



Complaints Watch is published by the Complaints 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 Apr 2015	General banking services	Conduct-related issues	Total
In progress as of 1 Jan 2015	240	160	400
Received during the period	405	67	472
Completed during the period	(364)	(50)	(414)
In progress as of 30 Apr 2015	281	177	458

Compared to the last reporting period (September-December 2014), the number of complaints received between January and April 2015 increased by 104 to 472 cases. Complaints about the opening of accounts rose by 35 to 53, including 39 cases from money changers. Other major types of complaints received included complaints about investment products (76) (with 21 cases relating to possible mis-selling), followed by complaints relating to disputes about fund transfers (53), fees and charges (39), service quality (34), closure of accounts (33) and insurance products (28).

Early repayment of personal loans

In the past couple of years, the HKMA has received complaints against banks for failure to disclose details of the early repayment terms and related charges for personal loans to customers. The complainants claimed that the banks had not clearly explained to them how the amount of the principal outstanding was determined and/or the interest payments and charges that would be incurred in the event of an early loan repayment.

We found that in some cases the banks had indeed provided the customers with the terms and conditions for personal loans, which included provisions on early repayment. However, the customers' complaint was that the provisions were either too technical or too general for them to understand. Under the Code of Banking Practice (CoBP) at the time, banks should have endeavoured to ensure that prospective borrowers understood the principal terms and conditions of any borrowing arrangement including the basis on which interest would be determined as well as any charges or fees for early repayment or termination of loan agreements.

The HKMA has followed up with the banks concerned and reminded them of the importance of adhering to the relevant provisions of the CoBP. In response, the banks concerned implemented measures to enhance disclosure of the relevant information by, for example, the provision of a loan repayment schedule (which shows the apportionment of interest and principal for each loan repayment throughout the loan tenor) or an explanation on the method of apportionment together with an illustration, and/or an elaboration of the provisions for calculating the interest payments and charges for early repayment so that the total amount payable at the time of early repayment

could be clearly determined.

Apart from the efforts made by individual banks, the HKMA has also brought the issue to the attention of the industry associations and worked with them to revise the relevant requirements of the CoBP in order to enhance banks' disclosure of information relating to the repayment of instalment loans. Under the revised CoBP promulgated on 6 February 2015, banks are further required, among other things, to provide details governing early repayment, including a brief explanation of the basis on which interest and early repayment/termination charges/fees will be determined and the apportionment of interest and principal for each loan repayment throughout the loan tenor and the method of apportionment, etc. Furthermore, information which is of significant interest to customers, such as early repayment/termination charges/fees and the related basis of calculation, is required to be included in a Key Facts Statement to facilitate retail customers' understanding of the major terms and conditions when they apply for loans. We believe that these enhancements can help promote good banking practice and a stronger culture of treating customers fairly in Hong Kong. The HKMA will continue to monitor banks' compliance with the CoBP as part of its supervisory work.

Fraudulent use of lost ID cards

During the four months to April 2015, the HKMA has received 13 complaints involving 6 individuals about unauthorized withdrawals and opening of bank accounts by fraudsters using lost ID cards. It is worth highlighting here how different banks responded to such a situation and the resulting consequences. These complaints can be broadly categorized into two types, namely (1) unauthorized cash withdrawals with lost ID cards by the fraudsters and (2) opening of bank accounts with lost ID cards for conducting illegal activities.

We note from a complaint falling under the first category that after losing his wallet, a complainant reported the loss of his ATM cards to the two banks concerned and applied for replacement cards. Upon receiving the loss ATM card report from the complainant, one bank (Bank A) took the step to ascertain that the complainant had also lost his ID card in accordance with its established practice. Following this, Bank A immediately alerted the frontline staff of the lost ID card and ATM card report. A few days later, when a fraudster attempted to use the lost ID card to withdraw money from the complainant's account with Bank A, the bank teller concerned was able to detect the fraudsters' attempted unauthorized cash withdrawal and to stop this from taking place. In contrast, the second bank (Bank B) did not have such a practice and was therefore unable to alert its tellers of the loss of the complainant's ID card. As a result, a fraudster managed to withdraw all the money from the complainant's accounts with Bank B using the lost ID card. When the fraud was discovered by Bank B, it had to make full compensation to the complainant. In the course of handling the complaint, Bank B realized its control deficiency and readily agreed to enhance the relevant

internal control systems to alert frontline staff of lost ID cards reported by customers.

In a complaint of the second type, a fraudster opened bank accounts with several banks using the lost ID card of a complainant. Although he was able to pass the banks' customer due diligence processes during the account opening stage, the suspicious activities he carried out in the accounts were identified by the banks' on-going monitoring processes and reported to the Joint Financial Intelligence Unit. In the course of investigating the suspected money laundering activities, the Police discovered that the complainant had in fact never opened accounts with the banks concerned and alerted the banks so that they could take appropriate follow-up actions. To prevent similar frauds from happening in the future, one of the banks introduced an additional measure requiring an additional staff member to be present when verifying the customer's identity in the account opening process. The HKMA also notes that some banks would call the Immigration Department hotline 2824 1551 when they suspect that a lost/forged ID card has been fraudulently used to open a bank account.

The two cases quoted above illustrate that the implementation of adequate internal control measures including provision of timely information on the latest status of customers' identity documents to alert frontline staff can significantly reduce the risk of loss resulting from fraudulent use of stolen ID cards for both the banks and their customers. The HKMA thus reminds banks to stay alert to these types of fraud and recommends that they enhance their internal controls with reference to the good practices revealed from the above two cases if they have not already done so.

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