

REPORT OF MYSTERY SHOPPING
PROGRAMME FOR COMPLIANCE WITH
THE CODE OF BANKING PRACTICE

INDUSTRY REPORT

May 2012

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I. EXECUTIVE SUMMARY

1. The Hong Kong Monetary Authority (HKMA) introduced a “mystery shopping programme” (MSP) as one of the measures to facilitate the monitoring of authorised institutions’ (AIs) compliance with the Code of Banking Practice (the Code) in 2010. The Hong Kong Productivity Council (HKPC) was engaged by the HKMA to conduct the mystery shopping exercise (the exercise). This report sets out the observations of the exercise.
2. The exercise was performed from September to October 2010. During this period, 1,195 samples¹ were conducted on 21 AIs with retail banking business. Three types of banking services that AIs offered to personal customers were covered in the exercise, namely, savings accounts, unsecured personal loans and credit cards.
3. The exercise focused on the availability of relevant information to the shoppers² during the sale process. Key observations of the exercise were summarized as follow:
 - All shoppers found that the sales representatives explained the features of the banking services in a factual and easy to understand manner, and none of them felt pressured to apply for the banking services.
 - In most cases, the sales representatives of the AIs concerned were ready to make available relevant information on the three types of banking services to the shoppers. Information on fees and charges were provided to shoppers in all savings account samples by the end of the sales process. Shoppers in almost all unsecured personal loan and credit card samples (95% and 97% respectively) were also given all relevant information on fees and charges. In some samples, some information was not made available to the shoppers. In particular, in two unsecured personal loan samples, all information on fees and charges was not provided by the sales representatives even upon the shoppers’ requests.
 - Interest-related information was made available to the shoppers in most of the samples of all three types of banking services during the sales process. However, not all relevant information was provided to the shoppers in

¹ “Sample” in this report refers to each instance where a “shopper” acts as a potential customer to gather information on the sale process of a banking service of an AI.

² “Shopper” in this report refers to a person engaged by the HKPC to act as a prospective customer of the AI in question.

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some samples. In one unsecured personal loan sample, all the interest-related information that the shoppers sought was not provided by the sales representative by the end of the sales process.

- The fees and charges and annualised percentage rates of the banking services concerned were properly indicated in all relevant marketing materials provided to the shoppers.
- Information on the repayment provisions of unsecured personal loans was made available to 98% of the shoppers. Information on the minimum balance requirements of savings accounts was provided to all shoppers.
- Seventy percent of shoppers found that the contents of the major T&Cs in credit card application forms were not readable and comprehensible.
- One-third of the shoppers observed that the AIs' fees and charges schedules were not prominently displayed in the area of the branches they visited, and about one-fifth of the shoppers observed that the rates offered on the AIs' interest-bearing accounts were not prominently displayed in the area of the branches they visited.

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II. PROGRAMME INTRODUCTION

OBJECTIVES

4. The MSP is intended to complement the HKMA's regulatory activities by serving as an additional supervisory tool in obtaining information on AIs' compliance with the Code and other banking practices from customers' perspective.
5. The exercise focused on three types of banking services that AIs offered to personal customers, namely savings accounts, unsecured personal loans and credit cards. These banking services were covered in Chapter 1, 2 and 3 of the Code. The exercise looked at AIs' practices in selling the banking services, particularly regarding the availability of relevant product information during the sales process, with reference to the relevant practices recommended in these three chapters. Please refer to Appendix 1 for details.

METHODOLOGY

6. The HKPC provided the HKMA with the services in respect of the design, performance and administration of the exercise. Trained and recruited by the HKPC, shoppers posing as prospective customers were deployed to conduct visits to the branches of AIs and make telephone enquiries by phone to AIs' general customer hotlines. The shoppers were instructed to express interest in the banking services to the sales representatives concerned and enquire about the services during the process but not to apply for the services. In consultation with the HKMA, the HKPC designed a questionnaire for the shoppers to record their experience in each branch they visited and each telephone enquiry made. The shoppers also collected any materials provided by the sales representatives during the process.
7. The HKPC performed quality control tests on the completed questionnaires against the relevant records to ensure completeness and accuracy of the results.

COVERAGE

8. The exercise was carried out from September to October 2010.
9. Twenty-one AIs active in retail banking business were selected for the exercise. The shoppers conducted visits to 540 branches of the AIs, covering 370, 324 and 383 samples of savings accounts, unsecured personal loans and credit cards respectively. Shoppers also conducted 39 samples of savings accounts, 40 samples of unsecured personal loans and 39 samples of credit

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cards through 60 telephone enquiries made to the AIs' general customer hotlines.

