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**| RESEARCH ARTICLE**

## **Exploring the Advantages and Insights of e-Banking Development in Hong Kong**

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**| ABSTRACT**

As a prosperous Special Administrative Region of China, Hong Kong has been ranked as the world's freest economy for 22 consecutive years. In addition to being ranked first in the Economic Freedom of the World 2022 Annual Report, Hong Kong continues to rank first in the five major assessment categories of "freedom of international trade" and "regulation". "This is attributed to Hong Kong's focus on optimising the business environment and the increasing efficiency of the market, which has enabled the economy to grow dynamically. In an era where the role of financial technology is widespread, Hong Kong has also kept pace with Internet finance, and the rapid development of e-banking has been instrumental in driving Hong Kong's economic prosperity and leveraging the advantages of a free market. The purpose of this paper is to analyse the basic situation of e-banking in Hong Kong, compare the strengths of e-banking in Hong Kong and then explore the development trends of e-banking in Hong Kong under these operating models for insights. The study shows that Hong Kong's rapid growth and prosperous economy cannot be achieved without continuous innovation and self-management. With the strong development of Internet finance, e-banking in the Greater Bay Area and e-banking in the Mainland need to work together to innovate, meet the challenges and promote the development of China's financial industry.

**| KEYWORDS**

Hong Kong, Finance, e-Banking, Development Advantages, Insights

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**1. Introduction**

The development of e-banking in Hong Kong has not been long in coming, but it has been well positioned to take advantage of the rapid development of the Internet. Citibank, East Asia and Dah Sing Bank being the first to launch Internet banking services in Hong Kong in the second half of 1999. In 2000, major and medium-sized bank websites appeared one after another. From May to October 2000, the Hong Kong Monetary Authority introduced the "Virtual Banking Authorisation Scheme", the "Security Risk Management Approach for Electronic Banking Services", and the "Independent Review of the Security Aspects of Electronic Banking Transactions", which played an important role in promoting the development of electronic banking in Hong Kong. On 24 April 2001, the Hong Kong Dah Sing Financial Group invested HK\$350 million in the establishment of Hong Kong's first bank registered as a virtual bank, the Bank of Hong Kong, marking a new stage in the development of electronic banking in Hong Kong.

E-banking in Hong Kong is primarily designed to manage and promote different types of cashless electronic transactions, including Internet banking, mobile banking and wealth terminals. E-Banking in Hong Kong is focused on "wealth management", with "wealth management" as the centrepiece to expand e-banking services; for example, Wing Lung Bank's "24-hour Phone Banking" (Phone Banking) offers nearly 80 functions, including fixed and current account enquiries, inter-account transfers, foreign exchange transactions, credit card redemptions, securities transactions and mortgage processing, providing a very convenient service for customers (Zhou, 2002). Due to the urgent need for technology, banks in Hong Kong rely on computer centres, and each bank has a computer department to support and complement the company, particularly in the areas of correspondent

banking lines and customer credit line management, funds management, personnel power management, network management, personnel management and information management.

The management system of HK e-Banking is very well established. In terms of operational structure, the main objective is to establish the operational structure of the branch by the Board of Directors, followed by the operational departments and subsidiaries. The operational and administrative departments of the branch are largely non-functional and usually consist of 10 departments, divided into human resources, audit, credit, finance, corporate administration, general affairs and technology. Each department has its own responsibilities and works with other departments to ensure the safe operation of each business. The management philosophy combines safety, liquidity and efficiency to ensure the safe and efficient operation of all types of businesses, with a keen awareness of risk and experience in managing credit.

Due to Hong Kong's unique international status, special geographical location and unique economic development environment, e-banking has a strong presence abroad, having established a large network of branches, correspondent banking networks, advanced electronic equipment, telecommunications and credit facilities to provide international financial services to its customers (Ma, 1996).

