

Anselmo Teng: Macao's financial sector development

Address by Mr Anselmo Teng, Chairman of the Monetary Authority of Macao, at the 2010 Monetary Authority of Macao (Autoridade Monetária de Macau – AMCM) Spring Cocktail, Macao SAR, 18 March 2010.

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The Honourable Secretary for Economy and Finance, Mr. Francis Tam,

The Honourable Assistant Director-General of the Economic Affairs Department of the Liaison Office of the Central People's Government in the MSAR, Mr. Gao Shang De,

The Honourable Acting Director-General of the Office of the Commissioner of the Ministry of Foreign Affairs in the MSAR, Ms. Han Xiao-yan,

The Honourable Chairman of the AMCM Audit Committee, Mr. Leonel Alberto Alves,

Dear Guests, Friends from the media, Dear colleagues

It is the beginning of the Year of the Tiger. We take this opportunity to have a joyous gathering with friends from the industry. While wishing each other good fortune, we express the friendship we have been sharing. On behalf of the Board of Directors of AMCM, I would like to convey our heartfelt gratitude to Mr. Francis Tam, Mr. Gao Shang De, Ms. Han Xiao-yan, the representatives from the Macau Association of Banks, the Macau Insurers' Association, the Macau Insurance Agents and Brokers Association, the Federation of Macau Professional Insurance Intermediaries, the Macau Financial Markets Association, the Association of Macau Financial Employees, and our esteemed guests for their presence.

In 2009, citizens of the MSAR and our financial market participants cheerfully celebrated the 60th anniversary of our great Motherland and the 10th anniversary of the MSAR. 2009 also marked the 20th anniversary of AMCM in which we fought strenuously with the global financial crisis. It is glad to see that, under the auspices of the Central Government, the direction of the MSAR Government and Mr. Tam, AMCM and our market participants were able to uphold the stability of our financial system. We managed to enhance the overall competitiveness of the industry, promote the recovery and development of the markets. I hereby propose a vote of thanks, on behalf of the Monetary Authority of Macao, to all sectors of our community who have contributed in defending our financial system against this worldwide financial crisis which would rarely happen once in a century, and to our colleagues who have proactively and assiduously performed their duties in this respect.

The global financial markets have learned a hard lesson arising from systemic risk which led to loss in confidence due to over ambitious expansion. International financial institutions have generally realized their own deficiencies after introspection. They therefore strive to consolidate, avert risks and perfect internal control mechanism with a view to shaking off the crisis at an earlier date and to restore the confidence of consumers in the financial institutions. Regulatory authorities around the world have displayed their decisiveness in the face of the challenge by implementing timely and appropriate measures, making visionary arrangements to soften the blow. However, after the storm, the "exit strategy" initiated or contemplated by various nations may conceal risks which may trigger market volatility and thus pose an acid test for global financial system when green shoots first appear. To the regulators and practitioners, this will be the trial we shall face.

In the realm of banking supervision, AMCM adheres to the principle of "risk-based" approach by reinforcing risk supervision. Through the maintaining of good communication and cooperation with the industry, it not only enhances supervision on capital, liquidity and asset quality of the institutions, it also requires them to impose more stringent measures on operation management and internal control. Under concerted endeavour, the banking industry has made a turnaround. Growth has been sustained, the banking system exhibits

greater stability. As at the end of last year, aggregate assets of 27 banks amounted to MOP426.9 billion which was a record, or a growth of 18.7%. CAR was kept at a high level of 15.6%; non-performing loan ratio was 0.61% which purported a continued good asset quality. Deposits amounted to MOP186.6 billion, loan-deposit ratio was 60.8%. At the moment, there is a change for the better in market operating environment which reflects a more optimistic market perspective.

Apart from carrying out the usual onsite and offsite inspections, AMCM also pays close attention to changes in internal operating environment of banks and external economy with a view to issuing timely directives and suggestions. It continues to perfect legislations relating to financial supervision to ensure that financial institutions are able to maintain stability and enhance their ability to combat risks.

To ensure that banks are able to develop their business in a more steady and effective manner, AMCM has issued guideline on business continuity which requires institutions to comply with the prescribed risk management planning and preparation when formulating sustainable operation target. A guideline on outsourcing management has been implemented which imposes appropriate supervision on the increasing outsourcing of business operation. AMCM has carried out guideline on management of customer complaints. To enhance the protection of financial consumers, a draft regulatory guideline on sale and offer of financial products and related bank disclosure has been rolled out for consultation. In this respect, AMCM has conducted a number of discussions with practitioners on the guideline. We are striving to strike a balance between supervision and market development by arriving at a consensus with all parties concerned at an earlier date and hope that it can be implemented as soon as possible this year. Moreover, in light of past experience and based on the appraisal and suggestion of international organizations, AMCM has revised and issued related guidelines on AML and CFT.

It is worth mentioning that, after a solid year of endeavour and coordination, the Macao distributor institutions of Lehman minibonds have proactively proposed a repurchase arrangement, under which 99% of the affected investors have come to terms with the distributors. Last year saw the start of the business of RMB settlement for cross-border trade. The scope of RMB business for individuals has also been permitted to enlarge which purports that RMB business has entered into a new stage. At the same time, AMCM has promoted business communication and cooperation between local financial institutions, the Mainland and Portuguese speaking countries. Through visits, studies and seminars, understanding with each other has been enhanced which has laid down solid foundation for future cooperation. Moreover, through participation in the framework mechanism for study and planning relating to Closer Economic Partnership Arrangement (CEPA) and Outline of the Plan for the Reform and Development of the Pearl River Delta, AMCM has injected momentum into the realization of harmonious cooperation of financial business of the two regions. It has also created more diversified business cooperation opportunity for the industry which has served to enlarge the scope of business for our financial sector.

