



HKIB Annual Banking Conference Regulatory Update by HKMA

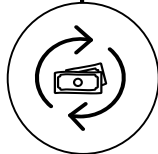
Arthur Yuen
Deputy Chief Executive
Hong Kong Monetary Authority



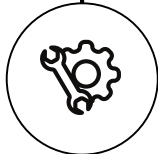
Agenda

1

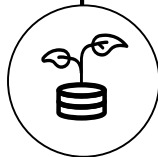
Risk Trends



Credit risk



Operational and technology risk



Climate change risk

2

Capacity Building for Enabling Transformations

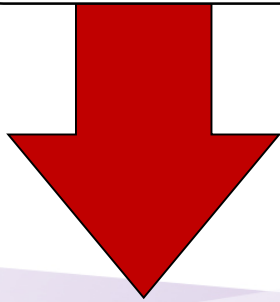


Credit risk

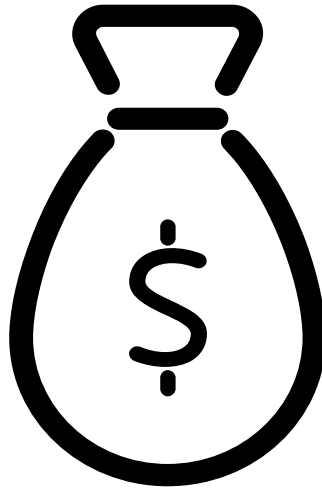
Risk Outlook

Credit quality to continue to deteriorate, albeit manageably so

- COVID-19
- Geopolitical tensions

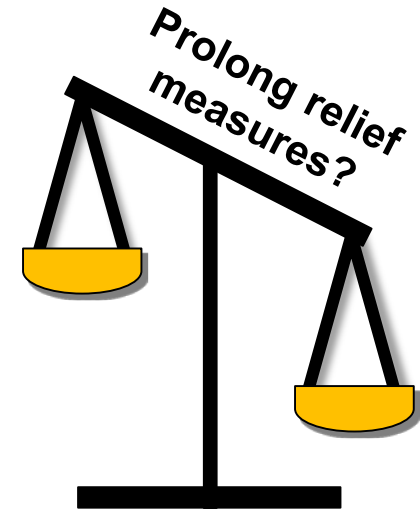


Relief Measures



HK\$600 billion of corporate and consumer loans received relief from banks

Next Steps



- Keep helping customers in difficulty?
- Exiting relief programme and allowing economy to adjust?

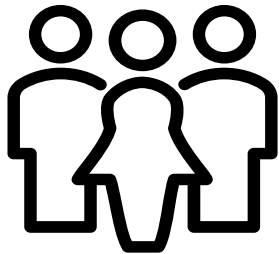


Operational and technology risk - Technology risk

COVID-19



+ New technologies
+ Digital banking



Long lasting changes in
customer behaviour



Technology risk

Observations

Frequency and nature of cyber threats evolving – *surge in COVID-19 themed scams since outbreak*

More reliance on IT platforms

More dependent on third-party
Technology Service Providers

Pay attention to:



- Operational resilience
- Outsourcing risks
- Data leakage risks
- Third party dependency



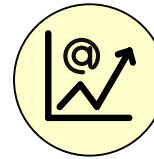
Operational and technology risk - Consumer protection

COVID-19

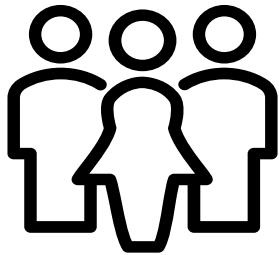


Consumer Protection

+ New technologies
+ Digital banking



- Rising number of banks providing online platforms to distribute banking and wealth products. Activity via these channels increasing



- Need to ensure digitalisation of banking services does not come at expense of consumer protection

Long lasting changes in
customer behaviour



- The HKMA has provided guidance to industry and will consider further guidance if required



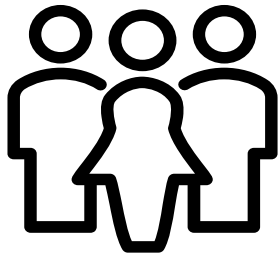
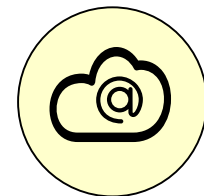
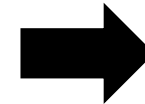
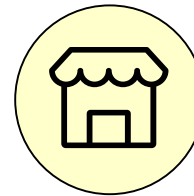
Operational and technology risk - Strategic risk

