立法會
Legislative Council

LC Paper No. CB(1)2562/08-09
(These minutes have been seen by the Administration)

Ref : CB1/PL/FA/1

Panel on Financial Affairs

Minutes of meeting
held on Monday, 1 June 2009 at 10:00 am
in the Chamber of the Legislative Council Building

Members present	**:**	Hon CHAN Kam-lam, SBS, JP (Chairman) Hon Ronny TONG Ka-wah, SC (Deputy Chairman) Dr Hon David LI Kwok-po, GBM, GBS, JP Hon James TO Kun-sun Hon Emily LAU Wai-hing, JP Hon Abraham SHEK Lai-him, SBS, JP Hon Vincent FANG kang, SBS, JP Hon Jeffrey LAM Kin-fung, SBS, JP Hon Andrew LEUNG Kwan-yuen, SBS, JP Hon WONG Ting-kwong, BBS Hon CHIM Pui-chung Hon KAM Nai-wai, MH Hon Paul CHAN Mo-po, MH, JP Hon CHAN Kin-por, JP Hon Tanya CHAN Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Members absent	**:**	Hon Albert HO Chun-yan Dr Hon Philip WONG Yu-hong, GBS Hon Starry LEE Wai-king

Public officers attending	**:**	Agenda item V

Financial Services and the Treasury Bureau

Mr CHENG Yan-chee, JP
Deputy Secretary for
Financial Services and the Treasury
(Financial Services)1

Miss Clara CHAN
Assistant Secretary for
Financial Services and the Treasury
(Financial Services)(5)1

Hong Kong Monetary Authority

Mr Raymond CHAN
Head (Banking Policy)B

Miss Sarah KWOK
Senior Manager (Banking Policy)B3

Agenda item VI

Official Receiver's Office

Mr Edward Thomas O'CONNELL
Official Receiver

Mr HO Tin-ching
Chief Treasury Accountant (Financial Services)

Financial Services and the Treasury

Ms Selene TSOI
Principal Assistant Secretary for
Financial Services and the Treasury
(Financial Services)

Attendance by invitation	**:**	Agenda item IV The Hong Kong Deposit Protection Board Mr Raymond LI Chief Executive Officer Mr Colin POU Deputy Chief Executive Officer (Operations) Agenda item V The Hong Kong Association of Banks Mr Peter WONG Chairman (also Executive Director, Hong Kong and Shanghai Banking Corporation Ltd) Mr Barry LO Vice-Chairman (also Deputy General Manager, Channel Management, Bank of China (Hong Kong) Ltd) Ms Anne LEE Vice-Chairman (also General Manager, Branch Sales and Service, Standard Chartered Bank (Hong Kong) Ltd) Ms Louisa CHEANG Regional Director Personal Financial Services, Asia Pacific Hong Kong and Shanghai Banking Corporation Ltd Mr Vincent HUI Head of Channel Management and Operations Department Bank of East Asia, Ltd Ms Amy CHOI Director, Sales and Distribution Citibank (Hong Kong) Ltd Ms Christina NG Assistant General Manager Wing Lung Bank Ltd Ms Jennifer CHEUNG Secretary

Consumer Council

Ms Connie LAU
Chief Executive

Ms Vera TAM
Chief Research and Trade Practices Officer

Clerk in attendance : Ms Rosalind MA
Chief Council Secretary (1)5

Staff in attendance : Mr Noel SUNG
Senior Council Secretary (1)4

Ms Haley CHEUNG
Legislative Assistant (1)8

Action

I Confirmation of minutes of meeting and matters arising

(LC Paper No. CB(1)1706/08-09 — Minutes of special meeting on 23 February 2009)

The minutes of the meeting held on 23 February 2009 were confirmed.

II Information papers issued since the last meeting

(LC Paper No. CB(1)1460/08-09(01) — Hon Jeffrey LAM's letter on market misconduct activities (Chinese version only)

LC Paper No. CB(1)1460/08-09(02) — Administration/Securities and Futures Commission's response to Hon Jeffrey LAM's letter

LC Paper No. CB(1)1522/08-09(01) — Hon Mrs Regina IP's letter on issues related to the privatization of PCCW (English version only)

LC Paper No. CB(1)1522/08-09(02) — Administration/Securities and Futures Commission's response to Hon Mrs Regina IP's letter

LC Paper No. CB(1)1625/08-09 — First Quarter Economic Report 2009 and the press release)

2. Members noted the information papers issued since the last meeting.

III Date of next meeting and items for discussion

(LC Paper No. CB(1)1711/08-09(01) — List of outstanding items for discussion

LC Paper No. CB(1)1711/08-09(02) — List of follow-up actions)

Regular meeting on 6 July 2009

3. Members agreed that the following items proposed by the Administration be discussed at the next regular meeting scheduled for 6 July 2009:

(a) Briefing by the Financial Secretary on Hong Kong's latest overall economic situation;

(b) Review of the Trustee Ordinance;

(c) Review of the Mandatory Provident Fund Schemes Compensation Fund; and

(d) Policyholders' Protection Fund.

