

Press Release

LCQ4: Assisting enterprises and individuals in opening bank accounts

Wednesday, March 29, 2017

Following is a question by the Hon Kenneth Leung and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (March 29):

Question:

It is learnt that as a result of the enhanced controls (including the customer due diligence (CDD) processes for existing and new customers) implemented by banks in recent years to combat money laundering and terrorist financing, quite a number of enterprises have encountered difficulties in opening and maintaining bank accounts. The responsible persons of some startups have pointed out that Hong Kong is the most challenging place in the world to open a bank account, causing quite a number of enterprises to set up businesses in other places instead. There are views that the difficulties encountered by certain groups of persons in opening bank accounts have also rendered them unable to access the financial services and products they need, and they are hence unable to lead a normal life. To address the aforesaid issue, the Hong Kong Monetary Authority (HKMA) issued in September last year a circular entitled "De-risking and Financial Inclusion" to authorised institutions, emphasising that the CDD measures adopted by banks must be proportionate to the risk level, and they are not required to implement overly stringent CDD processes. In this connection, will the Government inform this Council:

(1) whether HKMA knows the respective numbers of account opening applications from new customers received, approved and rejected by banks each month since the issue of the aforesaid circular, and the average time taken for vetting and approving the applications; how the success rate and the time for the vetting and approval of such applications compare with those in the preceding year;

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

(3) whether HKMA has studied how the controls implemented by banks in Hong Kong compare with those implemented by their counterparts in places such as the United Kingdom, the United States, Australia and Singapore; if HKMA has studied and the outcome is that those in Hong Kong are more stringent, of the impact of such situation on the business environment of Hong Kong?

Reply:

President,

Over the past few years, with the progressive tightening of requirements and standards in combating money laundering and terrorist financing internationally and in Hong Kong, the banking industry has been stepping up their anti-money laundering and counter-terrorist financing (AML/CFT) controls in general, including the adoption of more stringent customer due diligence (CDD) process for existing and new customers. Apart from meeting local requirements, some international banks also need to apply different account opening processes in order to comply with the requirements or standards mandated by their head offices or overseas authorities.

The Hong Kong Monetary Authority (HKMA) has been working closely with the banking industry and has taken various measures to address the issue. The HKMA has engaged various stakeholders, including chambers of commerce, to gather details of specific incidents and followed up with the banks concerned. The information collected has been incorporated in the Circular issued by the HKMA to all banks last September. The Circular explains how the risk-based approach should be applied to the CDD process for account opening and maintenance. It underlines that the risk-based approach is not meant to be a "zero failure" regime, and hence banks should not implement overly stringent CDD process with a view to eliminating, ex-ante, all risks. The Circular also emphasises the importance of banks' engagement with customers to ensure that they are treated fairly, particularly with respect to transparency, reasonableness and efficiency of the process.

To enable more comprehensive provision of information relating to bank account opening and maintenance, as well as more proactive collection of

views and response to enquiries from members of the public, local and overseas business community and other stakeholders, the HKMA launched last week a dedicated webpage on its website (www.hkma.gov.hk) and provided a dedicated email account (accountopening@hkma.gov.hk) to gather feedback from the public. The HKMA webpage provides information on procedures for bank account opening and maintenance, documents required and contact information of banks. It also covers latest measures adopted by banks, information on what banks should not do, and useful tips for reference of the public.

My response to specific questions is as follows:

(1) In response to the HKMA guidance, banks have taken a number of measures to improve the account opening process, such as shortening the turnaround time, providing interim updates about the progress of applications, establishing review mechanisms for unsuccessful applications, and strengthening training of frontline staff. Based on the feedback HKMA received recently, customer experience in the account opening process has improved. Currently, an average of about 10 000 new business accounts opened per month, with 70% of them relating to SMEs and start-up companies, and 20% relating to overseas SMEs and start-ups companies. For the successful cases, 90% have their scrutiny completed within one month, and two-thirds within 15 days.

(2) The HKMA received five complaints about rejection of business account opening by banks in the first two months of this year, as compared with 31 and 59 complaints last year and in 2015 respectively. We understand that the review mechanisms set up by individual banks are operating smoothly in general, with a fair proportion of applications finally accepted after review.

The HKMA has conducted reviews on some of the rejection cases to assess whether a risk-based approach was applied in the customer due diligence process. Based on the information provided by the banks, the major reasons for unsuccessful account opening include: (i) an applicant's failure to provide the requisite customer due diligence information or documentary proof (e.g. business plan, source of wealth/fund, or business proof), which prevents the bank from having a reasonable understanding of the applicant's business nature and operation as well as the purpose of opening a bank account in Hong Kong;

and (ii) the identification of risks of financial crimes during the customer due diligence process (e.g. concerns relating to money laundering or financial sanctions).

(3) We keep under regular review Hong Kong's legal and regulatory regime for AML/CFT purposes to ensure that it is in line with the latest international standards and practices, including drawing reference from other jurisdictions. However, due to different market conditions of individual jurisdictions, such as the varying composition or risk profiles of their banking sectors, it is inappropriate to make a direct comparison.

Nevertheless, the HKMA understands from banks operating in different financial markets that the account opening processes and requirements in Hong Kong (especially for corporates) are comparable to those adopted by other international financial centres. Following its issuance of the circular on "Frequently Asked Questions on Customer Due Diligence" in September last year to clarify certain requirements which are often misinterpreted by banks, the HKMA plans to commission a mystery shopping programme in the latter half of this year to assess the effectiveness of measures adopted by banks to improve customer interfacing, and to conduct thematic on-site examinations to test actual implementation of the risk-based approach.

I would like to stress that, while there is no easy quick fix, we will continue to work with the banking industry, business community and relevant stakeholders to handle this global and complex issue. Our aim is to maintain a robust AML/CFT regime in Hong Kong which does not hinder access by legitimate businesses and members of the general public to basic banking services.

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