

Virtual Banking

Financial Reality



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Virtual Banking: Financial Reality

The race is on to digitise banking as more regulators across Asia Pacific develop infrastructure to oversee virtual banks. Some markets, such as Hong Kong and Singapore, are drawn to the concept of virtual banks to drive innovation and improve financial services to digital and financial-savvy populations. Other regulators and governments in the region are looking to increase levels of financial inclusion, while reducing the size of their cash economies and improving financial transparency.

By early 2020, new entrants in many markets, including Hong Kong, Singapore, Taiwan and Malaysia, had begun the application process with local regulators or launched pilot trials. While completely new, virtual-only banks have received much of the media attention, the basic principles and technology are also attracting interest from traditional banks seeking an efficient way to digitise their existing offerings and stay relevant to younger consumers who expect compelling digital financial services experiences.

The combination of regulatory infrastructure, technological capabilities and consumer demand have created opportunities for traditional banks and new financial services entrants across Asia Pacific to deliver virtual banking. However, rapidly emerging competition in a relatively young marketplace means choosing the right technology, delivery method and provider will be critical to success.

Virtual Banking: Rapidly Gaining Traction

Some markets, such as Hong Kong and Singapore, are drawn to the concept of virtual banks to drive innovation and improve financial services to digital and financial-savvy populations. This model fits well with the digital nature of the marketplace in Asia, which has grown at a ferocious pace in the past five years, largely driven by Chinese payment entities, such as WeChat Pay and Alipay and Asian banks such as DBS Bank.

At the same time, the lean cost model, high automation and innovation of virtual banking are also appealing to established brick-and-mortar banks. Some of these are looking to start virtual bank businesses, to augment and incrementally transform their existing business, while others are trying to transform their legacy business wholesale using virtual banking technology. The coronavirus outbreak has also accelerated digital transformation and prompted traditional banks to rethink the sustainability and resilience of their existing operating model.

Other regulators and governments in the region are looking to increase levels of financial inclusion, while reducing the size of their cash economies and improving financial transparency. The [World Bank](#) estimates that more than one billion people in Asia still have no access to formal financial services, so the magnitude of this change represents a major opportunity.

Virtual banks (and their implicit digitisation) have much to offer in terms of financial inclusion, because they do not have the overhead cost of a traditional banking infrastructure, such as branch networks. As such, it is possible for them to operate profitably while servicing the high volume of relatively low-value accounts likely to result from those currently financially excluded.

Technology Choices Are Mission Critical

The competitive nature of the marketplace and relatively low margins per customer make speed and scale imperative. Building a new virtual bank technology stack from scratch in-house would simply take too long to be competitive, to say nothing of cost and ongoing maintenance/enhancement.

For proof of this need for speed in a digital marketplace, one need look no further than China. A Raconteur special report on “[The Future of Payments](#)” found that within just a few years, payment companies such as WeChat Pay and Alipay have gone from zero to approximately 1.7 billion active users. Financial institutions looking to compete in these spaces must find ways to move quickly into digital markets and pivot when necessary.

Speed to market pressures create a technological need in virtual banking for a turnkey solution that is highly scalable, natively API-based/supported and also extensible in terms of product offering. In particular, there are three key technological needs that a virtual bank – be it a legacy financial institution or a new market entrant – must address to compete effectively:

1. A core back end: Any full-service virtual bank needs a traditional core account processing features, such as checking, savings and money market accounts, alongside larger/structured deposits or corporate banking services.

This is likely most relevant to existing traditional banks looking to integrate virtual solutions with legacy systems – preferably in a way that does not incur the expense, risk and effort of conducting integration in-house.

2. A compelling user interface: By their very nature, virtual banks must meet consumer expectations for an always-on, omnichannel experience. This includes comprehensive mobile functionality that broadens the customer base vertically into those currently unbanked, while also about servicing “digital natives” (That is, millennials and subsequent generations) who are a fast growing and profitable customer segment. Both groups are increasingly well served by Asia’s higher bandwidth (4G/5G) mobile networks that are well-suited to supporting advanced applications and can deliver consumer-friendly, omnichannel interfaces.

3. A way for people to move money wherever they are: An out-of-the-box payments ecosystem that enables functionality such as cards (For example: credit, debit and pre-paid), loans, current accounts, small deposits and so on.



Finding the Right Virtual Banking Technology Provider

While these technological needs are paramount, the real turning point is in how they are delivered. Most virtual banks cannot afford the costs and inefficiency of solution fragmentation, so picking and mixing individual functionality from multiple suppliers is not typically an option. Instead, virtual banks will benefit from partnering with a provider that can deliver the technology that can ensure efficient delivery, compelling consumer experiences and regulatory compliance.

Such a solution integrates a core banking solution with a consumer-facing interface. By using an API-based approach, this quickly delivers an attractive interactive solution for end users, while minimising the effort, cost and risk for the bank.

Similarly, holistic needs apply to payment channels. Again, negotiating individual acquiring/issuing relationships from scratch will take up precious time and not necessarily guarantee the best commercial terms anyway. By contrast, if the technology solution provider already has these relationships in place, then implementation becomes a key part of a turnkey solution.

