

LCQ11: Introduction of mandatory cooling-off period to protect consumers

Following is a question by the Hon Shiu Ka-fai and a written reply by the Secretary for Commerce and Economic Development, Mr Edward Yau, in the Legislative Council today (May 9):

Question:

Earlier on, the Government allocated funds to commission the Consumer Council to conduct a study on the introduction of a statutory cooling-off period. In this connection, the Consumer Council submitted to the Government last month A Report to Advocate Mandatory Cooling-Off Period in Hong Kong (the Report), recommending the introduction of a mandatory cooling-off period targeting certain industries (including the beauty industry) and specific transaction modes. The Government has indicated that it plans to submit the relevant proposed legislative framework to this Council within this year. In this connection, will the Government inform this Council:

(1) whether the Government and the Consumer Council have assessed the impacts of the introduction of a mandatory cooling-off regime on the business environment; if so, of the outcome; if not, why the Consumer Council has made the relevant recommendation on enacting legislation;

(2) as the Consumer Council has indicated that it has examined the legislation on mandatory cooling-off periods in various jurisdictions, if the Government knows whether there are jurisdictions which have introduced a mandatory cooling-off regime for the beauty industry; if there are, of such jurisdictions and the relevant details; if there are not, whether the Consumer Council has enquired with various jurisdictions and studied carefully the reasons for various jurisdictions not having put in place the relevant regime;

(3) whether it knows if the Consumer Council has studied which jurisdictions in which a voluntary cooling-off regime for certain industries have now been put in place; if the Consumer Council has, of the details; if not, the reasons for that;

(4) as the Report has pointed out that sales practices which seriously damage the rights and interests of consumers have emerged from time to time in individual industries, whether it knows if the Consumer Council can provide details and objective evidence to support such a remark; if no such details and objective evidence are available, why the Consumer Council has made such a remark in the Report;

(5) whether the Government and the Consumer Council have assessed the prevalence of using distance contracts as a transaction mode in economic

activities and the impacts of introducing a mandatory cooling-off regime on such activities, e.g. a distributor not being able to return the products returned by consumers to the general agent and hence suffering a loss; if they have not assessed, why the Consumer Council has made the relevant regulatory proposal;

(6) as the Report has pointed out that various types of unfair trade practices have emerged in the beauty industry in recent years, whether it knows if the Consumer Council can provide objective evidence to support such a remark; how the data on the adoption of unfair trade practices by operators in the beauty industry compare with the relevant data in other industries;

(7) among the complaints in relation to the beauty industry received by the Consumer Council from 2013 to 2017 as set out in the Report, of the number of those which have been found substantiated;

(8) whether it has assessed if the complaint figure, based on which the Consumer Council made the remark that operators in the beauty industry had adopted various types of unfair trade practices, covers complaints which have not yet been substantiated; if the figure does, whether the Government has assessed if such an approach is prudent, objective and fair;

(9) among the various types of complaints received by the Consumer Council in each of the past three years, of the number of those which have been found substantiated and the amounts of money involved (set out the breakdown by type in a table);

(10) whether it knows the justifications for the Consumer Council coming to the view that the duration of the cooling-off period should not be less than seven days;

(11) whether it knows the justifications for the Consumer Council recommending that the time limit for traders to make a refund should not be more than 14 days;

(12) as the Consumer Council has recommended that if the consumer has requested for using the services concerned during the cooling-off period, the trader can deduct from the refund the value of the service used and the amount shall be calculated pro rata to the total consideration stipulated in the contract, whether the Government knows the Consumer Council's justifications for recommending that the mandatory cooling-off regime be applicable to cases in which the consumer has started using the service concerned; whether, before making this recommendation, the Consumer Council has considered (i) the fact that the trader's cost of providing a single unit of goods or service to the customer is usually higher than that of providing a batch of such goods or service, making it very likely for the trader to eventually bear the relevant differences in the cost, and (ii) if this recommendation will induce many people to exploit the loophole to enjoy part of the services at a lower average price through the purchase of packages;

(13) whether it knows if the Consumer Council has considered whether the mandatory cooling-off regime should apply to cases involving existing

customers; if the Consumer Council has and the outcome is in the affirmative, of the justifications; if the consideration outcome is in the negative, why the Consumer Council has not recommended in the Report the granting of exemptions to such cases;

(14) as the Consumer Council has recommended that if the consumer has paid by credit card, the trader is to be allowed to deduct, when making a refund, an administrative fee of not more than three per cent of the credit card transaction value, whether the Government knows if the proposed administrative fee level is sufficient to offset the related expenses that the trader has incurred (e.g. the costs arising from advance payment for the refund and waiting for refund by the card-issuing bank) and the various handling fees and transaction fees that the bank charges the trader for the refund; if it may not be sufficient to offset such expenses, why the Consumer Council has made this recommendation;

