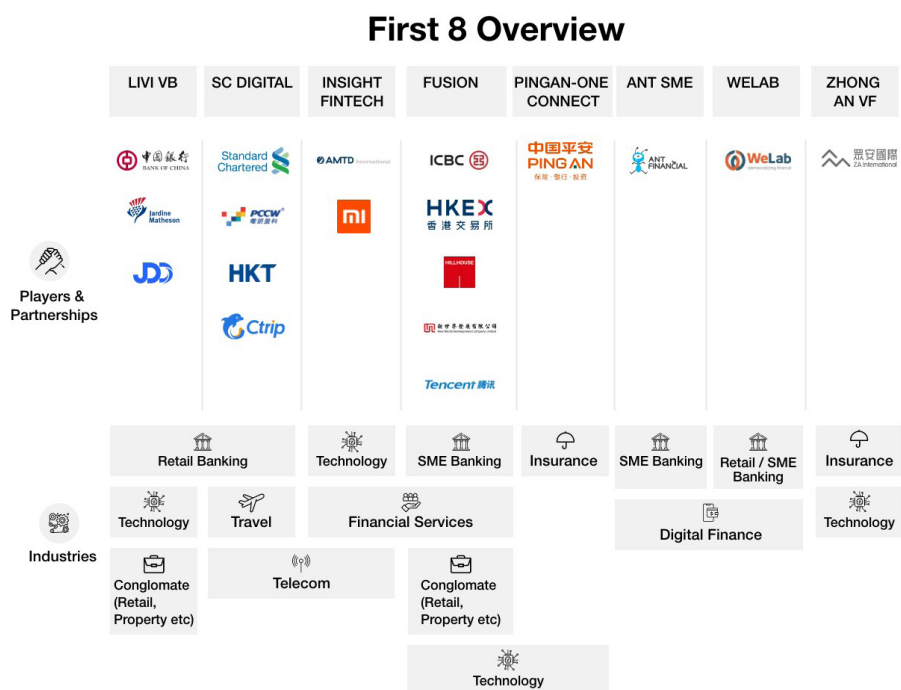focus on your customers."*

- Jack Ma

**Design principle:** Understand the customer through their Jobs-to-be-done (JTBD) to shed light to on new market insights for the virtual banks and pave the way for differentiation, innovation, and growth.

Most of Hong Kong's virtual banks poised to launch in the next few months are composed of partnerships from an eclectic mix of industries (see Figure 2):

**Figure 2 – An overview of the first 8 virtual banks & their partnerships**
Source: Capco Digital analysis

## First 8 Overview

| | LIVI VB | SC DIGITAL | INSIGHT FINTECH | FUSION | PINGAN-ONE CONNECT | ANT SME | WELAB | ZHONG AN VF |
|---|---|---|---|---|---|---|---|---|
| **Players & Partnerships** | 中国银行 BANK OF CHINA / Jardine Matheson / JDD | Standard Chartered / PCCW / HKT / Ctrip | AMTD / mi | ICBC / HKEX 香港交易所 / HILLHOUSE / 新世界發展有限公司 / Tencent 腾讯 | 中国平安 PING AN 保险·银行·投资 | ANT FINANCIAL | WeLab | 众安国际 ZA International |
| **Industries** | Retail Banking / Technology / Conglomate (Retail, Property etc) | Technology / Travel / Telecom | SME Banking / Financial Services / Conglomate (Retail, Property etc) / Technology | Insurance | | SME Banking / Digital Finance | Retail / SME Banking | Insurance / Technology |

Two new retail-focused virtual banking players, Livi Virtual Bank and Standard Chartered Digital, each have formed strategic alliances to deliver a full suite of services for the retail customers.

