

A Study on the Cultivation Mechanism of Brand Reputation in Hong Kong Virtual Bank

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ABSTRACT. Virtual banking is the breakthrough point for Hong Kong to innovate its financial technology and maintain its position as an international financial centre. By constructing the model of bank reputation formation, creation and action, this paper finds that the advantages of brand reputation of hong kong virtual bank are the support of regulators and the international market of borrowers, the disadvantages are the safety concerns of depositors and the non-physical employee restrictions.

KEYWORDS: Reputation Platform Theory, Virtual Banking, Brand Building, Brand Communication

1. Introduction

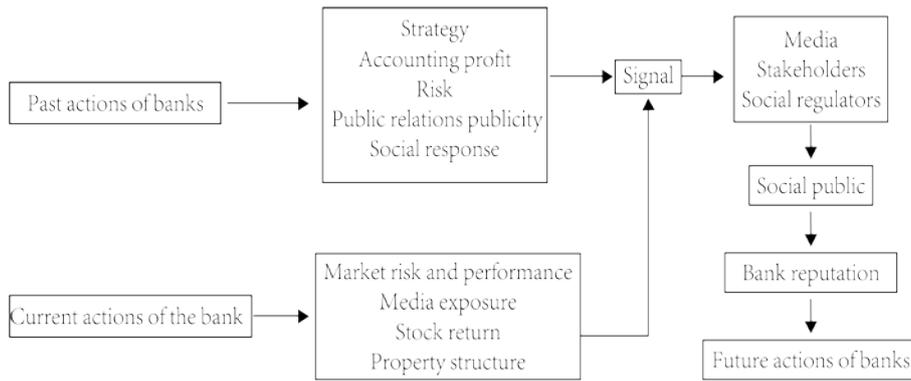
The Hong Kong Monetary Authority (HKMA) defines virtual banks as "banks that provide retail banking services primarily through the Internet or other electronic transmission channels rather than physical branches ", which shows that the nature of virtual banks is still playing " confidence games "[1], and the main business is mainly deposits, loans and remittances. More than 200 years ago, Adam Smith argued in his book that the reputation mechanism ensures the smooth implementation of the contract. But it wasn't until the 1980s that the Nobel laureate economist Eugene Fama formally introduced reputation into mainstream economics by building a market reputation research model for state-owned enterprise operators [2]. then kreps, milgrom, roberts and wilson published three papers establishing a standard reputation model in which the conclusion that "reputation can increase the

strength of commitment" is proposed, and it is argued that reputation can act to provide a recessive incentive and potential confidence to people pursuing long-term interests that can be an alternative to explicit contracts [3]. Subsequent scholars continue to proceed from these three papers, such as Tadelis (1998) proposed that reputation is a gradually established and gradually disappearing asset, so it needs to be continuously invested and maintained [4]. meanwhile, fang (1998) and mailath & samuelson (2001) point out that reputation has the effect of reducing information asymmetry and can improve the efficiency of market operation in wide dissemination by applying research methods of information economics, such as using adverse selection model and moral hazard model [5-6].

The American Traditional Dictionary (AHD) defines reputation as: " Reputation is a general public assessment of someone or something, a unique characteristic or trait attributable to someone or something ". The online Oxford English Dictionary defines reputation more specifically: " Reputation is a general public assessment of someone's character or other qualities, a relative assessment or respect for someone or something. bank reputation refers to an asset that the bank is running to gain public respect, trust and praise. it is a comprehensive cognition generated by stakeholders after a period of contact with bank products and services, observation of bank word of mouth and media reports, and this cognition is reinforced by the public after repeated verification and digestion [7]. For the working capital of banks, most of the working capital is raised in the public, so it is necessary to rely on its own comprehensive credibility and the confidence of the public to maintain the operation. It can be seen that the bank has the inherent financial fragility, and the good reputation, as a special intangible asset, can support the long-term stable development of the bank. Therefore, from the perspective of industrial development, the newly established Hong Kong virtual bank must also pay attention to the cultivation of brand reputation.

2. Methods

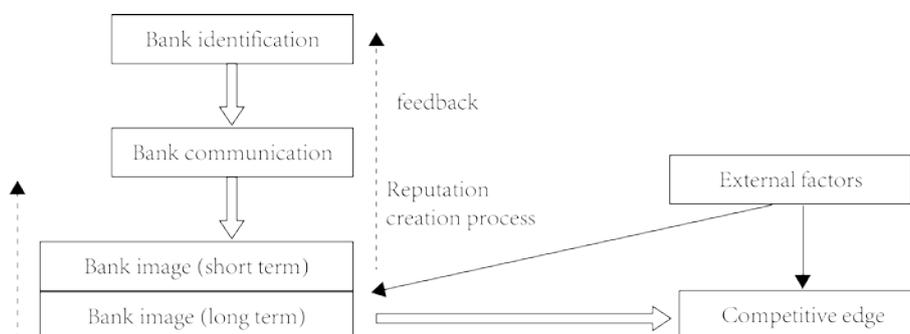
2.1 Bank Reputation Formation and Creation Model



