Our Ref: B1/15C

31 July 2019

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

<u>Complaints Watch</u>

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

If there are any questions on the above, please contact Ms Cathy Chan on 2878 7504 or Ms Mimi Chow 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. 13
31 July 2019

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 Jun 2019	General banking services	Conduct-related issues	Total
In progress as of 31 Dec 2018	317	97	**414**
Received during the period	892	103	**995**
Completed during the period	(866)	(109)	**(975)**
In progress as of 30 Jun 2019	343	91	**434**

The HKMA received 995 complaints in the first half of 2019. The major types of complaints received were related to provision of banking services (222), service quality (89), remittance services (88), client agreement terms (86), fees and charges (86), and alleged mis-selling (65).

Retail payment services

The financial infrastructure of Hong Kong has entered into a new era with the launch of the Faster Payment System (FPS) in September 2018. The FPS connects banks as well as stored value facilities (SVF) operators on the same platform and round-the-clock, enabling members of the public to make fund transfer across different bank or SVF accounts anytime, anywhere. By design, the FPS supports both real-time and batch processing[1] of payment instructions, and banks/SVF operators are encouraged to offer a variety of products and services leveraging on the FPS platform to meet different customer needs.

With the growing adoption by the public and the increasing transaction volume of the FPS, the HKMA has begun to receive complaints concerning banks' handling of fund transfers via the FPS, mainly related to expectation gaps of banks and customers on product offerings. On some occasions, the customer was not aware of that fund transfers could only be made to current/saving accounts but not credit card accounts of the bank concerned; another customer raised issues about a bank limiting the length of payee names to 20 characters which made the receiving bank unable to validate information and thus the payment transactions could not be completed.

In a number of cases, the customers were concerned about the time lag in payment transactions. For example, a complainant set up standing instruction to transfer funds to an account with another bank, but found out on the scheduled transaction day that the fund transfers were only effected and credited to the receiving bank account a few

[1] If a bank or SVF operator has opted for batch FPS payment processing, credit transfer payment requests of customers would be processed on a regular basis (e.g. once every few hours) instead of being processed instantly.

hours after notification by the paying bank about the debit. The customer questioned why the paying bank did not transfer funds immediately notwithstanding the transaction concerned was said to be processed through the FPS.

Based on our follow-up with the bank concerned, we note that the bank's product offering only caters for customers' scheduled transfer instructions via the FPS in batch mode while such service limitations have not been clearly communicated to its customers before they signed up for the bank's services. The bank concerned has taken into account the insights from complaints and enhanced its customer communications accordingly.

Banks are reminded to gather and review customer feedback, including complaints and especially for new products and services, and enhance efficiency, transparency and reasonableness where appropriate in their conduct of business under the principle of Treat Customers Fairly.

Use of secured overdraft facility for foreign exchange investment

A variety of overdraft facilities, with different features and terms, are offered by banks to meet different customer needs. Recently, the HKMA has received several complaints against a bank for soliciting customers to apply for overdraft facilities for the purpose of investment in foreign exchange (FX) market.

The overdraft facility concerned is characterised by collateralised and revolving features, and can be drawn down in a number of currencies. All deposits and certain specified investment holdings with the bank concerned are eligible for pledge as collateral for the overdraft facility. It is noted that the proceeds from a spot FX transaction by utilizing the overdraft limit will be credited into the customer's account as a deposit and becomes eligible collateral against which additional credit may be granted to conduct further FX transactions through repeatedly utilizing the additional available credit limit. In effect, customers may leverage their FX investment by using the secured overdraft facility until the cap of the credit limit is reached or the additional available credit becomes minimal.

When handling the complaints concerned, we note that some customers had sizeable amount of cash in their accounts at the time when they were solicited to apply for the secured overdraft facilities, which turned out to be mainly used for FX transactions. These customers alleged that the bank concerned had represented such leveraged investments in FX as of low risk, and that they were not aware of their deposits and investment holdings having been pledged as collateral for the overdraft facilities.

Taking note of insights from these complaints, banks should review and strengthen relevant policies and procedures as appropriate. Specifically, banks are reminded to fully assess the financial capabilities and needs of customers, having regard to their profiles as well as complexity of the product/service, for example, in terms of margin calculation and the potential leverage effect of a credit facility for FX investment. Banks should also provide adequate disclosure and explanation of material information to customers, including the worst case scenario and margin requirements of such credit facilities. Additional safeguards should be put in place for inexperienced, under-educated or vulnerable customers who may not be able to fully apprehend the risks and obligations involved. Where investment advice is provided to customers, banks should ensure the advice is objective and suitable to customers' circumstances including financial objectives, knowledge, capabilities and experience.

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