Livi VB[8], is backed by three giants from disparate industries: banking via the Bank of China, technology and e-commerce giant through JDD.com, and a Hong Kong diversified conglomerate, Jardine, which has sprawling interests in retail, property and financial services. Livi indicated that their virtual bank would complement lifestyle offerings like clothing, food, accommodations, and other forms of shopping and leisure so it is likely that Livi will build their own ecosystem. Similarly, SC Digital[8] also forged partnerships spanning diverse industries such as banking, telecom (PCCW), and travel (C-trip, China's largest online travel site)

therefore it seems that these two banks will take similar approaches.

After Hong Kong's 'Smart City' blueprint was implemented in 2017[9], several innovations have been made in the travel sector to pave the way for digital enablement. This creates a hassle-free travel experience from mobile or online booking, check-in, and all the way through to navigation during trips and managing rewards points. But according the 2018 Google study Smarter Digital City 2.0[9], only 22 percent of Hong Kong residents think that the tourism industry has been successful in creating a seamless digital experience. This signifies an opportunity for the new wave of retail-focused virtual banks to create better customer experiences for Hong Kong outbound travellers within the ecosystems these banks are currently building.

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8. http://fintechnews.hk/8951/virtual-banking/hkma-virtual-bank-license-sc-digital-livi-zhongan-za/
9. https://www.thinkwithgoogle.com/intl/en-apac/trends-and-insights/smarter-digital-city-20-smarter-finance/

Alipay and WeChat pay have well over a billion regular users of mobile payments[10] and conduct two-thirds of all global mobile payment transactions[10]. Although primarily a trend originating from China, the inbound flow of mainland Chinese travellers into Hong Kong will inevitably shape the future of payments in the city as well in the next year or so. As in the case of Finland, where thousands

of Finnish retailers and merchants now accept QR-code based mobile payments given the forecasted five million Chinese travellers expected to visit the country by the end of 2019[10]. This bolsters our viewpoint that the upcoming virtual banks would benefit from adopting the super app concept as well forge partnerships with the big techs and sharing economy players.

## 2. Tie-ups with sharing economies

Sharing economy players, such as Uber, have a substantial user base with 300,000 active users per month in Hong Kong as 2017[11] and are pervasive in the everyday lives of the people. Other sharing economy players such as China's peer-to-peer lending platform Lufax and HSBC Hong Kong's successful PayMe application have amassed critical users in recent years. In Southeast Asia, Grab Holdings widened its reach through partnering with China's leading healthcare and insurance provider, Ping An Healthcare, to jointly deliver transformative services in Southeast Asia through digital channels  . The joint venture plans to work with governments, hospitals, and doctors to provide efficient and timely healthcare to the Southeast Asia's population, most notably those that do not have access to medical care.[12]

Following this example, Hong Kong's new wave of retail-focused virtual banks will benefit from forging partnerships with sharing economy providers by using their platforms as a complementary channel to provide their financial services. For example, Citibank partnered with Airbnb Asia[13] and first launched in Singapore, offering its Citi cardholders discounted bookings. Partnerships contribute to the goal of catering to the customer's holistic lifestyle needs.

Hong Kong consumers will need help to consolidate these virtual finances as more digital economies are created, such as in-app top ups, peer to peer payment platforms and loyalty program currencies – for aggregator apps that are currently only limited to banking transactions, they will need to expand their scope to include these virtual money and accounts as well.

*"People are deleting apps from their smartphones because there are too many of them. To stay on the screen, you must be extremely relevant."*

- Anthony Tan, Grab CEO

10.  https://www.forbes.com/sites/alanmcintyre/2019/01/07/10-major-trends-driving-banking-in-2019-bankings-evolution-accelerates/#6c50db567050)

11.  https://www.scmp.com/news/hong-kong/economy/article/2124020/hong-kong-taxis-may-be-willing-team-ride-hailing-giant-uber

12.  https://www.grab.com/sg/press/business/ping-an-good-doctor-and-grab-form-joint-venture-to-deliver-transformative-o2o-healthcare-solutions-in-southeast-asia/

