Fact Sheet

Challenges in opening bank accounts faced by certain enterprises

Research Office
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1. Introduction

1.1 There are reports that certain business firms such as start-ups, small to medium-sized enterprises ("SMEs") and foreign companies have encountered more difficulties in opening bank accounts in Hong Kong over the past year or so, as some banks have tightened due diligence for new corporate customers. The Panel on Financial Services will discuss this issue at its meeting scheduled for 15 November 2015. This short note summarizes the background information to facilitate Members' deliberations.

2. Compliance requirements in opening banking accounts

2.1 In opening bank accounts for their customers, banks in Hong Kong need to comply with the statutory requirements stipulated in the Anti-Money Laundering and Counter Terrorist Financing (Financial Institutions) Ordinance ("AMLO") effective in April 2012, as well as relevant guidelines revised by the Hong Kong Monetary Authority ("HKMA") in March 2015.[1] Banks are required to verify the background of their new customers, with documentation and due diligence on company structure, principal shareholders and beneficial owners, fund usage and intended bank relationship, etc.

2.2 HKMA reiterates that both AMLO and guidelines do not prohibit a bank from establishing a relationship with a customer. It also reminds banks to apply reasonable and proportionate measures "to ensure that businesses and customers have access to suitable services in Hong Kong".[2]

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[1] HKMA revised the AMOL guidelines in March 2015. The 110-page document has dedicated chapters, inter alia, on (a) AML systems and business conducted outside Hong Kong; (b) risk-based approach; (c) customer due diligence; (d) on-going monitoring of existing customers; (e) suspicious transaction reports; and (f) record keeping. See Hong Kong Monetary Authority (2015).

[2] See GovHK (2015).

2.3 Apart from regulatory requirements of HKMA, local banks which have overseas business network or overseas head offices also need to comply with regulatory requirements in other places. As most of international regulatory authorities have stepped up their efforts in combating money laundering and terrorist financing after the global financial crisis in 2008, it has resulted in tighter regulatory standards almost everywhere on the one hand, and considerable fines and penalty on offences of money laundering on the other.[3] Against this backdrop, some global banks have reportedly become more cautious in establishing business relationship with new customers.

3. Recent developments in Hong Kong

3.1 In recent months, there are increasing reports of difficulties faced by corporate clients in opening bank accounts in Hong Kong, especially so for SMEs, start-ups and foreign companies. According to the feedback conveyed to HKMA, difficulties faced by these corporate clients in opening bank accounts in Hong Kong included, inter alia, (a) requiring all directors and beneficial owners of a foreign company to be present at account opening; (b) requiring all documents of a foreign company be certified by a certifier in Hong Kong; (c) requiring a start-up to provide the same degree of detail on its track record, business plan and revenue projections as a long-established company; (d) requiring voluminous or detailed information on source of wealth sometimes dating back to decades ago; and (e) adopting unreasonably high benchmarks such as actual sales turnover for approval of a new account.[4]

3.2 In a discussion session on "improving access to financial services" organized by the Hong Kong General Chamber of Commerce in August 2016, more than 200 participants turned up to reflect their frustration over the "burdensome and lengthy process" and "no guarantee of success" in application for bank accounts. Allegedly, some of these companies unable to open the bank accounts either put their business plans on hold or relocate their business elsewhere.[5]

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3 For instance, federal agencies in the United States alone had imposed fines of about US$5.2 billion (HK$40.3 billion) on global financial institutions for violation of bank secrecy and anti-money laundering regulations during 2009-2015. See United States Government Accountability Office (2016).

4 See Hong Kong Monetary Authority (2016b).

5 See Hong Kong General Chamber of Commerce (2016).

3.3 While there is no regular statistics on the failure rate of application of bank facilities, HKMA has conducted a special survey on opening of bank accounts by enterprises in April 2016. Amongst the account opening applications received by several large retail banks in Hong Kong covered by the survey, the average rejection rate was 10%. It is also noted that "there are one or two banks whose rejection rates were significantly higher than the average". In September 2016, HKMA announced that it had commissioned Hong Kong Productivity Council to conduct a dedicated survey on the subject of SME financing.

3.4 In September 2016, HKMA issued a circular entitled "de-risking[6] and financial inclusion" to local banks, emphasizing the need to adopt a "risk-based approach" in account-opening procedures. As risk-based approach is not a "zero failure" approach, customer due diligence should be proportionate to the risks and be applied in a balanced manner. HKMA also reminds banks that they should pay due attention to transparency, reasonableness and efficiency in customer relationship.

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[6] According to HKMA, de-risking refers to the phenomenon in which "banks decline or discontinue business relationships with customers or categories of customers", in an attempt to avoid the risks involved. This is not in line with the principle of risk-based management. See Hong Kong Monetary Authority (2016b).

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Research Office
Information Services Division
Legislative Council Secretariat
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Tel: 2871 2125