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Panel on Financial Affairs
Meeting on 3 July 2006

Background Brief
on the impact of branch closure of banks on the public

Purpose

This paper sets out the background of branch closure of banks and its impact on the public. It also summarizes the major views and concerns expressed by Members at previous meetings of the Legislative Council (LegCo) or the Panel on Financial Affairs (FA Panel).

Background

2. Given the closure of a number of bank branches in recent years, the impact of branch closure has become an issue of public concern. According to the information provided by the Administration, the net reductions in the number of branches maintained by note-issuing banks (NIBs) and other banks over the period between 30 June 2001 and 31 May 2006 are 154 and 92 respectively. Apart from the growing use of electronic banking services, the main reason for this development is the rationalization of branch networks by banks for maintaining their competitiveness following the full deregulation of interest rate rules (IRRs) in July 2001.

3. Since the full deregulation of IRRs in July 2001, LegCo Members have on various occasions expressed concerns about the impact of branch closure of banks on the public. Such concerns were raised when the FA Panel discussed consumer protection in the banking sector at its meeting on 26 February 2002 and when the Panel was briefed on the work of the Hong Kong Monetary Authority (HKMA) at its meeting on 6 February 2006. Concerns were also raised in the form of written/oral questions at LegCo meetings on 9 April 2003, 9 July 2003, 9 November 2005, 17 May 2006 and 14 June 2006.

4. Noting that the Hong Kong Association of Banks (HKAB) has established a task force in February 2006 to look into ways to alleviate the effects of branch closure and facilitate access to services, the FA Panel invited representatives of HKAB, the Consumer Council and the Administration to the Panel meeting on 3 July 2006 to discuss the subject.

Deregulation of interest rates rules

5. In February 1994, the Consumer Council in its report “Are Hong Kong Depositors Fairly Treated?” recommended that the interest rate caps on time, savings and demand deposits be removed. Following the partial deregulation of the IRRs undertaken in 1994 and 1995, the interest rates of more than 99% of all Hong Kong (HK) dollar fixed time deposits or around 70% of total HK dollar deposits were free to fluctuate in accordance with competitive market forces. The remaining IRRs covered time deposits with a maturity below seven days, current accounts and savings accounts deposits.

6. In early 1998, HKMA commissioned the Hong Kong Banking Sector Consultancy Study (the Consultancy Study) to examine the strategic outlook of the banking sector over the next five years and to consider the effectiveness of HKMA’s approach to banking supervision. Deregulation of the remaining IRRs was one of the regulatory issues examined in the Consultancy Study. In the Executive Summary on the findings and recommendations of the Consultancy Study issued in December 1998, the consultant set out, among other things, the following finding and recommendation:

- (a) Based on the models developed to assess the potential impact of full deregulation of IRRs on banking sector interest expense, full deregulation of the IRRs could have a significant financial impact on the interest expenses of banks, particularly for local banks. It was likely that banks would act to pass on or mitigate these costs in the form of reductions in branch networks, higher fees and/or higher lending rates to customers; and
- (b) While full deregulation would bring about long-term benefits including more efficient intermediation and improved product choice for consumers due to enhanced competition, deregulation of the remaining IRRs had the potential to increase the reductions in profitability of banks and also sector stability. Given the difficult operating conditions expected for banks for 1999, no further deregulation was recommended for that year. A possible option was to adopt a phased programme for the deregulation of the remaining IRRs.

7. The relevant parts of the Executive Summary and consultancy report are in **Appendices I and II** respectively. The recommendations of the Consultancy Study were released for public consultation until the end of March 1999. At its meeting on 1 February 1999, the FA Panel was briefed on the major findings and recommendations of the Consultancy Study. On the further deregulation of IRRs, some members considered that the deregulation programme should be expedited so as to realize the benefits associated with deregulation as soon as possible and enable Hong Kong to meet international standards in this area.

8. In July 1999, HKMA published the Policy Response to the Consultancy Study (the Policy Response). HKMA was of the view that competitive pressure was likely to increase with deregulation and consequently, there would be demands on banks to preserve their profit margins by other means. Experience of deregulation elsewhere showed that banks would try to generate additional revenue through charging fees and introducing tiering of interest rates. They would also review their existing cost structures and streamline unprofitable services and branches. Taking into account the view of the consultant and the public, HKMA accepted that there was a need to proceed with the deregulation of the remaining IRRs. The relevant part of the Policy Response is in **Appendix III**. HKMA then adopted a two-phase programme to deregulate the remaining IRRs, with Phase 1 to take effect on 3 July 2000 and Phase 2 on 3 July 2001.

9. Since 3 July 2001, interest rates on all types of deposits have been determined by competitive market forces.

Impact of closure of branches of banks on the public

Impact on the public

10. Members' major concerns expressed at previous meetings of LegCo or FA Panel on the impact of branch closure of banks on the public are summarized as follows:

- (a) The reduction in the number of bank branches has caused great inconvenience to members of the public, in particular the elderly, the disabled, and recipients of Comprehensive Social Security Assistance (CSSA); and
- (b) In connection with item (a) above, it is not easy for the elderly or the disabled to withdraw cash at Automatic Teller Machines (ATMs) or gain access to electronic banking services on the Internet via computers. If no bank branches are available in the estates where they live, they have to travel a long way to find a bank for cash withdrawal or collecting payments of Old Age Allowance or Disability Allowance.

Members' major suggestions and the Administration's responses

11. Members' major suggestions raised at previous meetings of LegCo or FA Panel for improving the current situation and the Administration's responses are summarized in the following paragraphs.

Suggestion on providing basic banking services through post offices

12. Some Members have suggested the Administration to consider following the practice of some overseas countries by providing basic banking services through post offices. For example, the Social Welfare Department (SWD) may consider providing recipients of CSSA, Old Age Allowance and Disability Allowance with the option of collecting payments at post offices. The Administration's responses are summarized as follows:

- (a) LegCo meeting on 9 November 2005
The Secretary for Financial Services and the Treasury (SFST) responded that he would ask his colleague to examine whether the suggestion of providing basic banking services through post offices was feasible.
- (b) FA Panel meeting on 6 February 2006
The Chief Executive of HKMA pointed out that under the Banking Ordinance (Cap. 155), only licensed banks might operate current and savings accounts, and accept deposits of any size and maturity from the public and pay or collect cheques drawn by or paid in by customers.
- (c) LegCo meeting on 17 May 2006
The Secretary for Economic Development and Labour responded that at the request of HKAB's task force, the Hongkong Post (HKP) had provided information on the feasibility of banks providing withdrawal and deposit services in post offices, including the following information:
 - (i) The service scope of HKP was bound by the Post Office Ordinance (Cap. 98) and the Trading Funds Ordinance (Cap. 430). Under the existing legislation, HKP could not provide withdrawal and deposit services on behalf of banks; and
 - (ii) The setup of individual post offices (such as security arrangements, floor area, facilities and information technology systems) and human resources were designed primarily to serve the needs of postal services, and the resources of the majority of post offices were already heavily utilized. Therefore, there

would be considerable impact on the quality of postal services if the banks were to provide withdrawal and deposit services in post offices.

Having carefully considered the potential implications on the quality of postal services, security and other technical factors, HKP had grave reservations about providing withdrawal and deposit services in post offices. The feasibility of HKP running its own withdrawal and deposit services was even more remote since it involved issues such as capital arrangement and risk management. On the other hand, SWD had no plan to distribute CSSA and Social Security Allowance (SSA) (including Old Age Allowance and Disability Allowance) through post offices at this stage, as the current arrangements^{Note} already met the needs of the recipients.

Suggestion on exploring measures to encourage banks to provide services in public housing estates

13. Some Members have suggested the Administration to explore measures to encourage banks to provide services in public housing estates, such as providing rental waiver to banks. The Secretary for Housing, Planning and Lands (SHPL) responded at the LegCo meeting on 9 April 2003 that the Housing Department had implemented the following measures:

- (a) Identifying smaller premises or suitable locations for ATMs having regard to banks' preferences and latest business requirements;
- (b) Allowing a more flexible mode of banking operation by permitting supermarkets and convenience stores to set aside a part of their shop premises for the provision of ATMs at low rents; and
- (c) Continuing to encourage banks to set up branches or ATMs as soon as possible in new public housing estates through close liaison, meetings and site visits.