13.  https://www.citigroup.com/citi/news/2016/161103a.htm

## 3. Hyper-customization

According to the Google study on Smart City, 86 percent of the Hong Kong's consumers conduct online researches, while 90 percent of offline purchasers research banking products online beforehand . This means that customising pre-sale engagement via omnichannel experiences will provide the financial services companies the opportunity to gain a higher share of wallet if they successfully push relevant and attractive offerings through digital channels.
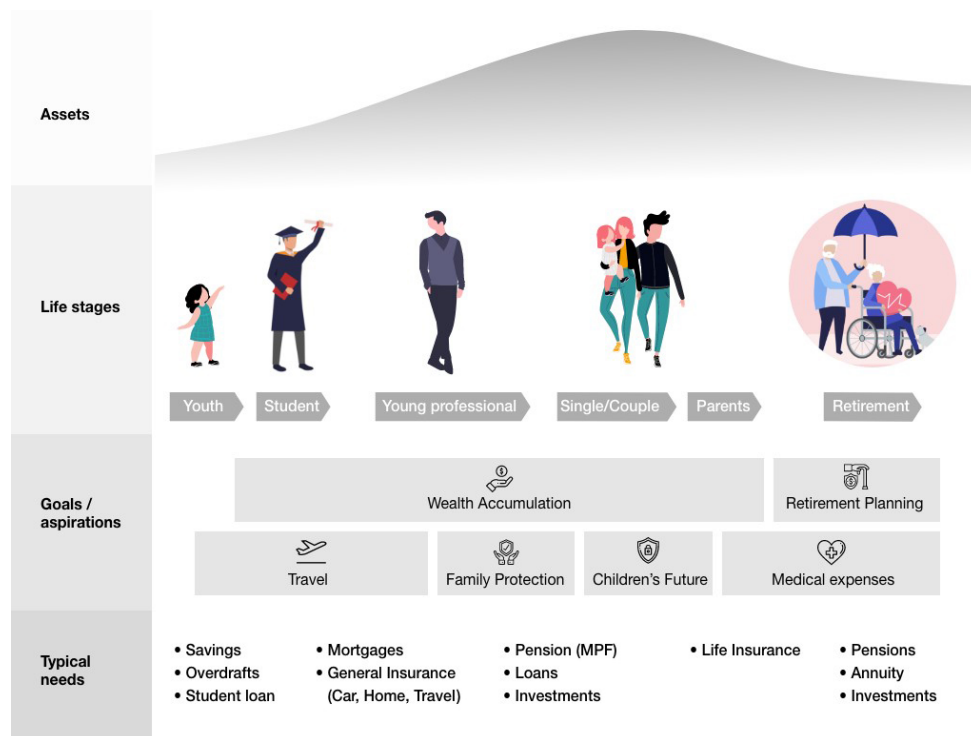
The concept of customer segmentation based on a static set of factors such as age and income level are slowly fading. With the amount of data available, the new banks can design web or application pages that respond dynamically to customer inputs and offer targeted products addressing specific life stages of prospective or existing customers.

Zhong An insurance in China has a one-minute quiz in its app to categorize prospective customers based on lifestages. This is followed with a personalized interface that displays insurance products around important life events and provides tailored insurance policies for the individual.

In the same vein, banks have been customizing product offerings based on customer life stages, goals, and asset sizes; however, dynamic customization of product offers within the app is not yet prevalent and could be a key differentiator for the new virtual banks (See Figure 3).

**Figure 3:  Life stages, goals, and products map**

Source: Capco Digital analysis



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14.  https://www.thinkwithgoogle.com/intl/en-apac/trends-and-insights/smarter-digital-city-20-smarter-finance/

In the context of a new digital-only bank, today's customers look for the best bank that can help them achieve their life goals. Dynamic customization of offers can certainly help with the offer-to-purchase conversion rate as the certain products are offered based on a specific customer persona at the point of purchase (See Figure 4).

