

## **NOTE FOR FINANCE COMMITTEE**

### **Financial Dispute Resolution Centre**

#### **PURPOSE**

This note informs Members of the Administration's plan to use the outstanding balance of the non-recurrent commitment approved under FCR(2011-12)23 to continue funding the operation of the Financial Dispute Resolution Centre (FDRC) until around 2017.

#### **BACKGROUND**

2. FDRC administers an independent and impartial financial dispute resolution scheme (FDRS) to provide individual customers with an alternative avenue which is independent and affordable for resolving monetary disputes with financial institutions by way of "mediation first, arbitration next". The maximum claimable amount per case is \$500,000.

3. As the establishment of FDRC would contribute to an important public policy function of investor protection, the Administration had agreed with the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) to share on a 50:25:25 basis the set-up cost and the operating costs for the first three years (i.e. from 1 January 2012 to 31 December 2014). It was planned that, from 1 January 2015 onwards, financial institutions should shoulder all the operating costs, in line with the overseas practice in respect of similar mechanisms, with the funding arrangement to be worked out by FDRC in consultation with the financial services industry after some initial caseload had been built up. The Finance Committee of the Legislative Council approved in June 2011 vide FCR(2011-12)23 a non-recurrent commitment of \$92 million to meet the Administration's funding share.

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**LATEST DEVELOPMENTS**

4. FDRC was incorporated on 18 November 2011 as a non-profit company limited by guarantee and came into operation on 19 June 2012. FDRC is governed by a Board of Directors, comprising mainly non-official members<sup>1</sup>, to oversee its operation and formulate its overall policy and strategy. Financial institutions authorised by HKMA or licensed by SFC, except those providing credit rating services only, are obligated to be members of the FDRS. Currently there are more than 2 000 financial institution members of the Scheme.

5. From its commencement of operation to end October 2014, FDRC handled 79 applications for mediation services<sup>2</sup>. Regarding the mediation services, of the 56 cases completed at mediation stage, 47 were settled, representing a success rate of about 84%. During the period, FDRC also handled 4 875 enquiries, comprising 2 530 on complaints about financial products and services, as well as 2 345 on other issues such as FDRC's services and related administrative issues. To enhance awareness of its service across the community, FDRC also reached out to the financial institutions, professional bodies, District Councils and the general public through meetings, talks and seminars, briefing sessions, visits, promotional activities, open day, exhibition and media channels.

6. With a view to further enhancing its services, FDRC has organised two user feedback forums to exchange views on its services with representatives of financial institutions and conducted 14 training courses and continuing professional training workshops for mediators and arbitrators.

7. We note that FDRC's actual caseload is much lower than the original estimate of 2 000 annually. According to FDRC, since the global financial crisis in 2008, financial institutions have become more proactive in resolving disputes with their customers at an early stage in view of the strengthened local regulatory regime. Moreover, with enhanced financial consumer education effort and more stable financial market conditions, fewer monetary dispute cases arise.

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<sup>1</sup> The Board of Directors of FDRC comprises the non-official Chairman, four non-official members, three representatives each from the Financial Services and the Treasury Bureau, HKMA and SFC, and the Chief Executive Officer of FDRC.

<sup>2</sup> Of which 74 applications were accepted, four fell outside FDRC's Terms of Reference and one withdrawn with settlement.

8. The estimated total expenditure of FDRC (including set-up cost) for the period from 18 November 2011 (date of incorporation) to end 2014 is about \$70 million, which is substantially lower than the original estimated expenditure of \$180 million<sup>3</sup>. The difference is largely attributed to the smaller scale of operations as compared with that planned because of the lower actual caseload, leading to lower actual costs on key items such as staff costs. Taking into account the total funding commitment of \$184 million from the Administration (i.e. funding share of \$92 million under the approved non-recurrent commitment approved in June 2011 vide FCR(2011-12)23), HKMA and SFC, there is an estimated accumulated surplus of about \$114 million as at 31 December 2014. Details are set out at

Encl.

Enclosure.

### **FUTURE FUNDING OPTION**

9. As stated in paragraph 3 above, the original plan was for financial institutions to shoulder all the operating costs of FDRC from 1 January 2015 with the funding formula worked out after the building up of some initial caseload. Taking into account the interests of the financial services industry in the funding arrangement and the complexity of the technical issues involved, FDRC considers it necessary to conduct an in-depth study<sup>4</sup> on the future funding arrangement, including a mechanism for the collection of contributions from the financial services industry. To allow more time for FDRC to build up a richer case database to support the study, FDRC proposes, and the three funding parties agree, to make use of the estimated accumulated surplus to sustain the operation of FDRC until around 2017<sup>5</sup>. FDRC has already engaged an external consultancy firm to conduct the relevant study, with a view to launching the industry consultation around mid-2015 and finalising the future funding arrangement in the first half of 2016.

### **FINANCIAL IMPLICATIONS**

10. FDRC's accumulated surplus is estimated at about \$114 million by end December 2014, which is sufficient for funding the operation of FDRC at least up to 2017. No additional funding is required.

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<sup>3</sup> As set out in Enclosures 2 and 3 to FCR(2011-12)23, the estimated annual expenditure of FDRC in the first three years of operation was \$55 million, and the estimated set-up cost was \$15 million.

<sup>4</sup> As set out in paragraph 18 of FCR(2011-12)23, any unused balance can be redeployed to allow the conduct of independent reviews of FDRC's operations.

<sup>5</sup> Assuming that the annual expenditure of FDRC remains at a level comparable to that estimated for the year ended 31 December 2014 (i.e. about \$25 million).

11. Members are invited to note the content of this paper.

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Financial Services and the Treasury Bureau  
December 2014

**Income, Expenditure and Surplus of  
Financial Dispute Resolution Centre**

Year	Period from 18 November 2011 <sup>Note 1</sup> to 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2014
	(Actual)	(Actual)	(Estimate)
	(\$million)	(\$million)	(\$million)
<b>Income</b>	<b>72.03</b>	<b>35.08</b>	<b>35.30</b>
- Contributions from the Administration, HKMA & SFC	72.00	35.00	35.00
- Other income	0.03	0.08	0.30
<b>Expenditure</b>	<b>20.73</b>	<b>24.27</b>	<b>25.31</b>
- Staff costs	6.88	9.24	10.01
- Depreciation & amortisation	2.30	3.00	3.81
- Other administrative & operating expenses	11.55	12.03	11.50
<b>Surplus for the period/year</b>	<b>51.31</b>	<b>10.81</b>	<b>9.98</b>
<b>Accumulated Surplus for the period/year</b>	<b>51.31</b>	<b>62.12</b>	<b>72.10</b>
<b>Committed contributions to be paid after 2014</b>			<b>42.00</b>
<b>Estimated accumulated surplus</b>			<b>114.10</b>

Note 1: Date of incorporation.

Note 2: Figures may not add up to total because of rounding.

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