



CHARTERED
SECRETARIES
特許秘書

Bank Account Opening Survey

September 2016



Acknowledgement

The Hong Kong Institute of Chartered Secretaries (HKICS) is a professional body representing Chartered Secretaries in Hong Kong and Mainland China.

This survey was led by Paul Moyes FCIS FCS(PE) (Chairman of the Professional Services Panel, HKICS), designed by Mohan Datwani FCIS FCS(PE) (Senior Director and Head of Technical & Research, HKICS), and shaped by the HKICS Professional Services Panel members, including Natalia Seng FCIS FCS(PE) (Past President, HKICS), along with Samantha Suen FCIS FCS(PE) (Chief Executive, HKICS). This report was written by Mohan Datwani, and gratitude is extended to all respondents.

The Hong Kong Institute of Chartered Secretaries (HKICS)

September 2016



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Introduction

As widely reported in the media, there has been a growing perception that companies are having difficulties opening bank accounts in Hong Kong. This is apparently because of anti-money laundering and counter-financing of terrorism (AML/CFT) concerns during the customer onboarding process. If serious enough, the ripple effect could affect Hong Kong's ease of doing business. After all, how can a business operate if it does not have a bank account?

Chartered Secretaries work in corporate service providers (CSPs) and professional firms to provide support services for businesses, and are otherwise directly involved in businesses and the bank account opening process. As the professional body representing Chartered Secretaries in Hong Kong and Mainland China, The Hong Kong Institute of Chartered Secretaries (HKICS) is concerned to learn the extent of the problem. Accordingly, from 28 July to 19 August 2016, HKICS conducted a survey of its members. There were 434 respondents to the survey, most of whom work for professional firms and businesses, reflecting keen interest in this topic.

A telling observation from the survey was that there were companies which were not able to open a bank account in Hong Kong, but were able to do so with the same bank in another jurisdiction. As global AML/CFT standards should be consistent, should this be happening? Whatever the justifications, regulatory arbitrage will drive business from Hong Kong elsewhere.

The survey bore out that the overseas customers, as well as existing customers, of start-ups and small and medium-sized enterprises are particularly affected by this problem. We include a number of direct quotations from respondents with first-hand experience of the problem in this survey report. These evince systemic issues relating to the problem, and the problem does appear to be serious enough to warrant government and regulatory action. HKICS would like to help to any extent possible.

The Hong Kong Institute of Chartered Secretaries
September 2016

Respondent's comment

“The message that we need to convey, most forcefully, is that banks are trampling over the right of Hong Kong and foreign investors to carry on genuine business through Hong Kong. This is not conducive to Hong Kong’s image as a free port and a place that provides a friendly business environment.”

Executive Summary

The HKICS 'Bank Account Opening Survey' was carried out from 28 July to 19 August 2016. A questionnaire was sent to members of HKICS and received 434 responses mostly from members working for corporate service providers (CSPs), professional firms and businesses.

Of these, 98% (426) thought that companies were having difficulties opening bank accounts in Hong Kong. Some 351 (82.3%) of these had direct knowledge of the problem illustrating the robustness of the findings. Basically, a majority of the respondents thought that there was a problem. The presence in the sample of 17% (75) respondents without direct experience of the problem indicates a wider reputational issue and this should be a concern for Hong Kong. In contrast, only 2% (8) of respondents thought there was no issue.

When asked to characterise the extent of the problem, 79% (336) of respondents thought there was a serious or somewhat serious problem. When asked to identify the banks in question, global, local and Chinese banks were cited – indicating that the problem is prevalent and not isolated to a few banks. The top eight banks mentioned were HSBC, Standard Chartered Bank, Hang Seng Bank, Bank of China, DBS, Bank of East Asia, Citibank, and ICBC.

As to the nature of the problem, 22% (95) of the respondents identified cases in which bank officers told customers not to bother submitting documents. This brings into query bank statistics on the rejection rates of submitted applications which underplays the extent of the problem.

