



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/1C
B1/15C

25 May 2012

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Observations of Mystery Shopping Programme on the Code of Banking Practice

The Hong Kong Monetary Authority (the “HKMA”) engaged a service provider to undertake a mystery shopping programme (“MSP”) to obtain information on authorized institutions’ (“AIs”) compliance with the Code of Banking Practice (“the Code”). In particular, the MSP aimed to ascertain, from customers’ perspective, how the business practices of AIs compared with the practices recommended in the Code.

The MSP covered three types of banking services, namely, savings accounts, unsecured personal loans and credit cards (the “banking services”) that 21 AIs offered to retail customers. During the exercise, the mystery shoppers (“shoppers”) posed as prospective customers and expressed interest in and sought information about the banking services of the selected AIs from their sales representatives but did not apply for the services. The shoppers conducted 409 samples of savings accounts, 364 samples of unsecured personal loans, and 422 samples of credit cards through undertaking 540 visits to the branches and 60 telephone enquiries to the general customer hotlines of the AIs concerned.

The shoppers focused on the extent to which information of significance to customers, including fees and charges, interest-related information, minimum balance requirements (for savings accounts only), and repayment provisions (for unsecured personal loans only) (“relevant information”), would be provided by AIs’ sales representatives to customers during the sales process. The shoppers also reviewed the major terms and conditions (“T&Cs”) on the application forms of credit cards.

A report submitted by the service provider to the HKMA in May 2012, setting out the observations of the MSP, is attached at Annex. AIs should study the report carefully and give due regard to the issues identified in the report when monitoring their sales process and providing training to their frontline staff. AIs are reminded that they are expected to comply with the banking practices recommended in the Code in dealing with personal customers.

Key Observations and Recommendations

During the MSP, all shoppers found that the sales representatives explained the features of the banking services concerned in a factual and easy to understand manner. No shoppers reported being pressured to apply for the banking services.

The MSP results revealed that all marketing materials given to the shoppers included the relevant fees and charges and interest-related information in accordance with the Code. The Code also recommends AIs to make relevant information of savings accounts and credit cards available to their customers. The exercise showed that most sales representatives of the AIs concerned were ready to meet this requirement. The shoppers in 95% or more of the samples were furnished with all relevant information during the sales process. All shoppers were provided with all fees and charges information on savings accounts. However, the shoppers were provided with some but not all of the interest-related information in 21 savings account samples and 21 credit card samples. There were 14 credit card samples where the shoppers were provided with some but not all of the fees and charges information.

The Code recommends AIs to provide relevant information when customers apply for loans. About 95% of sales representatives involved in unsecured personal loan samples provided all relevant information on fees and charges and repayment provisions to the shoppers. Over 90% of the sales representatives also provided all relevant interest-related information. Nonetheless, there were some samples where the shoppers were provided with some but not all of the relevant information. More importantly, the sales representatives did not provide any information on fees and charges in two samples, and repayment provisions in another two samples. The sales representative in one sample also did not provide any interest-related information.

The HKMA expects AIs to provide all relevant information on their banking services to prospective customers upon their requests so that they can make informed decisions on whether or not to apply for the banking services. AIs should enhance their sales process and provide adequate training to their front-line staff to ensure that they would be able to provide the relevant information to prospective customers.

The Code requires AIs to display the schedule of standard fees and charges, and the rates offered on interest-bearing accounts in their branches. Some of the shoppers observed that such information was not prominently displayed in the area of the branches they visited. AIs should pay more attention to this requirement.

The sales representatives in 364 branch visits (95%) gave the shoppers credit card application forms without being asked. All these application forms included the major T&Cs of credit cards in accordance with the Code. However, only 30% of the shoppers concerned considered that the contents of major T&Cs were readable and comprehensible. In accordance with the Code, AIs should ensure that major T&Cs of credit cards which are included in the application forms are described or highlighted in plain language. The contents should also be printed in clear and legible type and in a font size that facilitates easy reading.

Conclusion

The MSP revealed some common practices that AIs adopted when introducing savings accounts, unsecured personal loans and credit cards to prospective customers. In particular, it illustrated the type of information that prospective customers would most likely receive before applying for the banking services. It also identified areas where improvements in the sales process could be made from the customers' perspective. While the HKMA does not intend the findings of the exercise to be conclusive of the AIs' general level of compliance with the Code or to identify any wrong-doings by individual staff of AIs, the HKMA will follow up with the AIs concerned and ask them to enhance their staff training and banking practices where room for improvement was identified in the MSP. All AIs should give due regard to the observations and the related recommendations set out in the Annex in their provision of banking services to customers.

The HKMA will continue to monitor AIs' compliance with the Code through AIs' regular self-assessments and by conducting on-site examinations. The HKMA will take into account the observations of the MSP exercise in its supervisory process to enhance consumer protection in the banking industry. Where appropriate, the HKMA will deploy mystery shopping to assess the industry's compliance with the Code.

Yours faithfully,

Meena Datwani
Executive Director (Banking Conduct)

Encl.

cc: The Chairman, The Hong Kong Association of Banks
The Chairman, The DTC Association
The Chairman, Code of Banking Practice Committee
Secretary for Financial Services and the Treasury