

**Panel on Financial Affairs
Meeting on 3 July 2006
Agenda Item III: Impact of branch closure of banks on the public**

The Administration's response to the Clerk's letter of 8 May 2006

According to figures provided by the Hong Kong Monetary Authority ("HKMA"), banks maintained a total of 1,202 branches in Hong Kong at end May 2006, compared with 1,448 branches at the end of June 2001. The net reductions in the number of branches maintained by note-issuing banks and other banks over the period are 154 and 92 respectively. Please see the table below for more details.

	Number of local branches				
	As of 30 June 2001	Changes between 30 June 2001 and 31 May 2006			As of 31 May 2006
		Opened	Closed	Net Change	
Note-issuing banks	569	46	200	154	415
Other banks	879	135	227	92	787
All banks	1,448	181	427	246	1,202

2. There are two main reasons for this development. Firstly, competition in the banking sector has intensified following the full deregulation of interest rates in July 2001. The net interest margin of banks contracted by over 17% from 2.03% in 2001 to 1.68% in 2005. Against an increasingly competitive environment, banks have to think harder on how to make the best use of their resources. Some banks have rationalised their branch networks in a bid to maintain their competitiveness in a deregulated environment. Secondly, consumer behaviour has changed as new technology emerges. The percentage of banking transactions conducted through branches vis-à-vis other delivery channels such as ATMs and the Internet continues to decline. Banks have to re-position themselves to ensure that they continue to deliver services to their customers in the most efficient way.

3. The Administration considers that the choice of delivery channels is a commercial decision for banks. Under the free market principle, it is not appropriate for the Government to interfere with the commercial decisions of

banks. Competition will ensure that banks deliver their services to customers through the channels they consider most appropriate, having regard to the latest state of technology and the needs of their customers. Different banks will have different strategies to deliver their services to customers. According to the statistics of the HKMA, while some banks have downsized their branch networks over the years, some banks have maintained more or less the same number of branches or even expanded their branch networks. It is also worth noting that electronic banking service is economical and widely available in Hong Kong. The number of personal internet banking accounts has grown exponentially from 1.1 million at the end of 2001 to 3.3 million at the end of 2005.

4. We have been encouraging the banks to take into account corporate social responsibility in conducting their business and have due regard to the needs of the public. We note that the banking industry has been proactive in considering ways to minimize the impact of branch closures on the public. The Hong Kong Association of Banks (“HKAB”) has set up a special task force and will discuss their findings with the Panel on 3 July 2006.

**Hong Kong Monetary Authority
Financial Services and the Treasury Bureau**

June 2006