(15) whether it knows if the Consumer Council has discussed its recommendations with the banking industry to understand the corresponding business strategies which card-issuing banks will adopt; if the Consumer Council has discussed, of the response of card-issuing banks; if not, how the Consumer Council ascertains the feasibility of its recommendations;

(16) whether it knows if the Consumer Council has considered the following scenarios: card-issuing banks may increase the refund handling fees or other transaction fees for customers' purchase-by-installment transactions, impose an additional requirement for using cash or assets as collateral for security, or even delay paying traders the relevant monies for as long as half a year because they have to set aside funds for making refunds, and such practices will increase the operating costs of traders or even render it impossible for them to operate, resulting in closure of their businesses;

(17) whether it knows the justifications for the Consumer Council to recommend that the consumer may request a refund without giving any reasons, and whether it has considered if this recommendation may lead to abuses or even be exploited as a strategy to undermine competitors in the business arena, which may eventually throw the market into chaos; and

(18) as the Consumer Council has recommended that a mandatory cooling-off period be imposed on contracts for beauty services with a duration of not less than six months, whether the Government knows the justifications for the Consumer Council setting six months as the minimum duration of such contracts; whether it will consider bringing this minimum duration on par with the recommended minimum duration for timeshare contracts, i.e. imposing a cooling-off period only on contracts for beauty services with a duration of more than one year?

Reply:

President,

Having consulted the Consumer Council (the Council), a consolidated reply to the 18 parts of the question is provided below:

According to the Council, the Report to Advocate Mandatory Cooling-Off Period in Hong Kong (the Report) aims to recommend to the Government the imposition of a mandatory cooling-off period, and suggests principles for a legislative proposal. Over the years, the Council has been encouraging traders to provide cooling-off period on a voluntary basis, and has worked with and encouraged different industries (including the beauty and fitness industries) to put in place voluntary cooling-off arrangements for consumer protection. The Council's study does not cover cooling-off arrangements offered on a voluntary basis by traders in other jurisdictions. Insofar as the local market is concerned, according to the Council's understanding, some traders of the timeshare, beauty and fitness industries provide a cooling-off period to consumers. However, as traders are scattered and their scales of operation vary, ensuring that all traders in the industries provide voluntary cooling-off period would be difficult and challenging. The Council also notes that the cooling-off periods offered by individual traders are subject to different terms, which cause disputes from time to time, for example the cooling-off period only lasts for 24 hours, contracts cannot be cancelled once the supply of service has begun or free gifts has been received, and a high cancellation fee is charged. Given the various limitations imposed by these terms, voluntary cooling-off arrangement cannot effectively protect consumers. Therefore, the Council considers it necessary to impose a mandatory cooling-off period, with operational arrangements regulated by statutory provisions.

The Report shows that the arrangements on cooling-off period imposed in the jurisdictions studied vary depending on the consumer culture, development of specific industries, and the nature of unfair trade practices encountered by the local consumers. Nevertheless, the commonality shared by the arrangements is that they require the provision of mandatory cooling-off periods that target consumer contracts in specific sectors or specific transactions. The focus of the Council's study is to recommend a solution to improve the situation of unfair trade practices deployed by traders in Hong Kong. According to the complaints statistics of the Council, the numbers of complaints about sales practices of the beauty industry were 225 in 2013, 407 in 2014, 515 in 2015, 444 in 2016, and 373 in 2017 respectively, representing more than 30 per cent of all complaints against the industry on average. The total amounts involved ranged from over \$4 million to over \$17 million, with the average being \$33,000 per case. As for complaints against the fitness industry, the numbers of complaints about sales practice were 268 in 2013, 342 in 2014, 431 in 2015, 328 in 2016, and 221 in 2017 respectively, representing more than 40 per cent of all complaints against the industry on average. The total amounts involved ranged from \$6.8 million to over \$14 million, with the average being \$36,000 per case. The Council is not a law enforcement agency and does not have the power to conduct investigations. When a consumer complaint is received, the Council will help the consumer and trader resolve their dispute through conciliation. The Council points out in the Report that common malpractices deployed by salespersons in the beauty and fitness industries include prolonged sales pitches by a number of staff for a long period of time; using different excuses to take away the identity cards or credit cards of the consumers; and using the credit cards of

consumers to purchase service without the consumers' consent etc. Considering that the numbers of complaints against beauty and fitness industries are relatively higher, involve larger amounts, and often relate to high pressure sales, the Council therefore recommends imposing a mandatory cooling-off period on these industries.

In addition to examining the legislation on mandatory cooling-off period in a number of jurisdictions, the Council has also taken into account the views and concerns of different industries regarding mandatory cooling-off period. In formulating its recommendations, the Council has considered the trades' ability to bear, and recommended various measures to lower the compliance cost of relevant traders and guard against consumer abuse of the arrangement, such as consumers would need to pay for the services consumed during the cooling-off period, and traders could charge an administrative fee of not more than three per cent of the credit card transaction value. The Council considers that the imposition of a mandatory cooling-off period would not result in a large number of consumers cancelling their contracts with legitimate traders, therefore the impact should be limited. In addition, as some jurisdictions outside Hong Kong have already imposed mandatory cooling-off period in consumer contracts in different sectors (e.g. fitness services) or specific types of transactions (e.g. unsolicited contracts and distance contracts) for many years, and the Council's recommendations have made reference to the experience of those jurisdictions, the Council believes that a balance has been struck between protecting consumers' legitimate rights and maintaining a business-friendly environment.