14. SHPL also informed Members at the LegCo meeting on 9 April 2003 that the rents of Housing Authority's commercial premises were determined by free tendering. Due to the general lack of interest among banks in bidding for new

Note

SWD normally distributes payments of CSSA and SSA through monthly automatic payment transfer to recipients' designated bank accounts. Currently, there are about 40 banks in Hong Kong providing this service. Recipients can choose those banks that have branches near their homes to facilitate collection of CSSA and SSA payments. Where necessary, recipients can request SWD to change their designated banks for automatic payment transfers. Under exceptional circumstances, SWD will arrange special monthly cash delivery to recipients who have mobility problem and have no relatives or friends to collect payments for them.

premises, the rents for banking premises in public housing estates had decreased. It was therefore unnecessary to provide rent concessions to banks.

15. Extracts from relevant meetings of LegCo and FA Panel are attached in Appendices IV to X:

Appendix IV	Minutes of special meeting of FA Panel on 26 February 2002 (paragraphs 15 to 19)
Appendix V	Hansard of the LegCo meeting on 9 April 2003 (written question no. 7)
Appendix VI	Hansard of the LegCo meeting on 9 July 2003 (written question no. 18)
Appendix VII	Hansard of the LegCo meeting on 9 November 2005 (oral question no. 2)
Appendix VIII	Minutes of FA Panel meeting on 6 February 2006 (paragraphs 23 to 28)
Appendix IX	LegCo meeting on 17 May 2006 (written question no. 8 and Administration's written reply)
Appendix X	LegCo meeting on 14 June 2006 (written question no. 13 and Administration's written reply)

Recent developments

16. In May 2006, the Consumer Council conducted a survey on 23 banks in Hong Kong in relation to changes in banks' fees and charges, as well as the closure of bank branches. The survey findings published in June 2006 were incorporated into the Consumer Council's submission to the FA Panel (LC Paper No. CB(1)1848/05-06(04) issued to members of the Panel on 28 June 2006).

17. On 23 June 2006, the Board of HKAB endorsed the recommendations of its task force. The recommendations were then incorporated into HKAB's letter to the Chairman of the FA Panel (LC Paper No. CB(1)1848/05-06(03) issued to members of the Panel on 28 June 2006).

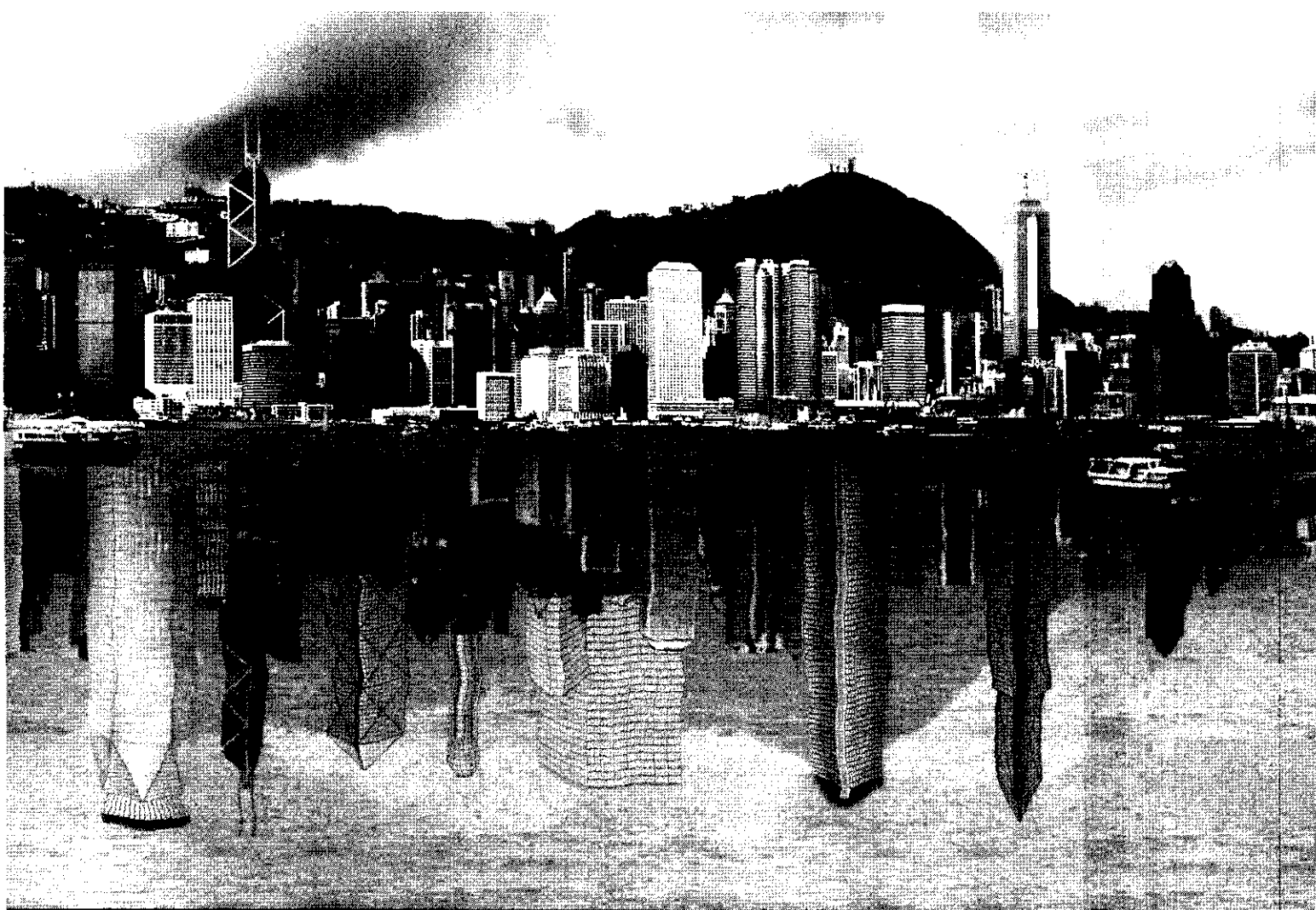
References

18. A list of relevant papers is in **Appendix XI**.

Council Business Division 1
Legislative Council Secretariat
30 June 2006

Hong Kong Banking into the New Millennium

Hong Kong Banking Sector
Consultancy Study - Executive Summary



December 1998

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Assessment of the IRRs

The IRRs have provided a measure of underlying stability in the retail deposit and residential mortgage markets. However, the IRRs limit competition for certain deposits and raise questions about efficient allocation of resources. In deciding whether the remaining IRRs should be deregulated, a number of issues need to be considered, principally, whether the long-term impact of restricting competition is outweighed by the need for interest rate stability.

From the perspective of consumer choice and fair returns to depositors, the argument generally used by the banks is that consumers receive other services in lieu of higher interest payments. This, however, results in inefficiency in the pricing of products and provides a subsidy to banks in the form of cheaper funding, which may discourage the forces of consolidation. This subsidy is provided at the expense of savers, which is neither efficient nor equitable. With the IRRs removed, interest costs are likely to rise and this may lead to a consolidation in the industry, as has been experienced in other countries where interest rates have been deregulated. The fewer remaining institutions will be more efficient and provide more competitive interest rates to savers.

While continuing the status quo is a reasonable regulatory decision during the current financial crisis, it is difficult to defend as a long-term stance, given the competitive reach of the global financial sector. Shielding Hong Kong banks from this process will handicap the strongest banks from effectively responding to these forces by reducing the incentive to do so in their home market. It is essential, however, that the process of further deregulation is carefully managed, to avoid potential instability in the banking sector.

Given the importance of the IRRs, two models were developed to measure the potential impact of interest rate deregulation on banking sector interest expense. Both models used interest rate and deposit data available up to the end of 1997:

- firstly, an econometric model was developed to assess the potential impact of revoking the IRRs on savings accounts and time deposits. This model reviewed the impact of the 1994-95 deregulation of time deposit accounts on deposit movements, through to the end of 1997; and
- secondly, a predictive model was developed to estimate the financial impact of interest rate deregulation (based on the results of the econometric model) for the 40 banks holding the majority of HK\$ deposits¹⁵.

