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31 August 2007

Ms Rosalind Ma  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Hong Kong

Dear Ms Ma

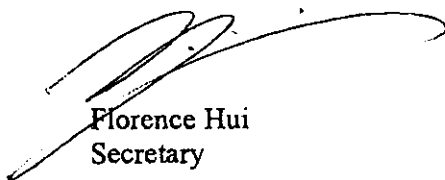
**Panel on Financial Affairs – Follow-up to Meeting on 2 April 2007**

Thank you for your letter to our Chairman dated 4 April 2007. We value the opportunity of meeting with members of the Panel on Financial Affairs Panel again on 2 April 2007 to review the progress made on various recommendations discussed at the previous Panel meeting on 3 July 2006 regarding how access to basic banking services may be enhanced especially by our senior citizens and social welfare recipients.

We appreciate the continued support from the Administration, our member banks and other stakeholders crucial in collectively pushing forward a number of important initiatives. As reported at the 2 April meeting, these include the launch of our community-wide education campaign on the use of ATMs, the introduction of simplified ATMs across both networks and the promotion of EPS-based cash withdrawal services now available at over 700 retail outlets throughout Hong Kong. We have prepared the attached report in collaboration with the Administration on further progress made on various initiatives and our latest research on other suggestions raised at the 2 April meeting. We would like to share the report with the Panel and would be pleased to provide additional details should they be useful.

Despite Hong Kong's penetration in bank branches and ATMs already being one of the world's highest, we look forward to continuing working closely with the Administration and relevant parties to enhance access to banking services by the public.

Yours sincerely



Florence Hui  
Secretary

Enc.

c.c. Hon Chan Kam-lam, SBS, JP (Chairman)  
Secretary for Financial Services and the Treasury (attn: Ms Angelina Kwan)  
Mr Andy Ching, Senior Manager/HKMA

*Chairman* Standard Chartered Bank (Hong Kong) Ltd  
*Vice Chairmen* Bank of China (Hong Kong) Ltd  
The Hongkong and Shanghai Banking Corporation Ltd  
*Secretary* Florence Hui

主席 渣打銀行(香港)有限公司  
副主席 中國銀行(香港)有限公司  
香港上海滙豐銀行有限公司  
秘書 許曉暉

| Ref. | Follow-up action requested from the Administration, HKMA / HKAB   | Update by The Hong Kong Association of Banks (HKAB)  |
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|      | <b>Number and location of bank branches</b>   |  |
| 1(a) | While it is a commercial decision of individual banks to decide on the number and location of their branches, banks are expected to exercise their corporate social responsibility to ensure that basic banking services are still readily available to the public, in particular, the disadvantaged groups, when deciding to close their branches. | <ul style="list-style-type: none"> <li>• Whether or not to open or close a particular bank branch is a commercial decision carefully made on the basis of detailed analysis of customer traffic and transactions in accordance with the business strategies of individual banks.</li> <li>• The channels through which basic banking services are provided to the public have been well developed in Hong Kong. As of end-July 2007, the combined total of bank branches and ATMs was 3,696, spread throughout Hong Kong. Member banks of HKAB will continue to refine their channel strategies as customer demand evolves.</li> <li>• In further addressing the issues relating to access to basic banking services by social welfare recipients and elderly at public housing tenants, HKAB and its member banks will continue to explore potentially viable options with the support of the Government and other key stakeholders.</li> </ul> |
| 1(b) | To facilitate provision of basic banking services by setting up bank branches and ATMs at convenient locations in public housing estates, shopping centres, public libraries, community halls, premises let to non-governmental organisations, as well as facilities managed by the Link.   | <ul style="list-style-type: none"> <li>• As advised by the Link and the Hong Kong Housing Authority (HA), a total of 42 new branches, ATMs and other banking outlets over the past two years have been established by banks of varying sizes in retail facilities under their management. These included various bank branches opened for the first time in new retail facilities like Fu Tai Shopping Centre in Tuen Mun, Yat Tung Shopping Centre in Tung Chung and Tin Chak Shopping Centre in Tin Shui Wai.</li> </ul>   |