4. To allow sufficient time for discussion of the above items, members also agreed that the meeting on 6 July 2009 be held from 8:30 am to 12: 30 pm.

Issues relating to the regulation of credit-linked products sold to retail investors

5. Mr KAM Nai-wai expressed concern about the possible losses retail investors might suffer in their about $1.8 billion investment in the Octave Notes, credit-linked notes arranged by Morgan Stanley & Co. International Limited. He requested that the Administration and the regulators (i.e. the Securities and Futures Commission and the Hong Kong Monetary Authority

(HKMA)) be invited to provide information and discuss with the Panel the regulation of credit-linked products and the Octave Notes sold to retail investors through banks. Mr KAM opined that arrangements should be made for discussion of the subject as soon as possible. The Chairman suggested and members agreed that the subject proposed by Mr KAM be added to the agenda for the special meeting scheduled for 11 June 2009.

> (*Post-meeting note*: The revised agenda for the special meeting on 11 June 2009 was issued to members vide LC Paper No. CB(1)1781/08-09 on 2 June 2009.)

Arrangement for the appointment of Monetary Authority

6. Mr James TO referred to members' concerns about the procedures and criteria for the appointment of the new Monetary Authority (MA) raised at the special meeting on 21 May 2009 during the discussion on the "Remuneration policies of HKMA and remuneration levels of its senior executives". Mr TO requested that urgent arrangements be made with the Financial Secretary (FS) to follow-up the subject. Ms Emily LAU echoed and opined that discussion of the subject should preferably be held before FS announced the appointment of the new MA. The Chairman noted their views and advised that the Secretariat would liaise with FS's Office for the meeting arrangements and members would be informed of the arrangements as soon as possible.

> (*Post-meeting note*: At the instruction of the Panel Chairman, notice of the special meeting to be held on 18 June 2009 for the Panel to discuss with FS the arrangement for the appointment of MA was issued vide LC Paper No. CB(1)1840/08-09 on 8 June 2009.)

Business development of the Hong Kong Mortgage Corporation Limited

7. Further to her concern raised at the special meeting of the Panel on 21 May 2009 on the business operation and investment of the Hong Kong Mortgage Corporation Limited (HKMC), Mrs Regina IP said that she had stated in greater details her queries about the propriety of HKMC's investments in high-risk overseas assets in a letter dated 1 June 2009 to the Panel Chairman. Mrs IP requested that arrangements be made for discussion of the subject at a Panel meeting.

8. The Chairman advised that the Administration had been requested to provide information in response to Mrs IP's concerns, and her further queries set out in the letter would also be forwarded to the Administration for a consolidated response. Given the number of outstanding items to be dealt with by the Panel, the Chairman suggested and members agreed that Mrs IP's letter and the Administration's written response be circulated for members'

reference in due course, and the subject on business development of HKMC be included in the Panel's list of outstanding items for discussion.

> (*Post-meeting Note*: Mrs Regina IP's letter dated 1 June 2009 and the Administration's written response were circulated to members vide LC Paper Nos. CB(1)2055/08-09(01) and (02) on 26 June 2009.)

IV Enhancing deposit protection under the Deposit Protection Scheme

(LC Paper No. CB(1)1428/08-09	—	Hong Kong Deposit Protection Board's consultation paper on enhancing deposit protection under the Deposit Protection Scheme
LC Paper No. CB(1)1708/08-09	—	Background brief on enhancing deposit protection under the Deposit Protection Scheme prepared by the Legislative Council Secretariat
LC Paper No. CB(1)1798/08-09(01)	—	Powerpoint presentation material provided by the Hong Kong Deposit Protection Board (tabled at the meeting and soft copy issued on 1 June 2009))

Briefing by the Hong Kong Deposit Protection Board

9. At the invitation of the Chairman, Mr Raymond LI, Chief Executive Officer of the Hong Kong Deposit Protection Board (CEO/DPB) gave a powerpoint presentation on the review of the Deposit Protection Scheme (DPS) and the potential enhancements to the DPS framework identified in the review. He advised that due to the time required for consultation on the potential enhancements and effecting the relevant legislative changes, the Deposit Protection Board (the Board) considered it appropriate to divide the enhancements into two batches. The first batch of potential enhancements were contained in the Board's consultation paper published on 27 April 2009, covering the areas of protection limit, compensation calculation basis, product coverage, types of institutions covered and funding arrangements. The consultation period would end on 26 June 2009. Potential enhancements in the second batch were more technical in nature and were expected to be made

available for consultation in the second half of 2009. Subject to the progress of the consultation, the Board intended to introduce the agreed enhancements under both batches as soon as possible.