As the models were designed to focus on deposit movements and interest expense, the models did not address the issue of how banks would seek to preserve net interest margins through changes in lending activities (e.g. increases in lending rates to compensate for increases in funding costs).

¹⁵ These were the 40 institutions included in the HKMA interest rate survey.

For the predictive model, one base-case (i.e. 1997 actual data) and 10 scenarios were devised and reviewed. The scenarios were selected to show the effect of partial deregulation (e.g. only for savings accounts or current accounts) and full deregulation, under a number of different interest rate environments. The predictive model demonstrated that the impact on banks' interest expense would vary considerably, depending on the change in interest rates and the type of deregulation (e.g. whether current accounts or savings accounts or both were deregulated). The following four scenarios illustrate the impact of deregulation under differing circumstances (see Table 1.8.4):

Table 1.8.4 Impact of releasing the remaining IRRs (under four scenarios)

	Actual data for 1997	Deregulation of savings accounts		Deregulation of current accounts	Full deregulation
	Base case	Case 1	Case 2	Case 3	Case 4
<i>Effective interest rates on:</i>					
Current accounts	0.00%	0.00%	0.00%	4.13%	5.68%
Savings accounts	4.13%	4.71%	5.68%	4.13%	5.68%
Total interest expense (HK\$million)	175,729	176,817	181,167	180,195	187,310
Increase in interest expense (HK\$million)	—	1,088	5,438	4,466	11,581
<i>Net interest margins:¹</i>					
Local banks	2.51%	2.42%	2.28%	2.32%	2.02%
Foreign banks	1.13%	1.10%	1.04%	1.06%	0.94%
Both local and foreign	1.66%	1.63%	1.51%	1.54%	1.35%
<i>Decrease in net interest margin for local banks:</i>					
% reduction	—	3.6%	9.2%	7.6%	19.5%
Basis point reduction	—	9bp	23bp	19bp	49bp

Note: ¹ Net interest margins = net interest income divided by average interest earning assets

Source: KPMG/Barents analysis

Based on these numbers, full deregulation of the IRRs could have a significant financial impact on the interest expense of banks, particularly for local banks. On the assumptions set out above, and on the basis of 1997 data, the potential impact on net interest margins of local banks could be as high as 49 basis points. To put this into context, the decline in net interest margins for all local banks in the period from June 1997 to June 1998 (reflecting the impact of the Asian crisis) was only 17 basis points. Therefore, the impact of full deregulation is potentially far greater than that experienced during the Asian crisis.

It is also likely that banks would act to pass on or mitigate these such cost increases in the form higher customer fees and/or lending rates. Any increase in mortgage rates could adversely affect the property market.

Recommendations

In the longer-term, deregulation brings with it a number of benefits, including more efficient intermediation and improved product choice for consumers. However, actions taken to deregulate the remaining IRRs have the potential to increase the recent reductions in profitability of banks and also sector instability. We therefore consider that deregulation of the remaining IRRs should not occur at this particular time, when there is already increased systemic risk in the financial sector. Once this period of market volatility has subsided, we recommend the HKMA take steps to assess whether deregulation could be achieved without a significant adverse impact on systemic risk of the sector. Given the difficult operating conditions expected for banks during 1999, no deregulation is recommended next year.

In determining the timing of any further deregulation, we recommend that changes should only be introduced after a specified period of stability, characterised by relative containment of risk. The containment of risk could be measured using a wide range of monetary, financial and market indicators and monitoring of these indicators should commence during 1999. Additionally, not all banks currently have the products, systems, risk management capabilities and/or balance sheet structures that would enable them to compete in a fully deregulated interest rate environment. Consequently, if the HKMA and the HKAB move towards further interest rate deregulation, such reforms would be more prudently implemented if phased in over a period of time.

There are only three separate types of accounts or deposits that remain to be deregulated (i.e. current accounts, savings accounts and time deposits up to 6-days). In determining how and when to deregulate these types of accounts in a phased manner, we have considered the likely impact of the deregulation of each on sector stability and individual banks' ability to compete. Bearing these considerations in mind, one possible scenario is outlined below (subject to monitoring of indicators during 1999 and following each stage of deregulation):

- **Stage 1** – remove interest rate restrictions on time deposits with a maturity of 24-hours up to 6-days;
- **Stage 2** – allow interest to be paid on current accounts up to an agreed interest rate cap; and
- **Stage 3** – remove all remaining interest rate restrictions.

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this case the impact on local banks would be a decrease in interest margins of 17 basis points or 6.8%. (see Scenario 7 of the Appendix)

Conclusions regarding changes to IRRs

Full deregulation of the IRRs could have a significant financial impact on the interest expense of banks, particularly for local banks. On a worst case assumption (which is not necessarily the most likely), and on the basis of 1997 data, the potential impact on net interest margins of local banks could be as high as 49 basis points. To put this into context, the decline in net interest margins for all local banks in the period from June 1997 to June 1998 (reflecting the impact of the Asian crisis) was 17 basis points. Therefore the impact of full deregulation is potentially far greater than that experienced during the Asian crisis.

It is likely that banks would act to pass on or mitigate these costs in the form of reductions in branch networks, higher fees and/or higher lending rates to customers. One consequence of this may be an increase in mortgage rates, which could adversely affect the property market.

The ability of smaller banks to act independently of the larger banks (who may be more able to absorb these costs) and maintain their profitability is questionable in light of the strategic outlook for the sector. In the current market environment, where banks are showing significant declines in profitability (e.g. in interim results, 12 listed banks disclosed an average decline in profit after tax of 33% or HK\$7.2billion) due to bad debts, reduced loan growth and narrowing margins. Increased competition for funds would therefore reduce profitability even further. Until the economic situation has stabilised and the peak level of bad debts in the sector has passed, it would not be prudent to expose banks (and the sector) to this risk. Additionally, deregulation will cause banks to reassess their business activities and will require them to make structural changes to their business. This may require significant investments into new products and systems, which may not be possible in the current difficult environment.

In determining whether to deregulate, the HKMA would also need to consider the degree to which changes to the IRRs could:

- impact banks' liquidity ratios and liquidity management practices (through a change to the term structure of their deposit base) and potentially affect overall banking sector stability; and
- add to interest rate volatility in the market, particularly residential mortgage interest rates which could potentially impact default rates or consumer behaviour patterns in the residential mortgage market.

As noted previously, volatility in residential mortgage rates could in turn impact underlying property values and the overall Hong Kong economy.



The HKMA's view

21. The HKMA considers that deregulation of the remaining IRRs is inevitable given the direction of global banking developments and would ultimately be beneficial to Hong Kong. However, there are several important issues associated with deregulation, which must be understood by both banks and their customers.
22. The IRRs have provided an element of stability during periods of uncertainty in the local banking market. Without the IRRs, it is likely that banks would have adjusted their prime lending rates more frequently during the Asian financial crisis to reflect their cost of funds. The interest rate volatility experienced during 1998 would then have been transferred to other sectors of the economy, including the share and property markets. The technical reforms of the currency board system introduced during 1998 have been successful in their objective of reducing interest rate volatility. However, it remains the case that, in a deregulated environment, those increases in market interest rates that do occur are more likely to be passed onto the consumer (including those with residential mortgages).
23. Furthermore, the competitive pressure is likely to increase with deregulation and consequently, there will be demands on banks to preserve their profit margins by other means. Experience of deregulation elsewhere shows that banks will try to generate additional revenue through charging fees and introducing tiering of interest rates. They will also review their existing cost structures and streamline unprofitable services and branches.
24. Deregulation of the IRRs is therefore likely to result in a re-distribution of resources between bank customers that better reflects an optimal economic allocation rather than a large scale and simultaneous increase in benefits for all customers. For example, customers holding larger account balances might see an increase in deposit interest rates but new charges could be imposed on small balance accounts and on the writing of cheques.
25. The process of improving allocation of resources, reducing cross-subsidisation and introducing more transparent pricing is one of the objectives of deregulation and should not be resisted. However, **it needs to be understood that there will be both winners and losers among bank customers.**
26. There will also be winners and losers among the banks in terms of their ability to compete in a deregulated environment. It will be important (and the HKMA will require) that each bank should conduct a full self-assessment of the likely impact in terms of its competitive position, cost of funds and liquidity management.
27. Taking into account the view of the consultants and the public, the HKMA accepts that there is a need to proceed with the deregulation of the remaining IRRs. However, it is important that the community understands the costs and benefits of doing so.

