HONG KONG MONETARY AUTHORITY

HONG KONG BANKING SECTOR

2023 Year-end Review and Priorities for 2024

31 January 2024
Agenda

01. Review of Work in 2023

02. Work Priorities in 2024
Banking system remained safe and sound

Capital adequacy ratios (CAR)

Liquidity ratios

- Statutory minimum requirement on Liquidity Coverage Ratio (LCR)
- Statutory minimum requirement on Liquidity Maintenance Ratio (LMR)
- LCR of category 1 institutions
- LMR of category 2 institutions
Asset quality stayed healthy despite multiple headwinds

Loans and deposits

Credit quality

- CLR of overall loans of all AIs, covering HK offices, overseas branches and major overseas subsidiaries
- CLR of Mainland-related lending of all AIs, covering HK offices, Mainland branches and subsidiaries

Growth rate

- Loans
- Deposits
Other Supervisory Accomplishments in 2023

Financial resilience
- March banking turmoil
- Credit landscape

Green
- Fraud prevention & detection
- Green & sustainable banking

Digital transformation & consumer protection
- Fintech promotion & development
- Consumer protection

Operation & technology

Work Priorities in 2024

Review of Work in 2023
March banking turmoil in US and Europe

Managed the spillover effects

Completed an internal review to draw lessons from the turmoil
Credit landscape

- Maintained healthy asset quality amid heightened credit risk
- Exited orderly from the Pre-approved Principal Payment Holiday Scheme (PPPHS)
- Conducted a health check on exposures to non-bank financial institutions (NBFIs)
- Implemented the 10th round of countercyclical macroprudential measures for property mortgage loans
Operation and technology

- **Strengthened the banking sector’s cyber resilience and collective defence against systemic cyber events**
  - Completed another round of cyber defence maturity assessment and intelligence-led cyber simulation test
  - Made significant inroad in implementing Secure Tertiary Data Backup (STDB) to enhance recovery capabilities from ransomware attacks
  - Facilitated the organisation of and actively participated in a cross-sectoral crisis simulation exercise

- **Satisfactory progress made in implementing global operational resilience standards**
  - Operational resilience frameworks developed by May 2023
  - On track to become fully operationally resilient by May 2026
Fraud prevention and detection

Enhanced eco-system responses & information flow

- **33** measures on payment card security and consumer protection
- **10** measures on e-banking security
- Measures against malware scams

Pre-emptive & agile approach to combating rising threat of digital frauds

**Strengthened detection & monitoring of suspicious transactions**

- Real-time fraud monitoring system
- Enhancement of 24/7 stop payment mechanism
- Co-location of bank staff
- Surveillance of breaches of Banking Ordinance

**Fraud-related banking complaints**

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
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<tbody>
<tr>
<td>Source: HKMA</td>
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**Deception cases in HK**

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>First 10 months in 2023</th>
</tr>
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<tbody>
<tr>
<td>Source: Hong Kong Police Force (HKPF)</td>
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**Review of Work in 2023**

- Fraud and Money Laundering Intelligence Taskforce (FMLIT)
- Assistance to criminal investigation

- Launch of Anti-Scam Consumer Protection Charter
- Bank-to-Bank Information Sharing Platform (FINEST)

**Raised customer alerts and education**

- Suspicious payee account
- FPS suspicious Proxy ID alert
- Public education & campaign

**Work Priorities in 2024**

- Fraud prevention and detection
Green and sustainable banking

- Issued high-level principles on planning for the net-zero transition
- Conducted a survey on banks’ transition planning practices to facilitate subsequent industry sharing
- Began development of a cloud-based platform for physical risk assessment
- Organised a Green Fintech Competition and a Green and Sustainable Banking Conference to facilitate exchange between banks and technology companies
- Stepped up the supervision of banks’ climate risk management
- Launched the 2nd round climate risk stress test (CRST) with an enhanced framework
- Published expected standards on green and sustainable investment product selling
- Issued discussion paper and completed consultation on a prototype framework
- Issued high-level principles on planning for the net-zero transition
- Launched the Core Level of the ECF on Green and Sustainable Finance (ECF-GSF) to set the competency standards required for GSF-related job roles in the banking industry
- Launched the 2nd round climate risk stress test (CRST) with an enhanced framework
- Published expected standards on green and sustainable investment product selling
Fintech promotion and development

Virtual banks continued to make progress in maturing business models and financial innovation.

Widespread adoption of Regtech: **90% adoption** across multiple risk management and compliance functions.

Launch of New Fintech Promotion Roadmap in Aug 2023, leveraging success in facilitating uptake of Regtech.