1. Bank reputation formation model

Figure 1 Bank reputation formation model

in the bank reputation formation model of figure 1, it can be seen that economic performance is not the only criterion for evaluating banks. Banks have many stakeholders, and their evaluation criteria for bank performance are different, so the formation of bank reputation involves multiple economic and non-economic indicators. A bank's reputation can serve as a clear signal in the market to influence the attitudes and behavior of stakeholders and the public towards the company; in addition, reputation can in turn affect the behavior of the bank, and if the bank considers its reputation valuable, it will regulate the bank's behavior to protect its reputation and bring its reputation into line with social norms. As the model shows, the bank's reputation formation process is actually a dynamic adjustment process, the bank's historical activities will affect the economic and non-economic factors of the bank's history, but also will affect the bank's current year (T) action; and the bank's current year activities will affect the economic and non-economic factors of the bank's current year, so as to influence the bank's reputation indirectly. And the bank information formed in that year will directly affect the reputation of the year, and the reputation of the year will also affect the future operation of the bank.



2. Bank reputation creation model

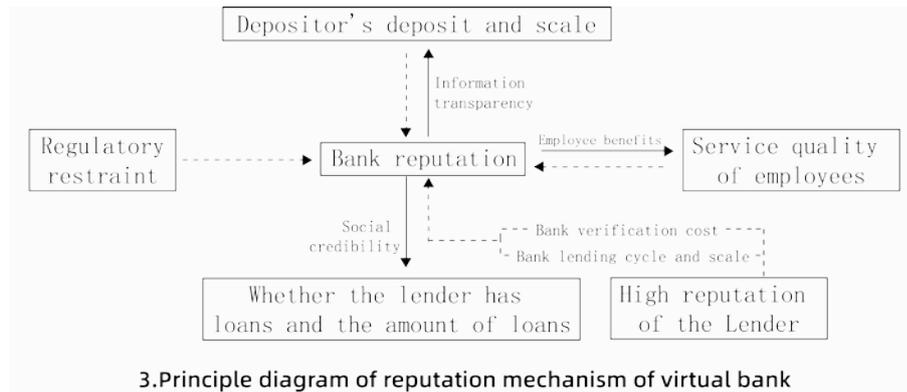
Figure 2 Bank reputation creation model

In the formation mechanism of bank reputation, it can be seen that bank reputation is an important strategic resource, which can form the competitive advantage of banks. Therefore, banks need to establish reputation and image management system to guide managers to carry out reputation management. This paper builds the bank reputation creation model of figure 2 to introduce the transmission mechanism between bank identification, inter-bank communication and bank image, bank reputation. Bank identity is a unique organizational characteristic of a bank, such as banking strategy, banking cooperation, etc. Bank communication is that the bank communicates the bank identity to various stakeholders and the public through different media, and is the link between the bank identity and the bank image and reputation. Banks form a long-term banking reputation by building a short-term banking image and preserving it.

2.2 Hong Kong Virtual Bank Reputation Mechanism

From the above two models, this paper draws on the economic method to design the following model of Hong Kong virtual bank reputation mechanism (Fig 3), which divides the stakeholders of Hong Kong virtual bank into four categories: employee, depositor, lender and supervisor. The interaction between bank reputation and four kinds of stakeholders is as follows :1. At the same time, the quality of employee service will counteract the reputation of the bank. Second, the reputation of the bank often has a high degree of positive correlation with the transparency of bank information, and the transparency of information will directly affect the depositor's deposit and the amount of deposit. At the same time, whether the depositor deposits and the amount of the deposit will counteract the bank's reputation. Third, the reputation of the bank directly determines its social credibility, thus determining whether the lender will lend and the amount of loans. At the same time, the credibility of lenders will affect the cost of credit verification of lenders and the proportion of bad assets of banks to total assets, thus affecting the reputation

of banks. Fourth, the reputation of banks often has a high degree of positive correlation with the degree of bank management norms, and the degree of regulation will affect the constraints of regulators. At the same time, the supervision of regulators directly reflects the reputation of banks.



Note: the solid line arrow in the figure indicates that the behavior of the bank caused by the reputation of the virtual bank will affect its stakeholders. The virtual arrow indicates that the behavior of its stakeholders will affect the reputation of the virtual bank.