In fulfilling insurance supervisory work, AMCM has carried out offsite inspections on insurance and retirement fund management institutions, executed effective supervision, aided by corresponding onsite inspections to enhance risk supervision. At the same time, to enhance solvency of insurance companies, AMCM has perfected the requirements for quality of guaranteeing assets and established regulatory system for technical reserves, which will ensure that the institutions are equipped with appropriate financial capability and liquidity. Although the market has experienced some volatility brought about by the financial tsunami, local insurance market as a whole has preserved its stability and vitality. Premium receipts for all sorts of insurance have remained stable, but claims have not shown any abnormality. Profit has gradually returned to pre-eruption level. Total premiums for 2009 amounted to MOP3.26 billion, of which MOP0.93 billion belonged to non-life, while life premiums amounted to MOP2.33 billion, gradually approaching record of the previous year.

To maintain stability of our community and safeguard the livelihood of retirees, AMCM indirectly promotes development of the business via supervision on pension fund management institutions. As at the end of 2009, total assets under pension fund management amounted to MOP5.16 billion, an increase of 23%, which would benefit 74,600 employees. Besides, according to original plan, AMCM has implemented arrangements relating to new limits of indemnity and increase in premiums in respect of work injuries and professional diseases. There is also a civil liability insurance issue involving adjustment of premiums and limits of indemnity for business vehicles in response to the special operating environment of the trade. Under the proactive coordination of our staff, there have been candid communications between numerous entities in order to strive for a consensus.

To perfect insurance related legislations, including those involving insurance agents and brokers, the proposed amendments have been rolled out for initial consultation as scheduled, while the work relating to revisions of specific articles has been in orderly progress. Simultaneously, in line with the spirit of CEPA, and to create a wider business scope for our insurance practitioners, AMCM has been in consultation with the insurance regulatory body of the Mainland to set up a qualifying examination centre in Macao for our insurance practitioners. The initial response has been encouraging. In addition, in line with the spirit of the Outline of the Plan for the Reform and Development of the Pearl River Delta, AMCM is proactively studying the feasibility of encouraging the practitioners to probe along the direction of closer cooperation with their Mainland counterparts.

As at 31 December 2009, the foreign exchange reserves of the MSAR stood at MOP146.6 billion, an increase of MOP19.4 billion from last year, or 15%. At the same time, the MSAR Reserve Fund amounted to MOP12.8 billion, which increased by MOP400 million year-on-year, or 3%. In view of the turbulence of the investment markets, which was aggravated by the volatility of FX, debt market and interest rates, AMCM insisted on a prudent and sturdy investment strategy and arrangement, which embodied the target of maintaining the value and enhancing income for our FX reserves and Reserve Fund. The substantial FX reserves provide fundamental guarantee for stable convertibility of the local currency.

The mastering of financial information and related statistics enables regulators and practitioners to perform self-assessment in respect of their own results. Such information also provides valuable and pivotal reference for policy formulation. Last year, AMCM kicked off a series of timely and innovative surveys and disseminations of statistics, including credits granted by local banks to small and medium sized enterprises, international business of banks, use of locally issued credit cards and balances, and mortgage loans granted by banks. In addition, we reinforced our cooperation and communication with international financial organizations. We followed closely the requirements of international financial statistics by participating in organizational information dissemination mechanisms. In this way, we continuously enhance the reputation of our financial sector internationally which will arouse the interest of international funds to share our development. It also promotes the level of internationalization of our financial sector. Moreover, participation in training and communication involving international financial institutions will enhance our capability in professional research and analysis, reinforce credibility and authority in the course of financial policy formulation and implementation.

Looking forward to 2010, international financial scenario is still riding on its V shape rebound, following the recovery of major economies. We are not yet sure of an utter recovery, but we see light from the other end of the tunnel in the midst of fluctuations. However, there are still many factors of uncertainty which may give rise to changes, especially the "exit strategy" contemplated by a number of nations. The act will no doubt wreak havoc on the nascent economic recovery. As an open regional economy, Macao is not immune to the fluctuations of external economies. Therefore, we should stay vigilant against even the smallest changes in the international financial markets and be ready to master the information to formulate

preventive measures in a timely manner, so as to reduce the impact of adverse factors inflicted on the overall economy and financial system. As regulator, we hope to work with market participants to pay close attention to the future development of the markets, maintain close communication and cooperation with each other to take on all possible difficulties and challenges.

The word “crisis” in Chinese language is composed of two words; danger and opportunity. In the face of a crisis, we also clearly see opportunities ahead. The Central Government has reiterated that our Motherland shall always back up the development of the MSAR. Under the auspices of the Central Government, we shall weather the storm and pass the test. Moreover, under the Outline of the Plan for the Reform and Development of the Pearl River Delta and the framework of CEPA, the prospect for economic and financial cooperation between the MSAR and the Mainland appears to be broad and bright. The temporary measure adopted by the MSAR at the beginning of the financial tsunami to provide full cover for all deposits will expire at year end. AMCM is proactively consulting market participants about a subsequent arrangement. We hope to arrive at an solution satisfactory to all parties concerned.

As usual, under the leadership of our Chief Executive, Mr. Fernando Chui and the guidance of our Secretary for Economy and Finance, Mr. Francis Tam, in addition to the support and cooperation of the practitioners, AMCM shall sturdily fulfil its duties in upholding the stability of the local financial system and promoting the enhancement of market development. Shoulder to shoulder with our practitioners, we shall strenuously promote the development of our financial industry to become an important element in the course of economic diversification of the MSAR. The financial industry shall act as an economic lever to provide the necessary driving force with a view to achieving sustainable economic development and prosperity and hence the stability of the community of the MSAR.

Thank you!