**Figure 4:  Hyper customisation interface – Example 1**

Source: Capco Digital user experience research and design
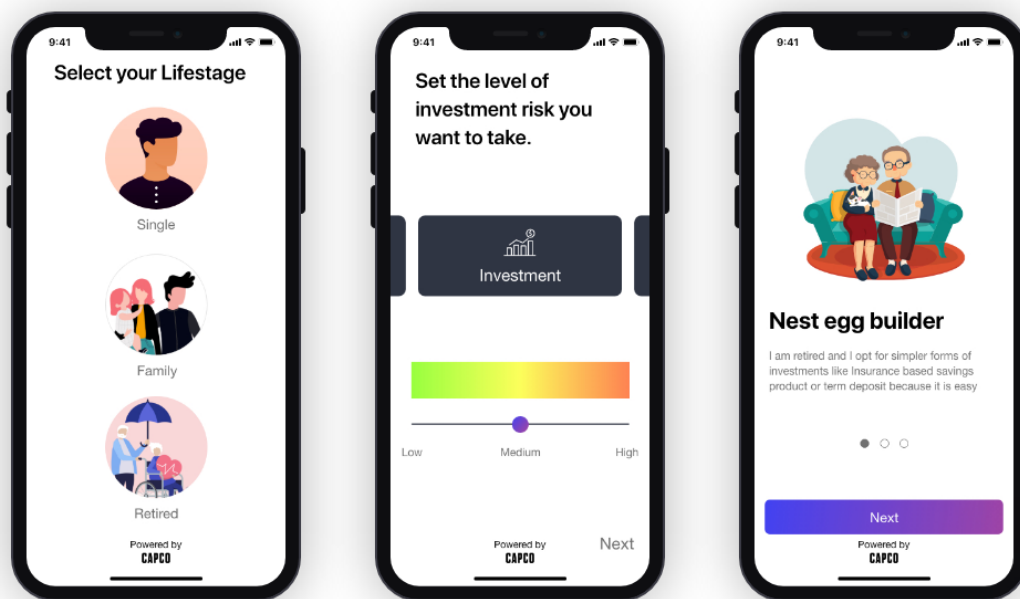


The challenge that Hong Kong's new batch of virtual banks face is to appeal to both the functional and emotional needs of the Hong Kong consumer.  The customer drive to provide for their families and plan for retirement[15] are examples of JTBD that these virtual banks can fulfill.  This also offers opportunities for virtual banks to provide O2O (online to offline) personal pre and post-sales services to achieve sustained customer loyalty.

**Design principle:** Offer the customer the power to customize the financial services that are most relevant to his or her goals and lifestyle.

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15.   https://www.channelnewsasia.com/news/advertorial/for-junior-s-sake-plan-your-retirement-11165776

Another level of customisation touches not only on the products, but the interface display itself. Imagine if you can build your own bank (BYOB), where not only the bank pushes the appropriate products to a specific customer, but also offers the customer the power to customize their own app pages by re-ordering features to what is the most relevant to their goals and lifestyle (see Figure below).

**Figure 5:  Hyper customisation interface – Example 2**

Source: Capco Digital user experience research and design
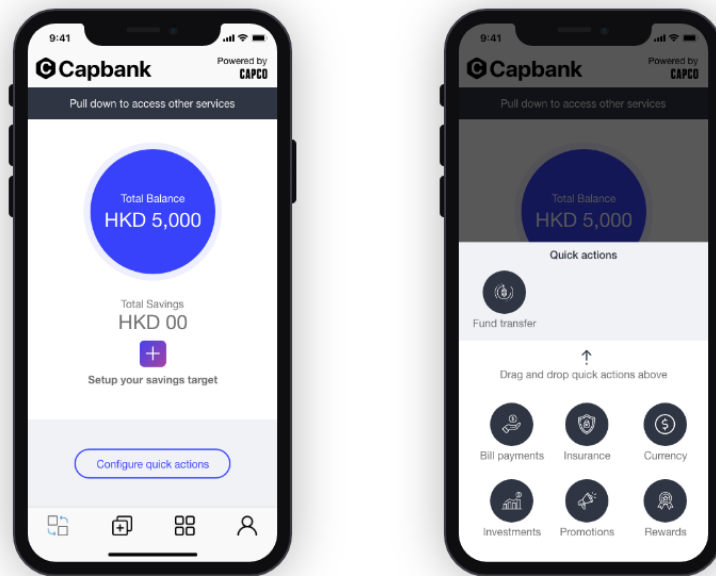