III. OBSERVATIONS

GENERAL

10. All shoppers found that the sales representatives involved in the branch visits and telephone enquiries explained the features of all the banking services concerned in a factual and easy to understand manner.
11. None of the shoppers felt pressured by the sales representatives to apply for the banking services during the sales process.
12. One hundred and seventy eight shoppers (33%) observed that the AIs' fees and charges schedules were not prominently displayed in the area of the branches they visited.
13. One hundred and eighteen shoppers (22%) observed that the rates offered on the AIs' interest-bearing accounts were not prominently displayed in the area of the branches they visited.

SAVINGS ACCOUNTS

14. The shoppers conducted 370 branch visits and 39 telephone enquiries and obtained information on the savings accounts of 20 AIs. One AI did not offer savings account to its customers.

FEES AND CHARGES

15. During the exercise, the shoppers were instructed to focus on the following information on fees and charges of savings accounts:
 - a. the charges for balance falling below minimum balance requirement; and
 - b. whether any other regular fee(s) they charged.
16. Forty eight sales representatives of 8 AIs used marketing materials to introduce savings accounts to the shoppers during their branch visits. The marketing materials in 8 of these samples which included references to the interest rates also indicated the relevant fees and charges properly.

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17. The sales representatives involved in all 409 savings account samples had provided information on the fees and charges concerned to the shoppers by the end of the sales process.

INTEREST-RELATED INFORMATION

18. The shoppers were instructed to focus on the following types of interest-related information of saving accounts:
- a. the interest rate;
 - b. the basis on which interest will be determined (including whether interest will be paid on a simple or compound basis and the number of days in the year used for the calculation); and
 - c. the frequency and timing of interest payments.
19. The sales representatives involved in 388 savings account samples (95%) in 352 branch visits and 36 telephone enquiries had provided all the interest-related information concerned to the shoppers by the end of the sales process. The sales representatives in the other 18 branch visits and 3 telephone enquiries provided some but not all of the information concerned. Specifically, “the interest rate” was not provided in 7 samples (5 branch visits and 2 telephone enquiries); “the basis on which interest will be determined” was not provided in 13 samples (12 branch visits and 1 telephone enquiry); and “the frequency and timing of interest payments” was not provided in 5 samples (4 branch visits and 1 telephone enquiry).

MINIMUM BALANCE REQUIREMENT

20. Information on minimum balance requirements had been provided to the shoppers in all 409 savings account samples by the end of the sales process.

UNSECURED PERSONAL LOANS

21. The shoppers covered unsecured personal loans in 324 branch visits and 40 telephone enquiries of 20 AIs. The sales representatives involved in the branch visits and telephone enquiries of one AI indicated that the AI did not offer unsecured personal loan at the time of the exercise, and thus the AI’s practices with respect to unsecured personal loans were not reviewed.

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FEES AND CHARGES

22. The shoppers were instructed to focus on the following types of fees and charges of unsecured personal loans:
 - a. handling or arrangement fee;
 - b. late payment penalty; and
 - c. charge or termination fee for early repayment.
23. During the branch visits, the sales representatives of 19 AIs in 274 unsecured personal loan samples used marketing materials to introduce the relevant banking service to the shoppers. The marketing materials used in 246 of these samples included references to the interest rates and all of them also properly indicated the relevant fees and charges.
24. By the end of the sales process, the sales representatives involved in almost all unsecured personal loan samples had provided information of all fees and charges to the shoppers. However, the sales representatives in 17 samples (5%) in 14 branch visits and 3 telephone enquiries only provided some but not all of the information concerned to the shoppers. Specifically, information on “handling or arrangement fee” was not provided in 2 samples (1 branch visit and 1 telephone enquiry); “late payment penalty” was not provided in 11 samples (9 branch visits and 2 telephone enquiries); and “charge or termination fee for early repayment” was not provided in 11 samples (9 branch visits and 2 telephone enquiries). It was further noted that the sales representatives in 2 branch visit samples (0.5%) failed to provide any information that the shoppers focused on by the end of sales process, even upon the shoppers’ requests.

INTEREST-RELATED INFORMATION

25. The shoppers were instructed to focus on the following types of interest-related information of unsecured personal loans:
 - a. the interest rate;
 - b. whether the interest rate varies during the loan tenor; and
 - c. the basis on which interest will be determined and when it will be payable (including the number of days in the year used for the calculation).
26. As mentioned above, the sales representatives in 246 branch visit samples provided marketing materials which included references to the interest rates to

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the shoppers. The annualized percentage rates of the different tenors of the unsecured personal loans were also properly quoted in all these marketing materials.