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| 1(c)   | To continue to follow up with HA on feasible measures to encourage the provision of basic banking services in public housing estates and commercial premises under HA's management. | <ul style="list-style-type: none"> <li>• The suitability of every possible site at the retail facilities managed by the Link and the HA as bank branch / ATM is given careful assessment by member banks in accordance with their business and channel development strategies. In this regard, HKAB welcomes any measures which the Link and HA may introduce to increase the commercial viability of potential sites for bank outlets at retail facilities under their management. In August 2007, HKAB formally extended its support to the arrangement proposed by HA under which banks will be invited to identify suitable vacant sites for banking facilities at HA's properties and submit leasing proposals. HKAB will continue to work closely with the Link and HA to facilitate the establishment of bank branches/ATMs to enhance access to basic banking services by public housing tenants.</li> </ul>  |
| <b>Measures to facilitate the use of e-banking</b> |   |   |
| 1(d)   | To study the feasibility of interconnecting the two main ATM networks in Hong Kong; namely the Electronic Teller Card and Joint Electronic Teller Services Limited (JETCO) systems. | <ul style="list-style-type: none"> <li>• Currently, the two ATM networks in Hong Kong have over 2,400 ATMs combined and are reasonably well spread throughout the territory. Due to the keen competition between the two networks, customers have enjoyed free ATM transaction services. Connecting the two networks may result in a reduction in coverage owing to rationalization to minimise overlap which can impair service levels such as a longer queuing time.</li> <li>• Based on a desktop research, HKAB understands that a charge is levied on customers in Australia, Singapore and the U.K. for cash withdrawal transactions using ATMs of another bank. The charge for a cash withdrawal transaction is HKD1.6 in Singapore, HKD9.2 in Australia and HKD23.7 in the U.K. (for fee charging ATMs which are commonly found in rural or urban deprived areas). In the U.K., around 4% of cash withdrawal transactions were made through charging ATMs.</li> <li>• More could be learned from overseas experience in further studying the costs and benefits associated with interconnecting the two ATM networks</li> </ul> |

