

Information Paper for Panel on Financial Affairs

Bank account opening for small and medium-sized enterprises and start-up companies

Introduction

The meeting of the Panel on Financial Affairs on 15 November 2016 discussed the difficulties experienced by corporate customers, more notably small and medium-sized enterprises (SMEs) and start-up companies from overseas, in opening and maintaining bank accounts in Hong Kong. This paper provides an update on the latest developments in this area.

Steps taken to address the issue

2. Against the backdrop that international standards for customer due diligence (CDD) have been raised globally for anti-money laundering and counter terrorist financing (AML/CFT) purposes, the Hong Kong Monetary Authority (HKMA) has through its ongoing supervisory process reminded banks that while they should have robust controls in place for the CDD processes, they should not pose an unreasonable barrier to bona fide businesses accessing banking services. More specifically banks are advised that their CDD requirements should be relevant and pragmatic with respect to a customer's background and circumstances or likely riskiness.

3. As reported in the Panel meeting of 15 November 2016¹, the HKMA has been engaging various stakeholders, including chambers of commerce, SME associations and professional organisations, to gather specific incidents of difficulties in opening bank accounts in order to follow up with the banks concerned more effectively. The information collected has been incorporated in our guidance to banks, including a circular to all banks last September reiterating how the risk-based approach should be applied to CDD process at account opening and maintenance, and to emphasis the importance of treating customers fairly. The HKMA subsequently issued two rounds of "Frequently Asked Questions on Customer Due Diligence" (one in September 2016 and another in May 2017) to banks, clarifying some commonly misinterpreted CDD requirements, and banks were required to review and revise

¹ More details can be found in LC Paper No. CB(1)78/16-17(07).

policies and procedures to ensure consistency with the HKMA guidance. The issue was brought to the attention to all directors of banks in order to make them aware of the guidance so that they may set the tone from the top. Furthermore, the HKMA has provided several rounds of training to banks' senior management, directors and compliance officers in this area.

4. To increase communication with the business community to keep them apprised of our efforts, the HKMA had hosted four rounds of sharing session in August and September 2016 for chambers of commerce, SME associations and professional organisations to facilitate direct exchange of views among the business community and the banks. To continue with the dialogue, the HKMA jointly organised with InvestHK and the Trade and Industry Department two rounds of briefing cum networking session in April and June respectively, which provided useful platforms for sharing with chambers of commerce, local SME associations and professional organisations about the changing international landscape, various improvement measures introduced by banks, and for gathering customer feedback. The Hong Kong Association of Banks has also reached out to the business community, including for example taking part in a seminar² on SME banking services in April to promote the banking services available for SMEs. A number of banks have also reached out to the chambers of commerce to share their policies and practices on account opening and maintenance.

5. In March, the HKMA launched a dedicated webpage on its website (<http://www.hkma.gov.hk>) and a dedicated email account (accountopening@hkma.gov.hk) to facilitate the public, local and overseas business community and other stakeholders to better understand the account opening issue, make enquiries and provide feedback directly to the HKMA for appropriate follow-up. The HKMA webpage contains information about account opening and maintenance procedures, documentation and information requirements and contact details of banks. It also provides information on what banks should not do when processing account opening applications, and useful tips for reference of the unsuccessful applicants. There is also a "What's New" section to provide an update of banks' recent initiatives regarding account opening and maintenance. Since the launch of the HKMA's dedicated webpage and email account, useful feedback and comments were received

² The seminar was jointly organised with Support and Consultation Centre for Small and Medium Enterprises, known as SUCCESS in short, which is run by the Trade and Industry Department in collaboration with various industrial and trade organisations, professional bodies, private enterprises and other Government departments to provide SMEs with business information and consultation services free of charge.

which are being followed up by a dedicated team of the HKMA.

6. Feedback from chambers of commerce and the local business community about the efforts in addressing the account opening issue has been positive, and there are indications that customer experience has improved. Some chambers have shared the relevant information, such as the HKMA's dedicated webpage and email account, with their members through various communication means.

