

# Nervous banks squeeze yoga centres' funds

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Jan 17, 2011

When Dickson Lau Wan-shun heard that the Living Yoga centre had shut its doors a week ago, the industry veteran was not happy that yet another competitor had gone under.

Lau, the founding chairman of the Hong Kong Yoga Association, was worried about what lay in store for his own yoga centre - in the way of tougher conditions set by banks.

A series of closures in recent months has made banks lose faith in yoga centres and other service industries. They are demanding large security deposits, or collateral, from such businesses - to compensate customers who pay fees in advance using the banks' credit cards, should the businesses close down.

Yet yoga industry veterans warn that these security deposits are causing a vicious cycle that is undermining the business: by sapping yoga centres of operating capital, they can bring on business failure. And the withheld amounts are steadily getting larger.

Lau, who runs the 2,000-member Dickson Yoga centre, said: "Every time a chain closes, banks ask me to put in more collateral. Before Caesar Yoga closed in 2009, the banks demanded less than HK\$1 million. After Living Yoga closed, I am now paying HK\$1.6 million."

The policy is a safety net protecting banks, yet it leaves Lau with less money to operate. Now he must save up in case the collateral is further increased - which usually happens with little notice. He was caught off guard when **HSBC** asked him to put in hundreds of thousands of dollars more just a week after Planet Yoga closed in May. Failing to raise the sum, Lau had to stop accepting prepayments made with the bank's credit cards.

This cuts off the benefits that prepayments provide to both consumers and operators, Professor Leo Sin Yat-ming, of the department of marketing at Chinese University, said. By paying in advance, customers get lower rates. Monthly charges for yoga classes are about HK\$700 if members pay every month. That drops by HK\$300 to HK\$500 a month if they join prepaid plans lasting two years or more, industry insiders say.

Companies are willing to offer the discount because advance payments ensure a healthy cash flow and strengthen customer loyalty.

The capital on hand makes it possible to open new outlets and raise market share, and saves companies the cost of paying interest on bank loans, Sin said.

Nelson Ip Sai-hung, founding chairman of the Federation of Beauty Industry, said the prepayment system evolved from earlier arrangements such as a cash coupon system - bulk purchases gave customers discounts on various services. Another approach, to make expensive slimming and laser packages affordable to customers, was instalment payments on credit cards.

The current difficulties began about two years ago, when banks started to delay customers' credit card payments to businesses.

The closure of Oasis Hong Kong Airlines in 2008 intimidated banks confronted with customers' demands for refunds on their credit card payments. While companies used to receive customers' credit card payments from banks two days after the transaction, the time lag was lengthened to months. "In the worst case, it was 270 days after the transaction," Ip said.

After that, banks introduced the collateral, or security deposit, system. In recent months, a big part of consumers' advance payments ends up in the deposit fund, Ip said.

"Banks now require companies to pay one year's advance revenue [as collateral]," he said.

If a company does not ante up enough money, banks withhold credit card payments until the security deposit reaches the required amount. That includes advance payments for goods and services as well as one-off payments.

"Even when operators manage to sell something, they cannot get what customers have paid with credit cards," Ip said.

A few days ago, a medium-sized company sought Ip's help after a bank required more than HK\$1 million as a deposit. The firm would have to close if it failed to gather the sum, he said. "This is not an individual case. Some companies will shut down [in the coming year], that is for sure," Ip said.

A vicious cycle has formed: closures prompt banks to demand larger deposits and to delay making payments to companies. But their action cuts off companies' cash flow, forcing them to collapse, he said. "Banks should be middlemen handling the cash. But they are now actively disrupting the cash flow," Ip said.

Fong Fai, chairman of the Hong Kong Yoga Society, agreed that tighter bank policies would force more centres to shut down. Surging rents and a drop in membership has already hit the industry hard, he said.

Yoga Limbs, a centre that had run for 12 years, closed on Friday - the second school to close this month.

The Monetary Authority is aware that banks withhold payments or require collateral in order to manage their charge-back risk, a spokesman said. The arrangements are imposed by banks on a case-by-case basis, taking into account factors including the length of prepaid packages offered by merchants and their financial strength, he said.

"The HKMA expects banks to provide not less than one month's prior written notification to affected merchants before increasing the withholding period or collateral amount," he said.

An HSBC spokeswoman said funds were withheld on an individual basis, but merchants who accepted advance payments would be subject to closer monitoring in general.

In the meantime, various proposals to strengthen consumer protection of advance payments have been discussed as the government seeks to expand the Trade Description Ordinance to cover services. An amendment is likely to be tabled in the Legislative Council this year.

The government is expected to make it a criminal offence for a business to take payments from consumers when it has no intention or ability to supply services to them.

That means unscrupulous businesspeople could go to jail for pestering people to prepay large membership fees when their firms are on the brink of closure. But that won't help consumers get their money back when honest companies go bankrupt.

Lawmakers have made other suggestions, such as establishing funds like the Travel Industry Compensation Fund for various service industries. That fund compensates travellers when a travel agent defaults, and is funded with a tour levy on travel agents. Another option is to set up an account where prepayments are kept: the withholding agency would pass on the funds in stages, not all at once. It would be possible to manage such a fund, but it would involve higher administrative costs, Sin said.

A government insider said such an amendment would not target business failures. Rather, it would be a deterrent against improper sales practices.

A compensation fund would require a registration system like that in the tourism industry, Ip said. "It would take a long time to register all beauty companies and practitioners," he said. There are about 4,000 companies in the industry. He said he would rather put prepayments into an account managed by the government than into the hands of banks.

Consumer Council chief executive Connie Lau Yin-hing said: "Closures are not predictable. When shops ask people to prepay years of membership fees, how can they tell what will happen several years later? Even if they are proper businesses, there are still risks."