In considering the duration of the cooling-off period, the Council made reference to factors including (1) cooling-off periods in other jurisdictions last for three to 14 days (including 14 days in the United Kingdom, three working days in the United States, and seven days in the Mainland). Since Hong Kong has no existing legislation on mandatory cooling-off period, the Council is mindful of the effect of cooling-off period on traders and consumers, and recommends that the cooling-off period should not be too long or too short to facilitate adjustment and learning from implementation experience; (2) a cooling-off period that is too long may generate other problems, such as a protracted cooling-off period may more easily lead to wear and tear of goods, cause disputes between the parties on compensation, affect the business operation and cash flow of traders, or lead to abuse more easily; (3) if the cooling-off period is too short, consumers may not have enough time to consider their decision and submit their cancellation notice. Therefore, having considered all factors, the Council is of the view that a cooling-off period of not less than seven days is reasonable. Similarly, for the time limit for refund, the Council has made reference to the practices in other jurisdictions (including 14 days in the United Kingdom, 10 working days in the United States, and 15 days in the Mainland) and considers that making a refund within 14 days is a reasonable timeframe.

On whether to allow the deduction of administrative fee, the Council's study shows that the mainstream practice of other jurisdictions is to prohibit traders from deducting any administrative fee from the refund. However, the Council notes that credit card is the major payment tool used in

Hong Kong, and that while the service charge for use of credit cards is specified in the commercial agreement between the acquiring banks/companies and traders, credit card transactions normally involve a certain amount of service charge. On the premise that the exercise of the cooling-off right is not hindered, the Council considers that traders should be allowed to deduct a small amount of administrative fee when consumers use credit card to settle payment. This can relieve the compliance costs of traders and minimise consumer abuse. The Council, having considered the general level of relevant charge, recommends that an administrative fee of not more than three per cent of the credit card transaction value may be deducted by traders from the refund when consumers pay by credit card. In the course of its study, the Council did not come across views expressed in other jurisdictions concerning acquiring banks/companies increasing their administrative fees for refund or delaying payment to traders because of the imposition of cooling-off period. The Council is of the view such matters are commercial arrangements between the acquiring banks/companies and traders, and not directly related to the imposition of cooling-off period.

Regarding the scope of application of the mandatory cooling-off period, the Council recommends that all contracts specified should be regulated except for those that are exempted. The Council also recommends that, if consumers request for service to be provided during the cooling-off period, traders should be allowed to deduct the value of the services consumed, and such value should be calculated on a pro-rata basis based on the total price set out in the contract. If an existing consumer renews or signs a new contract, and that contract falls under the scope of the mandatory cooling-off regime, the Council recommends that the consumer should also be protected by the mandatory cooling-off regime. Overall speaking, for legitimate traders in general, the Council considers that the imposition of a mandatory cooling-off period will not lead to a large number of consumers cancelling their contracts, therefore the impact should be limited. To the contrary, the Council believes that mandatory cooling-off period could enhance consumer confidence and may benefit the business of relevant industries.

The Council considers that contracts involving long duration or prepayment warrant special attention from consumers, as the Council's statistics show that quite a number of complaints relating to unfair trade practices are related to contracts with long duration or involving prepayment, for instance, as salespersons may easily be enticed by the large transaction amount to deploy unfair trade practices in order to increase their sales or commission income. The Council states that, if mandatory cooling-off period is imposed on services contracts with a shorter duration, protection for consumers may be enhanced but traders' operation will be affected more; if mandatory cooling-off period is imposed on services contracts with a longer duration, protection for consumers will be diminished. On balance, the Council considers that imposing cooling-off period on beauty and fitness services contracts with a contract duration of over six months or involving prepayment is a reasonable arrangement. The Council points out that timeshare contracts are different from general consumer contracts, as the terms of the former are relatively more complicated, often involving overseas properties, large amounts of prepayment

or long payment periods, therefore they are not comparable to beauty and fitness service contracts.

The Commerce and Economic Development Bureau (CEDB) is working with relevant Government departments to study various issues relating to legislating on cooling-off period arrangement, including the scope of application; definitions of sectors; implementation details; redress mechanism; and exemptions, etc.; and consider the appropriate implementation arrangements. The recommendations in the paragraphs above are the Council's recommendations made after its study. CEDB will consider the Council's recommendations in detail and make specific policy decisions. We will also listen to views of various sectors regarding legislating on cooling-off period arrangement. For the next steps, our goal is to submit the Government's proposed framework to the Legislative Council within this year, and consult the public thereafter.