Suptech: Established a solid foundation by introducing an end-to-end digital supervisory platform to increase efficiency.
AML Regtech adoption

- Network analytics: Retail banking customers coverage up from 40% in 2019 to nearly 90% in 2023, providing stronger protection from fraud
- High value AML Regtech use cases promoted through AMLab and publications, to strengthen controls and address pain points

Use of Technology in Enforcement work

- Speech to text and Robotic Process Automation: improved processing time of complaint handling and investigation by 8% in 2023
Consumer protection

Review of Work in 2023

Work Priorities in 2024

Rising digitalisation of banking services

- Code of Banking Practice
- Payment Arrangement for Property Transactions
- Digital marketing
- Cross-boundary Credit Referencing

- Streamlined approach for sophisticated professional investors
- Investment selling process review
- Supervision of trust business
- Virtual assets

- Physical banking facilities
- Account opening

- Mandatory Reference Checking Scheme

Supplementary Information for Media Pack
Work priorities in 2024

**Supervisory work**
- Prudential work
- AML & financial crime risk
- Anti-fraud
- Consumer protection
- Basel III implementation

**Development**
- Green & sustainable banking
- Fintech promotion
Prudential work

- Implement follow-up actions stemming from 2023 US and Europe banking turmoil
- Maintain effective supervision of liquidity and market risks
- Monitor asset quality & loan provisioning closely

Credit, market & liquidity
Operational and cyber resilience

Monitor the industry’s progress in achieving operational resilience

Monitor banks’ implementation of STDB

Oversee another round of assessments under C-RAF 2.0

Review of Work in 2023

Work Priorities in 2024
AML and financial crime risk

- Uphold banking integrity
- Promote customer confidence

**Macro Analytics 3.0**
- Multi-bank payment data
- Artificial Intelligence in Transaction Monitoring (Guidance)

**Target high risk areas**
- Thematic review of high-end Money Laundering
- Risk-based Politically Exposed Person Guidance

**Strengthen eco-system**
- Expand bank-to-bank information sharing
- Maximise public-private partnerships
Anti-fraud

**Pre-emptive & agile responses to digital frauds**
- Ensuring e-banking security keeps up with fraud landscape
- Monitoring banks’ implementation of new e-banking security measures
- Stepping up surveillance

**Education & promotion**
- Latest modus operandi
- Mobile point-of-sale terminals
- Public education

**Collaboration**
- Further enhance effectiveness of 5 joint anti-fraud initiatives
- Expansion of Anti-Scam Consumer Protection Charter
- Strengthening defense against digital frauds with banks & Police

**Innovation**
- Adoption of network analytics to strengthen real-time fraud monitoring
- Enhancing suspicious proxy alert model
Consumer protection

General banking services
- Use of Artificial Intelligence
- Personal credit products

Infrastructure
- Credit Data Smart
- Cross-boundary credit referencing

Investment & wealth management
- Virtual assets and tokenisation
- Investment selling process
- Cross-boundary Wealth Management Connect
- Premium financing

Review of Work in 2023
Work Priorities in 2024
Basel III implementation

Policy setting

- Reporting requirement (for market and CVA risk) from 1 Jul 2024
- Updating & development
  - Supporting guidance
  - Banking returns
  - Disclosure templates
- Minimum standards effective on 1 Jan 2025

Supervision

- Ensuring banks’ readiness for implementing Basel III Final Package
Green and sustainable banking

**Disclosure on climate-related financial risks**
- Preparatory work on adopting Basel’s proposed disclosure framework

**Taxonomy**
- Finalise and issue the taxonomy
- Continue the development in second phase

**Transition planning**
- Issue observations and guidance on best practices
- Organise seminars or workshops

**Physical risk assessment platform**
- Launch platform and make enhancements based on feedback

**Capacity building**
- Developing the Professional Level of ECF-GSF

**Supervision of climate risk management**
- Thematic exams on climate risk management practices
- Consultative sessions on implementation of HKMA’s supervisory expectations
- Completing the 2nd round sector-wide CRST
Fintech promotion

Review of Work in 2023

Work Priorities in 2024

- Roll out initiatives under New Fintech Promotion Roadmap
- Undertake research on GenAI & DLT
- Strengthen advanced analytics capabilities
- Explore GenAI in Suptech
Anti-scam Campaigns to raise public awareness

Scam Prevention

New API & Cross-media Campaign on Phishing Risk

👍 Overall impact:
• 109M+ outdoor promotion impression
• 2.7M+ digital platforms video views
• 2.2M+ social media post reach

• 2M+ social media video views
• 80K+ social media post engagement