



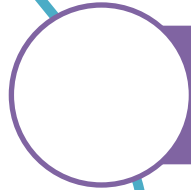
HKIB Annual Banking Conference 2019

Regulatory Update

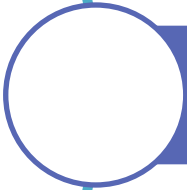
Arthur Yuen
Deputy Chief Executive
Hong Kong Monetary Authority
26 September 2019



Regulatory Update



Supervision of Virtual Banks and Technology Initiatives



Bank Culture



Green and Sustainable Banking



Supervision of Virtual Banks and Technology Initiatives



Promotion of Virtual Banking

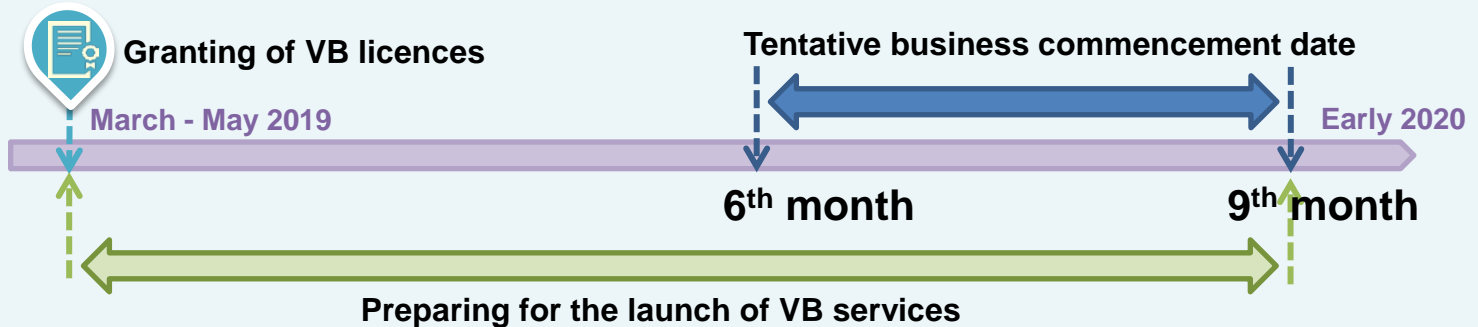
Objectives for introducing virtual banks (VBs)

