



HONG KONG MONETARY AUTHORITY
香港金融管理局

Enforcement Department

法規部

Our Ref: B1/15C

23 January 2015

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Complaints Watch

The Hong Kong Monetary Authority (HKMA) published today the third issue of Complaints Watch.

Complaints Watch is a periodic newsletter to share with the banking industry information on complaints received by the HKMA. It highlights the latest complaint trends, emerging topical issues, and areas that authorized institutions (AIs) may wish to place greater focus on. It forms part of the HKMA's work to promote proper standards of conduct and prudent business practices among AIs.

A copy of Complaints Watch is enclosed for your perusal. You may wish to forward it to members of your institution who have responsibilities for selling of retail and investment products, risk management, compliance and complaints handling for reference.

If there are any questions on the above, please contact Mr Billy Lai on 2516 6266 or Ms Cathy Chan on 2516 7525.

Yours faithfully,

Meena Datwani
Director-General (Enforcement)

Encl.



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Complaint statistics

Sep to Dec 2014	General banking services	Conduct-related issues	Total
In progress as of 1 Sep 2014	269	173	442
Received during the period	332	36	368
Completed during the period	(361)	(49)	(410)
In progress as of 31 Dec 2014	240	160	400

Compared to the last reporting period (May-August 2014), the number of complaints received between September and December decreased by 80 to 368 cases. Complaints about insurance products decreased significantly by 29 to 32 cases. Overall, complaints about investment products ranked top (52) (including 13 cases related to possible mis-selling), followed by complaints relating to disputes over fund transfers (39), service quality (35), fees and charges (34), insurance products (32) and closure of accounts (28).

Unauthorized transactions

The HKMA handled several complaints about unauthorized transactions conducted by banks' relationship managers. Although the number of such complaints received was not large, the issue warrants banks' attention as such misconduct may result in customers suffering considerable loss including possible misappropriation of their assets.

Such complaints can be categorized into three types namely those involving transactions that were executed: (1) not in full accordance with the instructions given by customers, (2) in accordance with the instructions received from relatives of or parties related to customers but without proper authorization or power of attorney from the customers, and (3) on a discretionary basis without written authorization by customers.

Regarding the first type of complaint, we noted that although the customers may have authorized the transactions generally, either the instructions obtained were not specific or no proper records were kept to demonstrate that specific instructions had been obtained by the relationship manager.

In respect of the second type of complaint, we observed that although the instructions were given by the customers' relatives or related parties with either the knowledge or consent of the customers, the transactions were unauthorized as there was either no power of attorney executed by the customers or the power was defective.

As regards the third type of complaint, proper written authorization had not been

obtained for conducting transactions on a discretionary basis despite the customers' oral instructions to that effect.

In all these types of cases, although the customers appeared to have agreed to the transactions or arrangements, the deficiencies in the form of the instructions or the authorization exposed not only the account holders to the risk of loss or misappropriation but also the banks and their staff to the risk of being the subject of customer complaints, reputational damage and liability for loss suffered by their customers in addition to possible disciplinary action.

Banks and their staff should note that the form as well as the particulars of the instructions and authorizations, including powers of attorney, of customers are crucial to ensure the proper and precise execution of customers' intended instructions which will help to avoid potential disputes. Banks should consider implementing additional measures to ensure that their staff as well as their customers understand the importance of proper authorization.

Banks are also reminded to establish effective policies and procedures to handle customers' instructions and obtain their authorizations, including powers of attorney, and implement proper controls to prevent and detect any non-compliance. The HKMA will take action where appropriate.

Remittance frauds

A rising trend in complaints relating to email and remittance frauds was noted in 2014. Typically, the complainants alleged that they had received emails purportedly sent by their existing business counterparts overseas asking them to alter existing payment arrangements and remit money into a different designated account maintained with a bank in Hong Kong. These requests are often made using email addresses that appear similar in order to trick complainants. By the time the complainants discovered that they had fallen prey to scams, the money had already been withdrawn from these accounts or transferred to other third party accounts by the fraudsters.

According to the banks' findings, similar to many other types of fraud, these cases mainly involved corporate accounts opened by companies with directors or operators holding foreign passports. It is also noted that most of these companies have Hong Kong secretarial companies acting as their company secretaries. Typically, the accounts were maintained with the banks for a short period of time with relatively few transactions before occurrence of the fraud.

We would like to remind banks to remain alert to this type of fraud and other types of commercial scams (e.g. boiler room) involving the use of bank accounts by fraudsters to receive and further process the victims' money. Banks should on an on-going basis continuously monitor the activities of their customers to identify suspicious transactions and take effective precautionary measures and follow-up actions, including promptly reporting any suspicious transactions to the Joint Financial Intelligence Unit.

Remitting banks should remind their customers to be alert to this type of fraud and make sure that all the information relating to the beneficiary account, including the account name and the account number, is correct as the remitting banks are unable to verify beneficiary account information, and the verification procedures adopted by the beneficiary banks may vary in different countries, for example, some banks may process inward remittances by verifying both the account number and account name while some banks may require the account name or number.

Bank customers are also reminded to exercise caution where a request is received from an existing customer to change payment bank account details and verify the relevant account information with their business counterparts through alternate channels before initiating any fund transfers requested.

Comments and feedback on *Complaints Watch* are welcome. Please email them to bankcomplaints@hkma.gov.hk.