

Our Ref. : B9/32C

9 March 1998

The Chief Executive
All authorized institutions

Dear Sir/Madam,

Credit Reference Agency

This letter sets out the HKMA's views on the sharing of credit information of personal customers through a Credit Reference Agency ("CRA").

There are already a number of CRAs operating in Hong Kong. However, a lack of full participation by authorized institutions reduces their usefulness. A study conducted by the HKMA in late 1996 proposed that Hong Kong should have a fully-fledged CRA (i.e. with more widespread participation by institutions) in view of the growing trend in the banking industry to diversify the consumer lending portfolio from asset-backed loans to unsecured loans, such as credit cards and personal loans.

The proposal was endorsed by the two industry Advisory Committees and received widespread support from the banking sector, despite concerns expressed by some banks about loss of market information to their competitors. In summary, the majority of the views obtained during the consultation process confirmed that the development of a fully-fledged CRA in Hong Kong would have the following two major benefits:

- (a) it would benefit all institutions - large and small - and the banking industry as a whole in terms of better informed and more accurate assessment of customers' credit standing. This would lead to lower bad debts, better management of credit risk, and increased opportunities to expand the market in consumer credit; and
- (b) it would further improve the financial infrastructure in Hong Kong, thus further enhancing Hong Kong's status as an international

financial centre (a CRA is a common feature of most other major financial centres).

The HKMA is therefore convinced that the development of a fully-fledged CRA in Hong Kong is both necessary and important. The recent financial market turmoil and the possible increase in credit risks have reinforced this view.

It is of course also necessary that the personal data provided to, and held by, CRAs should be properly safeguarded. In this connection, the HKMA welcomes the initiative of the Privacy Commissioner for Personal Data in issuing a Code of Practice on Consumer Credit Data. The HKMA considers that this provides a sound framework within which institutions may disclose consumer credit data to CRAs.

The HKMA believes that the carrying out of searches through a credit reference agency is an essential part of institutions' systems for assessing applications for consumer credit. In order to be able to obtain information from a credit reference agency, institutions need to be prepared to share corresponding information about their customers. The HKMA recommends therefore that all institutions which provide consumer credit should be prepared to share such information through a CRA within the limits laid down by the Privacy Commissioner's Code of Practice. This would permit the disclosure, inter alia, of credit data of both existing and new customers in respect of:

- (a) data relating to account defaults;
- (b) credit application data reported by a credit provider including the type and amount of credit sought and the date of the credit application; and
- (c) credit card loss data relating to financial losses arising from unauthorized transactions carried out through the use of lost credit cards.

The HKMA would prefer that all relevant institutions should be prepared to share the information listed above. Where there is reluctance to do so (for example because of competitive reasons) it would be prepared to accept that institutions should participate, initially at least, only in respect of credit card data for the three types of information mentioned above. (This would cover information about both existing and new credit cardholders.)

In line with overseas practice, the HKMA would not be directly involved in the setting up of a CRA or in the expansion of existing CRAs as it is considered that this should best be left to the market. However, the HKMA would like to give added impetus to the market process by emphasizing the value which it attaches to widespread participation by authorized institutions. In assessing the

effectiveness of institutions' credit evaluation systems, it will take into account the extent to which they make full use of all relevant information about applicants for credit, including that obtained from CRAs.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Denis R. Carse". The signature is fluid and cursive, with a large initial 'D' and 'R'.

(D T R Carse)
Deputy Chief Executive

c.c. Chairman, Hong Kong Association of Banks
Chairman, The DTC Association
Privacy Commissioner for Personal Data