Facilitate fintech development and innovation

Offer better customer experience

Promote financial inclusion

VB Business Commencement

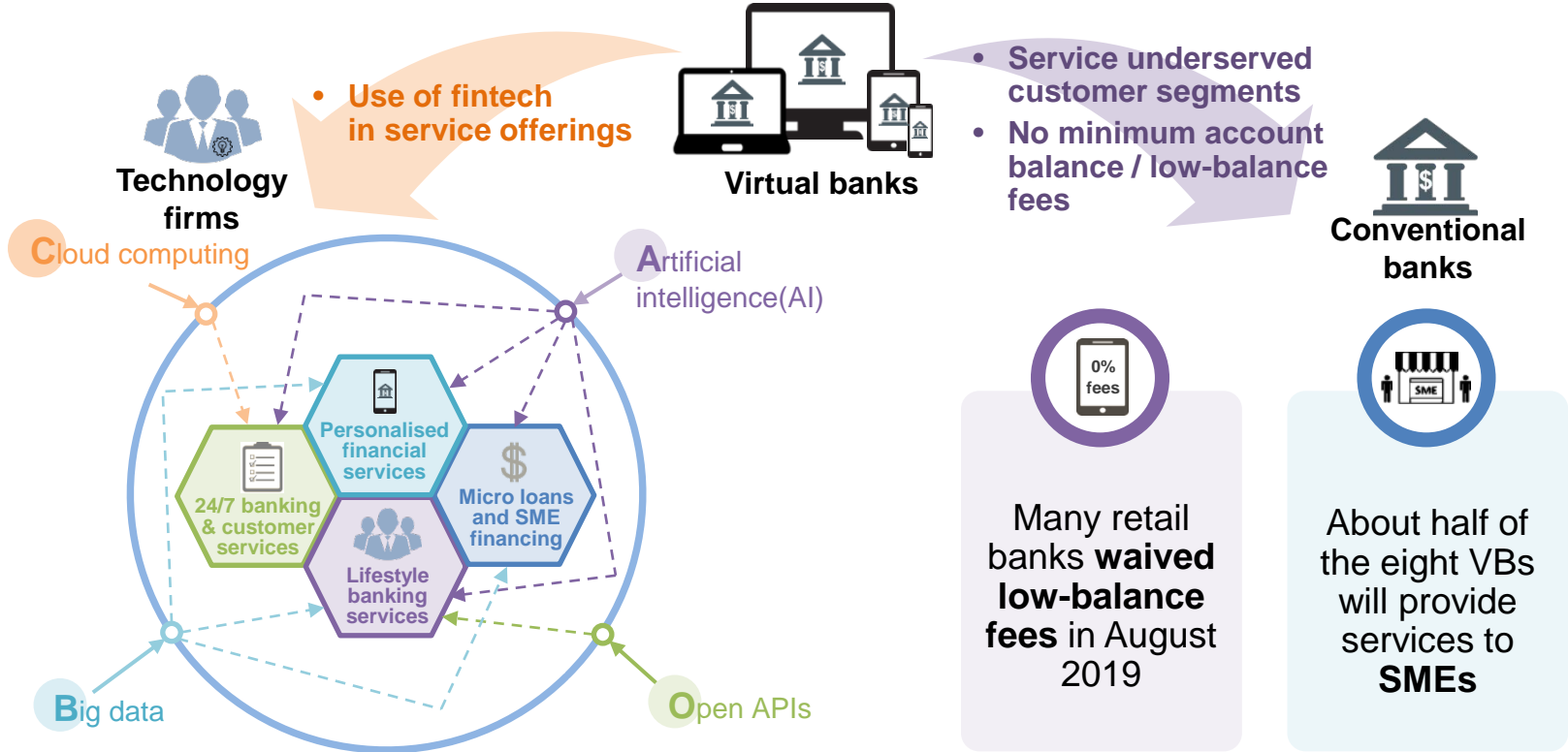




Policy Objectives

- 1. Fintech development and innovation
- 2. Better customer experience

3. Financial inclusion





Supervision of Virtual Banks

VB supervisory approach

- Risk-based and technology-neutral
- Same set of supervisory requirements applicable to incumbent banks

Three key risk areas

Technology risk
management

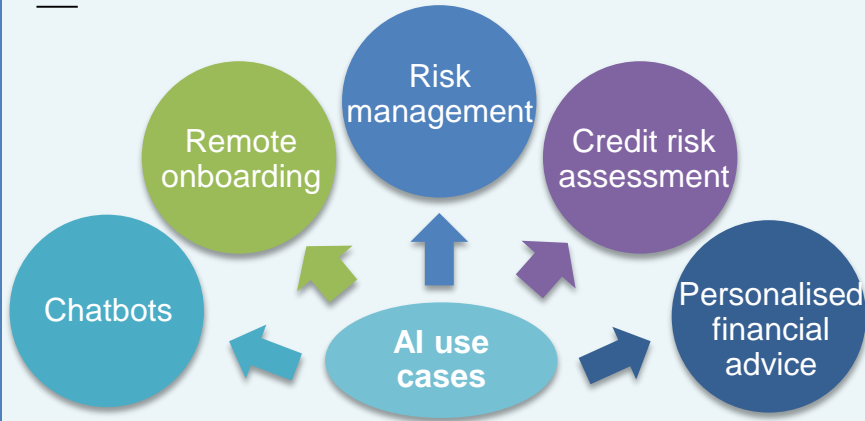
Customer
protection
(including data
privacy)

Anti-money
laundering and
counter-financing
of terrorism
(AML/CFT)



Technology Risk Management

AI



- Analysing industry feedback
- High-level principles on use of AI

Operational resilience

- Rising operational disruptions and cyber threats
- Collaboration with overseas regulators
- Sheltered harbour-like data backup arrangements
- Cyber resilience, especially Cyber Incident Response and Recovery (CIRR)



Bank Culture



Supervisory framework

Self-
assessment

Focused
reviews

Culture
dialogues



Key Developments

Supervisory measure	Key developments
Self-assessment <i>(Commenced in early 2019)</i>	<ul style="list-style-type: none">➤ Reviewing reports covering 30 banks➤ To draw insights for sharing with industry
Culture dialogues <i>(Recently commenced in Q3 2019)</i>	<ul style="list-style-type: none">➤ Arranged with a few banks➤ To discuss effectiveness of culture enhancements➤ To convey supervisory observations on conduct issues
Focused reviews <i>(To commence in 2020)</i>	<ul style="list-style-type: none">➤ To deep dive into certain key areas of bank culture



Preliminary Observations from Industry's Self-assessments on Culture

- Good to see efforts in promoting sound culture
- Expect to see more insights in some areas



Green and Sustainable Banking



Regulatory Approach





Survey (April 2019)

- First stocktake
- Observations
 - Green assets
 - Varying degree of readiness
 - Disclosure
 - Challenges



Common Assessment Framework

- Comprehensive check
- Not pass or fail test
- Facilitate HKMA policy formulation
- Facilitate AIs
 - Review of readiness and preparedness
 - Communication
 - Formulation of strategies and approaches



Developments

- Working Group
- Capacity building events
- Consultation by end-2019
- Conduct assessment in 2Q 2020