Figure 3 Principle diagram of reputation mechanism of virtual bank

Therefore, the reputation mechanism of hong kong virtual bank can be defined as: "the sum of the influence of bank reputation on the behavior of participants and the influence of all participants on the reputation of banks in the course of game with its stakeholders", and this influence is mutual. Among the above four kinds of interaction, the effect of bank reputation on the four kinds of stakeholders is obvious, and the influence of the stakeholders on the bank reputation is more complex. The following mainly introduces the reaction mechanism of the lender's reputation to the bank's reputation, and so on.

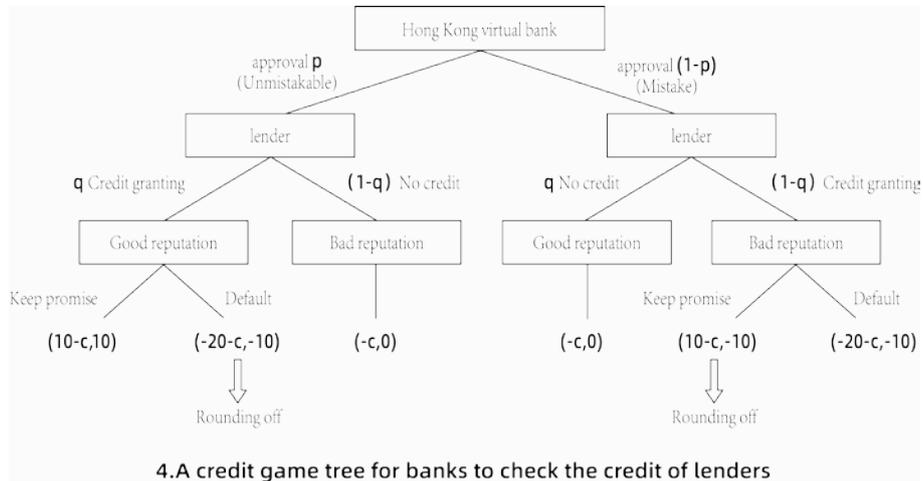


Figure 4 A credit game tree for banks to check the credit of lenders

The reaction mechanism of the lender's reputation to the bank's reputation is mainly reflected in two aspects: the bank's verification cost to the lender c and the proportion of the bank's bad debt assets to the bank's total assets π . Using western game theory to establish the credit relation game tree of hong kong virtual bank to lender credit verification. As shown in figure 4, it is assumed that the verification cost is c , c does not exceed the amount of the bank's loan funds to the borrower, the probability of the bank's verification is p , and the probability of the bank choosing to grant credit to the lender after checking the credit of the lender is q . In the case of verification: $P[q(10-c) + (1-q) \cdot (-c)] + (1-p)[q \cdot (-c) + (1-q) \cdot (-20-c)] > 10q + (1-q) \cdot (-20)$, banks have an incentive to verify when their expected net income is greater than the expected net income at the time of non-verification. Credit is granted to the lender if the bank verifies that the credit is good; otherwise, credit is refused to the lender. The bank's verification is problematic to verify accuracy. In checking the correctness, the banks choose to grant credit to the good reputation of the enterprises. Because the value of its reputation assets is greater than the benefit of default, the rational choice of the enterprise is to keep the contract and eliminate the default of the reputable enterprise. In the verification of errors, the choice of credit enterprises are poor reputation. Because its reputation value is less than the benefit of default, the rational choice of the enterprise is default, which eliminates the situation of poor enterprise compliance. the higher the lender's reputation, the lower the bank investigation cost c . The higher the reputation of lenders, the greater the probability of compliance, and the lower the proportion of bad bank assets to total assets, the higher the reputation of banks. The model also

proves that the role of reputation mechanism can help the virtual bank to pay more attention to brand reputation.

3. Results and Discussion

The above four models fully illustrate the importance, formation path, action mechanism and reaction feedback of the brand reputation fostered by the Hong Kong Virtual Bank. The advantages, disadvantages and key points of brand reputation cultivation of Hong Kong Virtual Bank can also be obtained.

1). Hong Kong's virtual banks foster brand reputation with regulatory support and global borrower advantages. For regulators, hong kong's government has done enough to guide and invest in virtual banks. Over the past three years, the government has invested \$940 million in financial technology. The Hong Kong Financial Development Council also made clear in its "Hong Kong Technology Future" report that Hong Kong could become a "landing point" for financial technology companies interested in developing in the region, a market for financial technology companies to provide business-to-business (B2B) services and a starting point for Mainland financial technology companies to move towards the international stage. In the case of depository borrowers, Hong Kong's virtual banking licence covers a wide range of areas of business, including deposits and loans, financial management, money transfers, bills, settlement, letters of credit and so on, which are more valuable than the general payment licence because banking licences can expand the international financial market. Hong Kong, the world's leading financial centre, has a highly developed international financial market for technology companies with virtual banking licences that means that borrowers' target customers come from all over the world and can effectively expand the business and customer base of their original companies in the context of economic globalization.