Common problems encountered by companies – cited by 45% to 54% (191 to 228) of respondents – were:

- a lack of transparency in the bank account approval process
- delays in processing submitted documents
- eventual failure to open an account, and
- lack of reasons provided for account rejection.



Where accounts were being opened, the respondents' views were that it was taking between one to three months to do so. This timing certainly affects Hong Kong's ease of doing business. Moreover, opening an account in various instances carried with it a high expense and was tied in with the need for other business with the bank, such as the requirement for a fixed deposit to ensure the profitability of the overall relationship.

The survey also addressed the possibility that compliance concerns, particularly with stringent AML/CFT requirements, are being used as an excuse to push away smaller revenue generating customers. The survey found that 49% (207) of respondents felt that this is indeed the case.

A telling observation from the survey was that 17% (72) of the respondents stated that there were companies which were not able to open a bank account in Hong Kong but were able to do so with the same bank in another jurisdiction.

As made clear in the HKICS' recent initiative – the HKICS AML/CFT Guideline and Charter (see www.hkics.org.hk) – the use of intermediaries for customer due diligence (CDD) could potentially help banks in their AML/CFT compliance programmes. This is permitted under Financial Action Task Force Recommendation 17. In Singapore, as of May 2015, a licensing regime for filing agents has been established which enables banks to rely on the CDD of filing agents with robust AML/CFT procedures, as well as to introduce business.

The HKICS AML/CFT Guideline has put in place voluntary and advanced AML/CFT standards that dovetail with those of financial institutions in Hong Kong for CSPs to adopt. HKICS has also developed an accreditation programme to confer a logo on CSPs based on their audited AML/CFT controls (the HKICS AML/CFT Charter). HKICS welcomes regulatory backing for its work and/or licensing of filing or registered agents in Hong Kong, along with banks' use of intermediaries with government or regulatory blessing. HKICS would like to help to any extent possible. For details, please visit the AML/CFT Charter section of the Institute's website: www.hkics.org.hk.

Respondent's comment

“The current situation has seriously affected people doing business in Hong Kong and in turn is affecting Hong Kong's economy and competitiveness. Many clients have turned to Singapore or Mainland China to set up business or open a bank account.”

The Survey

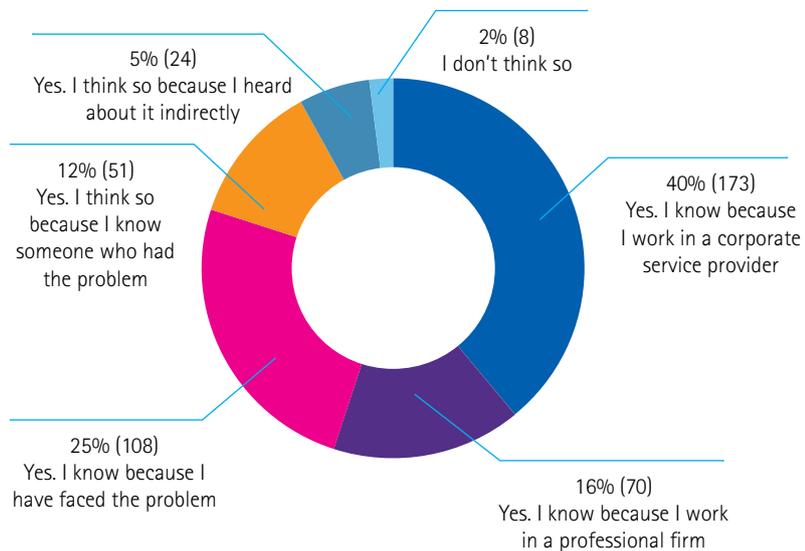
1. Is it difficult for companies to open bank accounts in Hong Kong?

Of the 434 respondents to the survey, 98% (426) stated that it is difficult for companies to open bank accounts in Hong Kong.

- Of these, 351 or 82% had direct knowledge of the problem illustrating the robustness of the findings.
- The presence of a sample of respondents indicating that they think that there is a problem when they themselves do not have a problem indicates a wider reputational issue.
- In contrast, only 2% (8) of respondents thought there was no issue.