|              |   | to allow cross-network withdrawals and transfers.   |              |          |       |             |              |                        |             |             |                             |         |           |                              |
|--------------|---|---|--------------|----------|-------|-------------|--------------|------------------------|-------------|-------------|-----------------------------|---------|-----------|------------------------------|
| 1(e)         | To look into the feasibility of using biometrics and other advanced technology such as finger print or retina as means of personal identification to facilitate access to ATM facilities by the elderly, the visually impaired or illiterate customers. | <ul style="list-style-type: none"> <li>• Simplified ATMs launched across the banking industry in April 2007 are targeted for less experienced ATM customers, particularly our elderly citizens.</li> <li>• The use of biometrics is still in its early infancy with regard to its application to ATM services but the banking industry will continue to monitor the latest technological developments while keeping other issues like customers' safety and privacy and the potential impact on service standards under review.</li> <li>• Working with the Equal Opportunities Commission and other relevant bodies, HKAB will keep its guidelines on banking for visually-impaired customers under review in light of technological advances and overseas experience. The HKAB guidelines, updated in 2005, contain recommendations to member banks on how they should assist visually impaired customers in conducting banking transactions over the counter or via telephone, ATM or the Internet. For example, the guidelines encourage member banks to ensure their websites are able to be browsed by popular aiding/reading software designed for visually impaired customers.</li> </ul> |              |          |       |             |              |                        |             |             |                             |         |           |                              |
| 1(f)         | To continue the launch of community-wide publicity and public education programmes on the use of ATMs.  | <ul style="list-style-type: none"> <li>• Encouraged by the strong support of our target customer groups* and members of the Legislative Council, HKAB is planning to hold 4 more exhibitions during the remainder of the year to promote ATM usage by inexperienced customers including our senior citizens. The total exhibitions to be held by year-end will be 8, details as follows:</li> </ul> <table border="1"> <thead> <tr> <th>Dates (2007)</th> <th>District</th> <th>Venue</th> </tr> </thead> <tbody> <tr> <td>11-14 March</td> <td>Wong Tai Sin</td> <td>Lok Fu Shopping Centre</td> </tr> <tr> <td>12-15 April</td> <td>Siu Sai Wan</td> <td>Siu Sai Wan Shopping Centre</td> </tr> <tr> <td>3-6 May</td> <td>Kwun Tong</td> <td>Sau Mau Ping Shopping Centre</td> </tr> </tbody> </table>  | Dates (2007) | District | Venue | 11-14 March | Wong Tai Sin | Lok Fu Shopping Centre | 12-15 April | Siu Sai Wan | Siu Sai Wan Shopping Centre | 3-6 May | Kwun Tong | Sau Mau Ping Shopping Centre |
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|                      |   | <table border="1"> <tr> <td>14-17 June</td> <td>Tsing Yi</td> <td>Cheung Fat Shopping Centre</td> </tr> <tr> <td>27-30 September</td> <td>Tin Shui Wai</td> <td>Chung Fu Shopping Centre</td> </tr> <tr> <td>11-14 October (tbc)</td> <td>Kwai Chung</td> <td>Tai Wo Hau Shopping Centre</td> </tr> <tr> <td>1-4 November (tbc)</td> <td>Tung Chung</td> <td>Yat Tung Shopping Centre</td> </tr> <tr> <td>13-16 December (tbc)</td> <td>Tseung Kwan O</td> <td>Hau Tak II Shopping Centre</td> </tr> </table> <p>* According to our survey participated by 58 elderly centres in June 2007, 83% of the respondents have either read our leaflet or poster, watched our VCD or visited at least one of our exhibitions [Note: the above-mentioned educational materials may be viewed from our website at <a href="http://www.hkab.org.hk">www.hkab.org.hk</a>]. Further, 19% of the respondents indicated that they would apply for ATM services.</p>   | 14-17 June | Tsing Yi | Cheung Fat Shopping Centre | 27-30 September | Tin Shui Wai | Chung Fu Shopping Centre | 11-14 October (tbc) | Kwai Chung | Tai Wo Hau Shopping Centre | 1-4 November (tbc) | Tung Chung | Yat Tung Shopping Centre | 13-16 December (tbc) | Tseung Kwan O | Hau Tak II Shopping Centre |
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| 13-16 December (tbc) | Tseung Kwan O   | Hau Tak II Shopping Centre  |            |          |                            |                 |              |                          |                     |            |                            |                    |            |                          |                      |               |                            |
|                      | <b>Enhancing the operation of interbank services</b>  |   |            |          |                            |                 |              |                          |                     |            |                            |                    |            |                          |                      |               |                            |
| 1(g)                 | To explore how best to streamline the procedures for bank customers to switch between banks by offering a one-stop service for account switching, particularly for recipients of Comprehensive Social Security Assistance (CSSA) Scheme and Social Security Allowance (SSA) Scheme. | <ul style="list-style-type: none"> <li>We understand that revised arrangements were instituted by the Social Welfare Department (SWD) in November 2006 to standardise the date of receipt of social welfare payments by all recipients who may maintain their accounts with different banks.</li> <li>HKAB has commenced a review of the procedures for establishing direct debit authorizations (DDAs). Some banks in Hong Kong currently provide standard account transfer forms to facilitate customers to provide to the banks details of DDAs to be migrated to the new account. Utilities companies (like Towngas, CLP Power and Hong Kong Electric) accept change of DDA instructions from customers over the telephone.</li> </ul> <p>HKAB will also work with relevant parties to review further scope of streamlining account switching for customers, particularly social welfare recipients bearing in mind (i) the requirements for banks to know their customers under the statutory guideline of the HKMA in the prevention of money laundering; (ii) the need for SWD to conduct a face-to-face</p> |            |          |                            |                 |              |                          |                     |            |                            |                    |            |                          |                      |               |                            |

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|      |   | interview with the social welfare recipients to ensure that social welfare payments are paid to the recipient through the new bank account and (iii) the experience of some banks in the U.K. that not all DDAs and account arrangements could be migrated as smooth as expected, causing many customer complaints.  |
| 1(h) | To explore the feasibility for deposits of cheques among different member banks of JETCO through ATMs.  | <ul style="list-style-type: none"> <li>• Currently, cheques are accepted for deposit over bank counters, “drop-boxes” provided at bank branches, cheque deposit machines and intra-bank ATMs. Demand for the additional channel for cheque deposit as suggested needs to be studied.</li> <li>• Cheques are cleared and settled the next working day following the day of deposit. The suggestion might necessitate an earlier cut-off for cheque deposit or extension in settlement to the inconvenience of customers, in addition to system changes for both JETCO and its members.</li> <li>• Further cost-and-benefit study is required.</li> </ul>        |
|      | <b>Waiver of bank fees and charges</b>  |  |
| 1(i) | To consider applying a fee-waiver on specific groups of customers such as CSSA and SSA recipients, as well as low-income earners whose wages are autopaid into their designated accounts by their employers | <ul style="list-style-type: none"> <li>• A number of HKAB member banks already have policies in place to exempt senior citizens and social benefit recipients from fees charged on low-balance accounts.</li> <li>• HKAB further issued a circular on 19 January 2007 encouraging member banks to formulate appropriate exemption policies or guidelines.</li> <li>• According to a survey conducted by HKAB in 2006 H2, 75% of HKAB members providing personal banking services levy charges on inactive accounts which have no customer initiated transaction for at least a continuous six-month period and which have a balance below HKD1,000-</li> </ul> |

