LCQ11: Opening of bank accounts by enterprises

Following is a question by the Hon Wong Kwok-kin and a written reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (November 14):

Question:

Quite a number of start-up enterprises, small and medium enterprises (SMEs) as well as overseas enterprises have relayed that they have encountered difficulties when they applied to the banks for opening accounts (account opening). In view of this, the Hong Kong Monetary Authority (HKMA) issued a circular on De-risking and Financial Inclusion to all banks across the territory in September 2016, requesting that banks should ensure a reasonable and fair treatment of the existing and prospective customers. In addition, HKMA issued a circular entitled Guideline on Anti-Money Laundering and Counter-Terrorist Financing Address Verification Requirements in October 2017 to streamline account opening procedure and requirements. It is learnt that banks have put in place a review mechanism to re-examine unsuccessful applications for account opening. In this connection, will the Government inform this Council:

(1) whether it knows the respective numbers of account opening applications from new corporate customers received, approved and rejected by banks each month since the issuance of the circular in October 2017, and the average time taken for processing such applications; how the success rate and the average processing time for such applications compare with the relevant figures before the issuance of the circular; if there have been unsuccessful applications, of (i) a breakdown of such applications by reason for the rejection, and (ii) the respective numbers of such applications in which the applicants were start-up companies, SMEs and overseas enterprises;

(2) whether it knows the total number of applications, received by banks in each month of the past three years, for reviewing their decisions to reject account opening and, among them, the respective numbers of cases in which such decisions were reversed and maintained; of the average time taken for the review process; regarding those cases in which the decisions were maintained, of a breakdown of the number by reason for maintaining such decisions; and

(3) whether it will study standardising the account opening procedure and requirements for all banks; if so, of the details and timetable of such a study; if not, the reasons for that?

Reply:

President,

In recent years, as the international community steps up efforts to combat money laundering and terrorist financing (ML/TF), financial institutions around the world have generally strengthened the related controls, including undertaking more comprehensive due diligence on customers.

The Hong Kong Monetary Authority (HKMA) has been reminding the local banking industry that, in implementing robust anti-money laundering and counter-terrorist financing controls, they should be mindful not to create hurdles for legitimate businesses and ordinary citizens to access banking services. The HKMA has issued guidance to banks in the past two years, reiterating that banks should apply a risk-based approach in conducting customer due diligence (CDD) and adopt measures which are commensurate with the customer's background, circumstances and ML/TF risk level. Banks should also maintain proper communication with customers throughout the CDD process, and ensure the process is transparent, reasonable and efficient, in accordance with the "Treat Customers Fairly" principle.

In response to the HKMA guidance, banks have taken measures to improve the account opening process. Apart from the establishment of mechanisms to review unsuccessful applications, all retail banks currently provide a "pre-vetting" service, whereby banks accept submissions of requisite documents for account opening by applicants via email, fax or mail for pre-screening or pre-assessment before arranging face-to-face meetings with the applicants, with a view to providing greater convenience to applicants. Some banks have also set up dedicated hotlines and dedicated branches deployed with properly trained front-line staff to handle account opening matters, so as to improve customer experience.

Our response to each part of the question is as follows:

(1) The HKMA has been monitoring the account opening situation. The retail banking sector currently opens an average of about 10 000 new business accounts every month, of which some 60 per cent to 70 per cent belong to small and medium-sized enterprises (SMEs) and start-up companies (including about 2 000 accounts for non-local SMEs and start-up companies). Of the successful cases, on average some 50 per cent to 60 per cent were able to open accounts within two weeks, and some accounts could even be opened as quickly as within a few days. The exact time taken depends on the complexity of individual cases and whether the applicants can provide the requisite information. On average there are around 300 unsuccessful account opening applications relating to SMEs and start-up companies every month, of which about 170 cases are from non-local companies. The major reason for unsuccessful account opening was that the applicants did not provide the banks with the relevant information or documentary proof for conducting CDD, so that the banks could not develop a proper understanding of their business nature and operations. The average unsuccessful rate of account opening applications for the first nine months of this year is below 5 per cent, which is an improvement from around 10 per cent in early 2016.

(2) Currently, all retail banks have established mechanisms to review unsuccessful applications upon customers' request. Since the establishment of review mechanisms, retail banks received over 80 cases from customers for review of their unsuccessful applications, of which about 30 per cent were able to open accounts after review. In about half of the cases, accounts could not be successfully opened at the end because the applicants could not provide the requisite information and documents to enable the banks' understanding of the business nature and operation of the applicants, resulting in failure to complete the due diligence process. The remaining 20 per cent of the cases either were withdrawn by the applicants or are being followed up by banks.

(3) Under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance, banks are required to conduct CDD before opening bank accounts. The CDD requirements have been formulated in accordance with international standards. Individual banks also establish their own account opening procedures, taking into account various factors such as business strategies and risk considerations.