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Panel on Financial Affairs
Meeting on 1 June 2009

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. It also summarizes Members' views on the subject and the improvement measures implemented by the banking sector.

Background

2. In February 1994, the Consumer Council (CC) 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 also consider it important to minimize any adverse impact of the banks' streamlining and cost-saving measures on their customers. Since the deregulation of IRRs in the past few years, Members have raised concerns on the subject through moving motions and raising questions at Council meetings, and also at the meetings of the Panel on Financial Affairs (FA Panel) held on 3 July 2006, 2 April 2007 and 5 May 2008.

Availability of basic banking services to the public

6. Given that basic banking services had become a necessity in people's daily life, Panel members urged the banking industry to strike a balance between commercial considerations and their corporate social responsibility when deciding whether to close their branches, as this might cause inconvenience to some disadvantaged customers. Some members considered that the Government should 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 failed to address these customers' needs. The Administration took note of members' concerns and advised that it had been working closely with the banking industry through Task Force on Financial Services Delivery Channels (Task Force) set up by HKAB. The Administration would continue to make use of the Task Force as the forum to take forward initiatives and improvements. However, as Hong Kong was a free market economy, it would not be appropriate to intervene in the commercial decisions of banks, including the choice of delivery channels and the opening and closing of branches.

Provision of basic banking services through alternative modes

7. 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 actively explore the feasibility of providing basic banking services through post offices and set a policy direction for Hong Kong Post (HKP) and HKAB to work out the arrangement.

8. As advised by the Administration, HKP was open to exploring the possibility of providing assistance and facilitation should there be any relevant proposal from the banking industry (e.g. placement of Automatic Teller Machines (ATMs) in post offices). HKP stressed that any such proposal should not adversely affect the existing quality of postal services or require any cross-subsidization from postal services. Apart from the need for legislative amendments to expand the statutory scope of HKP's functions, the Administration highlighted a number of practical considerations, such as operational system, premises security, regulatory regime and resources implications of the proposal.

9. Some Panel 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 this suggestion and considered it more effective to give priority to promoting the usage of ATMs. In view of the increased number of ATM-related complaint cases, CC suggested that banks should improve the accuracy and reliability of the ATM system and determine a reasonable timeframe for investigating and responding to consumer complaints.

10. Regarding the alternative channels for cash withdrawal through chained convenience stores, some Panel members noted that cashback service at convenience stores was available with a minimum purchase. They considered that such measure should be further enhanced to enable cash withdrawals to be made without making any purchase at these stores. In this connection, HKAB has advised that the number of retail outlets providing cash withdrawal services through Easy Pay System (EPS) facilities and the volume of such transactions had grown significantly in 2007. HKAB assured members that it would work closely with EPS to further expand vendor coverage.

Banking services at certain locations

11. Panel members noted that the net increase of bank branches between 2006 and 2008 was relatively small and most branches are set up in high-income districts. Members urged the banking industry to make available more branch channels for the provision of basic banking services in districts with predominantly elderly population. HKAB explained that the opening and closure of bank branches was essentially the commercial decision of individual banks. Publicity and education campaigns would be stepped up to facilitate use of ATMs by the elderly.

12. According to the Administration, the Housing Authority (HA) adopted a flexible approach in designating and letting out premises for banking facilities. It had implemented a package letting arrangement which allowed flexibility in rental discussion, and necessary improvement works were carried out at certain premises to meet the layout and structural requirements of prospective bank tenants. To further facilitate provision of banking services in public housing estates, HA was encouraged to identify and propose suitable premises for rental by the banking industry.

Measures to facilitate the use of e-banking

13. Some Panel 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. There was also a suggestion that every district should be served by both ATM networks if interconnection was not feasible. Panel members noted HKAB's advice that while there was general public support for ATM interconnection, it remained a commercial decision of the ATM operators.

14. To promote the use of ATMs and other electronic channels by the elderly and disadvantaged groups, HKAB has advised that, apart from the launching of simplified ATMs since April 2007, an ATM Education Campaign was held in various districts between March to December 2007, supported by the distribution of educational materials throughout the territory. Service Ambassadors were deployed to branches to assist the elderly in using ATMs.

15. Panel members suggested that use of ATM facilities could be further promoted among elderly customers by the use of finger-print and other biometric authentication in lieu of personal identification number (PIN), as elderly people might have difficulty in memorizing the PIN. Panel members noted that the use of biometric authentication as a substitute for PIN in accessing ATMs was still at an experimental stage and was not widely adopted globally. While the banking industry would continue to monitor the latest technological development in this respect, the use of biometric authentication as an alternative to PIN was not recommended at the present stage.

The impact of fees charged by banks on the public

16. 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. At the Panel meeting on 2 April 2007, Panel members 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.

17. In its response to Panel members' concerns raised at the meeting on 2 April 2007 (LC Paper No. CB(1)2344/06-07(01) issued on 31 August 2007), 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, 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. 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.

Recent developments

18. At the FA Panel meeting on 5 May 2008, members passed a motion requesting the Government to establish a working group immediately for assessing and monitoring the situation, as well as recommending policy initiatives to improve banking services so as to cater for the needs of the elderly, the underprivileged, the disabled and low-income earners. At the meeting, members also requested for information on the number of new bank branches and ATMs with a breakdown on location and distribution at district level, the distribution of the two main ATM networks in Hong Kong at district level, as well as the utilization rate of non-branch channels by the elderly, the physically disabled and recipients of CSSA. Response from HKAB in September 2008 was issued to members vide LC Paper CB(1)2293/07-08.

19. Pursuant to the motion passed at the above meeting, the Administration is considering an appropriate mechanism through which the views and suggestions from different user groups of banking services can be effectively gauged. The Administration will involve and consult the relevant parties and organizations in the process.

20. Mr KAM Nai-wai expressed concern about charges and business practices related to banks credit card services in his letter dated 17 December 2008 to the Panel Chairman. At the FA Panel meeting on 5 January 2009, Ms Emily LAU also expressed concern about the drastic increase in fees and charges of banking services. The Administration/HKMA have provided information in writing in response to members' above concerns (issued vide LC Paper Nos. CB(1)511/08-09(02) and CB(1)688/08-09(01)).

21. The Administration and HKMA have been invited to report the progress to the FA Panel at the meeting on 1 June 2009. HKAB and CC have also been invited to provide updated information and attend the meeting to further discuss the subject.

References

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