A related consideration is how well a provider can combine scale economy, regulatory compliance and cloud technology. A virtual bank solution provider that can consolidate processing volume into a few high-capacity data centres around the globe achieves scale cost economies that it can share with its clients. However, this runs counter to recent regulatory trends, where countries are requiring that their citizens' financial data should only be held and processed in-country. Complying with these requirements would inevitably appear to increase costs, but if the solution provider is

ZA Bank Prepares for Virtual Bank Transformation

Officially launched on March 24, 2020, ZA Bank is the first fully-operating virtual bank in Hong Kong. With an approach that is founded on being "Community-Driven," ZA Bank has prioritised the rapid launch of innovative capabilities that align with customers' changing lifestyles. The bank is leveraging technology from Fiserv to meet its launch goals and enable a transformative banking experience for its customers.

"We are pleased to partner with Fiserv as we embark on a journey to shift the lifestyle of future banking users," said Rockson Hsu, CEO of ZA Bank. "With our companies' combined knowledge and expertise in banking and technology, we are well-placed to respond fast to the ever-changing market with an agile product development approach. By doing so, we can better cater to customers' needs with cutting-edge offerings. Ultimately, we want to offer superb user experiences through a robust and secure platform. I am confident that with the support of Fiserv, ZA Bank will be well-positioned to deliver relevant, convenient and excellent services to our users."

able to leverage cloud technology appropriately, then this need not be the case. In this scenario, the provider uses a suitable third-party cloud provider (or perhaps the virtual bank's cloud) within the appropriate country to host the data, thereby achieving compliance but also retaining scale economy cost savings.

Collaboration Can Lead to the Right Result

The logical strategy for virtual banks looking to seize this opportunity is to lead with consumer finance (For example: retail finance and personal loans) coupled with simple deposit products (For example: savings, checking and CDs), which would also drive success in the conventional consumer market in addition to the financial inclusion demographic.

However, virtual banks' ability to execute this strategy effectively will depend heavily upon their choice of a solution provider. Picking a provider that can address the needs outlined above will give them the best possible chance of quickly capturing a client base of critical mass, as well as the ability to service it profitably and efficiently, both now and in the future.

How Fiserv Can Enable Virtual Banks

Fiserv offers end-to-end virtual banking capabilities that enable consumers to access a comprehensive digital financial services experience on any device, at any time.



Core-as-cloud accessibility

Fiserv delivers an end-to-end, cloud-architected technology platform that facilitates integration across the technology stack and third parties.



API-based architecture

Working with Fiserv, virtual banks can deliver smart, relevant and secure services to customers across digital channels.



Accelerated time-to-market

By accessing turnkey, API-based services as needed, virtual banks are able to get to market faster with the types of high-value functionality consumers expect.



Grow as you go

With consume-on-demand efficiency built in, virtual banks are able to offer the services their customers need – from mobile account opening and loan applications to digital wallets.



Economies of scale

State-of-the-art data centres, including those in China and India, offer economies of scale, which translates into greater cost savings for our clients.

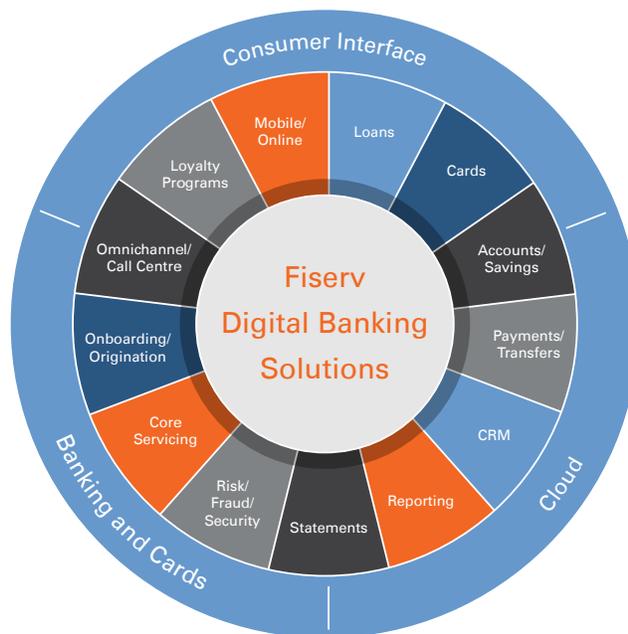


Fully compliant

Our solutions are fully compliant to PCI mandates and local regulations and legislation, including data privacy laws.

Connect With Us

For more information about how Fiserv can support your digitisation efforts, email: Asia.Sales@fiserv.com or visit: fiserv.com.



About Fiserv

Fiserv is driving innovation in Payments, Processing Services, Risk & Compliance, Customer & Channel Management and Insights & Optimization. Our solutions help clients deliver financial services at the speed of life to enhance the way people live and work today. Visit [fiserv.com](https://www.fiserv.com) to learn more.

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