

Press Release

LCQ21: Difficulties encountered by small and medium and start-up enterprises in opening bank accounts

Wednesday, November 16, 2016

Following is a question by the Hon Paul Tse and a written reply by the Acting Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (November 16):

Question:

It has been reported that in view of the insignificant contributions to banks' profits made by small and medium enterprises (SMEs) (in particular enterprises such as bars, nightclubs and other entertainment establishments) and start-up enterprises, and for avoidance of the risks involved, quite a number of banks have, in recent years, often made it difficult for such types of enterprises to apply for opening of bank accounts, on the premises of combating money laundering and complying with the increasingly stringent international regulations on monitoring banks. For example, a bank based in the United Kingdom, which takes up almost half of the market share in Hong Kong, rejected in the past months as many as 50 per cent of the applications by such types of enterprises for opening accounts, which was tantamount to "driving away customers". Such types of enterprises cannot handle receipts and payments through bank accounts (e.g. paying salaries, making contributions to Mandatory Provident Fund Schemes and paying premiums for employees' compensation insurance policies). Although the Hong Kong Monetary Authority (HKMA) has issued guidelines to banks upon receiving related complaints, the situation has not improved so far. In this connection, will the Government inform this Council:

(1) as there are comments that the accommodating approach adopted by the banking industry in the past for handling applications by enterprises for opening accounts had contributed towards Hong Kong's being regarded as one of the freest economies in the world for a long time, and laid the foundation for Hong Kong's position as an international financial centre, whether the Government has assessed the impacts of the current situation of SMEs and start-up enterprises having difficulties in opening bank accounts, on the development of Hong Kong's economy towards diversification, innovation and

high technology, as well as on the employment rate, the development of start-up enterprises and Hong Kong's competitiveness as a financial centre; if it has assessed, of the outcome; if not, whether it will expeditiously conduct such assessment;

(2) whether HKMA, apart from issuing operational guidelines to banks, has taken any measure to rectify the situation of banks "driving away customers"; of the new policies and measures that the Financial Services and the Treasury Bureau (FSTB) has put in place to assist such types of enterprises in opening bank accounts, and how FSTB evaluates the effectiveness of those policies and measures; and

(3) regarding the criteria adopted by local banks for considering if applications by such types of enterprises for opening bank accounts should be approved, whether it has assessed if such criteria are too stringent, as compared with the criteria adopted by the banks in Singapore, the Republic of Korea and the Macau Special Administrative Region, or have been adopted with an intention to make things difficult for such types of enterprises; if it has assessed, of the details; if not, whether it will immediately conduct such study?

Reply:

President,

(1) As the international community intensifies efforts to combat money laundering and terrorist financing in the recent years, coupled with sanctions and other regulatory requirements, banks in general have to strengthen their relevant control measures, including conducting more stringent customer due diligence (CDD) in respect of existing and new customers. Apart from observing the relevant regulation in Hong Kong, for various reasons some banks also have to comply with requirements or standards mandated by their head offices or parent groups and overseas authorities, which results in de-risking in some instances.

The Government is very concerned about difficulties encountered by some enterprises (especially small and medium-sized enterprises (SMEs) and start-up companies) in opening bank accounts in Hong Kong. We have requested the Hong Kong Monetary Authority (HKMA) to assess the situation

and actively follow up on the issue. According to the information gathered by the HKMA, instead of being an industry-wide phenomenon, the issue of enterprises encountering difficulties in opening bank accounts is only pertinent among one or two banks. It happens that these banks are usually the first port of call for many local and overseas companies seeking to open bank accounts, thereby causing the problem to appear more widespread than it is.

The HKMA has all along required banks to adopt the internationally accepted "risk-based approach" to handle applications for opening bank accounts and to reasonably differentiate the risks involved. This requires CDD measures to be designed and implemented according to the varying risks of different customers, transactions and services. The HKMA will continue to work closely with the business sector and the banking industry to ensure that legitimate enterprises will not be unreasonably impeded when seeking basic banking services.

(2) Over the past few months, the HKMA has taken various measures to address the issue of bank account opening. This includes engaging the business community, Consulates-General of foreign ministers, and overseas trade associations to gather specific incidents of opening bank accounts with difficulties, so as to follow up with the related banks more effectively. In addition, a number of sharing sessions have been convened by the HKMA to facilitate direct exchange of views and foster cooperative relationship between the business sector and banks.

Based on the information collected, the HKMA issued a circular to all banks on September 8, 2016 explaining how the risk-based approach should be applied in the CDD process of account opening to avoid indiscriminate application of anti-money laundering and counter-terrorist financing controls. The circular clearly points out that as risk-based does not amount to "zero failure", banks should not implement overly stringent CDD process in an attempt to eliminate, ex-ante, all risks. It also underlines the importance for banks to maintain communication with customers to ensure that the latter are being treated fairly, especially from the perspectives of transparency, reasonableness and efficiency. On September 29, the HKMA further issued a set of "Frequently Asked Questions" to clarify some commonly misinterpreted CDD requirements. After the issuance of the circulars, the HKMA notes that some banks have been taking steps to improve the account opening process, for

example, by shortening the processing time, providing interim updates about the progress of applications (such as whether there are any outstanding documents and information), and establishing review mechanisms for unsuccessful applications.

Apart from the above, the HKMA plans to commission covert shopping programmes, by posing as customers, in a few months' time with a view to monitoring the effectiveness of relevant measures adopted by banks. The HKMA is also working with the industry association and international standard-setting bodies to explore ways to reduce the burden of banks in conducting CDD, by making use of innovation and technology such as Know-Your-Customer Utilities. The Hong Kong Association of Banks is also contemplating measures to encourage the banking industry to reach out to SMEs and provide them with up-to-date information on banking services, through existing SME support and enquiry platforms operated by the Government.

(3) As mentioned above, de-risking in the banking industry has become a global trend due to the intensified efforts of the international community to combat money laundering and terrorist financing activities. Given the varying market conditions, regulatory environments and composition of banking sectors of different jurisdictions, it is difficult to make a direct comparison of the respective criteria adopted for bank account opening and risk assessment. Generally speaking, the regulatory requirements of Hong Kong are in line with international standards. The HKMA gathers from banks with business arms operating in other jurisdictions that the bank account opening processes and requirements in Hong Kong are broadly comparable to those adopted by other international financial centres.

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