**Extract from the minutes of special meeting
of the Panel on Financial Affairs on 26 February 2002**

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Fees and charges for basic banking services

15. In regard to fees and charges for banking services, Mr James TIEN pointed out that there were costs associated with fee concessions and waivers granted to disadvantaged minorities, and that these costs would be shifted onto other banking consumers. A balance should be struck between enabling access by disadvantaged minorities to basic banking services and protecting the interests of other bank consumers and those of the banks. Mr NG Leung-sing said that he shared a similar concern with Mr TIEN. He sought CC's views in this regard.

16. Mrs CHAN WONG Shui said that banking services had become an integral part of people's daily lives. CC therefore considered that the principle of Universal Service Obligation should be applicable to basic banking services in that these services should be made available to all citizens, even if it meant that the service providers and some consumers would need to share the additional costs required.

17. Mr CHAN Kam-lam said that in a modern and free economy, an efficient regulatory system for and healthy competition within the banking industry were critical for safeguarding the interests of banking consumers. He did not consider it appropriate to regulate the fees and charges of banks or exert control over the operation of banks. However, he was concerned that the marketing tactics used by some banks, such as offering pre-approved credit cards to consumers, might contravene the principle of prudent credit control and to some extent, had contributed to the problem of over-indebtedness of banking consumers. He urged banks to review their marketing tactics and issue credit cards in a more responsible manner.

18. In this connection, Mr HO Chun-yan raised concern that there was a tendency for banks to move out their branch offices from old public housing estates. In some old estates, even automatic teller machines (ATMs) were not provided. As a result, some public housing tenants had to travel a long way to conduct transactions on their bank accounts. He enquired if the Administration or the banking industry would take measures to improve the situation.

19. DCE/HKMA said that banks would do their best to be sympathetic to the need for basic banking services of public housing tenants. However, it was understandable that some banks had to scale down their branch office operation in order to control costs. Mr LO Chung-hing shared a similar view and said that HKAB and HKMA would be pleased to discuss with the Housing Authority feasible measures to facilitate banks to reinstate basic banking services in public housing estates. Mr HO Chun-yan suggested and members agreed that the Panel should write to the Housing Authority to request the latter to explore possible measures to improve the situation.

(Post meeting note: A letter dated 27 February 2002 to the Chairman of the Housing Authority on the above issue, and the latter's reply letter dated 18 April 2002 were issued to members vide LC Paper No. CB(1)1543/01-02 dated 22 April 2002.)

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~~expressed are very diversified and range from support to the proposal of introducing anti-stalking legislation to concerns of possible infringement of press freedom, and to a lesser extent, strong reservations on the need of new legislation. The Administration needs to consider in depth all these views and hopes to come to a view on the way forward as soon as possible.~~

Provision of Basic Banking Services to PRH Residents

7. **MR ALBERT CHAN** (in Chinese): *Madam President, many residents and shop owners of the newly completed public housing estates, including Yat Tung Estate at Tung Chung, Tin Yuet Estate, Tin Chak Estate, Tin Heng Estate and Tin Yat Estate at Tin Shui Wai, have approached me recently, complaining about the lack of bank branches or automated teller machines (ATMs) in their estates. The lack of such facilities not only causes inconvenience to the residents, in particular the elderly recipients of the Comprehensive Social Security Assistance, but also affects the business of shop owners as the residents may run out of cash. In this connection, will the Government inform this Council whether:*

- (a) it is aware of the problem and has taken any remedial measures;*
- (b) the Housing Department (HD) will consider providing rental waiver and improving the design of shopping centres so as to encourage banks to install ATMs in the housing estates; and*
- (c) it will amend the licensing conditions for banks to the effect that there will be a bank branch or an ATM in every housing estate to ensure that basic banking services are available to the residents?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Chinese):
Madam President, my reply to the three-part question is as follows:

- (a) The HD reserves premises in the shopping malls of public housing estates for the provision of banking facilities. With banks adopting

a more cautious attitude in business expansion in recent years, despite that the HD has repeatedly tendered out banking premises in new public housing estates, such as Yat Tung Estate in Tung Chung, as well as Tin Yuet Estate, Tin Chak Estate, Tin Heng Estate and Tin Yat Estate in Tin Shui Wai, no bids have been received.

To attract banks to provide services in public housing estates, the HD has implemented the following measures:

- (i) identifying smaller premises or suitable locations for ATMs having regard to banks' preferences and latest business requirements;
 - (ii) allowing a more flexible mode of banking operation by permitting supermarkets and convenience stores to set aside a part of their shop premises for the provision of ATMs at low rents; and
 - (iii) continuing to encourage banks to set up branches or ATMs as soon as possible in new public housing estates through close liaison, meetings and site visits.
- (b) The rents of Housing Authority's commercial premises are determined by free tendering. Banks set their bids having regard to market conditions and the business environment. In fact, due to the current economic situation and general lack of interest among banks in bidding for new premises, the rents for banking premises in public housing estates have decreased. It is therefore unnecessary to provide rent concessions to banks.

As regards mall design and selection of premises for provision of banking services, the Housing Authority consults the banking industry when planning shopping centres and identifying banking premises to ensure that the industry's requirements are met. Design factors do not come into the banks' decisions on whether or not to establish business in new public housing estates.

- (c) The provision of banking services in individual public housing estates is the commercial decision of the banks. It is not appropriate for the Administration to interfere with such decisions through amending the licensing conditions or other regulatory measures. Under free market mechanism, banks determine how best to respond to customers' demands in the light of their own corporate business strategies. Nevertheless, the Administration notes Members' concern about the lack of banking services in new public housing estates. The Hong Kong Monetary Authority will relay Members' views to the Hong Kong Association of Banks.

~~Skills Upgrading Scheme~~

8. **MR SIN CHUNG-KAI** (in Chinese): *Madam President, the Skills Upgrading Scheme (SUS) launched in September 2001 provides opportunities for in-service workers of 14 designated industries to pursue further studies at present. The courses are drawn up jointly by representatives from employers, employees and training institutions, whilst the course fees are mainly subsidized by the Government. In this connection, will the Government inform this Council:*

- (a) *of the respective numbers of courses relating to information technology (IT) which are provided for the designated industries under the Scheme, and the respective numbers of trainees in such courses;*
- (b) *of the criteria for determining the industries eligible for joining the Scheme; and the reason(s) for not including IT industry as one of those industries; and*
- (c) *whether it will review the criteria stated in part (b); if it will, of the details of such review; if not, the reasons for that?*

SECRETARY FOR EDUCATION AND MANPOWER (in Chinese): *Madam President,*

~~lifts, staircases linking the PTT and the buildings erected on the lot.~~
The Government has taken over maintenance responsibilities for other related installations such as all elevated walkways which form a separate structure from the development.

There are six existing residential developments in Hong Kong which contain PTT with similar maintenance responsibilities. Two residential developments which are under construction are in similar circumstances.

