Our Ref: B1/15C

24 November 2017

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Complaints Watch

The Hong Kong Monetary Authority (HKMA) has today published the tenth 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 tenth 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.

HONG KONG MONETARY AUTHORITY
香港金融管理局

Complaints Watch

Issue No. 10
24 November 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

Jan to Sep 2017	General banking services	Conduct-related issues	Total
In progress as of 1 Jan 2017	312	243	**555**
Received during the period	1,116	188	**1,304**
Completed during the period	(1,086)	(269)	**(1,355)**
In progress as of 30 Sep 2017	342	162	**504**

The HKMA received 1,304 complaints between January and September 2017. The major types of complaints received were related to service quality (135), fees and charges (117), alleged mis-selling (116), client agreement terms (105), remittance services (100) and closure of accounts (100).

Annualised percentage rate of unsecured personal loans

Unsecured personal loans including tax loans are an important source of business for retail banks. The HKMA has received some customer complaints against banks concerning the calculation and presentation of the interest charges on such loans. The provision of clear and easy-to-understand annualised percentage rates (APRs) by banks to prospective customers so as to facilitate their comparison of the actual borrowing costs of the similar products offered is crucial.

For example, banks have been offering different incentives to attract prospective customers to apply for tax loans, such as cash rebates, cash coupons and interest holidays. These incentives look appealing but they may not be enjoyed by all prospective customers. Some banks do require customers to meet certain prerequisites before they are able to benefit from such incentives.

Consumers are, of course, happy to see competition among banks and choose the product which best suits their needs. As a responsible lender, the Code of Banking Practice (CoBP) requires banks to be transparent in their charging structures and section 12.1 requires banks to where relevant quote APRs of banking products to facilitate comparison.

When calculating and presenting APRs in marketing materials, banks should observe the relevant guidelines issued by the industry Associations which suggest that conditions for benefits should be displayed in a clear and prominent manner and in a font size that facilitates ease of reading. For benefits in kind (including cash coupons/gift vouchers), they should not be factored into the standard APR. On the other hand, cash benefits such as interest rebate or interest rate reductions can be factored into the APR but the conditions applicable to eligible customers should be set out clearly and prominently. An APR without benefits should separately be provided to facilitate consumers' comparison.

A clear presentation of the APR not only facilitates potential customers to compare the charging structures of similar products between banks, but also helps to avoid confusion and thus potential complaints.

Collecting information in customer due diligence processes

In response to strengthening international efforts on anti-money laundering and counter-terrorist financing (AML/CFT), banks are required to follow higher international AML/CFT standards and apply more stringent customer due diligence (CDD) measures in respect of both existing and new customers. Whilst there have been complaints against banks' execution of CDD measures which has resulted in inconvenience to customers, customer experience appears to be improving. However, there remains room for banks to further enhance customer experience without compromising banks' CDD processes.

From some of the CDD-related complaints handled by the HKMA, it appears that some banks might not have sufficiently explained the purpose of CDD reviews to customers who therefore considered the extent of personal information requested by banks excessive and even invasive to their privacy. Based on the likely risk level of a customer, the nature and extent of information which a bank collects from the customer may vary according to the risk level. In some cases, banks would request customers to provide documentary records to establish their source of wealth and/or source of fund and, in some cases, education background, employment history, net worth, total assets and even a detailed breakdown of each class of assets. Such requests might be viewed by customers as being irrelevant and excessive.

Whilst there is no one-size-fits-all methodology for the CDD process that can be applied to all customers, banks are reminded to observe the principles articulated in the HKMA's circular "De-risking and Financial Inclusion" issued in September 2016 that measures taken should be proportionate to the risk level, with information and documentation requirements relevant and pragmatic with respect to the customers' background, circumstances and risk profile. Banks should also explain to customers the rationale for the information requested and endeavour to assist customers in taking steps or providing alternatives that can help satisfy the CDD processes. In addition to supervisory requirements, banks have to comply with the Personal Data (Privacy) Ordinance including but not limited to the Six Data Protection Principles. In particular, banks should only collect personal data that is necessary and the requested data should be adequate but not excessive for the intended purposes of the collection. In this way, the customer will be more willing to comply with the banks' request for information and this will reduce the number of complaints that the banks may receive.

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