

For information

**Legislative Council Panel on Financial Affairs
Follow-up to meeting on 3 July 2006 –
Impact of branch closures of banks on the public**

At its meeting held on 3 July 2006, the Panel discussed the impact of closure of bank branches on the public. While noting the recommendations made by the The Hong Kong Association of Banks' Task Force on Financial Service Delivery Channels ("the Task Force"), the Panel invited the banking industry and the Administration to explore feasible measures to alleviate the effects of branch closures and provide a report by end-2006.

2. The Administration has considered the comments and suggestions raised by the Panel and our responses are set out at **Annex**.

**Financial Services and the Treasury Bureau
24 November 2006**

Comments/suggestions from Panel Members		The Administration's Response
I.	<p>The Administration should explore with the Housing Authority (HA) measures to encourage banks to provide banking services in public housing estates, such as providing banks with lower rents.</p>	<p>The HA's retail properties including bank premises are let at market rent. Rental assessment is made with reference to factors affecting rent including, inter alia, rents of comparable premises, population, supply and demand, location, trading potential, etc. The HA is aware of the public concern on the accessibility to banking services in public housing estates, and has, where appropriate, made downward adjustments to the rental assessments of many bank premises to attract the banking sector's interest.</p> <p>The HA has taken a proactive approach to facilitate banking institutions to set up banks or automated teller machines (ATMs) in public housing estates. Site visits and meetings with interested banking institutions are arranged. Necessary improvement works in accessibility and building services installations etc. to bank premises are made to meet the specific requirements of prospective bank tenants. Subject to feasibility studies, the HA is ready to consider re-designating vacant sites in the HA's commercial properties for the purpose of setting up banking facilities. The HA has put in place a package letting strategy by which a number of premises are let to interested banking institutions in a lot.</p>

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		The HA is also in support of the banking industry's proposed community-wide publicity and educational programmes, especially for the elderly, on the use of ATM services. When approached, the Housing Department will render necessary assistance to the banking industry in allowing the use of designated venues for such educational activities.
II.	Banks should give adequate advance notice to consumers before the closure of branches.	The Hong Kong Monetary Authority (HKMA) notes that banks in general give ample notice to customers before closing branches, although there are no specific legal or regulatory requirements for the arrangement at the moment. At the request of the HKMA, the industry is considering formalising this industry practice by incorporating an appropriate provision into the Code of Banking Practice.
III.	The Administration should make reference to overseas practices in ensuring consumers' access to basic banking service. For example, in evaluating a bank's performance and the assignment of ratings, the regulator is required to take into account whether the bank has taken actions to show concern for the community,	The HKMA notes from the experience in other economies that access to basic banking services (mainly through ensuring the provision of low cost basic banking accounts to the public) has been achieved mainly through voluntary arrangement (as in the case of the United Kingdom), legislation (as in the case of the United States) or a mix of the two arrangements (as in the case of Canada). Different economies will put in place different arrangements to cater for their own circumstances with regard to the social,

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<p>such as its record of opening and closing branches.</p>	<p>economic, geographical and demographic aspects.</p> <p>The HKMA does not observe that members of the public in Hong Kong have difficulty in obtaining basic banking services as in the cases of other economies. In particular, it is noted that banks in general have waived the account charges for the elderly and recipients of Comprehensive Social Security Assistance (CSSA). Moreover, electronic banking services are widely available and provided at low cost. The HKMA will continue to monitor the situation and follow up with the industry where necessary.</p>
<p>IV. The Administration should explore with the Hong Kong Association of Banks (HKAB) and HA the provision of ATMs in premises including HA offices in public housing estates, premises let to non-governmental organizations (NGOs), offices of Members of the Legislative Council (LegCo), public libraries, community halls, and premises of rural committees.</p>	<p><u>Premises managed by the HA</u></p> <p>The HA considers it more appropriate for ATMs to be set up in locations with the maximum pedestrian flow in public housing estates, such as shopping centres. The HA's offices and the premises let to NGOs and LegCo Members may not be situated in prime locations in public housing estates, hence provision of ATMs at those locations may not bring about significant benefits. The HA has no objection to providing ATMs in premises let to NGOs and LegCo Members. However, if portions of their premises were sublet to banks for installation of ATMs, the rental for the premises concerned would have to be reassessed in the light of the provision of</p>

