



# **Hong Kong Banking Sector: 2018 Year-end Review and Priorities for 2019**

**Hong Kong Monetary Authority  
24 January 2019**



# Outline

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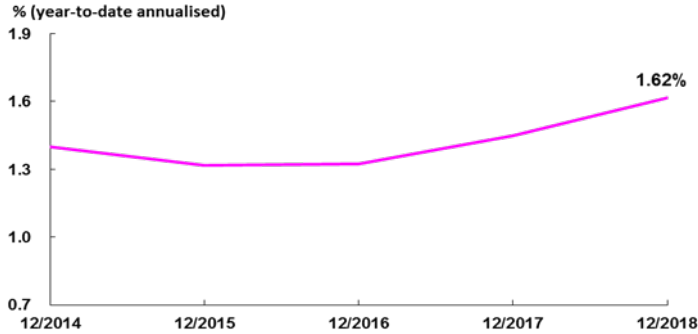
- 1. Banking Sector in 2018**
- 2. Review of Work in 2018**
- 3. Major Risk Scenarios**
- 4. Work Priorities for 2019**
- 5. Other Priorities**



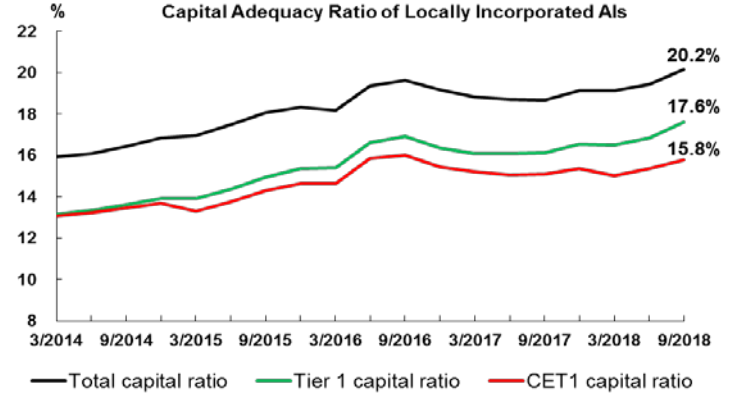
# Banking Sector in 2018

## Hong Kong's banking sector remains safe and sound

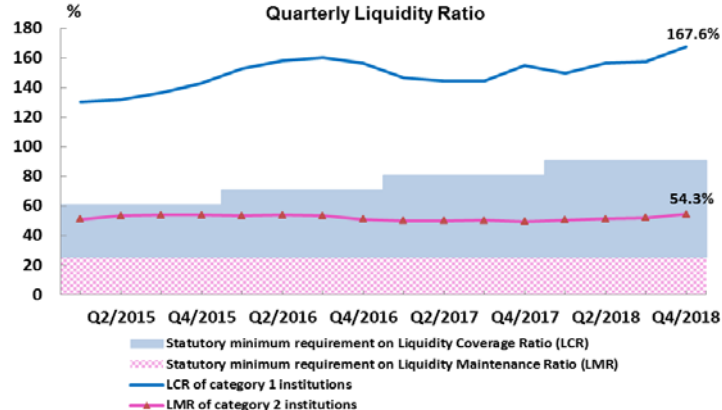
Net Interest Margin of Retail Banks



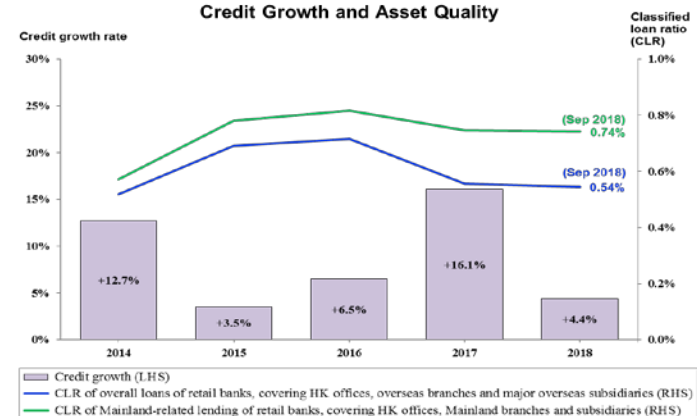
Capital Adequacy Ratio of Locally Incorporated AIs



