



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C

26 July 2023

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Complaints Watch

The Hong Kong Monetary Authority (HKMA) has today published the twenty-second issue of its Complaints Watch.

Complaints Watch is a half-yearly newsletter to share with the industry information on banking complaints received by the HKMA. It highlights the latest complaint trends, emerging topical issues, and shares good practices that authorized institutions (AIs) may find helpful. This constitutes the HKMA's work to promote proper standards of conduct and prudent business practices among AIs.

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

Should you have any questions regarding this Complaints Watch, please contact us at bankcomplaints@hkma.gov.hk.

Yours faithfully,

Carmen Chu
Executive Director (Enforcement and AML)

Encl.



COMPLAINTS WATCH

Issue No. 22 |

26 July 2023

Complaints Watch is published half-yearly by the Enforcement Divisions of the Hong Kong Monetary Authority (“HKMA”). It highlights the latest complaint trends, emerging topical issues, and areas that Authorized Institutions (“AIs”) and members of the public should be alert to. By publishing Complaints Watch, the HKMA aims to promote proper standards of conduct and prudent business practices among AIs and to increase public awareness of information about products and services offered by AIs.

Complaint Statistics

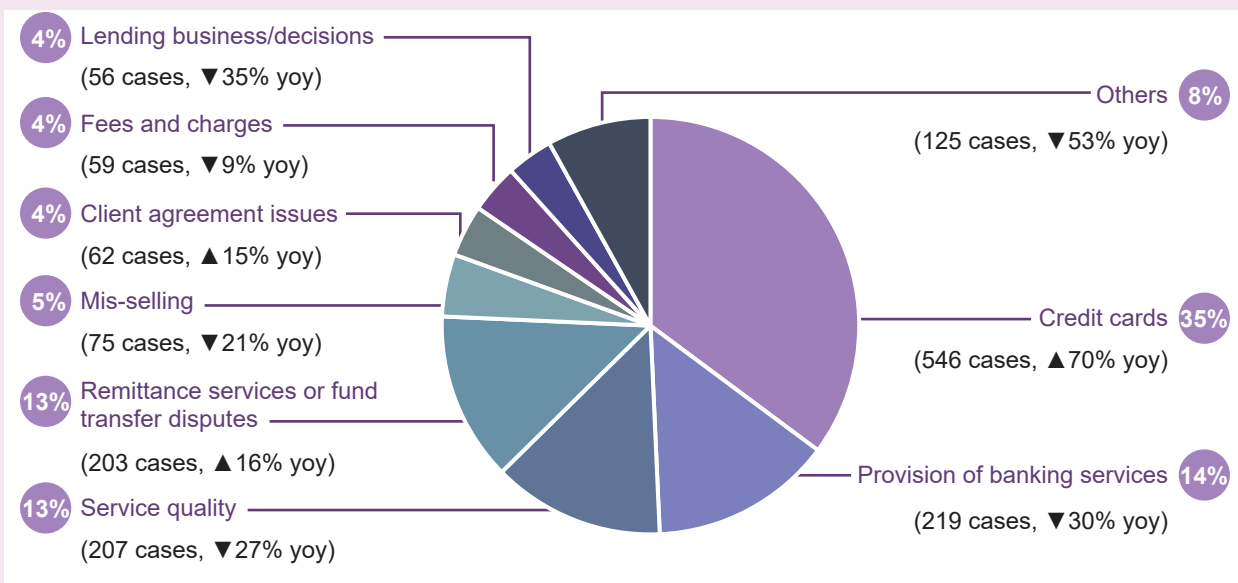
Table 1

Progress in HKMA handling of banking complaints

	Jan – Jun 2023		
	General banking services	Conduct-related issues	Total
Received during the period	1,400	152	1,552 ¹
Completed during the period	1,487	237	1,724

Chart 1

Types of banking complaints received in Jan – Jun 2023



¹ The HKMA received 637 fraud-related banking complaints in the first six months of 2023, as compared to 555 cases for the full year of 2022.

Premium financing for purchase of insurance plans

Premium financing is an insurance funding arrangement where a policy holder borrows funds from an AI to pay for the premium of a new insurance policy by assigning part or all of the rights under the policy to the AI as collateral, thereby scaling up the insurance policy value with the same amount of principal. The HKMA noted a number of complaints against AIs concerning the purchase of insurance plans with premium financing. Some common allegations include: -

- misrepresentation, inadequate or unclear disclosure of the features and risks of the insurance plans and associated premium financing;
- application for premium financing without the customer's knowledge, e.g. the customer thought that the monthly payouts were insurance policy premiums, but in fact they were loan interest payments;
- unclear communication of the floating rate on premium financing loan; and
- miscalculation of affordability.