- (c) In the case of Galaxia, the Government is responsible for the maintenance costs relating to the operation of the PTT, the public toilet and the associated installations. As for the maintenance costs of the public facilities listed in paragraphs (b)(i) to (b)(iv) above, such requirements should have been made known to the flat purchasers by their solicitors during the property conveyancing process. The flat purchase price should also have reflected, among other market and development conditions, these maintenance requirements. There is no question of the Government taking over the maintenance of the aforesaid items. In this respect, the developer's responsibility has been set out in the land lease executed, ~~as a binding contract, between the developer and the Government.~~

Provision of Banking Services

18. **MR ALBERT CHAN** (in Chinese): *Madam President, recently, many members of the public have reflected to me that the Hongkong and Shanghai Banking Corporation Limited (HSBC) has closed down many of its branches in various districts in Hong Kong, causing great inconvenience to its customers. In this connection, will the Government inform this Council:*

- (a) *whether it is aware of the number of HSBC branches closed down in various districts over the past five years;*
- (b) *whether the closure of HSBC branches has any impact on the elderly recipients of Comprehensive Social Security Assistance (CSSA) payments;*

- (c) *whether the Government has adopted measures to regulate the number of branches to be closed down by banks; if so, of the details; and*
- (d) *how the Government ensures that the public can enjoy reasonable banking services in all districts?*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Chinese): Madam President,

- (a) The Hong Kong Monetary Authority (HKMA) does not comment on individual institutions. However, for the banking industry as a whole, the total number of bank branches fell from 1 511 at end of 1998 to 1 294 at end of June 2003. This to some extent reflects the consolidation of banking services, such as bank mergers, and consolidation of smaller branches into bigger ones that provide more comprehensive banking services.
- (b) We understand that the closure of bank branches may cause inconvenience to the public. As advised by the Secretary for Health, Welfare and Food, CSSA payment is normally credited to a recipient's designated bank account monthly. Recipients may choose any bank convenient to themselves, or change their designated account to another bank when necessary. If the closure of a bank's branch office has caused any inconvenience to an elderly CSSA recipient in receiving his CSSA payment, he may change his designated account to another bank and inform the Social Welfare Department accordingly. If an elderly CSSA recipient has difficulty going to a bank to encash his CSSA payment, he may consider appointing an agent to collect the payment on his behalf.
- (c) It is an entirely commercial decision for banks whether to expand or consolidate their branch network based on their business strategy and cost considerations. The HKMA has no legal powers under the Banking Ordinance to regulate the number of branch closures.

- (d) As said in part (c), the HKMA does not have legal powers under the Banking Ordinance to regulate the number of bank branch closures. Neither does it have powers to require banks to maintain branches in a particular location. We are not aware of any major financial centres that have such regulations. This is a commercial decision for the banks after taking into account customer demand, costs of operation and relative competitive position.

As a regulator, the HKMA strives to foster an open and competitive environment for the banking industry. It is believed that under the free market mechanism, banks will offer suitable service channels and products in response to the demand of their customers.

~~IT Development Blueprints~~

19. **MR SIN CHUNG-KAI** (in Chinese): *Madam President, "2001 Digital 21 Strategy: Hong Kong Connecting the World" was launched in May 2001, and the target completion dates of most of the tasks were scheduled by or before the end of this year. It is learnt that other countries and regions have also launched their medium-to-long-term blueprints for the development of information technology (IT), such as the "e-Taiwan Plan" of Taiwan, the "e-Korea Vision 2006" of South Korea and the "Connected Singapore" of Singapore. These plans are scheduled for completion in around 2006 or 2007. In this connection, will the Government inform this Council:*

- (a) *whether it will review the effectiveness of the implementation of the IT strategies; if so, of the timetable of and the criteria for the review;*
- (b) *whether it will launch new medium-to-long-term IT strategies and consult the public and the IT sector when drawing up these strategies; if so, of the details; if not, the reasons for that; and*
- (c) *as other countries and regions are actively implementing their IT strategies and are striving to position themselves as leaders in the strategies concerned, what policies and measures the authorities have to consolidate and enhance Hong Kong's competitiveness in IT;*

~~SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese):~~

President, if the question refers to the land leases that are about to expire, I do not think it applies to the present situation because the period of the land lease in this question has not yet expired. In fact, the nature of the sites in question is very narrow in scope, with only 27 sites being this type of land use. Of these 27 sites, most of them have already been changed to other types of land use with only a small portion left, but they do not involve the question of expiration. The President has already allowed me to set out the facts. I am afraid I do not know what else I can say in reply to this supplementary question.

~~PRESIDENT (in Cantonese): Second question.~~

Closure of Branches by Note-issuing Banks

2. **MR ALBERT CHAN** (in Cantonese): *President, I note that in recent years some note-issuing banks (NIBs) have closed their local branches in a number of public housing estates (PHEs). For instance, the Hongkong and Shanghai Banking Corporation Limited (HSBC) has closed its local branches in Lei Muk Shue Estate, Shek Wai Kok Estate, On Ting Estate, Yau Oi Estate and Tai O, and reduced the service hours of its local branch in Mui Wo. On the other hand, residents of some newly completed PHEs, such as those in Tin Shui Wai and Tung Chung, have repeatedly requested the HSBC to set up branches or teller machines in their estates, but such requests have been refused. As the reduction in the number of local branches by NIBs has caused great inconvenience to many people, especially recipients of Comprehensive Social Security Assistance (CSSA), will the Government inform this Council:*

- (a) *of the number of branches set up by each NIB in Hong Kong in each of the past five years, and whether these banks have an obligation to provide basic services for the public;*
- (b) *whether it will consider revoking the NIB status of banks if they keep scaling down the services of their local branches; if so, of the details; if not, the reasons for that; and*

- (c) *whether it will consider granting the NIB status to banks whose services can serve the needs and interests of the general public better than NIBs; if so, of the details; if not, the reasons for that?*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): President,

- (a) Based on the statistics of the Hong Kong Monetary Authority (HKMA), the total number of branches maintained by the three NIBs has decreased from 580 in January 2001 to 422 at present. This is mainly because the number of banking transactions carried out by customers through bank branches has decreased given the growing popularity of electronic banking services. In response to this development, banks have adjusted their branch networks.

The responsibility of the NIBs is to maintain an effective network for the distribution of banknotes so that banknotes issued by them can be distributed through the banking system in a speedy manner to meet the public's demand. As regards the provision of banking services, the NIBs are no different from other banks, in that such decisions are made on the basis of commercial considerations.

- (b) According to the Legal Tender Notes Issue Ordinance (Cap. 65) and the terms and conditions specified by the Financial Secretary, the main functions of the NIBs are to maintain the stability of Hong Kong's notes issuance operation and to ensure the stable supply of banknotes. The NIBs are responsible for the safekeeping and the handling of the withdrawal and the storage of banknotes so as to meet the demand of the public. The offer of branch services and the increase or decrease in the number of branches, on the other hand, are the commercial decisions of banks.
- (c) Currently, the three NIBs in Hong Kong are able to provide adequate and stable supply of banknotes through their distribution networks. We do not think that it is necessary to increase the number of NIBs.

Like other private sector organizations, banks operate according to commercial principles. At the same time, we believe that they will assume corporate social responsibilities and have due regard to the needs of the public. We encourage banks to fulfil their social responsibilities, but it is for individual organizations to decide on the specific means.

MR ALBERT CHAN (in Cantonese): *President, the reply given by the Government seems like one given by a representative of the banking sector, completely unbecoming of a government should have. President, I would like to seek your advice, for despite my main question asking the Secretary to give the number of branches set up by each NIB, the Secretary only provided the total number of branches of all NIBs instead of that of individual banks. I hope the Secretary will provide the number of branches of individual banks after the meeting, for this is very important.*

President, my follow-up question is about the last paragraph of the main reply, in which the Government stated that it would encourage banks to assume corporate social responsibilities. In my main question, I stated that many banks had closed their local branches causing inconvenience to the public. May I ask the Secretary, in view of the closure of local branches by many banks over the past five years, which denies the public access to banking services, if the Government has made any effort to encourage the banks concerned to provide the services? If it has not done so in the past, how will the Government, from today onwards, encourage the banks concerned to do so to ensure that suitable banking services are provided to the public, the grassroots in particular?

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): President, not all NIBs will disclose in their annual reports the number of local branches and teller machines maintained by them. In order not to contravene the secrecy provision stipulated in the Banking Ordinance, please excuse us for not being able to provide the information requested by Mr CHAN.

I would like to talk about banking services. We all know that over the past few years, many changes have occurred in the provision of banking services. We used to walk into branches of banks to use the services there. But now, we can use teller machines. Besides, all kinds of services, ranging

from cash withdrawal, depositing, account enquiry and even the ordering of cheque books, can now be provided by teller machines. Moreover, many banks have now provided Internet banking services, and a number of banks have provided telephone banking services. The mode of operation of banks has already changed in many aspects. Therefore, just as I have said in my main reply earlier, though the number of local branches of banks has decreased, from the commercial perspective, competition in the banking sector is still keen. Really, banks are in abundance in Hong Kong, and they cannot but enhance their competitiveness. These banks therefore have to operate in accordance with commercial principles.