COVID-19



Strategic risk

+ New technologies
+ Digital banking



Long lasting changes in
customer behaviour

- Both conventional and new entrants rolling out and expanding online / tech-driven services
- Those moving earlier may enjoy competitive advantages over other peers
- Bank management should keep business models under constant review

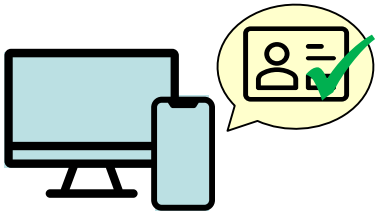


Operational and technology risk - Opportunities in RegTech

Digital Innovation is changing AML/CFT work rapidly ...

Industry adoption of RegTech for AML/CFT has accelerated:

Remote
Onboarding



Individuals:

85% of retail banks



Corporates:

Gaining traction in COVID-19 world

“Accelerator”
Banks



*80% have now adopted or have concrete plans since
AML/CFT RegTech Forum in Nov 2019*



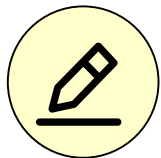
Operational and technology risk - Benchmark transition

Relevant to both larger and smaller financial institutions



>160 AIs with financial contracts referencing LIBOR

Referencing LIBOR (*end-Mar 2020*):



- HK\$4.8tn of assets
- HK\$1.6tn of liabilities
- HK\$34.7tn of derivative contracts



35% to 50% of these LIBOR-linked exposures mature after end-2021 without adequate fallback provision

Key transition milestones in 2021



- Ready to offer products referencing alternative reference rates
- Adequate fall-back provisions included in all newly issued LIBOR-linked contracts maturing after 2021



- Cease to issue new LIBOR-linked products maturing after 2021



Climate change risk

Key milestones

2020

June:

- **White Paper on Green and Sustainable Banking**

July:

- **Circular on Range of Practices**

On-going work

- ✓ Collect feedback from banks on White Paper
- ✓ Review results of first round of greenness assessment conducted in Q2/Q3 2020
- ✓ Continue to participate in international fora
- ✓ Consult and finalise details of pilot exercise on climate risk stress testing

Upcoming targets

2021

- **Conduct pilot exercise on climate risk stress testing**
- **Formal consultation on supervisory requirements**



Capacity building for enabling transformation

Transformation trends facing HK banks

1. Adoption of technology in finance;
2. Cross-border banking;
3. ESG investing and green banking

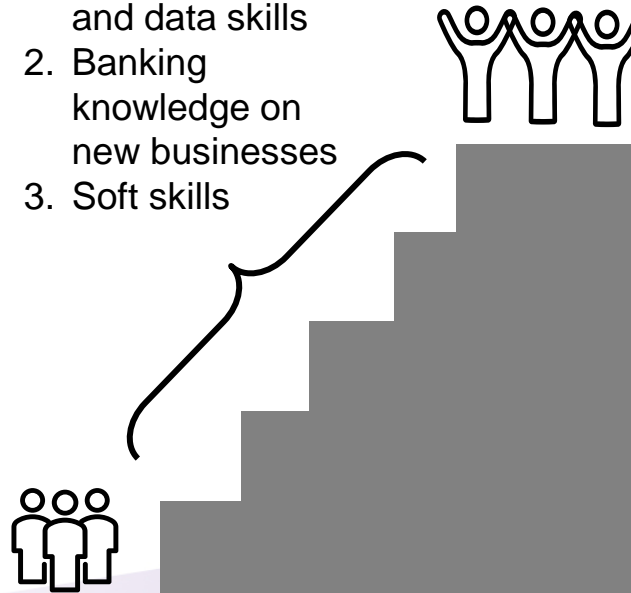


Talents with the right skills and expertise are critical to success in these transformations.
Do we have the right talents?



Three major skill gaps in the coming 5 years*

1. Technological and data skills
2. Banking knowledge on new businesses
3. Soft skills



* According to the “Capacity Building for Future Banking” study, conducted jointly by HKMA, HKIB and HKAB



Next steps



- HKMA will reach out to and work with industry and other stakeholders to identify and implement a strategy to tackle the manpower challenge