AIs should place adequate emphasis on proper business practices and conduct, as well as clear disclosure and communication to protect the interests of their customers. The HKMA requires AIs to ensure the suitability and affordability of an insurance policy when making recommendations to their customers. In the light of potential conduct risks in relation to premium financing, AIs should also review from time to time the adequacy and effectiveness of their systems and controls, observe the relevant regulatory requirements², and draw reference where appropriate to the good practices we have observed: -

- illustration on the calculation of interest payment in premium financing is clearly stated in marketing materials, as well as product documents;
- in case the lending rate is of a benchmark-based percentage, the floating rate nature of the premium financing, and its potential fluctuation affected by local and/or global economic development, are properly explained to customers during the selling process; in particular, customers are made aware that the lending rate is not capped;
- while the insurer provides information on policy performance, the AI concerned updates the customer regularly on the interest cost of premium financing and reminds the customer to review his/her premium financing needs on an on-going basis; and
- another staff not involved in the sales process will re-confirm with the customer that he/she is aware of the risks and features of the insurance policy and premium financing.



² Including the Insurance Authority's circular "Circular on the supervisory standards and key requirements on the use of premium financing to take out long term insurance policies" issued on 1 April 2022 and the HKMA's circular "Use of Premium Financing to take out Long Term Insurance Policies" issued on the same date.

Safeguards regarding the use of instant messaging

Instant messaging³ (“IM”) is used by many banks and their staff to communicate with customers on financial services. It is important that AIs remain vigilant in protecting the interests of customers and adopt proper controls on the use of IM. Insights from the HKMA’s handling of related complaint cases and some good industry practices are shared below⁴.

In a few cases, bank staff were alleged to have used IM to provide customers with materially incorrect information prepared by themselves about customers’ bank accounts, or inappropriate description of the features and risks of investment products. The AIs concerned found such allegations substantiated and resolved those disputes with the affected customers.

To safeguard customers’ interests, AIs should ensure that information provided to customers is accurate and not misleading, and proper records and audit trails are maintained. There should be adequate policies and procedures regarding the use of IM and effective monitoring measures to identify any improper use of IM. Some examples of good industry practices:

- Set up a governance framework for reviewing and approving acceptable IM systems;
- Establish minimum requirements for access to and define the scope of allowable activities that staff can conduct through permitted IM systems;
- Put in place procedures that staff should follow when they are contacted by customers through non-approved IM channels;
- Use business IM systems and/or dedicated official IM accounts which enable record keeping and monitoring; and
- Conduct surveillance of IM communications and establish model-based alert systems to detect and prevent inappropriate activity.

AIs are encouraged to make reference to these good industry practices and, in staff training, emphasise proper business conduct across all communication channels.

Customers should be reminded to read carefully the official documents issued by the relevant bank or product issuer regarding account details, transaction summaries and product information. It is advisable to understand key product features and risks and seek clarifications where necessary before making investment decisions. Prompt checking of account statements may also help customers identify any errors or discrepancies as soon as possible, and report to the AI concerned for appropriate follow-up.



3 IM is a form of electronic communication which allow users to immediately transfer text messages and electronic files, such as images, audio, video and textual documents, across a network connection of mobile devices or computer platforms. Examples of IM tools include WhatsApp, WeChat and Line.

4 Reference should also be made to relevant regulatory requirements, including the HKMA’s Supervisory Policy Manual module on “Risk Management of E-banking” (TM-E-1), the HKMA’s circular “Distribution of Investment and Insurance Products through Non-face-to-face Channels” issued on 24 September 2021, and the SFC’s circular “Receiving client orders through instant messaging” issued on 4 May 2018.

Tips for Banks' Complaint Handling Officers

Do's

- ✓ Be proactive in clarifying information discrepancy
- ✓ Keep procedures under review

Don'ts

- ✗ Be rigid or bureaucratic
- ✗ Rely on one-size-fits-all approach in customer communication

Case Sharing

In some complaint cases, it is noted that complainants provided email or correspondence addresses which were different from their registered records with the banks, probably due to a change of contact details that had not been notified to the bank concerned through official channel. By simply following its general practice, a bank communicated with the complainant using his contact details officially registered with the bank, instead of the address provided in the complaint case, and the non-delivery of the bank's reply to the complainant caused grievance. While it is important for banks to exercise due care in protecting confidentiality of customer information and avoid potential leakage, the officer concerned could have proactively clarified with the complainant when discrepancy was noted in complainant's contact details. Drawing on these insights, the bank concerned has enhanced its complaint handling and other operational procedures, as well as staff training, for proactively clarifying information and raising customer awareness, including reminders to customers about the importance of updating their official contact details registered with the bank as soon as practicable when there is a change.

Comments and feedback on Complaints Watch are welcome.

Please email them to bankcomplaints@hkma.gov.hk.