Our Ref: B1/15C

16 May 2018

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Complaints Watch

The Hong Kong Monetary Authority (HKMA) has today published the eleventh 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 eleventh 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,

Carmen Chu
Executive Director (Enforcement and AML)

Encl.

HONG KONG MONETARY AUTHORITY
香港金融管理局

Complaints Watch

Issue No. 11
16 May 2018

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

Oct 2017 to Mar 2018	General banking services	Conduct-related issues	Total
In progress as of 1 Oct 2017	342	162	**504**
Received during the period	850	94	**944**
Completed during the period	(819)	(182)	**(1,001)**
In progress as of 31 Mar 2018	373	74	**447**

The HKMA received 944 complaints between October 2017 and March 2018. The major types of complaints received were related to provision of banking services (206), service quality (114), client agreement terms (80), fees and charges (63), credit card transactions (60) and alleged mis-selling (56).

Frequent subscription and redemption of investment funds

In recent months, the HKMA has handled complaints against the sales staff of banks for allegedly soliciting and/or recommending customers to buy and sell investment funds frequently. The complainants claimed that the transaction costs arising from frequent trading of investment funds were not explained adequately to them and caused significant impact on the overall profit and loss positions of their investment portfolios. Our review of the cases revealed that there were indeed frequent transactions in the subscription and redemption of investment funds in the concerned customer accounts, with holding period ranging generally from one to six months and the shortest time lasted for only a few days. Some transactions involved switching of the same funds between different currency classes.

Investment funds are in general medium to long-term investments and not intended for short-term trading by customers. Buying and selling of funds within a short period, if without economic substance, will incur unnecessary costs to customers in relation to the fees and charges for fund subscription and redemption. While frequent subscription and redemption of investment funds in itself is not necessarily a problem and does not have apparent implications on compliance with the legal and regulatory requirements, banks should treat such transaction pattern of customers as a warning sign for enhanced monitoring of possible mis-selling risks. In particular, attention should be paid to frequent transactions conducted for vulnerable customers. To ensure that customers make informed decisions on their investments and that the selling processes are properly conducted, banks should, amongst relevant legal and regulatory requirements, have controls and mechanism in place to monitor whether the sales staff have ensured the suitability of the recommendations or solicitation for customers and the disclosure of key information including product features and risks as well as fees and charges during the selling process of investment products. Sales staff should record the justification for the investment decisions made by customers. The incentive schemes of the sales staff should also be reviewed from time to time to address the risk of possible abuses in this regard, and regular staff training and coaching sessions should be arranged to remind sales staff of the regulatory requirements as well as practical guidance on treating customers fairly.

Annuity insurance products

Annuity insurance products have become increasingly popular in recent years given the growing public awareness of and greater demand for retirement planning tools. Seeing the market potential, banks have been selling such products to customers, and the number of complaints regarding this type of insurance product is on a rising trend. The HKMA noted from the related complaints that there might have been misunderstandings about the nature, features (such as accumulation period and investment return) and risks of annuity insurance plans, which banks should endeavour to ensure customers' understanding and suitability in the selling process.

From our review of relevant complaints, some complainants perceived annuity insurance plans as a savings product with complimentary insurance protection. Some disputed that they did not have any insurance need when they applied for the annuity plans. In a few cases, customers might have mixed up the meaning of "premium payment period" with "accumulation period" and misconceived that they would be entitled to the annuity income or other benefits once the premium has been fully paid. They also found it surprising to learn that discontinuation of premium payment and/or early surrender of the annuity plan in the first few years could result in a deep discount in the benefits receivable by the customers as compared to the insurance premium paid.

For some complainants who have started to receive annuity income, disputes were raised about the investment return of the plans, where the actual non-guaranteed return was much lower than what was provided in the benefit illustration to the customers during the selling processes.

In the light of market development and insights from complaint cases, banks are reminded to review from time to time, and enhance where appropriate, policies and procedures as well as staff training to ensure compliance with regulatory obligations on customer suitability and affordability assessment. In particular, banks should clearly explain to customers the nature and key features and risks of annuity insurance plans during the selling processes, including but not limited to that:

(1) Annuity insurance plans are long-term insurance products and not deposits;

(2) The difference between the premium payment period and the accumulation period;

(3) The consequences of discontinuing premium payment, and the applicable fees and charges, if the policy is surrendered during the premium payment and/or accumulation periods;

(4) Which specific parts, if any, of the projected benefits as illustrated in the benefit illustration are not guaranteed; and

(5) Highlighting that the actual amount of non-guaranteed benefits payable under the policy may be lower than those illustrated in the benefit illustration.

Where the sales documents of annuity plans are lengthy, banks should consider producing a succinct and consistent summary of major terms and conditions to customers in the form of a Key Facts Statement to highlight the main features and risks when making use of such marketing materials or explaining the product to customers during the selling process.

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