

For information
on 2 April 2007

Legislative Council Panel on Financial Affairs
Impact of banks' branch closure and fee-charging on the public

At its meeting held on 3 July 2006, the Panel discussed the impact of closure of bank branches on the public. Subsequently, the Administration submitted a report on 24 November 2006 setting out its response to the comments and suggestions raised by the Panel. This paper provides an update on the latest developments. Please refer to the **Annex** for details.

2. The choice of delivery channels (including whether to open or close a branch) as well as the fees and charges for banking services are commercial decisions for banks. In a free market economy, the Government does not intervene in the commercial operations of banks. That said, the Government has always been encouraging banks to fulfill their corporate social responsibilities and have due regard to the needs of the community. We will continue to encourage banks to consider the views and needs of their customers, potential customers and those with special needs in providing banking services through branches and other means.

Financial Services and the Treasury Bureau
March 2007

Comments/suggestions from Panel Members		Updated Position
I.	<p>The Administration should explore with the Housing Authority (HA) measures to encourage banks to provide banking services in public housing estates, such as providing banks with lower rents.</p>	<p>The HA's retail properties including bank premises are let at market rent. Rental assessment is made with reference to factors affecting rent including, inter alia, rents of comparable premises, population, supply and demand, location, trading potential, etc. The HA is aware of the public concern on the accessibility to banking services in public housing estates, and has, where appropriate, made downward adjustments to the rental assessments of many bank premises to attract the banking sector's interest.</p> <p>The HA has taken a proactive approach to facilitate banking institutions to set up banks or automated teller machines (ATMs) in public housing estates. Site visits and meetings with interested banking institutions are arranged. Necessary improvement works in accessibility and building services installations etc. to bank premises are made to meet the specific requirements of prospective bank tenants. Subject to feasibility studies, the HA is ready to consider re-designating vacant sites in the HA's commercial properties for the purpose of setting up banking facilities. The HA has put in place a package letting strategy by which a number of premises are let to interested banking institutions in a lot. Since July 2006, there have been two new lettings to banks (one branch and one ATM) in commercial premises under</p>

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	<p>the HA's management.</p> <p>The HA is also in support of the banking industry's community-wide publicity and educational programmes, especially for the elderly, on the use of ATM services. In this regard, the HA is offering assistance to The Hong Kong Association of Banks (HKAB) in broadcasting its educational video, putting up posters at estate offices and shopping centres, and disseminating related leaflets and ATM location maps to elderly tenants.</p>
<p>II. Banks should give adequate advance notice to consumers before the closure of branches.</p>	<p>The Hong Kong Monetary Authority (HKMA) notes that banks in general give ample notice to customers before closing branches, although there are no specific legal or regulatory requirements for the arrangement at the moment. At the HKMA's request, the industry is considering formalising this industry practice by incorporating an appropriate provision into the Code of Banking Practice.</p>
<p>III. The Administration should make reference to overseas practices in ensuring consumers' access to basic banking service. For example, in evaluating a bank's performance and the</p>	<p>The HKMA notes from the experience in other economies that access to basic banking services (mainly through ensuring the provision of low cost basic banking accounts to the public) has been achieved mainly through voluntary arrangement (as in the case of the United Kingdom), legislation (as</p>

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<p>assignment of ratings, the regulator is required to take into account whether the bank has taken actions to show concern for the community, such as its record of opening and closing branches.</p>	<p>in the case of the United States) or a mix of the two arrangements (as in the case of Canada). Different economies will put in place different arrangements to cater for their own circumstances with regard to the social, economic, geographical and demographic aspects.</p> <p>Unlike the cases in other economies, members of the public in Hong Kong, as the HKMA observes, generally have no difficulty in obtaining basic banking services. In particular, it is noted that banks in general have waived the account charges for the elderly and recipients of Comprehensive Social Security Assistance (CSSA). Moreover, electronic banking services are widely available and provided at low cost. The HKMA will continue to monitor the situation and follow up with the industry where necessary.</p>
<p>IV. The Administration should explore with HKAB and HA the provision of ATMs in premises including HA offices in public housing estates, premises let to non-governmental organizations (NGOs), offices of Members of the Legislative Council (LegCo), public libraries, community halls, and premises of rural committees.</p>	<p><u>Premises managed by the HA</u></p> <p>The HA considers it more appropriate for ATMs to be set up in locations with the maximum pedestrian flow in public housing estates, such as shopping centres. The HA's offices and the premises let to NGOs and LegCo Members may not be situated in prime locations in public housing estates, hence provision of ATMs at those locations may not bring about significant benefits. That said, the HA has no objection to providing ATMs in premises</p>