Improvements to the account opening process

7. In response to the HKMA guidance, banks have taken a number of measures to address the concerns of the business sector. Improvements are seen in the following areas:

- (i) **Efficiency:** The industry has taken steps to improve efficiency of their account opening processes. All retail banks provide “pre-vetting” service, in which banks accept applicants to submit account opening documents via email, fax or mail for initial pre-screening or pre-assessment by the banks before arranging the applicants to have face-to-face meeting, with a view to providing greater convenience to applicants. Some banks have also set up dedicated hotlines and dedicated branches resourced with properly trained front-line staff for account opening to improve customer experience.
- (ii) **Transparency:** All retail banks have now established review mechanisms to re-examine unsuccessful applications. From the information submitted by banks, such review mechanisms are operating smoothly. Some customers who made use of the mechanisms to review their cases were able to subsequently open accounts after providing supplementary information for banks' further assessment, while those who could not provide the necessary information were unable to open bank accounts but banks generally provided the reasons for rejection where permissible. All retail banks have also sought to maintain adequate communication with customers throughout the account opening process, for example, by providing interim updates/reminders about the progress of their applications and whether any documents remain outstanding. As front line staff are the first point of contact with customers, the HKMA has required banks to properly train their front line staff to equip them with

sufficient technical knowledge and experience in dealing with the account opening process as well as communicating with potential customers in a user-friendly manner.

- (iii) ***Reasonableness:*** Banks have reviewed their policies and procedures to ensure consistency with the HKMA guidance. For example, a major bank has adjusted its practice by requiring only relevant source of wealth information from customers during its CDD review processes. This has substantially reduced the burden faced by the customers concerned.
- (iv) ***Risk Based Approach:*** Some banks have made changes to how they interpret AML/CFT requirements to better reflect the risk-based approach. For example, in the course of our recent supervisory review, the HKMA provided feedback to a bank regarding the use of an inappropriate customer risk classification scoring model which had resulted in a number of customers being incorrectly classified as high risk and therefore subject to enhanced due diligence measures. The bank is adjusting its scoring model accordingly.

8. It is relevant to note that the retail banking sector opens an average of about 10,000 new business accounts per month, with some 70% of them relating to SMEs and start-up companies. For the successful cases, on average some 60% of them are opened within two weeks, and it is noted that some accounts could be opened as quickly as within a few days but the actual timeframe would naturally have to depend on the complexity of individual cases and the availability of the necessary information required of the applicants. On average some 340 applications are rejected by banks every month, while some 680 applications are pending information from customers to proceed every month. In fact, the average unsuccessful rate of account opening applications, if outlier is excluded, is now below 5%, representing a substantive improvement from around 10% in early 2016.

Way Forward

9. While there have been some improvements in the past few months as a result of the joint efforts by various stakeholders, we see the need to sustain our work in this area. In the coming months, the HKMA will commission its own mystery shopping programme to assess the effectiveness of measures adopted by banks to enhance customer interfacing and whether any further actions should be taken by the

HKMA. We will also conduct a round of thematic onsite examinations to complement our mystery shopping programme and identify good and bad practices that could be shared with the industry to help ensure proper application of risk-based AML/CFT controls in the SME segment. The HKMA will continue to examine banks' application of risk-based approach in all its AML/CFT on-site examinations to ensure effective implementation, taking into account the different risk appetites and target markets across the banking sector.

10. Meanwhile, the HKMA is exploring with the banking industry on how technology (e.g. remote account opening, Know-Your-Customer Utilities) can improve efficiency and reduce the cost of account opening and maintenance, thereby assisting banks in managing risks and improving the customer experiences. The HKMA has already indicated it has no objection to a number of banks seeking to launch remote account opening, and we understand that several other banks are also looking to do the same. The HKMA is considering issuing additional guidance to banks to provide regulatory clarity to encourage greater use of technology where appropriate.

11. The HKMA will continue to work with the banking industry, business community and relevant stakeholders to deal with this global and complex issue. Our aim is to maintain a robust AML/CFT regime in Hong Kong which does not undermine access by legitimate businesses and ordinary citizens to basic banking services.

Hong Kong Monetary Authority
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