

LCQ19: Opening of bank accounts by enterprises

Following is a question by the Hon Kenneth Leung and a written reply by the Acting Secretary for Financial Services and the Treasury, Mr Joseph Chan, in the Legislative Council today (May 30):

Question:

To address the problem that quite a number of enterprises have encountered difficulties in opening and maintaining bank accounts, the Hong Kong Monetary Authority (HKMA) issued in September 2016 a circular entitled "De-risking and Financial Inclusion" to authorised institutions, emphasising that the customer due diligence (CDD) measures adopted by banks should be proportionate to the risk level, and that they were not required to implement overly stringent CDD processes. In addition, the HKMA issued a circular entitled "Guideline on Anti-Money Laundering and Counter-Terrorist Financing – Address Verification Requirements" in October 2017 to inform banks that the address verification requirements set out in the "Guideline on Anti-Money Laundering and Counter-Terrorist Financing (for Authorised Institutions)" would be formally removed, and thereafter banks would only be required to collect the address information of the customers. In this connection, will the Government inform this Council:

(1) whether the HKMA knows, since the issue of the aforesaid first circular, the respective numbers of bank account opening (account opening) applications from new enterprises received, approved and rejected by banks each month, and the average time taken for the vetting and approval of the applications; in respect of such applications, (i) how the success rate and the time for the vetting and approval of them compare with those before the issue of the circular, and (ii) the relevant figures of those in which the applicants were overseas enterprises;

(2) of the number of complaints, received by the HKMA since the issue of the aforesaid first circular, about banks rejecting account opening applications from new enterprises; whether the HKMA has compiled statistics on the types of enterprises mainly involved in such applications and the reasons for the rejection; and

(3) whether the HKMA has assessed the effectiveness of the aforesaid second circular in solving the problem of new enterprises experiencing difficulties in opening accounts; if so, of the outcome; if not, whether the HKMA will conduct such an assessment?

Reply:

President,

In the past few years, the strengthening of international efforts in

combating money laundering and terrorist financing has in general led the banking industry to enhance their relevant controls, including adopting a more comprehensive customer due diligence (CDD) process for new and existing customers.

The Hong Kong Monetary Authority (HKMA) has been reminding the banking industry that in implementing controls, they should also take care that the access of banking services by legitimate businesses and ordinary citizens should not be impeded. The HKMA has issued guidance to banks over the past two years, reiterating that banks should adopt a risk-based approach in conducting the CDD process. Specifically, banks should apply CDD measures that are commensurate with the different background, circumstances and risk levels of customers. Banks should also maintain proper communication with customers and ensure that the account opening process is transparent, reasonable and efficient, and that customers are treated fairly during the process.

In response to the HKMA's guidance, banks have taken measures to improve the account opening process. Apart from the earlier establishment of a review mechanism to re-examine unsuccessful applications and the provision of interim updates about the progress of applications, to provide greater convenience for customers all retail banks now offer a "pre-vetting" service, whereby applicants are allowed to submit account opening documents via email, fax or mail for initial pre-screening or pre-assessment by banks before attending face-to-face meetings. Some banks have also set up dedicated hotlines and dedicated branches where matters relating to account opening are handled by front-line staff with relevant training. The HKMA requires banks to enhance staff training in the aspects of professional knowledge and customer communication, so as to ensure the proper handling of customer enquiries and complaints.

The following are our specific responses to the questions:

(1) The HKMA has been monitoring the account opening situation. The retail banking sector opens on average about 10 000 new business accounts each month, of which some 60 per cent to 70 per cent belong to SMEs and start-up companies, including 2 000 new accounts opened by overseas start-up and SMEs. Of the successful cases, about 90 per cent completed the relevant account opening procedures within one month, some 50 per cent to 60 per cent within two weeks, and some as quickly as within a few days. The average unsuccessful rate of account opening applications is below 5 per cent, a substantive improvement from around 10 per cent in early 2016.

(2) In the 20 months running from the issuance of the "De-risking and Financial Inclusion" circular in September 2016 to the end of April this year, the HKMA received a total of 40 complaint cases concerning banks' refusal of account opening applications from corporates, mainly involving those engaged in trading business or financial services. In 11 of these cases, accounts were subsequently opened following reviews by banks. For most of the remaining cases, applications were rejected because applicants were not able to provide the information or documentary proof required by banks.

(3) With reference to international experience, the HKMA issued a circular in October 2017 to remind banks that in ordinary circumstances the opening of savings or current accounts requires only the collection of customers' address information but not its verification as well. Following the issuance of the circular, some banks have implemented the recommendation, while some others are updating their systems to prepare for implementation in the year.