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	<p>let to NGOs and LegCo Members, if banks consider such premises appropriate for the purpose. However, if portions of their premises were sublet to banks for installation of ATMs, the rental for the premises concerned would have to be reassessed in the light of the provision of commercial services.</p> <p>Members may note that over 80% of retail and car parking facilities originally owned by the HA is now owned and managed by The Link Real Estate Investment Trust (“the Link”). The Administration understands that the Link is actively bringing in more banking outlets including bank branches and ATMs in its properties by working closely with banks and pursuing a flexible leasing strategy. The HA will continue to provide bank/ATM sites in new estates and shopping centres. Where banking institutions are interested in extending their services in the estates from the commercial point of view, the HA will take a proactive approach to prospect suitable premises/sites for their consideration.</p> <p><u>Premises managed by Government departments</u> The Leisure and Cultural Services Department and the Home Affairs Department are open to proposals of installation of ATMs in the premises open to the public under their management, such as public libraries,</p>

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	<p>community halls and premises of rural committees, subject to the identification of suitable locations, the banking industry's interest and feasibility studies.</p> <p>On this basis, the Administration has written to HKAB inviting the banking industry to identify suitable locations for ATM installation. Relevant departments will provide necessary assistance and facilitation, such as conducting site visits, to HKAB in the process. The Administration will continue to liaise with HKAB in this regard.</p>
<p>V. The Administration should explore measures to provide deposit and withdrawal services to the public through other channels, including the provision of such services through post offices and credit unions.</p>	<p><u>Post offices</u></p> <p>As the Administration reported at the Panel meeting on 3 July 2006, Hongkong Post (HKP) has reservations about providing deposit and withdrawal services in post offices due to a number of concerns. To recap, HKP's concerns are set out below –</p> <p>(a) the service scope of the Post Office is prescribed by the Post Office Ordinance (Cap.98) and the Trading Fund Ordinance (Cap.430). Under the existing legislation, HKP cannot provide withdrawal and deposit services on behalf of banks; and</p>

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	<p>(b) the setup of individual post offices (such as security arrangements, floor areas, facilities and information technology systems) are planned and designed primarily to cater for the needs of postal services. The setup may need to be substantially modified if post offices were asked to provide withdrawal and deposit services.</p> <p>HKAB's Task Force on Financial Services Delivery Channel has also explored the feasibility of providing banking services through HKP's outlets. Having assessed the distribution network of post offices, HKAB came to the conclusion that this option was not feasible. However, should there be any further proposal from the banking industry, HKP would be prepared to further study the feasibility of providing deposit and withdrawal services to the public through post offices on the premise that the proposal will not affect the existing quality of postal services and requires no cross-subsidization from postal services. If after feasibility study, a recommendation is made for HKP to provide deposit and withdrawal services on behalf of banks, we may still need to amend the law in which case support from the LegCo members for legislative amendments will be necessary.</p>

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	<p><u>Credit unions</u></p> <p>Credit unions are registered with the Registrar of Credit Unions under the Credit Unions Ordinance (Cap.119). They are self-help, not-for-profit cooperatives, aimed at creating a source of credit available to their members at a fair and reasonable rate of interest. Membership of a credit union is limited to persons having a common bond of occupation, employment, association, or residence within a defined neighbourhood. Members make regular savings to a credit union which uses the accumulated savings to lend at low interest rate to those members who are in need of money for a provident or productive purpose. The objectives of credit unions are usually to encourage thrift through regular savings and promote prudent financial management among its members.</p> <p>The Administration does not consider it appropriate to encourage the provision of deposit services through credit unions because –</p> <ul style="list-style-type: none"> (a) credit unions are not subject to rigorous supervision as that applicable to banks under the Banking Ordinance (Cap.155); and (b) the services of the credit unions are not open to the public.

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	<p><u>Alternative payment means for CSSA</u></p> <p>The HA has been working on a new scheme with the Social Welfare Department (SWD) to enable CSSA recipients living in public rental housing to pay their rents directly to the HA through SWD. Under this new scheme which is known as Direct Rent Payment (DRP) for CSSA recipients, public rental housing tenants on CSSA will have their monthly rents remitted to the HA by SWD, i.e. SWD will pay rents on their behalf to the HA. This scheme will be implemented in mid-2007. It is hoped that DRP for CSSA recipients living in public housing estates will bring convenience to all parties concerned including the welfare recipients, SWD, the HA and banks.</p>

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