HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C

19 May 2017

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Complaints Watch

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

Complaints Watch is a periodic newsletter prepared by the HKMA to share with the banking industry information on 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. It forms part of the HKMA's work to promote proper standards of conduct and prudent business practices among AIs.

A copy of the ninth 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 complaints handling for reference.

If there are any questions on the above, please contact Ms Peggy Lo on 2878 7504 or Mr Gabriel Au on 2878 7549.

Yours faithfully,

Meena Datwani
Executive Director (Enforcement and AML)

Encl.

55th Floor, Two International Finance Centre,
8 Finance Street, Central, Hong Kong
Website: www.hkma.gov.hk

香港中環金融街8號國際金融中心2期55樓
網址：www.hkma.gov.hk

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Complaints Watch

Issue No. 9
19 May 2017

Complaints Watch is published by the Complaint Processing Centre (CPC) of the Hong Kong Monetary Authority (HKMA). It highlights the latest complaint trends, emerging topical issues, and areas that banks 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 banks.

Complaint statistics

Sep to Dec 2016	General banking services	Conduct-related issues	Total
In progress as of 1 Sep 2016	365	261	**626**
Received during the period	500	77	**577**
Completed during the period	(553)	(95)	**(648)**
In progress as of 31 Dec 2016	312	243	**555**

Compared with the last reporting period (May-August 2016), the number of complaints received between September and December 2016 decreased by 9% or 57 cases to 577 cases. Complaints concerning credit card transactions continued to rank the highest with 61 cases (of which 31 cases were related to the closure of a fitness gym chain) received during the period. Other major types of complaints received were related to service quality (77), disputes about fund transfers (58), fees and charges (52), alleged mis-selling (51), client agreement terms (38) and closure of accounts (32).

Fire insurance of mortgaged property

Since section 22.12 of the Code of Banking Practice (the Code) governing fire insurance for mortgaged properties was amended in February 2015, the HKMA has received a number of complaints alleging that banks require customers to purchase insurance for their mortgaged property by choosing an insured amount based on one of the following options: first the original loan value; secondly the current loan value (provided the amount is not below the cost of reinstating the property); or thirdly the reinstatement cost. In addition, there were complaints that annual valuation of the reinstatement cost of the mortgaged property was required unless the original loan value was selected as the insured amount.

Some complainants contended that they did not wish to opt for the original loan value as the insured amount because this would increase the annual fire insurance premium payable as the original loan value was much higher than the current loan value due to substantial repayments of the loan over the years. Furthermore, for the second and third options which involve a determination of the reinstatement cost, customers would not opt for these if the annual valuation fee was high relative to the annual fire insurance premium payable.

In response to such complaints, the HKMA reviewed section 22.12 of the Code and issued a circular dated 14 February 2017 to the banking industry to clarify that the overarching principle of section 22.12 of the Code was that the insured amount should adequately protect customers and banks from the risk of fire or other serious damage to a mortgaged property and to put both parties back to their positions before any fire or other serious damage had occurred. The original loan value, the outstanding loan value and the reinstatement cost should therefore not be the exhaustive options to determine the insured amount. Instead, the HKMA expected banks to come to a mutual agreement with their customers on a reasonable insured amount, taking into account the circumstances of each case and, where relevant, explaining clearly to customers the implications of not basing the insured amount on the reinstatement cost. To put our supervisory expectation into effect, the HKMA also made textual amendments to the relevant provision. The HKMA believes that this clarification and corresponding amendment to section 22.12 will help promote good banking practice and better protect customer interests.

Complaints handling

In 2014, the HKMA introduced a refinement to the complaints handling workflow of banks. Under the revised workflow, complaints would be referred to the relevant banks for handling in the first instance. After the bank concerned has looked into the complaint and issued a reply to the complainant, it is required to copy its response to the HKMA for review. Whilst the refinement is aimed at streamlining the complaint handling process of banks and providing them with greater flexibility on deployment of their resources, banks are expected to uphold the quality of their complaint handling work and continue to handle complaints in compliance with the HKMA's Supervisory Policy Manual (SPM) IC-4.

Although banks have generally been able to resolve customer complaints and address the complainants' concerns in an efficient and effective manner under the revised workflow, we noticed some banks still had executional issues that needed to be addressed.

For instance, in a complaint concerning a chargeback request for a credit card transaction, the complainant's reason for seeking the chargeback was not fully ascertained by the relevant bank during its investigation process which resulted in prolonged handling of the complaint and frustration to the complainant. When we reviewed the bank's response we were concerned about whether the bank had thoroughly investigated the complaint we had referred to it for handling. We therefore followed up with the bank and raised our concerns and asked the bank to review the complaint to address our concerns. In another case, the bank did not issue a written notification to the complainant advising him that additional time was required to look into the complaint prior to the expiry of the 30 days' timeline for responding to the complainant as required by SPM IC-4. In both cases, the banks concerned proactively followed up with the complainants and promptly resolved the complaints after the HKMA had drawn their attention to issues we had identified.

The HKMA would like to take this opportunity to remind banks to maintain effective systems for complaint handling in accordance with the requirements set out in SPM IC-4. A thorough complaint handling process including the issuance of timely and robust replies to complainants are considered crucial to ensure that the complaints are handled fairly, consistently and promptly.

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