# 4. Engagement through social connectivity

A distinct characteristic of Hong Kong – like its Asian neighbours - is a strong family or social orientation even spanning generation lines.  Asian consumers tend to pursue group-based[16] or family-oriented goals versus the analytical and individualistic drivers of their western counterparts.

Whether it be caring for elderly parents during retirement or providing financial support for children while at university, family and community connectivity is paramount on the list of Asian and Hong Kong customer priorities. Understanding the psyche of the Hong Kong and Asian customers is crucial to developing offerings that hit the mark in this already competitive financial services landscape.

In terms of banking products, traditional banks have already created propositions such as savings financial education and advice targeted to the next generation. Designing with the view to capture the hearts and minds of the Hong Kong consumers means that virtual banks can benefit from designing their visuals and copy is such a way that clearly articulates contributing to achieving family, community, or collective goals.

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16.    https://smart-online-marketing.nl/en/conversion/cultural-differences-consumer-behavior-worldwide/

Research has shown that planning for their children's future and building or preserving family legacy is top of mind for Generation Xers and Baby Boomers in Asia[17,18]. Particularly in Hong Kong, this translates to parents who place a lot of emphasis in getting their children into the 'right' schools.

Virtual banks can respond to this need by partnering with account holders – both from the parents' and children's perspectives – in their journey from finding the appropriate schools, applying to their schools of choice, and helping the students navigate their new environments once they are accepted. The virtual bank plays the role of an education and financial advisor across this whole journey. (see below).

**Figure 6: Social connectivity & family goals orientation**
Source: Capco Digital user experience research and design
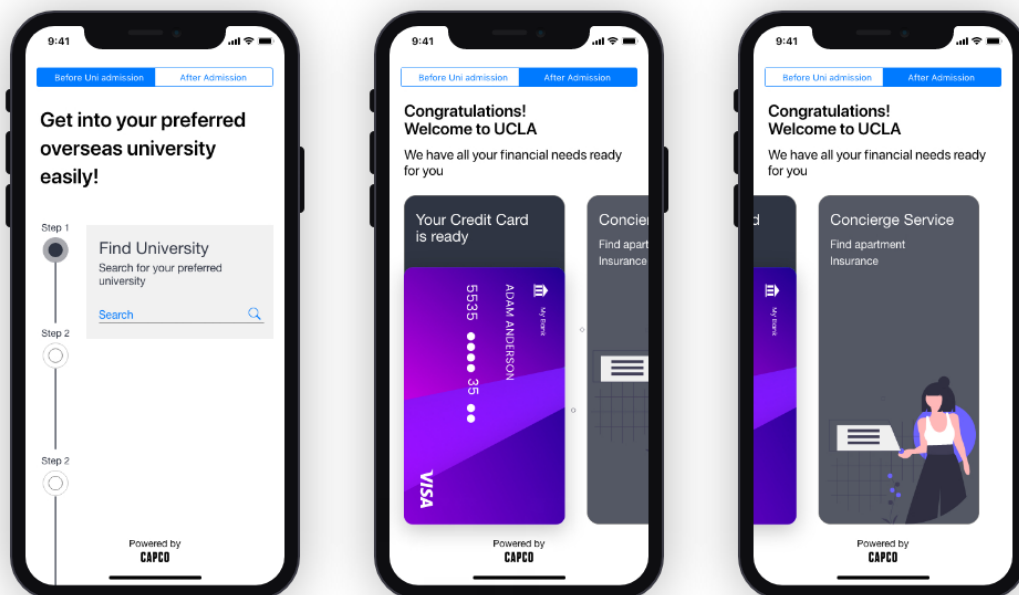


