

Capacity Building in the Hong Kong Banking Industry

by Financial Infrastructure Department

In fulfilling a key function of maintaining Hong Kong's status as an international financial centre, the Hong Kong Monetary Authority devotes substantial efforts to advancing the financial infrastructure in Hong Kong. With the growing emphasis globally on effective corporate governance, the Hong Kong Monetary Authority has recently adopted a three-pronged approach to improve soft infrastructure development and capacity building in the banking sector. The efforts are aimed at promoting stakeholders' awareness and adoption of practices that support sustainable growth and improve overall industry professionalism. This paper introduces the initiatives spearheaded by the Hong Kong Monetary Authority targeted at different segments of the banking community, namely bank directors, banking practitioners and consumers.

Introduction

To promote capacity building in the banking sector, the Hong Kong Monetary Authority (HKMA) has launched several initiatives on director empowerment, enhanced competency framework (ECF) and consumer education. The capacity-building efforts aim to raise the level of governance of authorized institutions (AIs) by empowering their directors, establish a competency framework of banking practitioners to help enlarge the talent pool and improve the professional competence in the banking industry, and reduce potential complaints made by consumers through enhancing their understanding about the banking services they use.

Raising Standards of Governance at Board Level

The financial crisis that started to unfold in 2008 and wreaked havoc across global markets exposed the governance weaknesses at financial institutions and their failure to understand the risks they were taking. Greater emphasis has since been put on the role of

the board and, in particular, the role of Independent Non-Executive Directors (INEDs). This includes what is expected of them, and the knowledge, expertise and personal qualities they must possess to effectively discharge their duties. Against this backdrop, the HKMA has taken steps to help ensure directors of locally incorporated AIs are fit and proper to perform an effective leadership role in governance.

Board practices and the role of INEDs

The HKMA commissioned a small group of experts with wide-ranging knowledge and experience in corporate governance to undertake a study and make recommendations for empowering and supporting INEDs. The group's recommendations covered six areas: (i) composition of the board and its committees; (ii) roles, qualities and background, and time commitment of INEDs; (iii) independence and tenure; (iv) remuneration; (v) board practices in relation to INEDs; and (vi) training and development requirements for INEDs. These recommendations were put forward for consultation with the banking industry and other relevant stakeholders.

Responses were received from the Hong Kong Association of Banks (HKAB), the DTC Association, other stakeholding institutions and individuals serving as INEDs of AIs. The responses generally supported the proposed measures to strengthen the role of INEDs in the local banking industry. Specifically, there was broad support for providing INEDs with continuous and timely training, as well as channels to keep them up to date with the latest banking developments and regulatory initiatives. The HKMA is currently analysing the responses with a view to issuing guidance to the industry.

Director Development

The HKMA has taken further steps to ensure INEDs are properly equipped to discharge their duties. Following the successful inaugural high-level seminar in Beijing in October 2015 specifically designed for several bank INEDs, the HKMA organised a second seminar, jointly with the China Banking Regulatory Commission (CBRC), in Xi'an in June 2016 for a separate group of INEDs. The two groups of INEDs – namely the group participating in Beijing in 2015 and the other group participating in Xi'an in 2016 – were invited to attend the Senior Bankers' Seminar jointly organised by the HKMA, the Shaanxi Provincial Government and the CBRC in Xi'an in June 2016. The seminar provided a useful platform for the INEDs and chief executives of the participating banks to discuss with bankers and government officials in Mainland China the opportunities and challenges arising from the "Belt and Road" initiative.

The HKMA is also working with The Hong Kong Institute of Bankers to revamp its training seminars for directors of locally incorporated AIs. A more structured training and support programme of induction modules and continuing topical seminars will be introduced in the fourth quarter of 2016.

At the induction level, participants will go through concepts on corporate governance and directorship, as well as the key operations, major risk areas and related control framework of banking business, with an emphasis on the HKMA's regulatory approach.

For the continuing topical seminars, topics will cover current issues such as anti-money laundering, financial inclusion and cybersecurity, taking into account the rapid developments in the banking sector. To make the seminars more engaging and effective, industry experts and HKMA staff will lead case-sharing and discussion with the directors.