Discussion

10. While supporting in principle the proposal to enhance deposit protection, the Deputy Chairman opined that consideration should be given to striking a balance between maximizing protection on the one hand and minimizing cost on the other. Referring to the full deposit guarantee provided by the Government until 2010, the Deputy Chairman enquired about the effect of this measure on the operation of DPS, such as whether the annual premium charged on banks could be waived or reduced during the period of full deposit guarantee.

11. CEO/DPB said that the full deposit guarantee introduced by the Government in October 2008 was an extra-ordinary and temporary measure to safeguard banking stability in Hong Kong amid the global financial crisis. This temporary measure, which would expire in end 2010, operated in parallel with the long-term DPS, and extended protection to deposits over the protection limit (currently $100,000) of DPS. As DPS would continue to protect deposits of $100,000 or below, licensed banks which were DPS members would still have to pay the premium under the scheme. Responding to the Deputy Chairman's further enquiry about the propriety of protecting secured deposits under DPS, CEO/DPB advised that as some depositors found it difficult to tell whether their deposits were subject to encumbrances and hence worry that their deposits would not be covered under DPS, the Board had suggested in the consultation paper that secured deposits related to banking and financial services be brought under protection by changing the definition of deposits under DPS to eliminate the potential for confusion. As to the Deputy Chairman's concern about the calculation of compensation in case of a bank failure, CEO/DPB explained that a full netting approach was adopted for DPS, i.e. the deposit claims of a depositor on a failed bank were set-off against the depositor's liabilities to the bank in determining entitlement to compensation.

12. Noting that the Board would subrogate into the priority claims of depositors in bank liquidations to recover the compensation it paid to depositors, Mr James TO expressed concern about the impact of such claims on the rights of other creditors, in particular claims of bank staff for outstanding wages. In response, CEO/DPB advised that under the existing insolvency regime, claims for outstanding wages had priority over the claims of depositors.

13. On the proposal to raise the protection limit to $500,000, Mr James TO was of the view that depositors might incline to split their deposits to get more protection after the rise. He asked whether the Board had taken into account

the effect of deposit splitting behaviour in estimating the percentage of depositors fully covered. In reply, CEO/DPB said that the findings of past opinion surveys conducted by the Board suggested that splitting of deposits into different banks had not been common among depositors under the current protection limit of $100,000. While some depositors might choose to split their deposits after the rise of the protection limit, they would have to consider the costs involved, e.g. the reduction in deposit interest rates and service level for the smaller amount of deposits in each bank after the split. CEO/DPB also pointed out that the current design of DPS could to some extent accommodate an increase in deposit splitting behaviour. As the contribution payable by banks were calculated as a percentage of the amount of relevant deposits held with them, the amount of contributions collected would increase with the growth in the amount of relevant deposits due to deposit splitting behaviour. CEO/DPB said that DPB would keep track of the changes in deposit splitting behaviour and the impact of such changes on the effectiveness of DPS.

14. Mr James TO remained concern about the level of protection for DPS and the impact of deposit splitting behaviour on the effectiveness of DPS. In this connection, he requested the Board to provide further information on the percentage of depositors and the percentage of value of deposits covered, if the protection limit was increased to $200,000 and $500,000 respectively.

15. Mr CHAN Kin-por also expressed concern about the protection limit under DPS and enquired whether analysis had been made on the effect of raising the limit above $500,000. Noting that about 90% of depositors would be fully protected under DPS if the protection limit was increased to $500,000, Mr CHAN was concerned that the remaining 10% of depositors who would not be fully protected might seek to withdraw their deposits in excess of $500,000 from a bank in the event of rumours of bank failure. He questioned whether the withdrawal of deposits by these depositors might affect banking stability and undermine the effectiveness of DPS.

16. CEO/DPB advised that the Board had considered the merits of raising the limit above $500,000. As the percentage of depositors fully covered tended to increase at a diminishing rate with the protection limit, pushing the limit beyond $500,000 would not add materially to the effectiveness of DPS. The moral hazard associated with higher protection limits was also more difficult to contain. Raising the limit to $500,000 was considered more appropriate as about 90% of all depositors would become fully covered, which was a high percentage of coverage by international standard. Full protection of the majority of depositors could inspire depositor confidence in the banking system and serve the purpose of DPS for maintaining banking stability. Responding to Mr CHAN Kin-por's further enquiry, CEO/DPB said that the Board had kept the operation of DPS, including the protection limit, under review. The raise of the protection limit to $500,000 was proposed after the Board's recent review.