Depending on the virtual bank's customer target segment, it can connect to the Hong Kong audience by showing images of social connectivity and provide solutions that answer the needs of groups versus individuals. Additionally, borrowing the 'like' or review features from social networking and travel recommendation sites such as Facebook and Trip Advisor, where people within a network can recommend products and services to their peers or family, may increase stickiness and interactions with their virtual banks. This underscores the concept of group connectivity. This can forge or strengthen emotional connection between the customers and the virtual bank brand.

17. https://www.todayonline.com/singapore/singaporeans-spend-twice-global-average-childrens-local-education-hsbc
18. https://www.scmp.com/news/china/money-wealth/article/1846270/family-offices-flourish-chinas-ultra-rich-strive-preserve

## 5. Delight & gamify

Rewards based on usage is not a novel concept – in fact it has been around for decades.  However, research has shown that the effectiveness of the rewards program may get lost in complexity.  Focus groups that get the pulse check of Hong Kong consumer points towards the fact that the local customers value simplicity in redemption. We have seen banks try to 'spice up' their rewards program by adding new rules and complicated conditions, but instead of generating excitement it just frustrates cardholders making it difficult for them to engage with the program. This complexity dilutes the 'delight factor' and have even sometimes brought about frustration on some
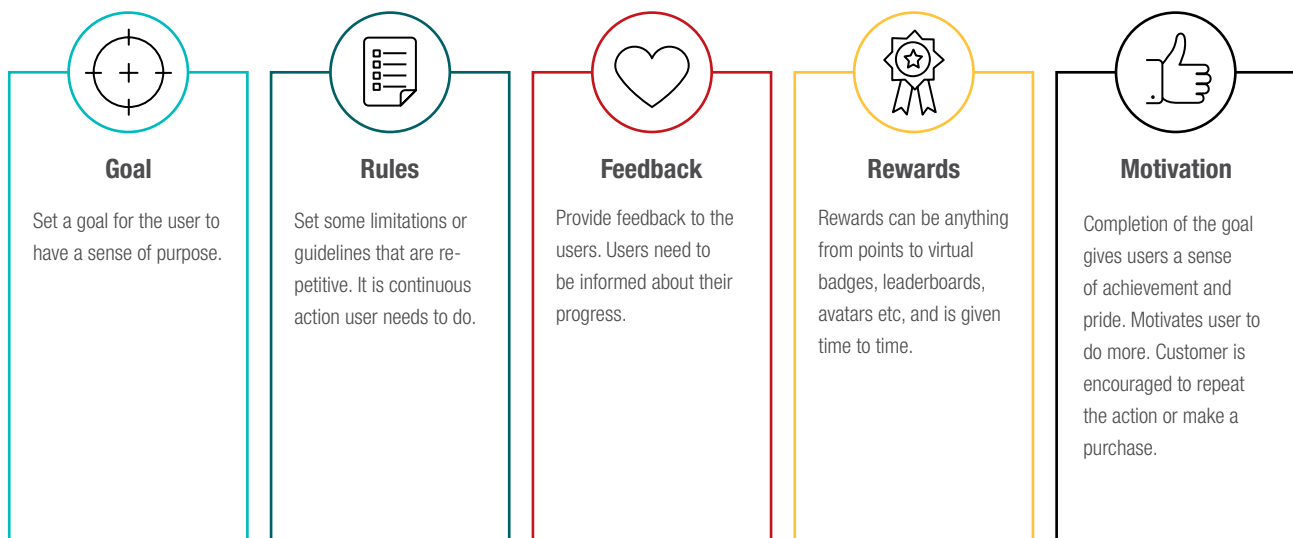
brands. Rewards should therefore be clearly understood and easily redeemed.

