

Press Release

LCQ4: Cancellation of customers' accounts by banks

Wednesday, December 6, 2017

Following is a question by the Dr Hon Cheng Chung-tai and a reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (December 6):

Question:

It has been reported that in the first 10 months of this year, the Hong Kong Monetary Authority (HKMA) received 117 complaints about banks cancelling their customers' accounts, and that number is higher than the 109 complaints received for the whole of last year. Some of the bank customers whose accounts have been cancelled are small business owners operating catering outlets or stationery shops. Some members of the industry have pointed out that banks may, on the basis of frequent cash deposit and withdrawal transactions in accounts, suspect that the accounts have been used for money laundering and cancel such accounts on that ground. Notwithstanding that HKMA issued in September last year a circular on customer due diligence processes requiring banks to refrain from adopting "one-size-fits-all" measures to combat money laundering, the number of complaints went up instead of going down in recent months. In this connection, will the Government inform this Council whether HKMA will take further measures (e.g. establishing a penalty and compensation mechanism) to prevent banks from cancelling their customers' accounts unreasonably?

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 existing and new customers. During the first ten months of 2017, the Hong Kong Monetary Authority (HKMA) has received 117 complaint cases concerning the closure of individual or corporate accounts by banks. The HKMA has followed up on

each and every one of them. It is found that, in quite a number of the cases, banks decided to close the accounts because of suspicions during their ongoing monitoring process that the accounts might be involved in suspicious transactions, or because the customers were not able to provide the required information during the process. However, there are also cases where the accounts were subsequently maintained after the customers had provided the relevant information which addressed the banks' concerns.

Information suggests that most of the complaint cases are related to individual international banking group and the relevant situation does not appear to be an industry-wide phenomenon. In this regard, the HKMA has already requested the relevant group to review its policies and procedures as well as undertake measures to improve its execution and customer communication issues, so as to align with the "Treat Customers Fairly" principle. In order to enhance transparency, for instance, the HKMA requires banks to maintain adequate communication with customers and endeavour to assist customers in taking steps or providing alternatives that can help satisfy the CDD requirements. Banks are also required to review and revise the contents of the letters to customers to ensure customers can clearly understand the contents therein and, where appropriate and permitted by law, to explain to them the reasons for closure of accounts. In terms of reasonableness, the HKMA requires banks to, unless in exceptional circumstances, follow the terms and conditions agreed with customers and give at least 30 days' notice if banks decide to close their accounts or terminate their loans. Depending on the circumstances of individual customers, a longer notice period should be provided as far as possible so that they can have sufficient time to make alternative arrangements. The HKMA also 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 HKMA will continue to follow up with the relevant banking group and closely monitor its progress in taking forward improvement measures on execution and customer communication.

On the Member's suggestion for banks to refrain from adopting a one-size-fits-all approach, it should be noted that the HKMA has been reminding the banking industry that in implementing robust regulatory measures, they should take care that the access of banking services by legitimate businesses and ordinary citizens should not be unreasonably

impeded. Specifically, instead of adopting a one-size-fits-all approach, banks should conduct CDD measures in a proportionate and pragmatic manner having regard to the different backgrounds, circumstances and risk levels of customers. In a circular issued to all banks in September last year, the HKMA also requests banks to apply a risk-based approach to the CDD process. The risk-based approach is not meant to be a "zero failure" regime, which means that banks are not expected to implement overly stringent CDD process with a view to eliminating, ex-ante, all risks. The circular also emphasises the importance for banks to maintain communication with customers to ensure that they are treated fairly, particularly in respect of transparency, reasonableness and efficiency.

In order to provide more comprehensive information relating to bank account opening, and to collect views as well as answer related enquiries from the public, local and overseas business community, as well as other stakeholders, the HKMA set up a dedicated webpage on the HKMA's website in March this year and launched a dedicated email account (accountopening@hkma.gov.hk) to facilitate customers to provide feedback to the HKMA. The HKMA webpage contains information about account opening and maintenance procedures, documentation and information requirements and contact details of banks. It also contains a "What's New" section on the latest initiatives of banks, and provides information on what banks should not do, in addition to other useful tips for reference by the public. Since the launch of the HKMA's dedicated webpage and email account, useful feedback and comments have been received which are being followed up by a dedicated team of the HKMA. Furthermore, the HKMA hosted a total of six sharing sessions this year and last year for banks to engage in direct exchanges with local and foreign chambers of commerce as well as professional organisations on account opening policies and practices. In the coming months, the HKMA will launch a mystery shopping programme (commonly known as "decoy operations") relating to account opening procedures of banks in Hong Kong, so as to assess the effectiveness of measures adopted by banks in improving customer experience. The HKMA is also conducting a new round of thematic review to identify good and bad practices for sharing with the industry. Meanwhile, the HKMA is exploring with the banking industry on how technology (e.g. remote account opening, Know-Your-Customer Utility) can be used to increase the efficiency of account opening and improve the customer experience.

I have to stress that, amidst the global threats posed by money laundering and terrorism, there is no easy, quick fix to solve the issue. The HKMA will continue to work with the banking industry, business community and relevant stakeholders to tackle this complex issue which confronts countries all over the world. Our aim is to maintain a robust AML/CFT regime in Hong Kong which does not undermine access by legitimate businesses and ordinary citizens to basic banking services.

Thank you, President.

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