17. Mr Paul CHAN supported the proposals to raise the protection limit to $500,000 and to include secured deposits for protection under DPS. Noting that the contribution payable by a DPS member (i.e. a licensed bank) to the DPS Fund was determined by the amount of protected deposits held with the member and the supervisory rating assigned by the HKMA, Mr CHAN enquired whether a mechanism was in place for DPS members to appeal against the supervisory rating. In reply, CEO/DPB advised that HKMA had put in place internal procedures for banks to appeal against the supervisory ratings. Responding to Mr CHAN's concern about the investment strategy and return of the DPS Fund, CEO/DPB stressed that the Board adopted a conservative strategy for investment of the DPS Fund, and was able to acquire reasonable returns from its investments despite the market volatility in 2008. In order to achieve a stable and reasonable investment return for the DPS Fund, Mr CHAN suggested the Administration/the Board consider and advise whether the sums in the DPS Fund should be placed with the Exchange Fund for investment, and receive a "fixed rate" fee payment like that for the fiscal reserve.

18. Mr Paul CHAN noted that the consultancy report on HKMA's work on banking stability released in July 2008 contained the recommendation for the Board to study the changes made to the UK schemes in the wake of the Northern Rock incident. Mr CHAN asked whether and how the Board had, in its review of DPS, made reference to the UK experience related to the Northern Rock incident and other issues.

19. CEO/DPB said that the run on the Northern Rock bank in UK had revealed the lack of depositors' understanding of the deposit insurance regime. The Board was of the view that a number of weaknesses in the UK system, revealed by the Northern Rock incident, were already addressed in the way in which DPS in Hong Kong was set up. For example, it had in place a credible infrastructure to facilitate a fast payout (within 14 days after a winding up order had been made against a bank as compared with the some six months lead time in the UK system); and extensive publicity activities had been undertaken to promote public awareness and understanding of DPS since its implementation.

20. While supporting the proposal to raise the protection limit to $500,000, inclusion of secured deposits for protection and the netting approach adopted for calculation of compensation under DPS, Mrs Regina IP expressed grave concern about the publicity to promote public understanding of the scope of protection under the full deposit guarantee. She pointed out that the Government announced the full deposit guarantee arrangement in October 2008, and yet certain authorized institutions (AIs) had only notified their depositors by March 2009 that part of their money was not protected. Mrs IP also called on the Board to step up its publicity efforts, in particular, explaining

to the public the definition of more complicated concepts such as structured deposits.

21. CEO/DPB appreciated Mrs IP's view about the importance of publicity in promoting public understanding of features of DPS. Nevertheless, he pointed out that time would be required for the public to digest the message in the publicity programmes and therefore it would not be desirable or effective to include too much information at a time. At the early stage of the establishment of DPS, it was more important to bring to the attention of the public the existence of DPS and its protection limit. More publicity was then carried out to enhance the public’s understanding on the other features of the DPS, for example, foreign currency deposits were protected. Responding to Mrs Regina IP’s question on the nature of structured deposits, he elaborated that structured deposits were more akin to investment as the return on them might fluctuate with market indices, or the price or value of other financial instruments. However, banks were required by law to ask the customers concerned to make written acknowledgements to confirm that they knew these were non-protected deposits under DPS. Responding to Mrs Regina IP's concern about the possible liquidity problem AIs engaging in high risk lending might face upon the lifting of the full deposit guarantee, CEO/DPB advised that HKMA was aware of the potential moral hazard arising from the full deposit guarantee and had been monitoring the risk management of AIs in this regard.

22. Mr James TO expressed concern about the implementation of the full deposit guarantee and requested DPB to provide the latest information on the number of depositors with non-protected deposits, following the deadline of end of May 2009 for AIs to notify their depositors with non-protected deposits.

23. Mr KAM Nai-wai was concerned about depositors' awareness of the protection status of their deposits under DPS. He asked about the representation requirements on licensed banks to notify their customers of the part of their deposits protected or not protected under DPS after the implementation of the enhancement measures.