Tying in with the concept of social connectivity, virtual banks can be creative in their approach to deliver rewards programs by providing immersive experiences. Hong Kong's digitally savvy millennials may respond favourably to gamification coupled with obtaining real rewards for positive behaviour.  In our experience, there are several principles adopted from the gaming world, that have led to swift and sustained adoption (see below).
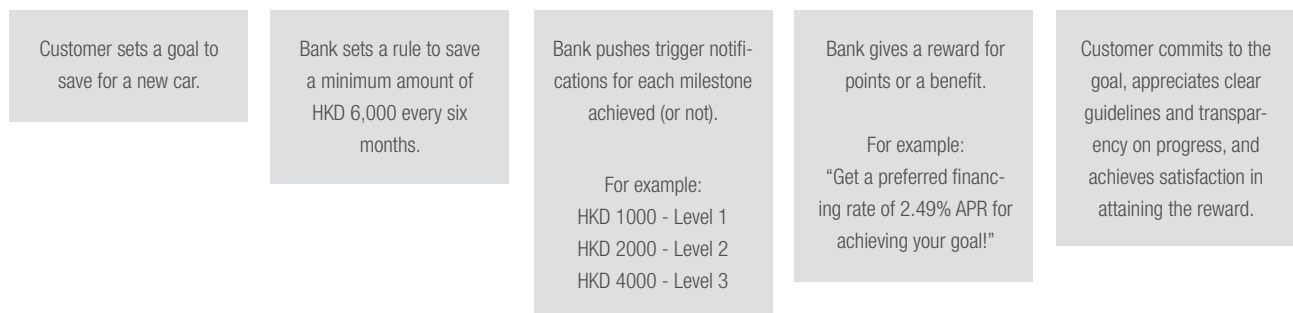
**Figure 7:**

Source: Capco Digital analysis

## GAMIFICATION PRINCIPLES



| Goal | Rules | Feedback | Rewards | Motivation |
|------|-------|----------|---------|------------|
| Set a goal for the user to have a sense of purpose. | Set some limitations or guidelines that are repetitive. It is continuous action user needs to do. | Provide feedback to the users. Users need to be informed about their progress. | Rewards can be anything from points to virtual badges, leaderboards, avatars etc, and is given time to time. | Completion of the goal gives users a sense of achievement and pride. Motivates user to do more. Customer is encouraged to repeat the action or make a purchase. |

### Example case

| | | | | |
|---|---|---|---|---|
| Customer sets a goal to save for a new car. | Bank sets a rule to save a minimum amount of HKD 6,000 every six months. | Bank pushes trigger notifications for each milestone achieved (or not).<br><br>For example:<br>HKD 1000 - Level 1<br>HKD 2000 - Level 2<br>HKD 4000 - Level 3 | Bank gives a reward for points or a benefit.<br><br>For example:<br>"Get a preferred financing rate of 2.49% APR for achieving your goal!" | Customer commits to the goal, appreciates clear guidelines and transparency on progress, and achieves satisfaction in attaining the reward. |

For example, the virtual banks can leverage alliances with retailers within their partnership ecosystem and provide rewards such as exclusive access to sales or give ability to jump queues for on-demand retailers and get hard-to-get concert ticket for clients who reach the top of the leader board for savings targets. These are concrete and straightforward rewards that are easily redeemed and immediately tangible (see below).

**Figure 8: Gamification interface**

Source: Capco Digital user experience research and design
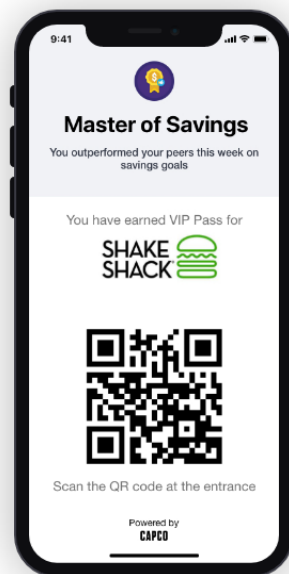


Executing seamlessly on functional job aspects will address the practical and objective customer side of the requirements. And taking stock of the unique Hong Kong customer trends we outlined, such as social connectivity, virtual concierge via a super app, and so forth, means virtual banks can potentially achieve the scale and loyalty they seek as they connect on the emotional level with the bank.

