

LegCo Panel on Financial Affairs – 9 April 2002
Positive Credit Data Sharing

Speech by Mr. Lo Chung Hing, Acting Chairman,
The Hong Kong Association of Banks

Good morning Chairman, Councillors, and Members of the meeting:

Earlier on, the Association was given the opportunity to speak briefly to this Panel on why inter-bank sharing of positive and negative credit data is a cornerstone of objective and responsible lending. Subsequently, the banking industry has submitted a proposal to the Privacy Commissioner through the Hong Kong Monetary Authority on the details of additional positive credit data to be shared amongst banks.

The Association is pleased to be invited to the meeting today to elaborate its views on this initiative. For this purpose, the Association has presented to Panel members, through the LegCo Secretariat, a paper describing the types of positive credit data to be shared and how they would appear in credit reports.

Hence, today I will focus on the inadequacy of the existing system, highlight the benefits of positive data sharing, and address the privacy aspects.

With society becoming more affluent, we see a global trend of growing demand for consumer lending. The surge in the number of bankruptcy cases, particularly in an economic downturn, is not something unexpected. What we find disturbing is the high level of indebtedness of individuals in financial difficulty with multiple financial institutions, considering that the average adult in Hong Kong has fewer credit cards than the average person in the U.S.A. According to a report prepared by McKinsey & Company presented to the Association late last year, on average, bankrupts in Hong Kong have debt 55 times of their monthly income with 12 financial institutions. In the U.S., bankrupts have debt 21 times of their monthly income. What caused this significant difference in the level of debt? We believe this is largely due to the fact that banks in the U.S. are sharing a much wider range of positive credit data of their customers.

Unlike their counterparts in the U.S., banks in Hong Kong are only allowed to share default data and very limited positive data. An individual's full credit exposure and repayment pattern are not known to the bank. Neither can multiple borrowing be detected, nor can remedial actions be taken by banks to help their problem customers at an early stage.

A combination of positive and negative credit data would give a fuller picture of an individual's credit exposure and credit utilization across multiple providers of credit. This in turn will provide a broader basis of credit assessment by banks and improve their overall risk management.

We believe it imperative that the limitations imposed on existing credit data sharing be relaxed as soon as possible. HKAB, the DTC Association, the HKSAR Licensed Money Lenders Association and the Finance Houses Association of Hong Kong are fully supportive of this initiative.

With positive credit data, banks can assess an individual's application more objectively based on his credit standing. This in turn enables banks to provide differentiated products on a different pricing structure. Individuals with a good payment record are in a better position to obtain credit on more favourable terms, as banks compete for good customers.

With greater transparency in consumers' credit status, consumers can continue to have access to credit within their means and enjoy the convenience it brings.

With improvement in their credit risk management, banks can avoid granting credit to over-extended individuals. At the same time, the problem of over-indebtedness of some borrowers can be mitigated as banks are in a better position to detect over-borrowing and seize the earliest opportunity to counsel customers in financial difficulty. This helps to mitigate the problem of consumer default, particularly in an economic downturn. Also, there will be potential for making banking operations more efficient with benefits to be passed on to consumers through competition.

In the longer term, our enhanced credit data bureau will encourage more financial institutions to enter the local consumer credit market, thus facilitating healthy competition, increasing credit supply and bolstering robust development of the market. Continuing healthy credit expansion is

necessary to sustain a high level of domestic consumption, which is crucial for economic growth.

Whilst the benefits of positive credit data sharing are not disputed, some sections of the community, understandably, have raised concerns about personal privacy. I would like to stress that banks are subject to both the Code of Practice on Consumer Credit Data and the Code of Banking Practice.

Under the Code of Practice on Consumer Credit Data, banks are not permitted to use the information other than for the purposes of considering any grant, review or renewal of consumer credit, and, where upon default of the individual, debt collection purposes. Using the information for other purposes, such as marketing, is out of the question. The same set of stringent requirements is reinforced in the Code of Banking Practice.

The establishment of a positive data bureau is a natural extension of the financial infrastructural development as the consumer credit market in Hong Kong matures. Besides the benefits to consumers and credit providers, a more advanced data sharing system will help strengthen the development of the banking sector and enhance Hong Kong's image as an international financial centre.

As in the U.S., banks in the U.K. and Canada have long been sharing positive and negative credit data. All these places are well-known for their protection of individual rights and privacy. Singapore is now building a positive and negative information data bureau, while banks in Shanghai are beginning to share their customers' positive credit information, with a nationwide system under development.

Going forward, we believe that Hong Kong's practice should be aligned with those cities that I have just mentioned. HKAB and other industry associations are willing to work closely with the Privacy Commissioner in ensuring personal privacy will continue to be adequately protected after positive credit data sharing is implemented.

Thank you.

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