

URGENT - Please circulate to the Members of the LegCo Panel on Financial Affairs

4 April 2002

To: Members of the LegCo Panel on Financial Affairs

Dear Sir

Comments on Proposal on Sharing of Positive Consumer Credit Data

The purpose of this paper is to express our view as Hong Kong citizens against the above proposal and would also like to draw the attention of the Members of the Panel about some fallacious grounds in which the proposal is based:

- 1 Hong Kong currently has a credit service agency viz. Credit Information Service Limited (CIS) operating for years who maintains all information of the consumers of credit. The consumer's credit data i.e. so-called negative credit data will be disclosed among subscribers of CIS if the consumer fails to service the debt properly. The data can then enable credit providers to identify and prevent from lending to problematic consumers.

Privacy Commissioners for Personal Data has also permitted CIS in March this year (without consultation from the Panel) to release the last 5 years records of an individual about the previous enquiries of credit status made by credit providers in Hong Kong for credit assessment purpose.

The above arrangements have in fact provided sufficient measures for the credit providers in Hong Kong in doing business. Current debatable issue of "sharing of positive consumer credit data" means to allow credit providers to share further ALL Hong Kong citizens' personal and credit data e.g. number of credit cards held, level of liability, etc. at the time the individual transacts with the credit provider. However, we believe that furnishing the credit providers with the credit data of non-delinquent consumer is unnecessary and unfair. It will violate the Data Protection Principle.

- 2 The proposal tried to attribute the increased delinquent accounts of credit cards debt against lacking of positive consumer credit data available to credit providers. The argument is that bankrupted people were always over-borrowed. The credit providers did not know the level of borrowings before credit was granted. Hence, obtaining more positive consumer credit data can reduce the risk of lending to people who is over-borrowed or planned to bankrupt.

The argument is prejudiced. Majority of credit card holders settle payment in full whilst planned bankruptcy is limited to few cases and has been dealt with properly by the Commercial Crime Bureau. There were only 15,000 people declared bankrupted out of 7 million Hong Kong people. The current credit assessment process, without the positive credit data, has been adopting for decades and by many well-developed countries in the world. It is in fact not a justifiable ground for making such radical

change. There is also no solid proof that countries adopting the move can really safeguard the credit providers from delinquent accounts. From news today, Germany suffers biggest bankruptcy rate. US also got the highest delinquent ratio in 2001.

The increased numbers of delinquent accounts purely explained the economic climate in Hong Kong; it is vague to establish that the lacking of positive consumer credit data caused the delinquent accounts. If the thinking of is true, why there was no similar cases noted in previous years? It is not realistic to implement the move based on this footing.

- 3 The root cause of delinquent accounts is because of different attitude of credit providers in accepting credit risk. It can be adjusted among them or monitored by the Hong Kong Monetary Authority. Some credit providers will grant credit to a customer even though they know he or she has high borrowings as the high credit card interest rate can compensate the possible bad loans. A report by Apple Daily mentioned that a young girl could get additional credit card although she told a bank that she had already got 80 existing credit cards on hand. Some credit providers even encourage credit card holders not to settle the debts in full, lend money to consumers without income or track records. It is therefore not a justifiable and equitable mean to require the general public to release more private information to overcome the indecent practice of the credit providers.
- 4 The credit providers have agreed among themselves and announced to the public that they had unanimously agreed to share consumer credit data among themselves. They also set time frame for the implementation. Their act has totally disrespected the true owners of the credit data, which are the consumers themselves. The consumers are even not consulted about the move. Bear in mind that the existing terms and conditions in the agreement did not cover the proposed move.
- 5 If the proposal is adopted. It will allow more abuses of the data by the credit providers, like the current available information maintained by CIS. It is difficult for the consumers to know whether their credit data was used for a legitimate reason, as there is no control currently. Credit providers may make use of the credit data for promotion and marketing of their new products by selecting customers of good credit status e.g. issuing of a pre-approved credit card with a larger credit limit. Their customers will not know their records have been used this way unless they go to the CIS Limited and check their own record, which is cumbersome.
- 6 Maintaining such a database is costly and the consumer will bear the cost ultimately. It may not be effective for credit assessment as well. Although some consumers may have high level of borrowing, it does not mean that they have poor repayment ability. What if some consumers may also have high level of assets and high income to support their repayment ability. This proposal can only indicate the number of credit cards or level of debt of a consumer but not their net liability and repayment ability.

Thank you for your attention. Please consider the above concerns in formulating legislation.

Yours faithfully
Stephen L M Li
Education Sector