## **2. Advantages of e-Banking in Hong Kong**

1) Competition is fierce. This competition is not internal vicious competition but orderly, fair and healthy competition. The pressure of competition among many banks has been transformed into a driving force for banks to reform themselves. 21 February 2023 saw the release of the 2022 results reports of HSBC Holdings and Hang Seng Bank, the oldest banks in Hong Kong. During the reporting period, HSBC's total assets, customer loans and customer deposits changed by 0.3%, -11.4% and -8.2% year-on-year, respectively; Hang Seng's total customer loans decreased by HK\$60 billion year-on-year, down 6%. Deposits increasingly shifted to non-bank financial products due to weak credit growth. The banking industry as a whole is also under significant competitive pressure due to low bank margins: operating profit before provision for impairment losses for all licensed banks fell by 15.4% in 2021, from HK\$232 billion in 2020 to HK\$196 billion in 2021. The continued low interest rate environment in 2021 also led to a 9 basis point decline in the average net interest margin for all licensed banks from 1.40% in the previous year. 1.31%, down from 1.40% in the previous year. As a result, continuous efforts to reduce operating costs and increase income from non-asset related activities are necessary to improve bank profitability. This is the real driving force behind the development of e-banking in the Hong Kong banking sector.

2) A sound supervisory system. The HKMA attaches great importance to the development of a banking supervisory system that meets international standards and regularly conducts self-assessments or engages external parties to assess the compliance of Hong Kong's supervisory system with international standards and the Basel Principles for Effective Supervision. The HKMA has been continuously reviewing and improving the Banking Ordinance in light of market developments, changes and regulatory requirements. To further implement operational soundness, the Hong Kong Monetary Authority (HKMA) issued a Supervisory Policy Manual on 31 May 2022 to urge banks to improve their ability to maintain critical operations in the event of disruptive events and revised the Continuity of Operations Plan. The HKMA also issued a revised version of "Operational Risk Management" on 25 July 2022. As a result of the improved legal framework for supervisory processes and tools, the banking sector in Hong Kong has developed in a relatively healthy manner, ensuring Hong Kong's position as a financial centre (Qian, 2004).

3) Product Diversification. As mentioned earlier, e-banking in Hong Kong emphasizes financial management, offering a wide range of financial products such as securities, futures, options, stocks, funds, etc., while using a variety of financial management methods to innovate and improve traditional products. Hong Kong e-banking is actively developing its brokerage business, with over 400 securities firms in Hong Kong, and the bank is fully involved in securities brokerage, providing access to securities services and allowing the public to receive a more comprehensive service.

4) Efficiency and security. Each bank has an electronic certificate, which is a dynamic combination of randomly generated passwords. This effectively avoids the risk of online transactions, ensuring security for large transactions and password cards or other means of protection for smaller transactions. More common for individuals is online banking, which provides the user's personal mobile phone number and SMS authentication for enhanced transaction protection (Chen, 2017).

## **3. Trends and Insights of e-Banking in Hong Kong**

In the field of e-banking services, thanks to Big Data technology, all users' business information can be investigated and evaluated, their specific needs can be understood, and intelligent services tailored to the individual needs of the user can be provided according to the functions of e-banking. The application of big data technology has improved the accuracy of e-banking services, which is an important trend for future development (Yang, 2019).

Because of the infinite convenience brought by the development of the Internet, transactions such as online trade and stock trading by e-banking will develop faster in the future, but at the same time, online finance in Europe and the United States is also developing rapidly, which is a crisis as well as an opportunity for e-banking in Hong Kong in terms of the penetration of the Internet and the uniqueness of consumption and financial management of Hong Kong people. 2019 saw the HKMA issue three batches of a total of 8 virtual banking licences, which makes the Guangdong, Hong Kong and Macau Greater Bay Area one of the most densely populated regions in the world for the establishment of Internet banks. Combining the advantages of the business environment in Hong Kong and Macau, the early reform and opening-up zone in the Mainland of Guangdong Province and the support of the Central Government, the cities in the Greater Bay Area have more resources in terms of talent admission and science and technology. At a time when e-banking has become a mainstream trend in the banking industry, Hong Kong banks are in a leading position to take advantage of the new opportunities presented by cross-border financial schemes, financial technology and green finance, etc. The banking industry in the Greater Bay Area cities should give full play to the advantages of “two markets and two resources” and collaborate in their own development to help the sustainable and healthy development of foreign-related enterprises. On 28 April 2022, HSBC Bank (China) Limited launched an e-account platform for SMEs in the Greater Bay Area, becoming the first foreign bank to launch digital account opening services for enterprises, further strengthening HSBC's digital services and providing more convenient financial support for SMEs in the Greater Bay Area to expand their business (Lu, 2022). The development trend of e-banking in Hong Kong is not only about its own development or competition within the industry but also about being a leader in the Greater Bay Area, integrating resources with the Greater Bay Area cities for win-win cooperation, which is also the key to China's financial development.