These findings illustrate that there are issues, including reputational issues, relating to the difficulty companies are experiencing opening bank accounts in Hong Kong for doing business.

98% (426) stated that it is difficult for companies to open bank accounts in Hong Kong

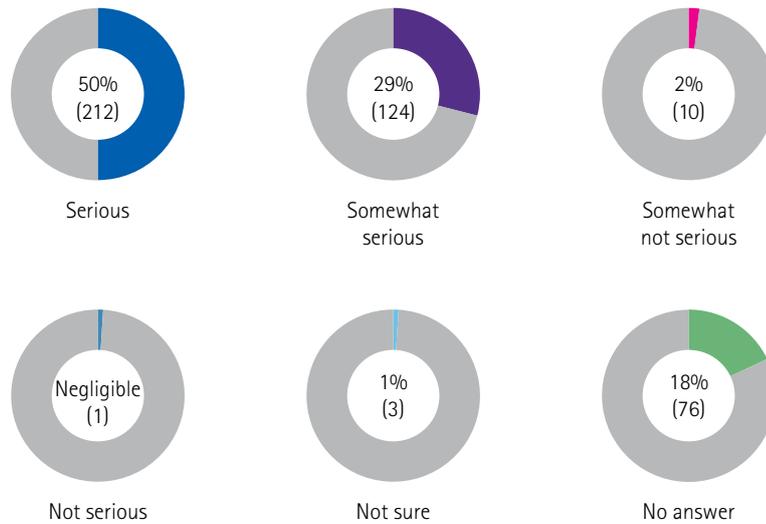


Respondent's comment

"The fundamental issue is the severe penalties being imposed by global regulators on global banks which has caused them to overreact. The complexity of the regulations are too difficult to be fully understood by the general banking staff who try to act on the safe side to protect the bank and themselves."

2. How serious would you rate this problem?

79% (336) of the respondents thought there was a serious, or somewhat serious, problem with companies opening bank accounts. Only 1 respondent thought otherwise.



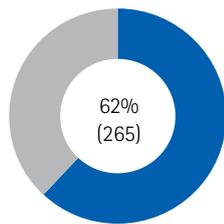
How serious would you rate this problem?	Number of respondents (direct + indirect knowledge)	Total
Serious	199 + 13	212
Somewhat serious	94 + 30	124
Somewhat not serious	5 + 5	10
Not serious	0 + 1	1
Not sure	0 + 3	3
No answer	53 + 23	76

Respondent's comment

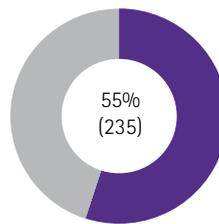
“Most banks rejected our customers’ application to open an account without giving any reasons. They simply said that it was ‘very unlikely’ the customer would be able to open an account and refused to have a meeting to find out more about the customer.”

3. Who contributes to the problem?

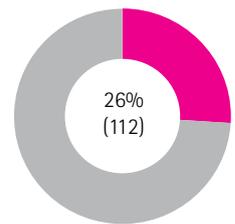
When the respondents were asked to identify who contributes to the problem, global, local and Chinese banks were all cited



Global banks

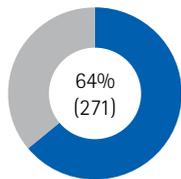


Local banks

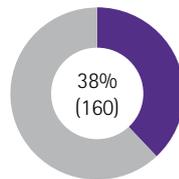


Chinese banks

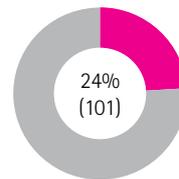
When asked to name the banks concerned, the following eight banks had the most mention.



