

ALL READY FOR THE YEAR 2000: PREPARATIONS OF HONG KONG'S BANKING SECTOR

Hong Kong's banks are well prepared for the Year 2000 (Y2K) problem. Hong Kong's advanced state of preparation and contingency planning is recognised by the international financial community and credit rating agencies. The Hong Kong Monetary Authority (HKMA) is confident that the Hong Kong banking industry will have a smooth rollover to the new millennium.

Compliance of the Banking Sector

Hong Kong's banking sector has been devoting a great deal of effort to address the Y2K problem in the past few years. As a result of these efforts, our banking industry is rated internationally as one of the best prepared in the world for the century date change. A number of encouraging indications suggest that our banking industry is well prepared for Y2K:

- All authorised institutions (AIs) have reported that they are Y2K-compliant. In other words, they have renovated and tested their computer systems, and have put these systems into use.
- Hong Kong's banks have conducted three rounds of testing with Hong Kong Interbank Clearing Limited, the interbank payment systems operator. No Y2K-related problems have been identified in these tests. Over twenty Hong Kong banks also participated successfully in the Global Payment Systems Tests organised by the New York Clearing House in June 1999.
- Other major shared system providers such as SWIFT, MasterCard, Visa and the ATM service providers have also successfully completed testing with their member banks in Hong Kong.
- Y2K counterparty assessment is making good progress. All AIs have reported that they have largely completed the assessment.

The HKMA has placed the Y2K issue at the top of its supervisory agenda and has been endeavouring to assess and reinforce AIs' management efforts in achieving Y2K compliance. To date, the HKMA has completed three rounds of

Y2K on-site examinations covering over 170 inspections. It also conducts regular off-site reviews of AIs' progress through the Formal Statements of Y2K Progress submitted by the chief executives of AIs.

Hong Kong was one of the first two economies in the world to attain the highest "all green" rating in March 1999 by the Global Year 2000 Co-ordinating Group, an organisation made up of around 300 major international firms.

Risk Mitigation and Contingency Planning

A number of important Y2K risk mitigation measures have been undertaken. In July this year, the Government designated 31 December 1999 to be a general holiday in Hong Kong. The holiday provides a buffer for banks to complete their day-end, month-end and year-end transactions, backup and/or print out customer records before the century rollover and test that the backup records are retrievable.

As regards market liquidity, the HKMA has from mid-November introduced an Enlarged Discount Window and a term repo facility to banks to help ease potential tightness in the money market. To cater for potential increases in the demand for cash by the public over the millennium transition, the HKMA has also been working with the three Note Issuing Banks to increase the supply of banknotes: the ratio of banknote reserve will be increased to 160% of the normal circulation by the end of the year. We are confident that the supply of banknotes will be more than adequate to meet additional demand over the Y2K transition.

Despite our advanced level of preparation, the HKMA and all AIs in Hong Kong have developed contingency plans in the unlikely event that

operational problems occur during the Y2K transition. Since 1998, the HKMA has issued a number of guidance notes to AIs on risk mitigation and contingency planning covering areas such as establishment of rollover event management centres, protection and backup of customer data and promotion of customer awareness and confidence in the Y2K issue. To date, the HKMA and the banks have largely completed the rehearsal of their contingency plans and are in the process of refining these plans to take into account the lessons learnt from such rehearsals.

In addition, the HKMA has developed detailed contingency plans should problems occur in the banking and monetary sector. The HKMA's contingency plans form part of the wider efforts of the Financial Services Bureau to co-ordinate the preparation of contingency plans covering Hong Kong's financial sector as a whole.

Message to Bank Customers

In view of these preparations, the message to bank customers is:

- All Hong Kong's banks have reported to the HKMA that their preparations for the Year 2000 are complete.
- Hong Kong's banks are internationally recognised to be among the best prepared in the world for dealing with any computer problems that may arise from the millennium date change.
- We do not expect that the Y2K problem will affect the safety of your bank account(s) in Hong Kong. In our view, the safest place to keep your savings during the millennium holiday period is your bank.
- Banks have in place extensive backup procedures and tested contingency plans to protect customer records. We believe that your bank records in Hong Kong are safe from Y2K problems and will not be damaged in the unlikely event that computer problems occur.

- You should be aware that rumours might be spread by those who seek to take advantage of uncertainties about the Y2K issue. You should think twice before taking any unusual or unnecessary actions with your bank account(s) during the Y2K period.
- Many banks have issued information packages or established hotlines to answer customer enquiries on their Y2K preparations. General information about Hong Kong banks' preparations for Y2K can be obtained from the HKMA's website at <http://www.info.gov.hk/hkma> or by calling the HKMA at 2878 8222.



– Prepared by Banking Policy Department