Mr CHAN asked earlier how the Government would encourage banks to assume their corporate social responsibilities, in this connection, we maintain close liaison with the top management of the banking sector. We do appreciate the problems faced by banks in commercial operation, but still, from time to time, we will reflect the need of the public to the top management. Take myself as an example. During my contacts with a number of large banks, I will remind them to address the needs of the public. Sometimes, despite the closure of some local branches of certain banks in a certain district, branches of other banks may be opened in the same district. Let me explain it to Mr CHAN with an example. Thirty years ago, when I was living in the Oi Man Estate, there were two branches of the NIBs and a branch of a non-NIB. However, the situation has changed now. At present, one of the two NIBs has set up a teller machine there, while two other banks have opened local branches there. In other words, some circumstances have changed. However, these are decisions based on commercial operation. The Government cannot stipulate what a bank has to do or that branches must be opened at certain locations, for such a practice is not consistent with the purpose of designating NIBs.

MR ALBERT CHAN (in Cantonese): *President, the Secretary has not answered my supplementary question. I asked him how appropriate services could be provided to the public, the grassroots in particular, but the Secretary has not answered how banks would provide services to the grassroots.*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): President, I do not understand what Mr CHAN was referring to

when he mentioned services for the so-called grassroots. As everyone should have access to banking services, I do not think that the services provided to the grassroots or that to Mr CHAN should be in anyway different. I, therefore, do not quite understand the point of that question. But, no matter how, all citizens are entitled to access to banking services.

PRESIDENT (in Cantonese): A total of 12 Members are waiting to raise their supplementary questions on this question.

MR JASPER TSANG (in Cantonese): *President, in part (a) of the main reply, the Secretary stated that the decrease in the number of branches of banks since 2001 was mainly due to the growing popularity of electronic banking services and the adjustment of branch networks by banks in response. May I ask the Secretary whether studies have been conducted to examine if customers residing in areas where branches of banks have been closed are indeed heavy users of electronic banking services? For as far as I know, in some areas where PHEs are clustered, branches of banks have been closed. But a lot of people had been seen queuing up for services during weekdays before those branches were subsequently closed. The decrease of the number of branches of banks apparently should not be attributed to the growing use of electronic banking services. As the Secretary pointed out in his main reply that this was the main reason for the decrease, what is the basis of his remark?*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): Frankly, no studies in this regard have been conducted. But as I said in the main reply, these are independent commercial decisions of banks, so they should have conducted their own studies, say on the closure or opening of branches, before making such decisions. I am not in a position to answer Mr TSANG's supplementary question from the point of view of a Policy Bureau or the HKMA. However, if Mr TSANG intended to follow up the issue, we may make arrangements for Mr TSANG to meet with the top management of the banks concerned to gain a further understanding of the situation.

MR TAM YIU-CHUNG (in Cantonese): *President, in the last paragraph of the main reply, the Government recognized that as banks operated according to*

commercial principle, they should at the same time assume corporate social responsibilities and address the needs of the public. However, this is not the case in reality. Take the case of remote areas, like the northern part of Tin Shui Wai, as an example. Banks have simply refused to open branches in those areas; they are not even willing to set up teller machines. In that case, that is, if banks fail to assume their corporate social responsibilities and the public are denied access to necessary banking services, will the Government which believes in the aforesaid principle consider following the practice of some overseas countries by providing similar services through post offices?

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): President, the proposal made by Mr TAM was actually tried out in overseas countries. However, as far as I know, only a small number of post offices are now available in the territory. However, I will ask my colleagues to examine whether Mr TAM's proposal is feasible.

As far as I understand it, the public may now withdraw cash when they do shopping in supermarkets. For example, when they use their teller-machine cards to pay for the chewing gums, they may at the same time withdraw cash from their accounts. In fact, in Hong Kong, it is not difficult to make cash withdrawals, and some teller machines are even installed in convenience stores. I hope that through the meeting today, the top management of banks may hear the views of Members. In fact, I have discussed the issue with the top management of banks and reflected to them Members' concern about this issue. I hope that after the meeting today, the banking sector will pay more attention to this aspect and assume their corporate social responsibility.

MR LEUNG YIU-CHUNG (in Cantonese): *President, in the last paragraph of the main reply, the Secretary said that the needs of the public had to be addressed. In fact, it is most important that the needs of the elderly and those of CSSA recipients are catered for. Since they have to collect their payments at banks, if no branches of banks, or even teller machines, are found in the estates where they live, and they do not know how to use electronic banking services, they will have to travel a long way to collect their payments. The Secretary said that banks would address the needs of the public, but this is not the case in reality.*

May I ask the Secretary, when he answered Mr Albert CHAN's supplementary question on encouraging banks to assume their social responsibilities, what encouragement he meant? It turns out that the Secretary considered dining and chatting with the top management of banks is a way of encouragement. But, President, I would only regard these gatherings as a kind of chats or notification rather than encouragement. May I ask.....

PRESIDENT (in Cantonese): What do you want to ask?

MR LEUNG YIU-CHUNG (in Cantonese): *Secretary, when you used the word "encourage", what did you have in mind regarding the so-called "encouragement"? Should chatting be regarded as a way of encouragement? As far as I understand it, encouragement should be substantial, which may include the implementation of certain policies to assist banks in discharging their responsibilities. May I ask the Secretary to inform us of the specific methods, which are not contrary to the independent decisions of individual organizations, being used to encourage banks?*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): President, encouragement cannot be made without communication. Therefore, the first thing we need to do is to establish communication. When I meet with the top management concerned, I have to communicate with them. So, will Mr LEUNG please refrain from saying that I must be dining with them whenever he speaks. This is not necessarily the case. Communication does not necessarily mean dining. We can have communication through chats, and we can chat when we meet. This is the first point I have to clarify. Please do not mistake me as someone fond of dinners or banquets. *(Laughter)* I am already overweight and do not have to eat much. I am indeed on diet.

Second, in respect of communication, we often tell banks that all large corporations need to assume social responsibilities. In fact, not only I say so, many members of society also say so. This is what Members, officials and members of the public will say. I do not necessarily have to offer something in

exchange to make any encouragement. We may tell the top executives concerned that these are duties everyone has to discharge, and that as a member of society, everyone should do so. I do not think that something must be offered in return to effect an encouragement. We just inform banks what they, being a member of society, should do. Mr LEUNG, I need not offer anything tangible to banks in exchange for their fulfillment of their social responsibilities. In other words, we will only encourage banks that, being a member of society, they have the social responsibilities to do so. Regarding this point, I am not the one who says so today, in fact, many Members have said that before. Therefore, I do not think that an encouragement must include the offer of anything tangible before it can be rendered as an encouragement. It is most important that these corporations are told that they have to discharge their responsibilities. In fact, many companies in Hong Kong have undertaken this responsibility. However, I believe, with Members expressing their concerns about this today, the top management of banks will have heard Members' views.

PRESIDENT (in Cantonese): Mr LEUNG Yiu-chung, which part of your question has not been answered by the Secretary?

MR LEUNG YIU-CHUNG (in Cantonese): *President, the Secretary has misunderstood my supplementary question. I am not asking him about the issue of communication and offers in return. My question is: Has any specific or concrete policy, which is not contrary to the government principle of respecting independent decisions of individual organizations, been put in place to encourage banks to improve their services?*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): President, our policies are highly transparent. If Mr LEUNG considers our policies can yet encourage banks to assume their corporate social responsibilities, then, I may say that we do not have any policy in this respect. However, the whole community is surely passing on a message to the banking sector, and I thus consider the formulation of a policy is not necessary. If policies have to be put in place, it can no longer be regarded as an encouragement but enforcement of a policy indeed.

MR WONG KWOK-HING (in Cantonese): *President, according to the Secretary's main reply, the number of branches maintained by the three NIBs has been reduced by 158 over the past five years, at a rate of 27%. This has severely deprived PHE residents and those in remote areas of their access to banking services. May I ask the Secretary through the President that, in view of the present situation, whether the Government has any measures to assist PHE residents and those in remote areas to solve the problem of shortage of banking services? Will banks be required to open more branches upon the granting of licence as an additional condition for the granting of licence?*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): President, Mr WONG, I hope you will understand that the opening of branches, just as I have said in my reply earlier, is commercial decisions of banks. However, competition in the banking sector in Hong Kong is actually very keen. During my conversations with the top management of banks, they all said that business is difficult, that they have to compete for customers, as well as deposits and loans to customers. Therefore, the locations of their branches and the number of branches to be opened are definitely decisions based on commercial consideration. I have already cited the example of Oi Man Estate earlier. I lived there 30 years ago. At that time, there were three branches, two opened by NIBs and one by a non-NIB. But, today, the situation has changed. The branches of the two NIBs have already been closed, but one of the NIBs has set up a teller machine there. On the other hand, two other branches have been opened by non-NIBs. This proves that where there are competition and business, banks will open branches. However, the Government cannot stipulate the number of branches to be opened by banks or that to become a NIB, a bank has to open branches in certain districts. For the functions and duties of a NIB and the opening of branches are two separate issues. President, will you please let me take this opportunity to explain the duties of a NIB.