27. The sales representatives in 329 samples (90%) had provided all interest-related information to the shoppers by the end of the sales process. However, the sales representative in one branch visit failed to provide any interest-related information to the shopper even after the shopper's request. The sales representatives in the other 34 samples (9%) in 31 branch visits and 3 telephone enquiries only provided some but not all of the information concerned. Specifically, "interest rate" was not provided in 21 samples (18 branch visits and 3 telephone enquiries); information on "whether the interest rate varies during the loan tenor" was not provided in 3 samples (all in branch visits); and "the basis on which interest will be determined and when it will be payable" was not provided in 13 samples (all in branch visits).

REPAYMENT PROVISIONS

28. When enquiring about unsecured personal loans, the shoppers were also instructed to focus on the following repayment provisions:
 - a. the terms of repayment (including the loan tenor and installments payable); and
 - b. whether the bank had any overriding right to demand immediate repayment.
29. The sales representatives involved in 355 unsecured personal loan samples (98%) had provided information of both repayment provisions concerned to the shoppers. However, even at the shoppers' requests, the sales representatives in 2 branch visits failed to provide any information on repayment provisions, while another 7 sales representatives in branch visits only provided one of the provisions concerned by the end of the sales process. Specifically, "terms of repayment" were not provided in 3 samples; and information on "whether the bank had any overriding right to demand immediate repayment" was not provided in 4 samples.

CREDIT CARDS

30. The shoppers conducted 383 branch visits and 39 telephone enquiries to obtain information on the credit cards practices of all 21 AIs.

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TERMS AND CONDITIONS

31. The sales representatives in 364 branch visits (95%) gave the shoppers credit card application forms without being asked during the process. The followings were noted for these samples:
 - a. All application forms included the major T&Cs of credit cards.
 - b. Majority of shoppers found that the contents of the major T&Cs were not readable and comprehensible. Only 109 shoppers (30%) found that the T&Cs obtained were easy to read.

FEEES AND CHARGES

32. The shoppers were instructed to focus on the following types of fees and charges of credit cards:
 - a. annual fee;
 - b. late payment charge; and
 - c. cash advance charge.
33. During the branch visits, the sales representatives in 332 samples used marketing materials when introducing the banking service to the shoppers. The marketing materials in 325 of these samples included references to the interest rates and all of them also properly indicated the relevant fees and charges.
34. By the end of the sales process, the sales representatives involved in 408 credit card samples (97%) had provided information on all the fees and charges concerned to the shoppers. However, the sales representatives involved in 4 telephone enquiries and 10 branch visits (3%) only provided some but not all of the relevant information by the end of the sales process. Specifically, “late payment charge” was not provided in 9 samples (6 branch visits and 3 telephone enquiries); and “cash advance charge” was not provided in 6 samples (5 branch visits and 1 telephone enquiry).

INTEREST-RELATED INFORMATION

35. The shoppers were instructed to focus on the following types of interest-related information of credit cards:
 - a. interest rate on retail purchases;
 - b. interest rate on cash advances; and

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- c. the basis on which interest will be determined and when it will be payable (including the length of interest free period, and when interest will start to accrue on the outstanding balance).
36. As mentioned above, the sales representatives in 325 branch visits provided marketing materials which included interest rates to the shoppers. All these documents also properly indicated the annualised percentage rates of the banking service.
37. The sales representatives involved in 401 credit card samples (95%) had provided all interest-related information to the shoppers by the end of the sales process. However, 4 sales representatives involved in telephone enquiries and 17 sales representatives in branch visits (5%) only provided some but not all of the information concerned by the end of the sales process, even after the shoppers' requests. Specifically, "interest rate on retail purchase" was not provided in 9 samples (6 branch visits and 3 telephone enquiries); "interest rate on cash advance" was not provided in 6 samples (5 branch visits and 1 telephone enquiry); and "the basis on which interest will be determined and when it will be payable" was not provided in 7 samples (all in branch visits).

IV. WAY FORWARD

38. The HKMA may consider reminding AIs to ensure relevant information on banking services could be made readily available to prospective customers during their sales process.
39. For samples that may indicate potential non-compliance, the HKMA may wish to follow up with the AIs concerned and require them to take appropriate actions to address the issues noted.
40. The HKMA is advised to take into account the experiences and observations gained in this exercise when designing similar mystery shopping exercise in the future.