## 6. Not just bells and whistles

Simple human-centred design that incorporates the Hong Kong customer behaviour and expectations will attract new customers. However, gaining a substantial share of wallet and customer loyalty will largely depend on the products and services these banks offer. In addition to building scale, banks should also deal with the fact that once critical mass is reached, profitability then takes centre stage.

Hong Kong's virtual banks should take a page from the playbook of the challenger banks or neo-banks in the United States and the United Kingdom as these players have had a few years' head start. The first-mover digital banks offer better user experience and interfaces compared to traditional banks, however there is a view is that their offerings are not differentiated enough.

As soon as the eight new players in Hong Kong launch their offerings, amassing scale will be the name of the game for these virtual banks over the first year or so. However, with scale comes increased cost pressures. A case in point is United Kingdom's neo bank Monzo, which increased its cost base by 54 percent in February 2019 after it increased its personnel expenses threefold[19]. This surge in expenses place pressure on the neo banks' ability to roll out unique products and services.

Once scale is achieved and the pendulum swings to commercial viability, Hong Kong's retail-focused virtual banks can again take a page out of the playbooks of their western counterparts. To date, the pairing the modern appeal of a digital bank with good old-fashioned banking services such as credit cards, personal loans, and mortgages is still proving to be the winning formula for these neo and challenger banks in the United Kingdom and United States to successfully convert their popularity to profitability. In 2018, Goldman Sachs launched Marcus, an online lending product, with a savings account plan offering a generous interest rate of 2.05 percent. Offering access to credit to individuals (considering various life stages) and small and medium enterprises.

Amidst all the bells and whistles these new virtual banks will usher into Hong Kong, the path to black for them may still be capturing the spread between deposits taken and loans offered to customers – the tried and tested products and service which traditional banks before them have made their profit on over the centuries.

**Design principle: Lean User Experience (UX)**
Lean UX is focused on the experience design and is less focused on deliverables than traditional UX. Applying this principle, requires a greater level of collaboration with the entire team. The core objective is to focus on obtaining feedback as early as possible so that it can be used to make quick decisions. The nature of agile development is to work in rapid, iterative cycles and Lean UX mimics these cycles to ensure that data generated can be used in each iteration. This principle is a leading example of developing and testing new interfaces quickly applying key customer trends.

## 7. Articulate a clear mission
As virtual banks throw their hats into the already crowded banking ring, it becomes a strategic imperative to carve out a distinct purpose. What does this mean? Virtual banks must be laser-focused on their propositions for their specific target audience.

Having a clear mission to specific sets of the population is crucial. Has the virtual bank set its sights to be the financial partner to the millennials, embedded in their everyday lives, such as SC Digital? Or does it offer banking solutions as a service to other banks, such as One Ping An? Or is the virtual bank aiming to focus on the SME customers and the unbanked? Having the cutting-edge technology as the virtual bank's back-bone is not enough – their products and services must be tied to a clear identity.

*"You've got to start with the customer experience and work back towards the technology – not the other way around."*

- Steve Jobs

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19.  https://www.ft.com/content/56fb7cce-9901-11e9-9573-ee5cbb98ed36

# TYING IT ALL TOGETHER

Amid the initial rush to acquire customers, virtual banks must focus on building long-term relationships with their clients and deliver excellent experiences to achieve brand advocacy, customer loyalty, and profitability. These eight newly-minted virtual banks should take stock of these Hong Kong customer trends and expectations, solve for their specific needs and JTBD, and offer solutions that approach them in new and truly transformative ways.

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