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Panel on Financial Affairs
Meeting on 5 May 2008

Updated Background Brief
on the impact of banks' branch closure and fee-charging on the public

Purpose

This paper recapitulates the background of banks' closure of branches and charging of fees on low-balance and/or inactive accounts, as well as Members' concerns about the impact of such measures on the public. It also summarizes Members' latest views on the subject and the improvement measures implemented by the banking sector.

Background

2. In February 1994, the Consumer Council recommended in its report "Are Hong Kong Depositors Fairly Treated?" that the interest rate caps on time, savings and demand deposits be removed. Following the partial deregulation of the interest rate rules (IRRs) undertaken in 1994 and 1995, the Hong Kong Monetary Authority (HKMA) commissioned the Hong Kong Banking Sector Consultancy Study (the Consultancy Study) in early 1998, which recommended, inter alia, a phased programme for the deregulation of the remaining IRRs.

3. In its Policy Response to the Consultancy Study published in 1999, HKMA accepted that there was a need to proceed with the deregulation of the remaining IRRs. It therefore 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.

4. In recent years, the growing use of electronic banking services, and the rationalization of branch networks by banks for maintaining their competitiveness following full deregulation of IRRs since July 2001 have led to the closure of quite a number of bank branches. Another development is the charging of fees on bank accounts which are inactive or with a low balance.

Major views and concerns expressed by Members

5. In principle, Members welcome the deregulation of IRRs. However, they have also attached great importance to the need to minimize any adverse impact of banks' streamlining and cost-saving measures on their customers. During the period January 2001 to May 2007, Members have raised their concerns through the moving of a motion and raising questions at Council meetings, as well as at the meetings of the Panel on Financial Affairs (FA Panel) with the Administration, HKMA, the Hong Kong Association of Banks (HKAB) and the Consumer Council.

Availability of basic banking services to the public

6. Given that basic banking services had become a necessity in people's daily life, some Panel members considered that the provision of such services should not be determined solely by commercial factors or market forces. They urged the banking industry to strike a balance between commercial considerations and their corporate social responsibility when deciding to close their branches which might cause inconvenience to some disadvantaged customers. Some members considered it incumbent upon the Government to take more active measures to meet the needs of disadvantaged customers for basic banking services if the improvement initiatives undertaken by the industry on a voluntary basis still failed to address these customers' needs.

7. Noting members' concern, the Administration confirmed that it had been working closely with the banking industry at the Task Force on Financial Services Delivery Channels (Task Force) set up by HKAB and would continue to make use of the Task Force as the forum to take forward initiatives and improvements. While the Administration would not resort to legislating for mandatory measures lightly, it would continue to encourage and facilitate the banking industry to discharge its corporate social responsibility. However, as Hong Kong was a free market economy, the Administration considered it inappropriate to intervene in the commercial decisions of banks, including the choice of delivery channels and the opening and closing of branches.

8. There was a suggestion that the banking sector as a whole might consider collaborating in the provision of banking services to disadvantaged groups so that the possible downside of the business could be shared out among banks. HKAB however cautioned that as Hong Kong was a free-market economy, the proposal had to be examined very carefully in order to maintain Hong Kong's free competitive business environment and its status as an international financial centre.

Provision of basic banking services through alternative modes

9. There was concern that the reduction in the number of bank branches had caused great inconvenience to some customers, in particular disadvantaged groups such as the elderly, disabled persons and recipients of Comprehensive Social Security Assistance (CSSA). The Administration was requested to consider the

feasibility of providing basic banking services through post offices. Members were of the view that the concern of the Hong Kong Post (HKP) about the legislative mandate for the provision of deposit and withdrawal services through post offices could be addressed through suitable legislative amendments. The relatively limited network of post offices as compared with the existing networks of banks could also be improved by, say, extending it to hospital premises. In addition, members suggested that the Social Welfare Department (SWD) could consider providing recipients of CSSA, Old Age Allowance and Disability Allowance with the option of collecting payments at post offices.

10. In this regard, the Administration advised that HKP had no objection to studying the feasibility of providing banking services at post offices, but stressed that such an arrangement must not affect the existing quality of postal services, nor require any cross-subsidization from postal services. Meanwhile, members noted that at present, SWD had no plan for recipients to collect CSSA and Social Security Allowance (SSA) (including Old Age Allowance and Disability Allowance) through post offices.

11. Some members called on the banking industry to consider providing mobile bank branches in under-provisioned areas. HKAB advised that more research was 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. HKAB considered it more effective to give priority to promoting greater usage of Automatic Teller Machines (ATMs).

12. Regarding the alternative channels for cash withdrawal through chained convenience stores, members observed that low-income earners and disadvantaged groups might be quite reluctant to make cash withdrawal through purchasing items as they might be more highly priced at those stores. The FA Panel nevertheless noted HKAB's information that the cashback service at convenience stores was available with a minimum purchase and thus the marginal cost for using such service was very low. The volume of purchase-based cash withdrawal transactions through Easy Pay System (EPS) facilities at retail outlets had steadily increased and the on-going proactive marketing of EPS should increase the usage further. HKAB assured members that it would work closely with EPS to further expand vendor coverage.

Banking services at certain locations

13. Members urged for measures and incentives to encourage banks to provide services in public housing estates, government premises or premises managed by the Hong Kong Housing Authority (HA), The Link Management Limited (The Link) and the Hospital Authority.