In fact, being a NIB does not enjoy any advantage. First, a NIB has to deposit a certain amount of US dollars with the HKMA, which is not interest-earning. Then, it has to make arrangements for the printing cost of banknotes — the cost is paid by the HKMA, but a NIB has to undertake the

arrangements involved. A NIB is also responsible for the distribution of banknotes. On occasion where banknotes have to be demonetized, a NIB will have to assume full responsibility for the work. Therefore, we should not link the two issues together, saying that banks with NIB status should undertake the responsibility. If, just as Mr WONG has suggested, banks are required to open a certain number of branches upon the issuance of banking licences, it will be going against the principle of free market and free competition in Hong Kong. Thus, I hope Members will understand this.

PRESIDENT (in Cantonese): Mr WONG Kwok-hing, has your supplementary question not been answered?

MR WONG KWOK-HING (in Cantonese): *No, President, the Secretary has not answered how the Government would address the problem of shortage of banking services in remote areas and PHEs. I have already set out the relevant figures earlier, stating that branch services of banks have been reduced by 27% over the past five years, which means that residents have been denied banking services. The Secretary has not responded to this point.*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): President, just as I have said earlier, we have already reflected the issue to the top management of banks. If they consider operation in certain districts is profitable from a commercial point of view, they will certainly open branches there. However, Members have to understand that the mode of operation of banks has now changed, which I believe Dr David LI should know only too well, and a large number of teller machines are now available in Hong Kong. I also understand that Mr WONG has grave concern for the needs of residents of PHEs. If Members consider that branches of banks are necessary in certain areas, I am more than willing to reflect Members' views to the banks. I am always prepared to do that.

PRESIDENT (in Cantonese): We have spent more than 20 minutes on this question. Last supplementary question now.

DR FERNANDO CHEUNG (in Cantonese): *President, the Secretary said earlier that cash withdrawal has now become very convenient. Apparently, the Secretary has seldom considered the situation of people with disabilities or the elderly. It may not be easy for them to withdraw cash with their teller machine cards, nor can they easily gain access to electronic banking services on the Internet via computers. As far as I know, in overseas countries, if any bank intends to close its branch, public hearings will be held to gauge the views of the public. May I ask the Secretary, in case of possible closure of branches by banks in future, will the views of District Councils be first consulted and expression of views by the public be allowed via channels like public hearings?*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): *President, I think Hong Kong is a free society, a society operates on commercial principles. I believe the approach mentioned by Dr CHEUNG just now may not necessarily be applicable to Hong Kong society today. Besides, I think that under the existing mode of operation, the best way to reflect the needs of people with disabilities and the elderly to the banks is via Members or the Government. We are more than willing to discuss views expressed by Members with the banks. I think this is a better approach as opposed to the holding of public hearings as suggested by Dr CHEUNG.*

DR FERNANDO CHEUNG (in Cantonese): *President, may I ask the Secretary to answer whether he will seek the views of District Councils?*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): *President, I think I have already answered Dr CHEUNG's question, for I think the functions of District Councils are different. It is a matter of the relationship between a bank and its customers. I do not see why District Councils should be involved in such discussion.*

~~**PRESIDENT** (in Cantonese): *Third question.*~~

**Extract from the minutes of meeting
of the Panel on Financial Affairs on 6 February 2006**

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Impact of branch closure by banks on the public

23. Mr CHAN Kam-lam was concerned that given the narrowing interest spreads in a competitive operating environment of the banking sector, the implementation of Basel II in Hong Kong would have adverse impact on the quality of bank services, as banks might have to increase fees and commissions or reduce the number of branches to cover the increase in operating cost for meeting the new capital and disclosure requirements under the Basel II. Mr CHAN sought CE/HKMA's analysis in this regard.

24. CE/HKMA responded that while cost would inevitably be incurred by banks in complying with the requirements under the Basel II, the banking sector would eventually benefit from the prudent "risk-based" principle for business operation. To facilitate the banking sector in striking a balance between cost-effectiveness and maintenance of service quality, the Hong Kong Association of Banks (HKAB) could play a role in liaising with its members to work out measures to address consumer issues arising from provision of banking services, such as the impact of branch closure by banks on the public. HKMA had no statutory authority, nor was this its function, to give direction to banks on what was essentially a commercial decision. Nevertheless, HKMA was ready to assist in the communication on issues between the banking industry and the community.

25. Mr CHAN Kam-lam suggested that the feasibility of providing some banking services through other institutions, such as post offices, be explored. In response, CE/HKMA advised that under the Banking Ordinance (Cap. 155), only licensed banks might operate current and savings accounts, and accept deposits of any size and maturity from the public and pay or collect cheques drawn by or paid in by customers. While some financial services, such as credit services, could be provided by other licensed institutions, the provision of these services was subject to market demand.

26. Noting from CE/HKMA's reply dated 27 January 2006 that HKAB was going to establish a working group to look into ways to alleviate the effects of branch closure and facilitate access to services, Ms Emily LAU was concerned whether the working

group would take into consideration the social responsibility of banks in the provision of banking services for their customers.

27. CE/HKMA responded that the social responsibility of commercially run banks was subject to interpretation by individual banks. He stressed that the consumer issues arising from the closure of bank branches could best be resolved through communication between the banking industry and the community at large. HKMA would provide any assistance required of it in the deliberation of these issues, in collaboration with HKAB and LegCo Members. While pointing out that any suggestion for HKMA to define the social responsibility of banks might run the risk of going against the principle of a free market, CE/HKMA fully appreciated the concern of the public on the provision of banking services, in particular for the residents of areas far from the city centre. When looking into ways to alleviate the effects of branch closure and facilitate access to services, CE/HKMA said that it was important to strike a balance between customer demand and banks' cost-benefit analyses.

28. Ms Emily LAU remained concerned about the impact of the closure of bank branches on the public. She agreed that feasible proposals acceptable to the parties concerned might be worked out through communication with the banking industry. She therefore requested that representatives of HKAB and the Consumer Council be invited to a meeting of the Panel to discuss the subject. Mr SIN Chung-kai supported Ms LAU's request and suggested that all non-Panel Members be invited to join the discussion. Mr SIN also suggested that HKAB be invited to provide information on the number of branches closed by banks since the deregulation of interest rate rules. The Chairman directed the Clerk to take follow-up actions accordingly.

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Appendix IX

LEGCO QUESTION NO. 8

(Written Reply)

Asked by : Hon TAM Yiu-chung

Date of meeting : 17 May 2006

Replied by : Secretary for Economic
Development and LabourQuestion

Given that the number of bank branches has been decreasing in recent years, will the Government inform this Council whether:

- (a) it has studied the feasibility of banks providing deposit and withdrawal services in post offices and of the Hongkong Post ("HKP") running such services on its own, including the technical difficulties involved; if so, of the results of the study; if not, whether it will conduct such a study; and
- (b) the Social Welfare Department plans to provide recipients the option of collecting Comprehensive Social Security Assistance payments, disability allowance and old age allowance at post offices; if so, of the details of the plan; if not, the reasons for that?