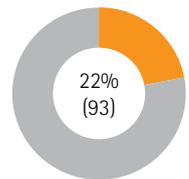
HSBC



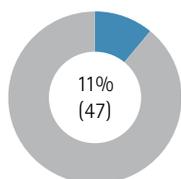
Standard Chartered Bank



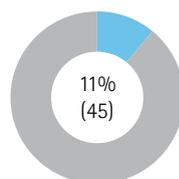
Hang Seng Bank



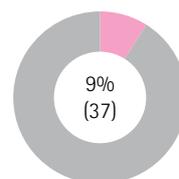
Bank of China



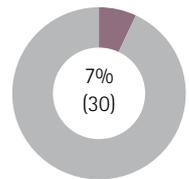
DBS



Bank of East Asia



Citibank



ICBC

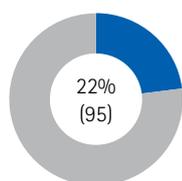
Respondent's comment

“Banks often use compliance as an excuse to force the closure of bank accounts, but they seldom provide us with the reasons. It is not transparent and makes our clients unhappy.”

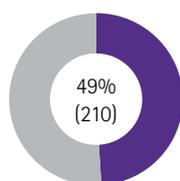
4. What problems are companies encountering when applying to open a bank account?

Respondents indicated that companies appear to be encountering similar problems when applying to open bank accounts. Common problems encountered – cited by 45% to 54% (191 to 228) of those surveyed – were: a lack of transparency in the approval process; lengthy delays in processing submitted documents; eventual failure to open an account; and no reasons were provided for account rejection. Some 7% (29) of respondents stated that people were exaggerating the issue.

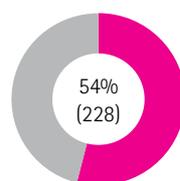
Some 22% (95) of the respondents identified that there were cases in which bank officers told customers not to bother to submit application documents



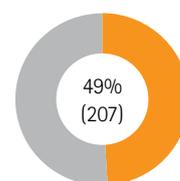
Bank officers tell customer not to bother to submit documents



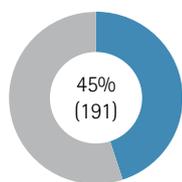
Submitted documents take a long time to process



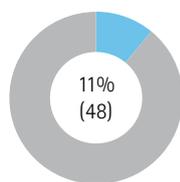
The approval process is not transparent



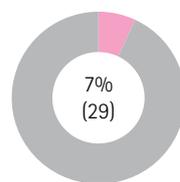
Accounts are not eventually opened



There are no reasons provided for account rejection



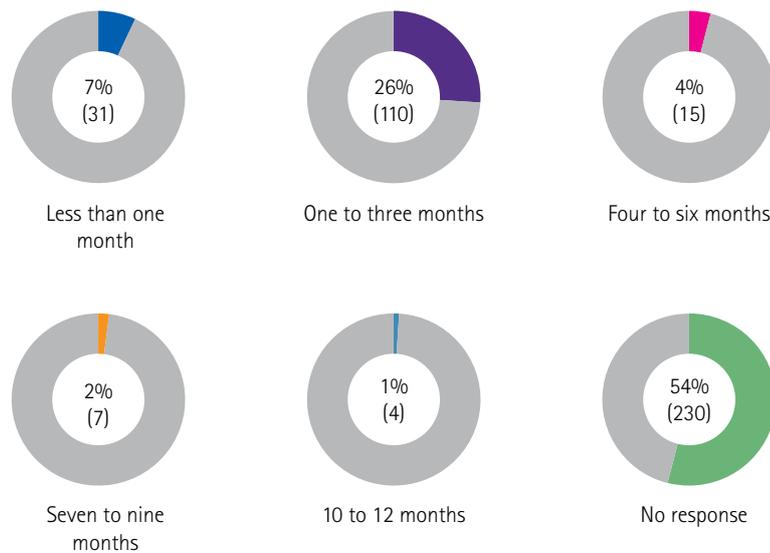
Accounts are eventually opened but customer left dissatisfied



People are exaggerating the issue

What is the nature of the problem?	Number of respondents (direct + indirect knowledge)	Total
Bank officers tell customers not to bother to submit documents	88 + 7	95
Submitted documents take a long time to process	194 + 16	210
The approval process is not transparent	202 + 26	228
Accounts are not eventually opened	183 + 24	207
There are no reasons provided for account rejection	176 + 15	191
Accounts are eventually opened but customer left dissatisfied	45 + 3	48
People are exaggerating the issue	26 + 3	29

The survey also asked respondents how long it was taking for companies to open bank accounts in Hong Kong. Respondents indicated that it was generally taking around one to three months. Such delays will potentially affect Hong Kong's ease of doing business.