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APPENDIX 1: SECTIONS OF THE CODE OF BANKING
PRACTICE COVERED BY THE MYSTERY SHOPPING
PROGRAMME

CHAPTER / SECTION TITLE SECTION COVERED

Chapter 1 Relationship between Banks and Customers

Fees and Charges	Section 6.1
Bank Marketing	Section 11.3 (partial)

Chapter 2 Accounts and Loans

Operation of Accounts	Section 17.1(a) & (b)
Deposit Accounts	Section 19.1, and 19.2(a), (b) & (c)
Loans and Overdrafts	Section 20.2(a), (b) (partial), (c), (e), (f) & (g) (partial), and 20.3

Chapter 3 Card Services

Issue of Cards	Section 25.4(k) (partial) & (l) (partial)
Terms and Conditions, Fees and Charges and Interest Rates	Section 26.1(b)

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APPENDIX 2: SUMMARY OF THE RESULTS OF THE MYSTERY SHOPPING PROGRAMME

TABLE 1: INFORMATION ON FEES AND CHARGES

a) Branch Visits

Type of Fees & Charges	Information provided by end of sales process	No information provided by end of sales process
<i>Savings Accounts</i>	<i>370</i>	
Charge for balance falling below minimum requirement	370	0
Other regular fee(s)	370	0
<i>Unsecured Personal Loans</i>	<i>324</i>	
Handling / arrangement fee	321	3*
Late payment penalty	313	11*
Charge / termination fee for early repayment	313	11*
<i>Credit Cards</i>	<i>383</i>	
Annual fee	383	0
Late payment charge	377	6
Cash advance charge	378	5

* Including two samples where all three types of information were not provided.

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b) Telephone Enquiries

Type of Fees & Charges	Information provided by end of sales process	No information provided by end of sales process
<i>Savings Accounts</i>	<i>39</i>	
Charge for balance falling below minimum requirement	39	0
Other regular fee(s)	39	0
<i>Unsecured Personal Loans</i>	<i>40</i>	
Handling / arrangement fee	39	1
Late payment penalty	38	2
Charge / termination fee for early repayment	38	2
<i>Credit Cards</i>	<i>39</i>	
Annual fee	39	0
Late payment charge	36	3
Cash advance charge	38	1

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TABLE 2: INTEREST-RELATED INFORMATION

a) Branch Visits

Type of Interest-related information	Information provided by end of sales process	No information provided by end of sales process
<i>Savings Accounts</i>	<i>370</i>	
Interest rate	365	5
The basis on which interest will be determined	358	12
Frequency and timing of interest payments	366	4
<i>Unsecured Personal Loans</i>	<i>324</i>	
Interest rate	305	19 [#]
Whether the interest rate varies during the loan tenor	320	4 [#]
The basis on which interest will be determined and when it will be payable	310	14 [#]
<i>Credit Cards</i>	<i>383</i>	
Interest rate on retail purchase	377	6
Interest rate on cash advance	378	5
The basis on which interest will be determined and when it will be payable	376	7

Including one sample where all three types of information were not provided.

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b) Telephone Enquiries

Type of Interest-related information	Information provided by end of sales process	No information provided by end of sales process
<i>Savings Accounts</i>	<i>39</i>	
Interest rate	37	2
The basis on which interest will be determined	38	1
Frequency and timing of interest payments	38	1
<i>Unsecured Personal Loans</i>	<i>40</i>	
Interest rate	37	3
Whether the interest rate varies during the loan tenor	40	0
The basis on which interest will be determined and when it will be payable	40	0
<i>Credit Cards</i>	<i>39</i>	
Interest rate on retail purchase	36	3
Interest rate on cash advance	38	1
The basis on which interest will be determined and when it will be payable	39	0

TABLE 3: INFORMATION ON MINIMUM BALANCE REQUIREMENT (SAVINGS ACCOUNTS ONLY)

	Information provided by end of sales process	No information provided by end of sales process
<i>Savings Accounts</i>	<i>409</i>	
Branch Visit	370	0
Telephone Enquiry	39	0

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TABLE 4: REPAYMENT PROVISIONS (UNSECURED PERSONAL LOANS ONLY)

a) Branch Visits

Type of Information	Information provided by end of sales process	No information provided by end of sales process
<i>Unsecured Personal Loans</i>	<i>324</i>	
Terms of repayment, including the loan tenor and installments payable	319	5 [^]
Any overriding right to demand immediate repayment	318	6 [^]

[^] Including two samples where both types of information were not provided

b) Telephone Enquiries

Type of Information	Information provided by end of sales process	No information provided by end of sales process
<i>Unsecured Personal Loans</i>	<i>40</i>	
Terms of repayment, including the loan tenor and installments payable	40	0
Any overriding right to demand immediate repayment	40	0