14. As advised by the Administration, HA had, where appropriate, lowered the rental assessments of many bank premises in public housing estates, and adopted a package letting strategy under which several premises would be leased to interested

banking institutions in a lot. Except those retail facilities which were serving small neighbourhood or having banking facilities in the close proximity, HA had designated a certain number of commercial premises in all remaining retail facilities under its management for the provision of banking services. Banks would also be invited to identify suitable vacant sites for banking facilities and submit leasing proposals for HA's consideration. According to The Link and HA, a total of 42 new branches, ATMs and other banking outlets had been established in retail facilities under their management over the past two years. HKAB assured members that it would continue working closely with The Link and HA to facilitate the establishment of bank branches/ATMs in public housing estates. The FA Panel was informed that the Leisure and Cultural Services Department and the Home Affairs Department were open to proposals of installing ATMs inside their premises, such as public libraries and community halls. The Financial Services and the Treasury Bureau advised that it would provide assistance to facilitate HKAB's liaison with the relevant departments.

E-banking and operation of inter-bank services

15. Some members suggested that HKAB should study the feasibility of interconnecting the two main ATM networks in Hong Kong, namely, the Electronic Teller Card and the Joint Electronic Teller Services Limited (JETCO) systems. Consideration should also be given to waiving the administration charge for the inter-network use of ATMs.

16. HKAB advised that currently, the two main ATM networks in Hong Kong had a total of over 2 400 ATMs throughout the territory. However, connecting the two networks might result in a reduction in coverage and a longer queuing time owing to rationalization to minimize overlap. Regarding the administration charge for use of ATMs belonging to another network, HKAB advised that according to its desktop research, such charge was also levied on customers in Australia, Singapore and the United Kingdom.

17. Given that elderly customers could hardly overcome the difficulty in memorizing the personal identification number for the use of ATMs and that illiteracy among the elderly added to their difficulty in making use of e-banking, some members asked HKAB and HKMA to study the feasibility of using biometrics and other advanced technology as means of personal identification to facilitate access to ATM facilities.

18. In this regard, HKAB informed the Panel that starting from April 2007, simplified ATMs had been launched across the banking industry targeting less experienced ATM customers, in particular elderly persons. However, the use of biometrics such as finger print for cash withdrawals was still in its early stage of development with regard to its application to ATM services. The banking industry would nevertheless continue to monitor the latest technological developments while keeping customers' safety and privacy and the potential impact on service standards under review. To assist visually impaired persons, member banks were

encouraged to enable their websites to be browsed by popular aiding/reading software designed for the visually impaired.

19. There was concern about the complicated procedures for bank customers to switch their accounts between banks. Some Panel members observed that although social welfare payments could be made through other banks, there might be a time difference in these autopayment to banks other than the two major banks. They therefore urged for one-stop service for account switching, in particular for recipients of CSSA and SSA. They also called on HKAB to explore the feasibility of depositing cheques among different member banks of JETCO through ATMs.

20. HKAB informed the Panel that according to its understanding, SWD had put in place revised arrangements since November 2006 to standardize the date of receipt of social welfare payments by all recipients who might maintain their accounts with different banks. HKAB would nevertheless work with relevant parties to review the scope for further streamlining the procedures for customers, in particular social welfare recipients to switch accounts between banks. Regarding the deposit of cheques among different member banks of JETCO through ATMs, HKAB advised that further study on the costs and benefits of the suggestion was required.

The impact of fees charged by banks on the public

21. At the Council meeting on 14 February 2001, Members passed a motion on "protecting the interest of small depositors of banks" urging the Government and HKMA to, inter alia, enhance the transparency of fee revisions by banks. Another concern raised by members of the FA Panel was that the charging and adjustment of fees might deter small depositors and disadvantaged groups from accessing basic banking services. They suggested that consideration should be given to exempting all CSSA/SSA recipients from such charges, or providing a standard fee waiver to all low-income families. There was also a suggestion that low-income earners whose wages were autopaid into their bank accounts might also be subject to charges and thus such payroll accounts should also be exempted from bank charges.

22. HKAB advised that in accordance with the Code of Banking Practice (the Code) jointly issued by HKAB and the Deposit Taking Companies Association (DTCA), banks were required to make readily available to customers details of the fees and charges payable in connection with banking services covered by the Code. Furthermore, member banks were required to give at least 30 days' notice to affected customers before any change in the level of fees and charges take effect unless such changes were not within their control. Although compliance of the Code was voluntary, all members of HKAB and DTCA were expected to follow the Code in providing services to their customers. Regarding the waiver of bank fees and charges, HKAB said that some member banks already had policies to exempt senior citizens and welfare payment recipients from fees charged on low-balance accounts. HKAB also issued a circular in January 2007 encouraging member banks to formulate appropriate exemption policies or guidelines. As to fee

exemption for payroll accounts of low-income earners, HKAB would discuss further with member banks to see if any standardized arrangement could be agreed among different banks.

Progress update provided by HKAB

23. The Panel has considered it necessary to follow up the subject with a view to ascertaining the latest situation and the effectiveness or otherwise of the recommended improvement measures. The Administration, HKMA, HKAB and the Consumer Council have been invited to attend the Panel meeting to be held on 5 May 2008 for discussion of the subject.

References

24. The relevant papers are available at the following website :
http://www.legco.gov.hk/yr07-08/english/panels/fa/papers/fa_m2c.htm

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