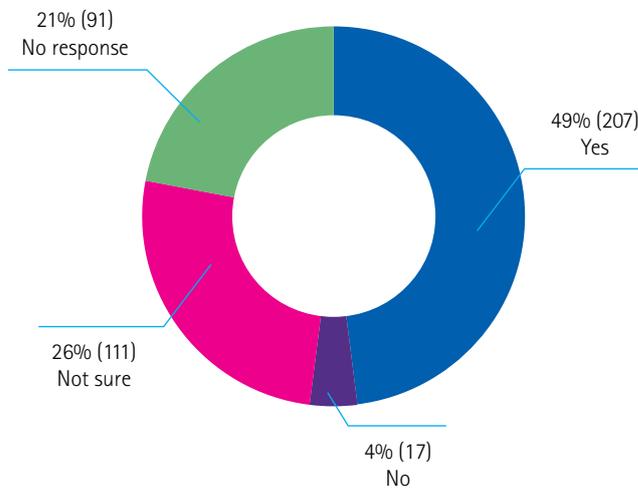
How long does the bank account opening process take?	Number of respondents (direct + indirect knowledge)	Total
Less than one month	25 + 6	31
One to three months	103 + 7	110
Four to six months	15 + 0	15
Seven to nine months	7 + 0	7
10 to 12 months	3 + 1	4
No response	169 + 61	230

Respondent's comment

"In a few cases, the bank took so long to process the application that we were told the documents that had been provided were out of date and we would have to resubmit the entire application."

5. Is compliance used as an excuse to push away smaller revenue generating customers?

The survey sought to address the perception that profitability, rather than compliance, is the real reason behind the reluctance of banks to open bank accounts for smaller revenue generating customers. Some 49% (207) of respondents thought that this is the case.



Is compliance used as an excuse to push away smaller revenue generating customers?	Number of respondents (direct + indirect knowledge)	Total
Yes	186 + 21	207
No	13 + 4	17
Not sure	89 + 22	111
No response	63 + 28	91

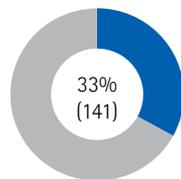
Respondent's comment

“Some banks need almost a month in advance to make an appointment to open a bank account. One of the banks turned our client down because all the board members are non-Hong Kong residents.”

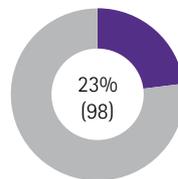
6. Are banks imposing collateral conditions to open a bank account?

Some 33% (141) of respondents indicated that fees have been imposed

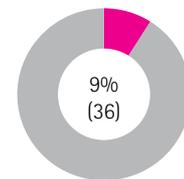
The survey also asked respondents whether fees or collateral conditions have been imposed by banks before opening an account. Some 33% (141) of respondents indicated that fees have been imposed. Other conditions, such as the requirement for a fixed deposit to ensure the profitability of the overall relationship, are also present in some cases.



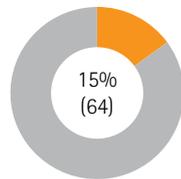
Required high fees to open bank accounts



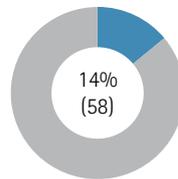
Required a high overall relationship to open accounts, including fixed deposits



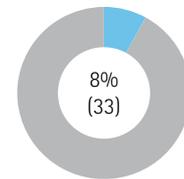
Required a high overall relationship to open accounts, including brokerage account



