

Norman Chan: Hong Kong's development as the premier banking hub in Asia

Opening remarks by Mr Norman T L Chan, Chief Executive of the Hong Kong Monetary Authority, at the HKMA Conference for Independent Non-Executive Directors (INEDs), Hong Kong, 16 March 2017.

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Fellow INEDs, Ladies and Gentlemen,

1. Good morning and a very warm welcome to all of you to the inaugural Annual Conference of INEDs of banks in Hong Kong! Today is a very special day for us because it is the first time in Hong Kong's banking history that we have gathered in one place over 100 INEDs, which represents 82% of the total INED population of 123.
2. Today is also special because it marks an important milestone of the development of Hong Kong as the premier banking hub in Asia.
3. In case you do not know already, the size of Hong Kong's banking sector, as measured in the amount of banking assets, has exceeded HK\$20 trillion by end of 2016. This equals to 8 times of Hong Kong's GDP, which is a powerful manifestation of Hong Kong's position as an international banking centre. Having said that, one of the things that we have learnt from the Global Financial Crisis (GFC) of 2008: Big is not necessarily Beautiful. The bitter lessons of some of the aspiring financial centres such as Ireland and Iceland are clear and brutal reminder of the risks of pursuing fast expansion of the financial sector without giving proper attention to supervision and governance. The GFC has also taught us that even the largest banks in the world are not immune to failure in risk control and management and, when they failed, there would be devastating effects on systemic stability and on the society at large.
4. Fellow INEDs, while you may have come from a rather diverse background, I believe most of you know each other quite well already. This is because all of you have worked for decades in your respective fields, crossing the paths of a wide spectrum of industries, and have achieved proud accomplishments in different shapes and forms. It is your unique experience and expertise, your reputation and your willingness to serve the banking sector that have brought you together as INEDs today at this Conference.
5. As INEDs, you play a crucial and irreplaceable role in the governance of the banks in Hong Kong, serving not only the shareholders but also the public at large, given the special and important role of banks in the society. I think you will agree with me that in the interest of good governance, a board of directors has to provide the needed steer, guidance and checks and balance to the bank. Clearly this can only be achieved if the INEDs can function effectively and efficiently. Without functioning INEDs, the board is just another gathering of the senior bank management. We may as well abolish the board of directors as it would serve no real or useful purposes.
6. This is why the HKMA has in the last few years been embarking on a programme to help equip and empower the INEDs. Our intention is to help INEDs to work with the executive directors and senior management to achieve a more optimal outcome and not work against them. So it is important that the bank management joins the HKMA in embracing the empowerment of INEDs because we all share the common interests and goals.
7. Under this INED empowerment programme, we have rolled out a number of initiatives. Some of you have attended the High Level Seminar co-organised by the HKMA and China Banking Regulatory Commission (CBRC), which was designed to give INEDs a unique opportunity to understand the macro perspectives of China's development strategy and how Hong Kong should position itself in the years to come. The first one was held in Beijing in October 2015 and the second one was held in Xian in June last year. On both occasions,

the former Chairman of CBRC personally attended to speak to the INEDs, which is a clear indication of the support given by Beijing on this programme. On a regular basis, we have also organised thematic seminars in Hong Kong, all of which were well attended by INEDs. In December last year, we issued guidance to banks on the HKMA's requirements to enhance the roles of INEDs, including their remuneration and the way the boards should conduct their meetings. Two weeks ago, the HKMA issued a circular to banks providing guidance on the importance of sound governance and good corporate culture and what they should do to promote them. I won't go into the details now as the main themes of these new guidance circulars will be covered in the Conference later today.

8. Today is going to be a long day for you because the Conference won't end until 5:45 pm. However, I sincerely hope that by the end of the Conference there will be some takeaways that you will find helpful in your capacity as INEDs of banks.
9. Fellow INEDs, I have talked long enough and now is the time for me to introduce to you our keynote speaker for this Conference. We are honoured and highly privileged to have Mr Andrew Bailey, Chief Executive Officer of the UK Financial Conduct Authority, to fly all the way from London to join us today. Andrew needs no introduction. Before he joined the FCA last year, he was the Deputy Governor in the Bank of England and Chief Executive Officer of the Prudential Regulation Authority from April 2013 until June last year. So Andrew is truly exceptional in the sense that he has been in charge of both the prudential and conduct sides of banking supervision, and is very well-respected internationally. He is therefore uniquely well placed to share with us his experience and insights. Mr Bailey, please.