

LCQ14: Opening and maintenance of bank accounts by enterprises

Following is a question by the Hon Kenneth Leung and a written reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (November 21):

Question:

The Hong Kong Monetary Authority (HKMA) issued guidelines for a number of times in the past two years to request banks to take measures to improve customer interfacing in the account opening processes, including streamlining the account opening processes and adopting customer due diligence (CDD) that is proportionate to the risk level. Besides, HKMA launched a Mystery Shopping Programme (MSP) in December 2017 to assess the effectiveness of such measures and banks' compliance with HKMA's guidelines and requirements. However, some members of the accounting sector have recently complained to me that their customers still encounter quite a number of difficulties in opening and maintaining bank accounts. The process of document submission and CDD involved in the account opening applications are quite complicated and time-consuming, thereby hindering the normal operation of the enterprises concerned. In this connection, will the Government inform this Council:

(1) whether it knows (i) the respective numbers of account opening applications from new enterprise customers received, approved and rejected by banks in each month of the past three years, and (ii) the average processing time in respect of those applications the vetting and approval of which have been completed;

(2) of the total number of complaints received by HKMA in the past three years about banks' (i) refusal to open accounts for new enterprise customers, and (ii) cancellation of accounts of individual or enterprise customers; the major types of enterprises involved in those complaints, and the reasons for refusal to open accounts/cancellation of accounts;

(3) of the details and results of MSP; whether HKMA has, in the light of the results of MSP, (i) given comments, advices or warnings to the banks concerned, and (ii) adjusted the relevant measures and guidelines; and

(4) whether HKMA has plans to issue clearer guidelines to banks to stipulate that banks must formulate arrangements for risk assessments and CDD which are proportionate to the type, business nature, and operation scale of the customers; if so, of the details; 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 that 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 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. 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. 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) In 2016, 2017 and 2018 (up to the end of October), the HKMA received 31, 22 and 17 complaint cases respectively concerning refusal of opening corporate accounts by banks. The corporates involved were mainly engaging in trade or financial services (such as finance or investment companies) business. The number of complaints relating to closure of corporate accounts by banks during the same period was 53, 46 and 70 cases respectively, involving corporates from different industries. The major reasons for unsuccessful account opening or closure of accounts were that the customers concerned could not provide the banks with the relevant information or

documents for conducting CDD, or that the relevant accounts were found to be involved in suspicious transactions during banks' ongoing CDD process.

The HKMA requires banks to put in place appropriate mechanism for handling customer complaints in a fair and expeditious manner. Retail banks should have appropriate procedures to review their decisions on refusal of account opening or account closure upon requests of customers. If a customer considers that a bank has not handled his/her case properly, he/she can make a complaint to the bank concerned or the HKMA. The HKMA will follow up on each and every complaint case, and require the bank concerned to handle the complaint properly and provide feedback to the complainant. In some cases, accounts were subsequently opened or could be maintained after review by banks and provision of supplementary information or documents to the banks by the applicants or customers.

(3) The mystery shopping programme focused on the customer interface aspect of the account opening processes for SME and ethnic minority customers. The service provider engaged by the HKMA has completed the on-site fieldwork at retail banks. The HKMA is now reviewing the preliminary reports submitted by the service provider. Depending on the results, HKMA will appropriately follow up with the banks concerned.

(4) The Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (for Authorised Institutions) issued by the HKMA has stipulated that banks should apply risk-based approach when conducting CDD and the relevant measures taken should be commensurate with the ML/TF risks associated with a business relationship. When assessing the ML/TF risks involved, banks should consider various factors including customer risk, country risk, as well as product, service, transaction or delivery channel risk. Banks should adopt a balanced and reasonable approach when conducting customer risk assessments and CDD, without creating hurdles for legitimate businesses and individuals to access banking services.