ECF for Banking Practitioners

The banking industry is one of Hong Kong's biggest employers with more than 99,000 employees, representing about three percent of the Hong Kong's total workforce. The financial services industry, and banking in particular, is projected to be one of the fast-growing sectors in terms of manpower requirements in the period from 2012 to 2022. It is therefore desirable to expand the talent pool and equip quality personnel to support its sustainable growth.

In 2014, the HKMA launched an ECF for private wealth management practitioners (PWM ECF) as a pilot scheme. The programme was well received by the industry. Following the successful launch of the PWM ECF, the HKMA is preparing to introduce an industry-wide competency framework that covers other key areas of banking operations which are central to banks' safety and soundness, while the skill shortage is relatively apparent. Under the ECF for banking practitioners, six modules of successive training and qualification programmes will be introduced: (i) anti-money laundering and counter terrorist financing (AML/CFT); (ii) credit risk management; (iii) cybersecurity; (iv) retail wealth management; (v) risk management, compliance and internal controls; and (vi) treasury management.

ECF Development

An ECF Steering Committee with representatives from the HKMA, the HKAB and individual banks has been formed to oversee and promote the development of the ECF for banking practitioners. Priority will be given to developing the modules on AML/CFT and cybersecurity due to the increasingly stringent compliance and risk monitoring

requirements and the shortage of professionals in these areas. For AML/CFT, with the completion of the consultation on the competency framework, the development of the standards and training guides are underway. The core level, targeted at entry-level staff, will be launched in the fourth quarter of 2016. The professional level, targeted at staff with at least three years of relevant work experience, will be rolled out in the second quarter of 2017. The ECF competency standards on cybersecurity will also be completed by the end of 2016.

For the remaining four ECF modules, the HKMA aims to launch consultations on modules for retail wealth management and treasury management in 2017, and for credit risk management, as well as risk management, compliance and internal controls in 2018.

Consumer Education

The third area of the HKMA's efforts in capacity building is consumer education. The HKMA launched a Consumer Education Programme in 2013 to promote "smart and responsible" use of banking services. The initiative was in line with the "G20 High-Level Principles on Financial Consumer Protection" which, among other things, recognises that consumer rights come with consumer responsibilities, and that the provision of broad-based financial education should be promoted. The HKMA has been promoting "smart tips" on using different banking products and services, including credit cards, personal loans, mobile banking, internet banking and automated teller machines. Various media channels have been used, including educational videos and dramas, audio clips, feature articles and advertorials in print media, cross-media interactive games, roving exhibitions, educational leaflets, and other internet and mobile means.

The HKMA has also conducted thematic public education campaigns in view of new regulatory measures of the HKMA and other unforeseen events. For example, activities were launched to remind the public to stay vigilant against bogus phone calls in 2015, and another thematic campaign on Security

Tips on Using Internet Banking Services was organised in April, July and August 2016. This summer, the HKMA reminded the public about issues they should pay attention to when making peer-to-peer, small-value funds transfers via smartphone apps and other generic tips in e-banking services.

Financial education efforts are also extended to the younger generation. In addition to holding seminars and talks to promote responsible spending, the HKMA has been working with other stakeholders to organise financial literacy activities for students. For example, competitions on budgeting and financial planning, a financial literacy online quiz, and school tours have been held for secondary school students to learn the basics of financial planning and money management. For tertiary students, activities such as a case study competition and a multi-media creative competition have been held.

In 2016, apart from consolidating efforts to promote smart and responsible use of banking services, the Consumer Education Programme will be expanded to cover more wide-ranging financial services. A publicity campaign was launched in August 2016 to educate the public on the new licensing regime of Stored Value Facilities (SVFs) and highlight the points-to-note when using SVF services. The HKMA is also exploring other engagement means, such as the use of a TV series, to raise public awareness and encourage conversations at the community level.

Way Forward

Capacity building is one of the major initiatives undertaken by the HKMA to support the development of the banking industry and help maintain Hong Kong's status as an international financial centre. While financial markets around the world have started to pay more attention to this area, the HKMA is among the first movers in promoting corporate governance and risk culture in the banking industry through director empowerment specifically targeting INEDs. The HKMA will continue to review and strengthen its efforts in this regard by collaborating closely with bank directors, banking practitioners, consumers and other banking industry stakeholders.