Required a high overall relationship to open accounts, including investments



Required purchasing insurance products

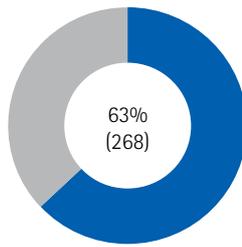


Required engaging for credit facilities

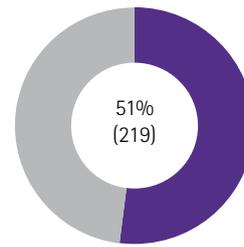
Are banks imposing collateral conditions to open an account?	Number of respondents (direct + indirect knowledge)	Total
Required high fees to open bank accounts	131 + 10	141
Required a high overall relationship to open accounts, including fixed deposits	85 + 12	98
Required a high overall relationship to open accounts, including brokerage account	34 + 2	36
Required a high overall relationship to open accounts, including investments	59 + 5	64
Required purchasing insurance products	55 + 3	58
Required engaging for credit facilities	30 + 3	33

7. Which types of companies and customers are most affected?

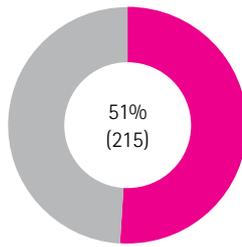
The survey responses indicate that a wide range of businesses are affected by the problems opening bank accounts, but start-ups and small and medium-sized enterprises appear to be most affected



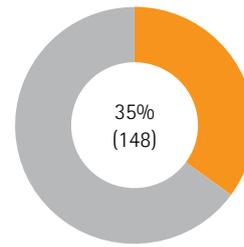
Start-ups



Small and medium-sized enterprises



Foreign customers



Existing customers

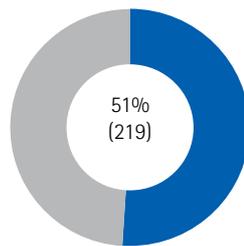
Which types of companies and customers are most affected?	Number of respondents (direct + indirect knowledge)	Total
Start-ups	235 + 33	268
Small and medium-sized enterprises	195 + 24	219
Foreign customers	188 + 27	215
Existing customers	142 + 6	148

Respondent's comment

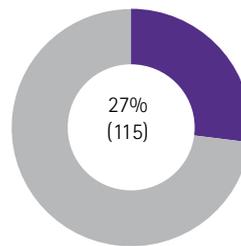
“The Hong Kong banking system is giving a signal to push away small enterprises. Banks are not willing to serve small corporates or new start-ups which may not be able to provide so much evidence of business experience. There is therefore a trend for investors to choose alternatives.”

8. Have companies established in other jurisdictions after failing to open accounts in Hong Kong?

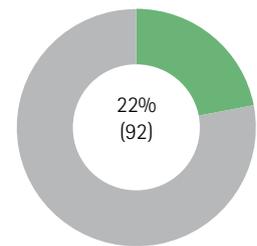
A majority of respondents said that companies chose to be established in other jurisdictions instead of Hong Kong after failing to open a bank account in Hong Kong



Yes



No



No response

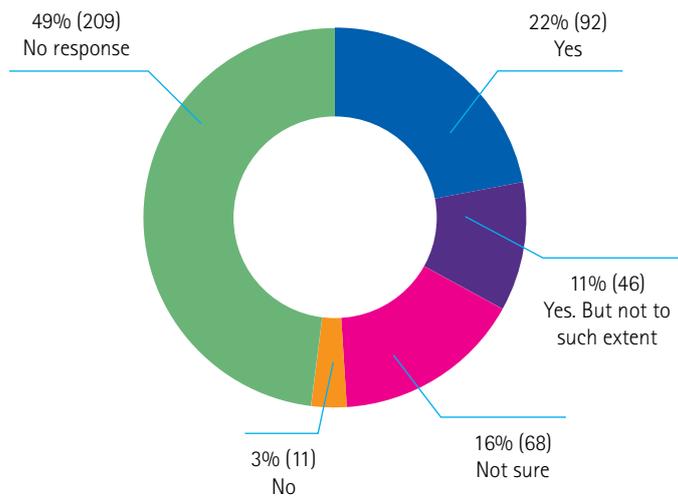
Have companies established in other jurisdictions after failing to open accounts in Hong Kong?	Number of respondents (direct + indirect knowledge)	Total
Yes	194 + 25	219
No	93 + 22	115
No response	64 + 28	92

Respondent's comment

“Banks in Hong Kong should welcome non-resident clients to open bank accounts in Hong Kong, otherwise it will significantly affect foreigners who come to Hong Kong to set up businesses and will destroy Hong Kong’s long-established reputation as one of the best cities to set up a business.”