24. CEO/DPB advised that under the existing DPS regime, licensed banks were required to notify customers of their non-protected deposits and obtain customers' written acknowledgement in this regard. The Board planned to enhance the representation regime, the details of which would be made available for public comment in the consultation of the second batch of enhancements to DPS, possibly in the second half of 2009. In response to Mr KAM's further enquiry on the protection of deposits in integrated accounts with securities transaction services, CEO/DPB advised that under the existing DPS regime, the protection status of deposits in these accounts would depend on whether the deposits had been pledged, i.e. whether these were secured deposits. He pointed out that the Board had recommended the coverage of secured deposits under DPS in the consultation paper.

25. Noting that restricted licence banks (RLBs) and deposit-taking companies (DTCs) were covered by the full deposit guarantee but not by DPS, the Chairman enquired about the reasons for excluding these institutions from the coverage of DPS. In response, CEO/DPB said that RLBs and DTCs had very few small depositors as they could not take deposits below $100,000. The Board therefore concluded that there were no strong grounds for covering these institutions under DPS. At the request of the Chairman, CEO/DPB undertook to provide information on the deposits accounts in RLBs and DTCs, with breakdown by the number of accounts with a deposit of $500,000 or below and those with a deposit of over $500,000.

(*Post-meeting note*: The Board's response to the requests in paragraphs 14, 17, 22 and 25 above was issued to members vide LC Paper No. CB(1)2114/08-09(01) on 30 June 2009.)

V Impact of banks' branch closure and fee-charging on the public

(LC Paper No. CB(1)1711/08-09(03)	—	Administration's paper on impact of banks' branch closure and fee-charging on the public
LC Paper No. CB(1)1711/08-09(04)	—	Submission on impact of banks' branch closure and fee-charging on the public from the Consumer Council
LC Paper No. CB(1)1709/08-09	—	Background Brief on the impact of banks' branch closure and fee-charging on the public prepared by the Legislative Council Secretariat
LC Paper No. CB(1)511/08-09(01)	—	Hon KAM Nai-wai's letter dated 17 December 2008 expressing concern on the business practices of authorized institutions in relation to credit cards (Chinese version only)

LC Paper No. CB(1)511/08-09(02) — Administration/Hong Kong Monetary Authority's response to Hon KAM Nai-wai's concern

LC Paper No. CB(1)688/08-09(01) — Administration/ Hong Kong Monetary Authority's information paper on the fees and charges for banking services

LC Paper No. CB(1)1798/08-09(02) — Powerpoint presentation material provided by the Hong Kong Association of Banks (tabled at the meeting and soft copy issued on 1 June 2009))

Briefing by the Hong Kong Association of Banks

26. With the aid of powerpoint presentation, Mr Peter WONG, Chairman of the Hong Kong Association of Banks (HKAB), briefed the meeting on the provision of banking and cash withdrawal services through different channels, services to cater for the needs of the elderly and the physically disabled, and fee waivers to customers with special needs. The salient points highlighted in the briefing were summarized below:

(a) Provision of banking and cash withdrawal services through different channels

(i) According to the figures of five major consumer banks, 22% of the financial transactions were done through branch services while the rest were done through non-branch channels such as Internet, telephone and Automated Teller Machines (ATMs).

(ii) The number of bank branches had increased to 1 300 in December 2008, with a net increase of 36 branches compared with the total number in December 2007. The number of ATMs had increased by 132 to 2 679 by the end of 2008. The number of retail outlets providing cash withdrawal services had increased by 307 to 1 082 during the same period.

(iii) With the increase in bank branches, ATMs and retail outlets throughout the territory, in particular in districts with a higher percentage of low-income population, there was an extensive coverage of bank outlets (including bank branches and ATMs) and retail outlets providing cash withdrawal services. 44% of the bank outlets and 82% of the retail outlets in Hong Kong were located within 10 minutes walking distance of public housing estates or Home Ownership Scheme estates. The banking industry had been facing challenges in setting up new outlets at public housing estates, such as difficulties in identifying suitable locations, increase in rental and resistance of residents.

(b) Services to cater for the special needs of the elderly and the physically disabled

(i) Enhanced services had been provided to cater for the needs of elderly customers, including priority counter service, service ambassadors at bank branches, simplified ATM cards and ATM education campaign. Special services were provided to physically disabled customers to facilitate their use of electronic banking (e-banking) services, such as the provision of special ATMs for customers in wheelchairs, simplified ATM cards and e-banking websites supporting popular aiding/reading software for the visually impaired.

(ii) In 2009, the banking industry continued its endeavour to cater for the needs of different customer segments. Education campaign on the use of ATMs would continue. Over 80 ATMs had been installed with protruding symbols on a pilot basis to facilitate the visually impaired to use ATMs.

