HKIB Annual Banking Conference 2019
Regulatory Update

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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
Objectives for introducing virtual banks (VBs)

- Facilitate fintech development and innovation
- Offer better customer experience
- Promote financial inclusion

VB Business Commencement

Granting of VB licences
March - May 2019

Tentative business commencement date
Early 2020

Preparing for the launch of VB services
6th month
9th month
1. Fintech development and innovation
   - Use of fintech in service offerings

2. Better customer experience
   - 24/7 banking & customer services
   - Lifestyle banking services
   - Personalised financial services
   - Micro loans and SME financing

3. Financial inclusion
   - Service underserved customer segments
   - No minimum account balance / low-balance fees

- Conventional banks
  - Many retail banks waived low-balance fees in August 2019
  - About half of the eight VBs will provide services to SMEs

- Virtual banks
  - 0% fees

- Technology firms
  - Artificial intelligence (AI)
  - Cloud computing
  - Open APIs
  - Big data

- Artificial intelligence
- Cloud computing
- Open APIs
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)
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
HKMA’s Culture Supervision

Supervisory framework

Self-assessment

Focused reviews

Culture dialogues
## Key Developments

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| **Self-assessment**                        | ➢ Reviewing reports covering 30 banks  
 ➢ To draw insights for sharing with industry                                                                                   |
| *(Commenced in early 2019)*                |                                                                                                                                                  |
| **Culture dialogues**                      | ➢ Arranged with a few banks  
 ➢ To discuss effectiveness of culture enhancements  
 ➢ To convey supervisory observations on conduct issues                                                                              |
| *(Recently commenced in Q3 2019)*         |                                                                                                                                                  |
| **Focused reviews**                        | ➢ To deep dive into certain key areas of bank culture                                                                                           |
| *(To commence in 2020)*                    |                                                                                                                                                  |
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

Phase I
“Greenness baseline” & capacity building

Phase II
Supervisory requirements

Phase III
Implementation & evaluation

Ultimate Goals
Awareness
Resilience
Sustainability
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