Save HK Banks From Sinking

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32% of banks’ HK property loan books at risk from typhoons and floods according to the Hong Kong Monetary Authority’s climate stress test.

Don’t get blindsided! Hong Kong banks are vulnerable to SLR risks

Domestic loans skewed to vulnerable sectors

HK$7.2tn

- To purchase other residential properties: 24%
- Property development and investment: 23%
- Trade financing: 7%
- Wholesale and retail trade: 5%
- Manufacturing: 4%
- Other: 37%

63% of domestic loans in Hong Kong are skewed to sectors vulnerable to coastal threats. The chart above shows that of the HK$7.2 trillion dollars of domestic loans in Hong Kong as of the end of 2021, 63% were skewed to sectors vulnerable to coastal threats – 47% in total to the property sector, 7% to trade financing, 5% to wholesale and retail trade and 4% to manufacturing.

Property loans at risk

HK$2.9tn

- Property loans unaffected: 68%
- Property loans at risk: 32%

According to the HKMA climate stress test done under the high emission pathway, devaluation from physical damages could be more than 50% for some properties in vulnerable areas & in total could affect ~HK$1tn worth of loans by 2050. The HKMA states “banks need to set aside additional provisions for the loans concerned”. Note: these tests were conducted under worst-case, not “low-regret” scenarios – see next page.

HK Revenues  HK Property  Trade

Source: CWR analysis based on IPCC AR6 & astronomical high tide in Hong Kong; Digital Terrain Model (5m) from the Lands Department of Hong Kong; 3D photo-realistic model based on the Planning Department of Hong Kong; HKMA website – Monthly Statistical Bulletin, Hong Kong Monetary Authority, 2021. Pilot banking sector climate risk stress test.
Domestic skew
27-81% of HK bank loan books have domestic skew. A high domestic skew does not have to be a problem if the gov’t is proactive and acting. The problem for banks in HK is that government adaptation action currently lags, putting the financial system at risk.

Pie charts show loan book skew. Given this, HSBC looks to be the safest with only 27% of loans in HK. However, if we look at profits HSBC could be one of the most vulnerable as it derives 90%+ of its profits from HK according to its 2020 Annual Report. Due to the lack of data across all banks we have not analysed profit spread.

Sectoral skew
54-77% of HK bank loan books skewed to vulnerable sectors. The highest sector skew was to real estate – from 36% at BoC (HK) to 46% at BoEA. This aligns with HKMA figures – 47% of domestic loans are to real estate.

CWR analyses show that homes, as well as commercial & industrial properties are very vulnerable to sea level rise (SLR) risks. And even those who think they’re safe are not as they could be stranded as access links are underwater. And, it’s not just real estate as loan books are skewed to transport, manufacturing/industry & trade, that rely on vulnerable ports & airports.

Double Blind Maximum Risk
HKMA’s 2050 worst-case scenario stress tests means that at most SLR of 0.55m was used to assess risks. Incidentally, this is close to HK gov’t’s defense levels of 0.49m by 2100 under the low-to-medium emissions scenario. As HKMA & HK gov’t are using the wrong timelines and scenarios, HK banks are now on a “Double Blind Max Risk” path as neither are “seeing” nor preparing for future risks of 2-3m of SLR by 2100 as warned by the IPCC.

Meanwhile other financial hubs like New York & Singapore have transformative adaptation levels that are 4-6x that of HK. Thus, HKMA must push banks to stress test right to close these huge adaptation gaps and avoid financial systems collapse.

Source: CWR analyses based on HKMA website – Monthly Statistical Bulletin; Hong Kong Monetary Authority (2021) Pilot banking sector climate risk stress test; 2020 and 2021 Annual reports of the four banks; Drainage Services Department 2018, SWW 2022 Thematic & Business Forum

HK gov’t lags SG & NYC
Future adaptation panning levels

Assess
Understand the new risk landscape Assess water & climate threats Identify clustered risk hotspots & compound risks

Strategize
Align ESG & risk strategies Plan sensible net zero & resilience strategies Leverage risks to identify opportunities

Adapt
Protect & prepare for locked-in climate impacts Ideate flexible innovations Be ready to survive & thrive

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