(c) Fee waivers to customers with special needs

Despite the challenges facing the banking industry amid the economic downturn, banks had continued to offer fee waivers to customers with special needs, for example, waiver for minimum account balance for accounts held by the elderly, the minors, welfare recipients and payroll account holders.

Briefing by the Consumer Council

27. At the invitation of the Chairman, Ms Connie LAU, the Chief Executive, Consumer Council (CC) briefed the meeting on CC's observations

on provision of basic banking services to the underprivileged and fees and charges imposed by banks. She highlighted the following points:-

(a) Provision of basic banking services to the underprivileged

(i) There was a net increase of 35 bank branches during the period from December 2007 to April 2009, with the setting up of 67 new branches and closing down of 32. Out of the 67 new bank branches, only 42 provided basic banking service to customers in general and the rest were mainly targeted at selected customer groups or business corporations.

(ii) 22% of the financial transactions in 2008 were done through bank branches, which illustrated that some customers still relied on the branch channel for banking services. As revealed by representatives of social services organizations, the underprivileged had encountered a number of difficulties in the use of non-branch channels. These included elderly aged over 70 who could hardly manage to use ATMs; phone banking was unable to meet customers' demand for cash withdrawals or transaction statements; cash withdrawal services provided by retail outlets had a limit of $500 per transaction and involved cost for purchase.

(b) Fees and charges imposed by banks

(i) According to CC's survey in May 2009 on 17 banks, 13 had a minimum account balance requirement of $5,000 and two had set even higher requirements of $10,000 and $30,000. A handling fee, ranging from $50 to $100 per month, would be charged on bank accounts with balance below the minimum requirements. CC suggested that banks should increase the transparency of fee-waiving policies to facilitate customers in need to apply for the waivers.

(ii) On credit card charges, CC's survey on 10 banks in May 2009 showed considerable increases in the annualized percentage rates (APR) compared with the survey findings in 2006 (from 26% to 32% for retail purchase and from 28% to 34% for cash advance). Late charges had also been significantly increased by a range of 15% to 160%. As banks were only subject to disclosure requirements for adjustments in fees and charges under the current regulatory regime, CC was concerned that consumers could hardly assess whether the fees were set at reasonable levels. In this connection, CC drew members' attention to the recent enactment of the Credit Card Accountability, Responsibility, and Disclosure Act of 2009 in the United States (the US Credit CARD Act 2009) which prohibited unfair rate hikes and hidden fees in relation to credit card products.

Discussion

Provision of basic banking services to the public

28. Ms Emily LAU pointed out that the provision of basic banking services to the public, in particular the underprivileged, had remained a subject of concern of the Panel in the past few years. While appreciating the efforts of the banking sector in following up the concerns in this regard, Ms LAU referred to CC's view in its submission that further improvements should be made to facilitate the provision of banking services to consumers. She also noted from the Administration's paper that during exchange sessions on the direction of improvement concerning banking services, representatives of the relevant organizations (including organizations concerning the elderly, underprivileged, people with disabilities and low-income earners) had pointed out that the banking industry should seriously consider ways to tackle the problem of inconvenience caused by the consolidation of bank branches to individual user groups, in particular the elderly and people with disabilities. Ms LAU called on the banking industry to fulfil corporate social responsibilities and take into account the views of CC and the relevant organizations, and make further improvements to the delivery of basic banking services.

29. Mr Peter WONG of HKAB advised that HKAB would continue to work in collaboration with the relevant organizations for improvement of service delivery, e.g. the pilot scheme for ATMs displaying protruding symbols to facilitate use by visually impaired customers. Pointing out that the banking sector might not be able to satisfy the needs of all user groups to the full extent, Mr WONG stressed that efforts and resources had been devoted to improving the provision of services, including enhancement of service delivery through non-branch channels like ATMs and retail outlets. He thanked Ms LAU for her views and welcomed further views and suggestions from Members and the public on ways to improve banking services.

30. Miss Tanya CHAN expressed concern that the visually impaired customers would still have difficulty in using ATMs despite the provision of protruding symbols on ATMs, as they were unable to read the instructions on the screens. Miss CHAN said that use of ATMs by the visually impaired

could be enhanced if audio aids were installed to provide sound instructions. She nevertheless noted that the security concern related to the provision of sound instructions would have to be resolved.

31. In response, Mr Peter WONG of HKAB advised that HKAB would promote the use of ATMs by the visually impaired through the provision of protruding symbols on ATMs on a pilot basis. The response to the pilot scheme would be reviewed over the coming months, and installation would be extended to all ATMs if the device was well-received by users. Mr WONG further pointed out that provision of sound instructions at ATMs would involve both technical and security considerations. HKAB would explore the feasibility of the suggestion in collaboration with the organizations representing the visually impaired with a view to sorting out the technical and security issues involved.