Quarterly Liquidity Ratio



Credit Growth and Asset Quality





# Review of Work in 2018

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**Banking Stability**

**Smart Banking and Cybersecurity**

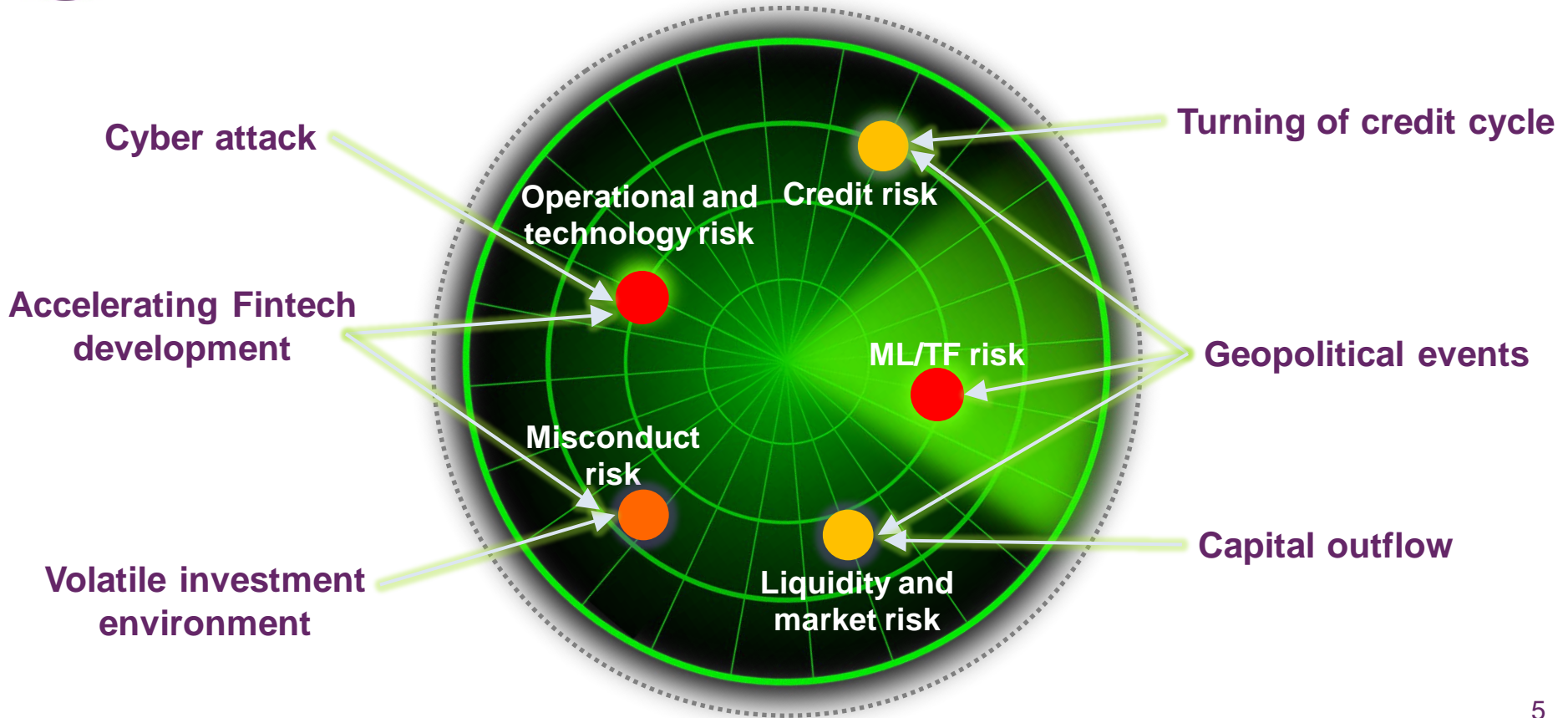
**Implementation of International Standards**

**FATF/APG Mutual Evaluation**

**Financial Inclusion and Consumer Protection**



# Major Risk Scenarios





# Growing Level of Cyber Risk

## Online Banking Breaches:

- UK (9000 accounts)
- Canada (~90,000 accounts)

## Personal Data Leakages:

- US (Equifax) (143M users)
- US (T-Mobile) (2M users)
- US (Facebook) (30M users)
- UK (British Airways) (0.57M users)
- Singapore (SingHealth) (1.5M users)
- HK (Cathay Pacific) (9.4M users)

## ATM Hacks:

- Japan (loss: \$19m)
- India (loss: \$11.5m)
- Thailand (loss: \$0.35m)
- US (loss: \$1m)



## SWIFT & Other Wholesale Payment Systems Attacks:

- Malaysia (no loss)
- Chile (loss: \$10m)
- Mexico (loss: \$15m)
- India (loss: \$2m)

Note: Only selected, recent and major incidents are shown



# Growing Level of Cyber Risk

## Statistics of Phishing Emails and Similar Scams Reported by Banks in Hong Kong

	2018	2017	2016
<b>Phishing emails</b>	62	7	4
<b>Fraudulent bank websites</b>	69	34	24
<b>Suspicious mobile banking apps</b>	11	3	7
<b>Total</b>	<b>142</b>	<b>44</b>	<b>35</b>



# Work Priorities for 2019



## Operational resilience and technology risk management

- ❑ Cyber resilience and recovery: C-RAF
- ❑ Supervision of virtual banks
- ❑ Regtech development
- ❑ Implementation of Open API





# Work Priorities for 2019



## Money Laundering / Terrorist Financing risk management

- Targeting of priority threats:
  - Thematic reviews
  - Information / Intelligence sharing
- Mutual Evaluation follow-up



# Work Priorities for 2019



## Misconduct risk management

- ❑ Product focus
- ❑ Streamlining of investor protection measures
- ❑ Consumer protection in digital age
- ❑ Bank culture reform



# Work Priorities for 2019



## Liquidity and market risk management

- ❑ Assess banks' capability to cope with possible liquidity shocks
  - Internal liquidity stress test
  - Contingency funding management
- ❑ Review banks' risk management practices for algorithmic trading



# Work Priorities for 2019



## Credit risk management

- ❑ SME lending
- ❑ Lending to large corporates
- ❑ Counterparty credit risk management
- ❑ Loan classification and provisioning



# Other Priorities

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## 1. Suptech

- HKMA's Digitalisation Programme

## 2. Implementation of International Standards

- Basel III Reform Package

## 3. Financial Leadership and Research Capacity

- Academy of Finance