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|      |  | 2,000. The survey also found that some banks do not require savings accounts operated through ATMs to maintain a minimum balance below which a fee is applicable. This type of deposit accounts may be particularly suitable for customers who generally maintain a low balance in their accounts.   |
| I(j) | Individual banks to improve the transparency of their fee-charging schemes   | <ul style="list-style-type: none"> <li>• A high degree of transparency in the provision of banking services, including fees and charges, is promoted in the Code of Banking Practice issued by HKAB jointly with the DTC Association (DTCA). Although the Code is voluntary, all members of HKAB and DTC are expected to follow the Code in providing services to their personal customers.</li> <li>• On fees and charges, the Code requires banks to make readily available to customers details of the fees and charges payable in connection with banking services covered by the Code. A schedule of the bank's standard fees and charges should be displayed in its principal place of business and branches. Furthermore, the Code requires banks to give at least 30 days' notice to affected customers before any change in the level of fees and charges takes effect unless such changes are not within their control.</li> </ul> |
|      | <b>Provision of banking services through alternative modes</b>   |  |
| I(k) | To further explore the feasibility of providing basic banking services through other channels, notably post offices. | <ul style="list-style-type: none"> <li>• Following discussion in April 2006, the initial view of Hongkong Post (HKP) advised to HKAB was that the feasibility of providing basic banking services through post office outlets while maintaining the same standard of postal services might not be fully feasible due to a number of statutory and practical constraints. We understand that HKP is prepared to undertake further studies on this option on the premise that the provision of deposit and withdrawal services 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</li> </ul>   |

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|      |  | deposit and withdrawal services on behalf of banks, amendments to relevant legislation may have to be made, in which case the support of Legislative Council would be necessary.   |
| 1(l) | To examine the feasibility of introducing mobile bank branches in under-provisioned areas.   | <ul style="list-style-type: none"> <li>• More research is needed in examining the feasibility of mobile bank branches in Hong Kong on issues like customer and bank security, licensing requirements, availability of suitable sites and other logistical arrangements.</li> <li>• We can find limited overseas experience in the provision of mobile banking services. Banks in Australia and the U.S.A. do not provide mobile banking services. In the U.K., one banking group provides mobile banking services on a limited scale, serving customers in small communities which typically are located in remote areas with the nearest bank branch being 5 kilometers away.</li> <li>• Hong Kong has one of the world's highest levels of penetration of banking channels, in terms of both bank branches and ATMs. We would suggest that priority be given to promoting greater usage of ATMs as a channel for delivering basic banking services given that it is highly secure, convenient and cost effective.</li> </ul> |
| 1(m) | To explore the viability for customers to make cash withdrawals without having to make any purchase of goods at chain retailers such as convenient stores with EPS payment facilities. | <ul style="list-style-type: none"> <li>• The volume of purchase-based cash withdrawal transactions through EPS facilities at retail outlets has steadily increased, as a major convenience store chain also started to provide such service at all its stores from March 2007. The monthly cash withdrawal transactions rose by 77% between November 2006 and July 2007, with the cash withdrawal amount averaging around HKD300.</li> <li>• On-going proactive marketing of EPS (such as statement insert, media advertising and prominent display of cashback services at check-out points</li> </ul>  |



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|      |   | <p>at retail stores) should increase the usage further.</p> <ul style="list-style-type: none"> <li>• HKAB will continue to work closely with EPS to further expand vendor coverage.</li> </ul> |
|      | <p><b>Information requested from Administration / HKMA / HKAB</b></p>   |  |
| 2(a) | <p>A detailed breakdown on the number and location of new bank branches set up in recent years, their scope of service, including whether basic banking services such as deposit and withdrawal services are available at these branches.</p> | <ul style="list-style-type: none"> <li>• We understand that the Administration will separately advise the Panel.</li> </ul>  |
| 2(b) | <p>Regarding the retail premises in HA's commercial properties designated for banking facilities (bank branches/ATMs), to provide information as to why some of such premises have not been taken up by banks.</p>                            | <ul style="list-style-type: none"> <li>• Again, we understand that this is being studied by the Administration.</li> </ul>   |