32. The Deputy Chairman said that he was glad to note from Mr Peter WONG's briefing that the Hong Kong and Shanghai Banking Corporation Limited had planned to provide ATMs in all public housing estates. He also recalled that during previous discussion on the subject, Members had suggested HKAB explore the feasibility of interconnection of the two main ATM networks in Hong Kong, namely, the Electronic Teller Card (ETC) and the Joint Electronic Teller Services Limited (JETCO) systems, so that cash deposit and withdrawal through ATMs could be made among different member banks of ETC and JETCO. He sought information on the progress.

33. Mr Peter WONG of HKAB responded that HKAB had examined the suggestion to interconnect the two ATM networks but found it not practicable in view of issues of system compatibility and service competition between the two networks. At the request of the Deputy Chairman, Mr WONG would endeavour to provide information on the percentage of bank customers having access to the ATM services provided by the two networks respectively.

HKAB

34. Noting the concern of HKAB about the difficulties in setting up bank branches and ATMs in public housing estates, viz. choice of locations, rental increase and resistance from residents, Mr CHAN Kin-por enquired whether the Government could render assistance in this regard. In response, the Deputy Secretary for Financial Services and the Treasury (Financial Services)1 (DS/FS) said that the Government would relay to the Housing Authority the challenges facing the banking industry in setting up bank branches and ATMs in public housing estates.

(*Post-meeting note*: The Administration's response was circulated to members vide LC Paper No. CB(1)2152/08-09 on 3 July 2009.)

Fees and charges of banking services

35. Pointing out that the image of the banking industry had been tarnished by the drastic increase in fees and charges and alleged malpractices in sale of financial products, Mr KAM Nai-wai sought information on HKAB's plans, if any, to deal with the problem and restore the image of the industry. Mr KAM was particularly concerned about the rising APR on credit card lending. Referring to the US Credit CARD Act 2009, Mr KAM asked whether the Government would consider putting in place statutory requirements to regulate and impose control on the revision of interest rates, fees and penalties in relation to credit card lending.

36. In response, DS/FS advised that information on the regulatory framework governing AIs' operation of credit card business had been provided in the Administration's earlier paper (LC Paper No. CB(1)511/08-09(02)). He pointed out that as stated in the paper, the setting of terms and conditions (including fees, charges and interest rates) of banking services, including credit card services, was a commercial decision for AIs. Under the existing legal framework, the Government did not have the authority, nor was it appropriate for it, to interfere with such commercial decisions. Facing keen market competition, AIs were expected to set the aforesaid terms and conditions after carefully balancing all relevant considerations. The guiding principle adopted by HKMA in the supervision of AIs was that AIs should provide their customers with readily available, clear and up-to-date information about the terms and conditions of banking services so that customers could select the services most suitable for them. Currently, the Administration did not see the need to change the existing regulatory requirements. Head (Banking Policy)B, Hong Kong Monetary Authority supplemented that apart from credit card borrowing, bank customers in need of liquidity might obtain personal loans, which had been offered with highly competitive interest rates since the introduction of the sharing of positive credit data in 2003.

37. Referring to the sharp increases in APR and charges for credit card lending set out in Annex 4 to CC's submission, Mr James TO asked whether CC had identified any signs of collaborative price fixing by AIs. Mr TO requested HKAB to discuss with member banks on the significant increase of fees and charges for credit card lending.

38. In reply, Ms Connie LAU of CC said that CC's survey on fees and charges for credit card lending aimed to address the concerns raised by Panel members. While CC was concerned about the significant increase in APR, more in-depth study of the subject would be required to detect whether there were signs of collaborative price fixing.

39. Mr Peter WONG of HKAB pointed out that credit card services should be used as a convenient means of payment rather than a means for obtaining

loans, as bank customers could obtain personal loans at much lower interest rates. Mr WONG further advised that no interest would be charged if the cardholder managed to settle the amount due timely. HKAB could discuss with member banks the issue about increase in APR for credit card lending but it had no authority on their commercial decisions on the terms and conditions of credit card services.

40. Mr James TO opined that from his observation, AIs normally made profits from credit card business through interests from credit card lending in addition to charges on merchants. The Chairman noted that some AIs had been promoting their credit card business through soliciting credit card holders to make cash advances or borrow through credit cards. He asked whether AIs would devise strategies in such promotions, such as offering better terms and conditions to customers with good credit records.

