



HONG KONG MONETARY AUTHORITY
香港金融管理局

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28 February 2018

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

BCBS Sound Practices - Implications of Fintech Developments for Banks and Bank Supervisors

I am writing to draw your attention to a paper entitled “Sound Practices: Implications of Fintech Developments for Banks and Bank Supervisors” issued by the Basel Committee on Banking Supervision (BCBS) in February 2018.

The paper, available on BCBS’ website, summarises the key implications and related considerations identified from a detailed analysis of how fintech developments may affect the banking industry. Several forward-looking scenarios have been considered in the analysis to assess the possible impact and opportunities associated with fintech developments. A common theme across these scenarios is that banks will find it increasingly difficult to maintain their current operating models, given technological changes and customer expectations. The following matters are highlighted in the paper:

- The nature and scope of banking risks as traditionally understood may significantly change over time with the growing adoption of fintech;
- Although innovative technologies (e.g. artificial intelligence, distributed ledger technology and application programming interfaces) present opportunities, they may also pose new sources of risks to banks, including strategic risk, operational risk, cyber-risk and compliance risk; and
- As banks increasingly rely on third-party service providers for technology and operational support, how to continue to manage these service providers effectively may present challenges to banks going forward.

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Authorized institutions (AIs) are recommended to study the paper carefully to understand the risks and opportunities brought by fintech developments. As noted in the paper, if the strategic risk posed by increasing competitive pressure from fintech firms is not properly managed, there will be a growing risk of banks losing direct relationship with their customers or even being gradually displaced by fintech firms which are able to provide better customer experience and tailor-made financial services. Senior management of AIs are expected to assess the strategic risk facing their institutions and develop suitable plans to monitor and manage such risk on an on-going basis. For locally-incorporated AIs, the assessment should be presented to the board of directors for deliberation.

The HKMA has earlier completed a round of discussions with the senior management of major banks to understand how they plan to cope with the challenges brought by technological advancement. We will continue to monitor and assess how AIs manage technology related risks as part of our on-going supervisory work.

Yours faithfully,

Raymond Chan
Executive Director (Banking Supervision)