Reply

Madam President,

- (a) The Hong Kong Association of Banks has set up a Task Force to identify ways to address the inconvenience to some bank customers resulting from the reduced number of bank branches. At the request of the Task Force, the HKP has earlier provided information on the feasibility of banks providing withdrawal and deposit services in post offices, including:
 - (i) the service scope of the HKP is bound by the Post Office Ordinance and the Trading Fund Ordinance. Under the existing legislation, the HKP cannot provide withdrawal and deposit services on behalf of banks; and

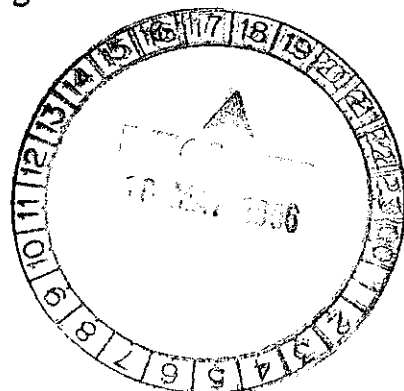
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- (ii) the setup of individual post offices (such as security arrangements, floor area, facilities and information technology systems) and human resources are designed primarily to serve the needs of postal services, and the resources of the majority of post offices are already heavily utilized. Therefore, there would be considerable impact on the quality of postal services if the banks were to provide withdrawal and deposit services in post offices.

Having carefully considered the potential implications on the quality of postal services, security and other technical factors, the HKP has grave reservations about providing withdrawal and deposit services in post offices. The HKP has already conveyed the above views to the Task Force. The feasibility of the HKP running its own withdrawal and deposit services is even more remote since it involves issues such as capital arrangement and risk management.

- (b) The Social Welfare Department (SWD) normally distributes payments of Comprehensive Social Security Assistance (CSSA) and Social Security Allowance (SSA) (including the Disability Allowance and Old Age Allowance) through monthly automatic payment transfer to recipients' designated bank accounts. Currently, there are about 40 banks in Hong Kong providing this service. Recipients can choose those banks that have branches near their homes to facilitate collection of CSSA and SSA payments. Where necessary, recipients can request the SWD to change their designated banks for automatic payment transfers. Under exceptional circumstances, the SWD will arrange special monthly cash delivery to recipients who have mobility problem and have no relatives or friends to collect payments for them.

The SWD is of the view that the current arrangements already meet the needs of the recipients. Therefore, it has no plan to distribute CSSA and SSA payments through post offices at this stage.

- End -



LEGCO QUESTION NO.13
(Written reply)

Asked by Dr Hon Fernando Cheung Date of Meeting : 14 June 2006

Replied by : Secretary for Financial Services and the Treasury

Question

Some residents have reflected to me that many banks closed their district branches in recent years, causing great inconvenience to the residents, especially the elderly and the disabled, of the districts concerned. In this connection, will the Government inform this Council:

- (a) whether it knows the following information on the branches of the Hongkong and Shanghai Banking Corporation Limited, Hang Seng Bank, the Bank of China (Hong Kong) and the Standard Chartered Bank (Hong Kong) Limited, which were closed in the past five years:

<i>Name of Bank</i>		
District	Address of Branch	Date of Closure
Central and Western		
Wanchai		
Eastern		
Southern		
Yau Tsim Mong		
Sham Shui Po		
Kowloon City		
Wong Tai Sin		
Tsuen Wan		
Kwun Tong		
Tai Po		
Yuen Long		
Northern		
Tuen Mun		
Kwai Tsing		
Sha Tin		
Sai Kung		
Islands		

- (b) whether it has requested the banks to assess, before closing their

branches, the impact of such closure on the elderly and the disabled in the relevant districts; if it has, of the details; if not, the reasons for that; and

- (c) whether it has taken measures to ensure that, after closure of those district branches, basic banking services are still available to the elderly and people with disabilities in the relevant districts; if it has, of the details of the measures; if not, the reasons for that?

Reply

Madam President,

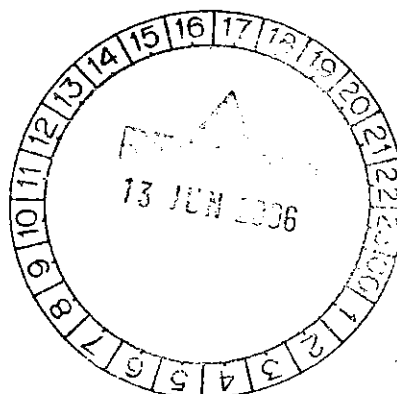
(a) The Hong Kong Monetary Authority (HKMA) considers it inappropriate to provide the requested information which relates to the operation of individual authorised institutions. Nevertheless, it appends below a table showing the aggregate number of branches opened and closed by the four mentioned banks and other banks over the past five years. In addition, the HKMA will relay Dr the Honourable Fernando Cheung's request for information to the relevant banks and will request them to consider providing the information to the Legislative Council directly.

	Number of local branches			
	As of 31 Dec 2001	Changes between 31 Dec 2001 and 31 May 2006		As of 31 May 2006
		Opened	Closed	
The four banks mentioned in the question	693	38	193	538
Other banks	712	119	167	664
All banks	1,405	157	360	1,202

(b) Whether to open or close a branch is a commercial decision for banks. The considerations they are likely to take into account include the needs of their customers, their business strategies, as well as the costs for maintaining the branch, which eventually will affect the cost of banking services provided to their customers. Under the Banking Ordinance, the HKMA is charged with the responsibility for promoting the general stability and effective working of the banking system. Other than for the purposes of prudential supervision, the HKMA does not have the authority, and indeed it considers it inappropriate, to set out specific parameters for banks to follow in making commercial decisions. Nonetheless, it generally encourages banks to take into account impact on their customers in closing branches and take steps to minimise any inconvenience caused to them. Such steps include, for example, installing ATMs as replacement and giving advance notice to customers before closing a branch.

(c) While banks operate according to commercial principles, 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. In this regard, we are aware that most retail banks in Hong Kong waive their charges for maintaining a bank account for social welfare recipients. Electronic banking services are economical and widely available. A major bank has also taken the initiative to provide more user-friendly ATM services for the elderly and others in need. For those elderly and disabled persons who are receiving welfare payments but have mobility problem and have no relatives or friends to collect payments for them from the banks, the Social Welfare Department will arrange special monthly cash delivery to these recipients.

The industry has been proactive in considering ways to minimize the impact of branch closures on the public. The Hong Kong Association of Banks has established a special task force to consider the issue and will discuss its findings with the Legislative Council Panel on Financial Affairs shortly.



Impact of branch closure of banks on the public

List of relevant papers (Position as at 30 June 2006)

Paper/Report	LC Paper No.
Executive Summary on the “Hong Kong Banking Sector Consultancy Study: Hong Kong Banking into the New Millennium”	<i>(discussed at the FA Panel meeting on 1 February 1999)</i>
LegCo Brief on the “Hong Kong Banking Sector Consultancy Study: Hong Kong Banking into the New Millennium”	<i>(discussed at the FA Panel meeting on 1 February 1999)</i>
Paper provided by the Hong Kong Monetary Authority (HKMA) on the “Hong Kong Banking Sector Consultancy Study: Hong Kong Banking into the New Millennium”	CB(1)816/98-99(03) <i>(discussed at the FA Panel meeting on 1 February 1999)</i>
Minutes of the FA Panel meeting on 1 February 1999	CB(1)1592/98-99 <i>(paragraphs 44 to 50)</i>
HKMA’s press release on “Policy Response to the Banking Sector Consultancy Study” issued on 14 July 1999	—
HKMA’s “Policy Response to the Banking Sector Consultancy Study” issued on 14 July 1999	—
Minutes of the FA Panel meeting on 26 February 2002	CB(1)1853/01-02 <i>(paragraphs 15 to 19)</i>
Hansard of the LegCo meeting on 9 April 2003 (written question no. 7)	<i>Issued</i>
Hansard of the LegCo meeting on 9 July 2003 (written question no. 18)	<i>Issued</i>
Hansard of the LegCo meeting on 9 November 2005 (oral question no. 2)	<i>Issued</i>

Paper/Report	LC Paper No.
Minutes of the FA Panel meeting on 6 February 2006	CB(1)1178/05-06 <i>(paragraphs 23 to 28)</i>
LegCo meeting on 17 May 2006 (written question no. 8 and Administration's written reply)	—
LegCo meeting on 14 June 2006 (written question no. 13 and Administration's written reply)	—
Hong Kong Association of Banks' reply to the FA Panel	CB(1) 1848/05-06(03) <i>(issued to FA Panel members on 28 June 2006)</i>
Consumer Council's written submission to the FA Panel	CB(1)1848/05-06(04) <i>(issued to FA Panel members on 28 June 2006)</i>