2). There are concerns about the safety of depositors and a lack of physical staff in the cultivation of brand reputation by the Hong Kong Virtual Bank. In terms of depository borrowers, hong kong's virtual banks face the security concerns of corporate, personal and other depository borrowers. Hong Kong's international financial trade determines its financial uncertainty and volatility, which leads to the instability of its own banking business and the lack of confidence in long-term investment by businesses and individuals. Hong Kong's Economic Daily reported in June 2018 on an in-depth survey by the Hong Kong Productivity Council and Standard Chartered Bank on how 800 small and medium-sized businesses in Hong Kong view virtual banks. The survey found that "only 46% have heard of virtual banks, 23% have said they won't use them, and interested companies choose to consider network security and system stability". In Hong Kong, where there are more gold shops than rice shops, the branches and ATMs of traditional banks are also available online. Depositors in hong kong have developed a habit of using virtual banks that are insecure about emerging technology. From the staff point of view, virtual bank has no traditional bank network layout, and lack of physical store staff services, there is a greater difficulty in promotion. So hong kong virtual banks

have been "born" in the narrow local market, facing fierce competition from traditional banks with a large number of physical staff and store services, it is difficult to pose a threat to traditional banks in the short term, must find a new breakthrough point to seize the traditional bank's inherent market or become a tool to help other financial business development, otherwise some innovative virtual banks can only compete for market share through the price.

3). The key to fostering the brand reputation of Hong Kong's virtual banks lies in their own brand positioning and dissemination of integrity. First of all, in order for virtual banks to seek market share and counter-development in Hong Kong's competitive banking industry, they must, under the condition of fully investigating the actual situation and recognizing their own technological characteristics, subdivide and clearly locate the target consumers and match the appropriate communication channels, so as to set up a good faith brand image recognition system that can enable consumers to produce correct cognition. Whether it is a signing spokesman or a cooperation with media companies, or to organize and participate in various public welfare activities, Hong Kong virtual banks around the target consumers to establish a good faith brand image. The integrity image of the bank has the characteristics of subjectivity and objectivity, and it can only be perceived by the public through the corresponding media in its shaping. Therefore, the Hong Kong Virtual Bank needs to construct a communication system with a distinct image of integrity, first of all, to develop, expand and use its own media to avoid the cost of using public media in the identification system architecture; secondly, to participate in high-end social activities, such as the national Olympic Games, the Asian Games and the political, economic and cultural activities of regional government agencies to enhance the media exposure of the image of integrity.

4). Furthermore, virtual banks should be good at fostering a good brand image through two-way interaction with borrowers, depositors and regulators. On the one hand, the hong kong virtual bank through media public relations, mergers and acquisitions, equity investment, public welfare sponsorship and other market means, integrity brand information to the borrower, but also from the borrower to collect their perception of the bank integrity brand, and then selective improvement. On the other hand, the choice of the transmission path of brand reputation external cognition is deeply influenced by the banking culture, and the concept and service purpose of the Hong Kong Virtual Bank will be reflected in the renovation of office buildings, logo design, production of promotional films and staff uniforms.

4. Conclusion

Looking at the development of the world's excellent banks, it is not difficult to find that the brand reputation cultivation and dissemination of these banks generally have a "core culture ", along this culture constantly excavate, create, spread the bank story, thereby enhancing the reputation. Such as industrial and commercial bank of china's "service town enterprises and the majority of residents of the bank" core culture, in the service of urban enterprises and residents of the story case mining,

highlight the "bank around you, reliable bank" dissemination image, and thus enhance the bank brand reputation. As a new thing, the primary task of hong kong virtual bank is to survive, so the core of brand reputation building must give full play to its own technological advantages to establish the brand positioning center and construct a responsible brand image communication system based on culture system to face its own disadvantages. Technology advantage is the core characteristic of the Hong Kong virtual bank, which is different from the traditional bank. After grasping the key point of brand reputation building, we should focus on the innovation of financial science and technology as the focus of communication strategy.

At the same time, in order to successfully cultivate its own brand reputation, hong kong virtual bank should pay attention to the specific implementation strategy: first, clear brand positioning, can take advantage of high-tech and low-cost advantages, through big data and algorithm technology differentiation to distinguish deposit borrowers, high-income enterprises in the city, engaged in international large-value transactions as the target customers. Second, to multi-level, multi-demand customers to carry out "tailor-made" to provide appropriate products or services. Third, to increase the cultural connotation of brand reputation, Hong Kong virtual bank should take the initiative to establish the connotation culture in line with its own development, and vividly interpret its own service concept.

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