41. Mr Peter WONG of HKAB said that the interest rates for credit card lending were normally higher than those for personal loans as AIs had to bear higher risk in the former business. Unlike credit card lending, AIs would process the applications from customers before granting personal loans and therefore would have more information on the lending, e.g the purpose of obtaining the loans. He pointed out that in view of keen market competition and price transparency, customers should be able to make informed decisions on the choice of AIs to borrow from after comparing the interest rates.

42. Mr Paul CHAN expressed concern about price transparency of credit card lending. He sought information on the interest rates charged by banks for personal loans and for credit card lending, requirements on banks to give advance notice to customers concerned before making amendments to fees, charges and interest rates for credit card services, and measures to ensure compliance with the requirements. He also requested the Administration to provide information on the background and details of the US Credit CARD Act 2009.

(*Post-meeting note*: The information provided by the Administration was circulated to members vide LC Paper No. CB(1)2131/08-09 on 30 June 2009.)

VI Proposed expansion of outsourcing scheme on bankruptcy cases

(LC Paper No. CB(1)1711/08-09(05) — Administration's paper on proposed expansion of outsourcing scheme on bankruptcy cases

LC Paper No. CB(1)1710/08-09 — Background Brief on proposed expansion of the scheme for outsourcing summary bankruptcy cases prepared by the Legislative Council Secretariat)

Briefing by the Administration

43. At the invitation of the Chairman, the Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) (PAS(FS)) advised that a two-year pilot scheme for outsourcing around 15% of the summary bankruptcy cases (i.e. cases where the value of the assets was unlikely to exceed $200,000) to private sector insolvency practitioners (PIPs) was implemented in May 2008. The Official Receivers' Office (ORO) had conducted a review on the scheme recently. In view of the substantial increase in bankruptcy caseload in recent months and in anticipation that the level of caseload would remain relatively high in the foreseeable future in light of the current financial situation, the Administration proposed to expand the existing pilot scheme to outsource an additional 10 000 bankruptcy cases to PIPs in a two-year period starting from end 2009. The proposal would create business and employment opportunities for PIPs during the economic downturn and would facilitate further development of the expertise of the insolvency sector.

Discussion

44. Mrs Regina IP supported in principle the proposed expansion of the outsourcing scheme. She was concerned about the performance of PIPs and enquired about ORO's assessment of the quality of PIPs' work in processing the summary bankruptcy cases outsourced since the implementation of the pilot scheme in May 2008.

45. Official Receiver (OR) said that ORO had monitored the performance of the selected PIP firms on a continued basis through different means. Seminar was arranged to brief the selected firms on the work procedures for processing summary bankruptcy cases and experience-sharing sessions were held to discuss the problems encountered in their work. ORO staff also conducted quality audit of the outsourced cases and checked the internal accounting procedures of the selected PIP firms to monitor their performance. In general, ORO was satisfied with the performance of the PIP firms. Responding to Mrs Regina IP's concern about fees payable to liquidators of the companies belonging to the Lehman Brothers Group, OR advised that the court had sanctioned an interim advance payment of the fees claimed by the liquidators, which would be paid out of the assets of these companies. However, they would still have to submit the bills to the taxing masters of the

High Court for a formal taxation and if the amount taxed off reduced the sum payable to less than the sum paid in advance, the difference would have to be repaid by the liquidators. They had given an undertaking to that effect.

46. Mrs Regina IP asked whether ORO staff had any views against the outsourcing arrangement, which might have an impact on their jobs and promotion prospects. In response, OR said that ORO staff well understood the need for an outsourcing arrangement. As ORO needed to cope with the increase in bankruptcy cases, outsourcing arrangement was considered appropriate and in line with the policy of service delivery through cost-effective means. Responding to Mrs IP's further enquiry, OR advised that the outsourcing arrangement provided flexibility for ORO to decide the number of bankruptcy cases to be outsourced in response to anticipated changes in caseload as a result of the economic cycles.

47. Mr Paul CHAN supported the proposed expansion of the outsourcing scheme. Noting that two out of the 31 complaints received by ORO in the past year were still under investigation, Mr CHAN sought information on these two cases. In response, OR said that the cases were about the bankrupts' dissatisfaction with the attitude of PIPs. OR explained that there had been disputes between the bankrupts and PIPs from time to time, the majority of which related to disagreement on the amounts of financial contributions which the bankrupts were required to make, and the bankrupts' requests for refund of bank balances/salary, etc.

48. The Chairman concluded that members supported the proposed expansion of the outsourcing scheme in general. The Administration could arrange to proceed with the preparation of the tender exercise.

VII Any other business

49. There being no other business, the meeting ended at 12:30 pm.

Council Business Division 1
Legislative Council Secretariat
7 September 2009