9. After establishing in other jurisdictions, were problems in Hong Kong encountered?

Simply changing jurisdiction of establishment did not change the Hong Kong based problem, and the solution lies elsewhere



After establishing in other jurisdictions were problems in Hong Kong encountered?	Number of respondents (direct + indirect knowledge)	Total
Yes	88 + 4	92
Yes. But not to such extent	40 + 6	46
Not sure	56 + 12	68
No	8 + 3	11
No response	159 + 50	209

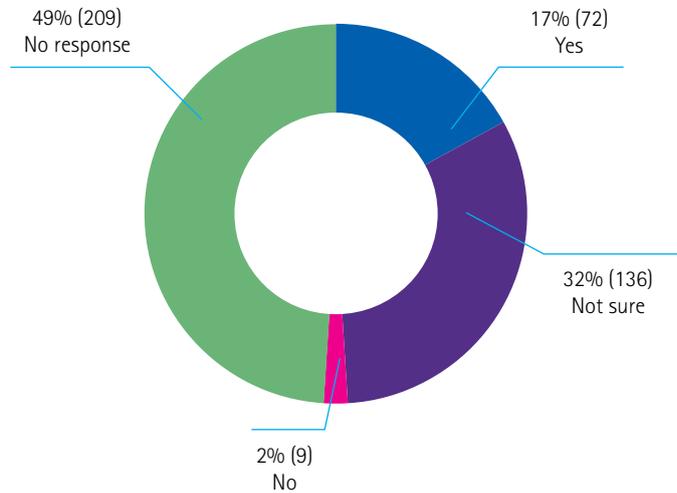
Respondent's comment

“My client is a global enterprise which submitted all the required documents six months ago but the bank still has not completed the review. The staff who are handling the case have been changed three times within those six months and no one in the bank can tell my client when the review will be completed.”

10. After establishing in other jurisdictions, were there cases of customers opening a bank account with the same bank group that rejected them in Hong Kong?

17% of the respondents noted that there were cases when accounts were able to be opened with the same bank that rejected them in Hong Kong before

As a test question, we wanted to see if companies had been able to open accounts with the same bank that rejected their application to open an account in Hong Kong. The fact that 72 respondents reported exactly this scenario is a telling observation from this survey.



Were companies able to establish an account with the same bank in other jurisdictions?	Number of respondents (direct + indirect knowledge)	Total
Yes	65 + 7	72
Not sure	115 + 21	136
No	9 + 0	9
No response	162 + 47	209

Respondent's comment

“Hong Kong’s bankers always claim that their current requirements are international ones. However, our foreign clients disagree because the relevant requirements are more stringent and exhaustive than overseas countries/cities. If Hong Kong’s banking industry keep up their current ‘unreasonable’ requirements and attitudes, I can’t see any prosperity or competitiveness for this small city of Hong Kong.”

The Hong Kong Institute of Chartered Secretaries (Incorporated in Hong Kong with limited liability by guarantee)

The Hong Kong Institute of Chartered Secretaries (HKICS) is an independent professional body dedicated to the promotion of its members' role in the formulation and effective implementation of good governance policies as well as the development of the profession of Chartered Secretary in Hong Kong and throughout Mainland China.

HKICS was first established in 1949 as an association of Hong Kong members of the Institute of Chartered Secretaries and Administrators (ICSA) of London. It became a branch of ICSA in 1990 before gaining local status in 1994.

HKICS is a founder member of Corporate Secretaries International Association (CSIA) which was established in March 2010 in Geneva, Switzerland to give a global voice to corporate secretaries and governance professionals.

HKICS has over 5,800 members and 3,200 students.

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