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	<p>commercial services.</p> <p>It is relevant to note that over 80% of retail and car parking facilities originally owned by the HA is now owned and managed by The Link Real Estate Investment Trust (“the Link”). The Administration understands that the Link is actively bringing in more banking outlets including bank branches and ATMs in its properties by working closely with banks and pursuing a flexible leasing strategy.</p> <p><u>Premises managed by government departments</u></p> <p>The Leisure and Cultural Services Department (LCSD) and the Home Affairs Department (HAD) are open to the proposal of installation of ATMs in the premises open to the public under their management, such as public libraries, community halls and premises of rural committees, subject to the identification of suitable locations, the banking industry's interest and feasibility studies.</p> <p>On this basis, the Administration welcomes the banking industry to identify suitable locations for ATM installation. Relevant departments will provide necessary assistance and facilitation, such as conducting site visits, to HKAB in the process. The Administration will continue to liaise with HKAB in</p>

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	this regard.
<p>V. The Administration should explore measures to provide deposit and withdrawal services to the public through other channels, including the provision of such services through post offices and credit unions.</p>	<p><u>Post offices</u></p> <p>As the Administration reported at the Panel meeting on 3 July 2006, Hongkong Post (HKP) has reservations about providing deposit and withdrawal services in post offices due to a number of concerns. To recap, HKP's concerns are set out below –</p> <p>(a) the service scope of the Post Office is prescribed by the Post Office Ordinance (Cap.98) and the Trading Fund Ordinance (Cap.430). Under the existing legislation, HKP cannot provide withdrawal and deposit services on behalf of banks; and</p> <p>(b) the setup of individual post offices (such as security arrangements, floor areas, facilities and information technology systems) and human resources are planned and designed primarily to cater for the needs of postal services, and the resources and potential of most existing post offices are already utilized to their maximum capacity. There may be serious impact on the quality of postal services if post offices were asked to provide withdrawal and deposit services with their existing</p>

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	<p>resources.</p> <p>HKAB's Task Force on Financial Services Delivery Channel has also explored the feasibility of providing banking services through HKP's outlets. Having assessed the distribution network of post offices, it came to the conclusion that this option was not feasible. However, subject to any further proposal from the banking industry, HKP may further study the feasibility of providing deposit and withdrawal services to the public through post offices on the premise that the proposal will not affect the existing quality of postal services and requires no cross-subsidization from postal services. Even though recommendation has been made for HKP to provide deposit and withdrawal services on behalf of banks, we may still need to amend the law and support from the LegCo members for legislative amendments may be necessary.</p> <p><u>Credit unions</u></p> <p>Credit unions are registered with the Registrar of Credit Unions under the Credit Unions Ordinance (Cap.119). They are self-help, not-for-profit cooperatives, aimed at creating a source of credit available to their members at a fair and reasonable rate of interest. Membership of a credit union is limited to persons having a common bond of occupation, employment,</p>

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	<p>association, or residence within a defined neighbourhood. Members make regular savings to a credit union which uses the accumulated savings to lend at low interest rate to those members who are in need of money for a provident or productive purpose. The objectives of credit unions are usually to encourage thrift through regular savings and promote prudent financial management among its members.</p> <p>The Administration does not consider it appropriate to encourage the provision of deposit services through credit unions because –</p> <ul style="list-style-type: none"> (a) credit unions are not subject to rigorous supervision as that applicable to banks under the Banking Ordinance (Cap.155); and (b) the services of the credit unions are not open to the public. <p><u>Alternative payment means for CSSA</u></p> <p>For Members' information, the HA has been working on a new scheme with the Social Welfare Department (SWD) to enable CSSA recipients living in public rental housing to pay their rents directly to the HA through SWD. Under this new scheme which is known as Direct Rent Payment (DRP) for CSSA recipients, public rental housing tenants on CSSA will have their</p>

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	<p>monthly rents remitted to the HA by SWD, i.e. SWD will pay rents on their behalf to the HA. This scheme will be implemented in 2007. It is hoped that DRP for CSSA recipients living in public housing estates will bring convenience to all parties concerned including the welfare recipients, SWD, the HA and banks.</p>

Ends.