Compared with the banking industry in the Greater Bay Area, the mainland banking industry does not have such a mature system and operational innovation concept, and many banks still use traditional institutional outlets as the most important channel for financial services, neglecting the development of internet banking. This requires mainland banks to attach importance to the development of internet banking, combine their own advantages, strengthen training, continuously improve the innovation mechanism, promote product innovation, learn from the prosperity of the Greater Bay Area and European and American countries banking industry's operational mechanisms and concepts, integrate existing channels to expand a business, and strengthen management systems to promote business and economic development (Wang et al., 2009). At the same time, strengthen the introduction of talents as a strong driving force for the development of fintech. It is worth noting that due to the vast size and population of Mainland China, there is a need to do a better job of popularising internet banking and promoting security knowledge.

#### 4. Conclusion

In the wave of the times of financial globalization, the Hong Kong banking industry quickly integrated the advantages of a sound regulatory system, mature network technology, making good use of the open business environment and customer base, so that Internet banking has become an important channel to promote the development of the financial industry in Hong Kong. Hong Kong e-banking services in a wide range of areas, service efficiency, but also can not be separated from the Hong Kong e-banking fierce competition in the general environment; there is a developed experience in the financial sector, with product diversification as an attraction, sound regulatory and supervisory system as a guarantee, a safe transaction environment to attract more Hong Kong people will spend from the physical bank to e-banking. While its own development will be supported by big data analytics as an optimised technology, Hong Kong, as a highly open and international city in the Greater Bay Area, has become the new development trend to promote the joint development of the Greater Bay Area cities and achieve a win-win situation. The Greater Bay Area cities should also make use of the advantages of “two markets, two resources” to unite their efforts in promoting the development of China's financial industry. As for the Mainland market, the high level of attention and practice in the area of e-banking has become the key to the development of the banking industry. Changing the concept, improving the mechanism and developing innovation are the core of the breakthrough in the status quo of Internet banking in the Mainland.

There are, of course, many risks facing the electronic banking industry. The most prominent is the legal risk. The inter-temporal nature of internet banking makes it more likely that unlawful transactions will be carried out through internet banking, and the fact that internet banks cannot be completely clear about the origin of transactions makes it more difficult for criminal activity. On a security level, data transmission, system design flaws, etc., can lead to information leakage with serious consequences. It must not be overlooked that there are still risks inherent in traditional banking, such as credit risk, exchange rate risk, etc. Even through the Internet, electronic banking does not have the same high timeliness to judge the customer's situation. Therefore, in order to effectively prevent risks and safeguard the operation of e-banking, the HKMA and other relevant authorities need to introduce policies to regulate the operation of internet banking in line with the development of the industry. With e-banking becoming a major tool for transactions, the community needs to change its perception of e-banking, make positive use of the convenience of e-banking, promote knowledge of cyber security and create a safe and sound environment for social transactions; For the industry itself, e-banking in Hong Kong should focus on both “convenience” and “security”, improve service efficiency, enhance scientific research and development technology, research and development of illegal, malicious intrusion interception, anti-

phishing software, at the same time to customers in the transaction of prevention reminders, the public should also raise awareness of online financial transactions, to confirm the legitimacy of personal consumption, security. With these measures, e-banking in Hong Kong will become a better secure, efficient and inexpensive transaction tool and will also better promote the development of China's financial industry.

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