

Code of Banking Practice Update

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On 7 December 2023, the Hong Kong Association of Banks (“**HKAB**”) and the DTC Association (“**DTCA**”) jointly released a revised Code of Banking Practice (“**Code**”) which has been endorsed by the Hong Kong Monetary Authority (“**HKMA**”). This is the latest amendment of the Code following its 2021 revision to keep pace with emerging market trends and evolving customer requirements. The latest updates to the Code aim to enhance customer experience and promote good banking practices.

The amended Code became effective on 7 December 2023. Authorized Institutions (“**AIs**”) must comply with the new provisions of the Code within 6 months, with possible extensions of up to 12 or 18 months for more extensive or complex system enhancements, respectively.

Although the Code has no statutory force and is expressed to be “voluntary”, AIs are nonetheless expected to follow and observe the Code. The HKMA is responsible for monitoring AIs’ compliance with the Code. As stated in paragraph 100 of the Guideline on Minimum Criteria for Authorization (G.N.1505), failure to adhere to the Code may give rise to a regulatory review by the HKMA as regards whether the AI in question has met the required criteria for authorization as an AI. Subsidiaries and affiliated companies of institutions, not licensed or regulated by Hong Kong financial regulators, must also adhere to the Code when providing banking services in Hong Kong, including lending, remittance, or gold bullion services.

Some of the major changes are set out below.

1. Enhanced consumer protection in digital banking services
 - AIs should ensure customers are provided with essential information during loan applications, general banking product/service usage, and online banking transactions. This information may include the key features, risks and terms of the products, fees, commissions or charges applicable.
 - AIs should offer advice on safeguarding customer information in the light of new authentication technologies employed in banking services, while updating other relevant guidance to enhance customer awareness of digital security risks and protective measures.
 - Records of marketing and promotional materials utilized in digital channels (e.g., product application eligibility) should be properly maintained for future reference.
2. Customer empowerment on financial management
 - AIs should enhance the disclosure of risks and potential repayment obligations in Key Facts Statements (“**KFS**”) of loan products, including a clear emphasis on interest rate risks and the impact of related changes on repayment. A link to the KFS should also be included in the designated screen/tab when customers apply for the lending products online.
 - AIs should implement loan calculators on online banking platforms, enabling customers accurately to assess borrowing costs and expected repayment requirements.
 - Pursuant to paragraph 24.13 of the Code, AIs should extend the advance notice period for significant modifications to loan product terms and conditions (e.g., increases in interest rate or Annualised Percentage Rate) from 30 days to a minimum of 60 days.
 - AIs should proactively advise customers facing potential financial difficulties, offering viable options such as debt restructuring to prevent further deterioration of their financial circumstances, and provide advance notification of loan set-offs in a demand letter, where feasible.

3. Fair treatment of customers
 - AIs should enhance transparency in the processes of opening, maintaining, and closing bank accounts, while establishing effective channels for customers to request reviews of related decisions.
 - The customer complaint handling process should also be enhanced by including the provision of audio or video recordings of the sales process for wealth management products, and offering support to customers involved in disputes with third-party product and service providers.
 - AIs should improve transparency concerning the promotional benefits of banking products, ensuring clear disclosure of eligibility criteria and replacement benefits.
 - Paragraph 46 of the Code sets out the overarching principles that should be observed by debt collectors. AIs are responsible for strengthening controls over debt collection activities carried out by banks and third-party debt collection agencies, including but not limited to debt collection tactics in electronic channels.

4. Promotion of international best practices in Hong Kong's banking industry
 - The Code has incorporated the latest updates of the "G20/OECD High-Level Principles on Financial Consumer Protection", aligning banking consumer protection with the most current international practices. In particular, paragraphs 2.2 and 2.6 of the Code respectively integrate new G20/OECD principles on "Quality Financial Products" and "Access and Inclusion" into the framework of consumer protection efforts.

For a full copy of the revised Code, please see: https://www.hkma.gov.hk/media/eng/doc/code_eng.pdf

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