

Introductory Remarks by ED(BP)/MA
Meeting of LegCo Financial Affairs Panel
19 October 2000

Chairman, Deputy Chairman and Panel Members,

- 1) I appreciate the opportunity to brief this Panel on the major initiatives of the Hong Kong Monetary Authority (HKMA) in the coming year.
- 2) Among various initiatives, we will continue to implement the reform measures following the Consultancy Study on enhancing the safety and soundness of the banking sector and promoting competition in that sector. In this relation, we have already undertaken the first stage of the deregulation of the remaining Interest Rate Rules covering time deposits of less than 7 days. Subject to the prevailing economic and financial conditions, the remaining Interest Rate Rules on savings and current accounts will be removed in July 2001. This should help to promote greater efficiency and encourage innovation in new deposit products in Hong Kong.
- 3) Apart from measures aimed at promoting competition in the banking system, we will also need to develop the infrastructure aimed at enhancing the safety and soundness of the banking system. We have two measures in mind in this connection. The first is the proposal to establish a Commercial Credit Reference Agency for the banking system in Hong Kong. We published a Consultation Paper on this proposal in July this year and received over 30 written responses in September. From the responses received, it appears that there is widespread support from both the banks and the corporate sector for establishing a CCRA. There is a good measure of agreement that the scheme would improve the credit assessment of banks and the transparency of the corporate sector. Different views have also been expressed on the institutional arrangements in relation to the CCRA. A number of respondents favour a mandatory scheme with the participation of all authorised institutions, with the initial coverage of SMEs only and with the support of explicit legislation to provide the necessary safeguards for data confidentiality. The issues relating to the effective implementation of the scheme are complex and so far there is not unanimity as to what the design features should be. Accordingly, the HKMA intends to set up a

Working Group with representatives from the banking industry and the corporate sector to look into the technical issues in detail.

- 4) We continue to believe that a CCRA would be an important addition to the banking infrastructure in Hong Kong. It would not only have the benefits for the banks of assisting in their credit assessment, but should also help to make funds more available to the SME sector. The more information banks have about their customers, the more willing they should be to lend – provided, of course, that customers satisfy the necessary criteria in terms of creditworthiness. Better quality information also enables banks to price their risks more accurately and helps to avoid a situation where good quality borrowers subsidise the poorer risks in terms of the interest they pay.
- 5) However, even mechanisms like a CCRA cannot help if the basic appetite to lend is not there. It is true that during the Asian financial turmoil the banks in Hong Kong – as elsewhere – became more cautious in their lending stance. That was an understandable reaction to rising bad debts and increased provision. However, the situation has now eased. The banks are highly liquid and loan-to-deposit ratios have fallen to historic low. They are thus now looking more actively at lending opportunities, including in the SME sector. A CCRA would, we think, give further impetus to this trend.
- 6) Another proposal to enhance safety and soundness of the banking system is depositor protection. On this, we have already completed a consultancy study on enhancing deposit protection in Hong Kong. The proposals of the Consultant are now being considered within the Administration. We will consult the public on this matter before implementing any proposal.
- 7) As a further initiative to ensure that the financial system can meet the needs of Hong Kong, the HKMA is undertaking a comprehensive review of retail payments services. The review will cover current means of retail payments, the likely future trends given technological developments, as well as the efficiency, pricing and the degree of competition in the provision of retail payments services. To enhance settlement efficiency, we will also fully implement the US dollar Clearing System in Hong Kong by the end of this year.

- 8) The HKMA also accepts the need to promote high standards of customer service by authorised institutions. This is important to maintain public confidence and trust in the banking system, as well as to ensure that the interests of individual consumers are protected. In this connection, the HKMA has recently released a set of proposals aimed at enhancing the business practices of authorised institutions in relation to the provision of credit card services. The proposals have been formulated by an Informal Working Group set up by the HKMA to review the Code of Banking Practice convened by the HKMA and comprising representatives from the banking industry. Further measures in relation to other business areas will be proposed shortly as we continue our review of the Code, which we plan to complete by early next year.

- 9) The HKMA is making good progress in carrying out these initiatives. I would be pleased to answer any questions Members may have on the work of the HKMA.

Banking Policy Department
Hong Kong Monetary Authority
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