

Proposal On Sharing Of Positive Consumer Credit Data

Frequently Asked Questions

1. What are positive credit data? What is the difference between these and negative data?

Positive credit data refer to information on an individual's credit exposure (e.g. credit limits and outstanding amounts on credit facilities) and payment history. Negative credit data refer to information only on an individual's default record. Sharing of negative credit data helps lenders to improve their credit assessment. But it does not allow a picture to be built up of a borrower's total indebtedness and credit history. It therefore is not sufficient for credit assessment purposes.

2. What is a credit reference agency (CRA) and what is its purpose?

A CRA collects information about the indebtedness and credit history of borrowers and makes this information available to credit providers. CRAs are a common feature of credit markets around the world. Before deciding whether to extend credit facilities to a borrower, credit providers can check with a CRA about the borrower's credit record in order to assess the creditworthiness of the borrower.

3. If positive credit data sharing is implemented, will all my personal data held by my bank be reported to a CRA and shared among all banks in Hong Kong? Does it mean that I will lose privacy over my personal data?

Absolutely not. First, not all your personal data will be reported to a CRA. Information such as your personal income and your deposits held will not be shared. Only credit-related data, e.g. credit limits, outstanding amounts on credit facilities and pattern of repayments (e.g. the date and amount of last payment) will be reported when you have a borrowing relationship with a bank (please click here for more details).

Secondly, there are adequate safeguards to protect the privacy of your data collected and held by a CRA under the existing privacy law in Hong Kong, including clear restrictions on data access and use.

4. What are the safeguards to protect the privacy of my data collected and maintained by a CRA?

Hong Kong has an effective legal framework for safeguarding personal privacy. Our framework for protection of consumer credit data in Hong

Kong, provided under the Personal Data (Privacy) Ordinance and the Code of Practice on Consumer Credit Data issued under the Ordinance, is comparable with those in the US and the UK (please click here to see a comparison table). You can see that there are adequate safeguards to protect your data, as required under the Code. The following are some of the more important ones:

- (a) data access—data access is limited to credit providers with which you have existing borrowing relationships, or with which you intend to seek a borrowing relationship;
- (b) data use—data use is restricted to the purpose of credit assessment and debt collection only. In other words, any use of the shared data for marketing and other unauthorised purposes is not permitted;
- (c) data security—CRAs are required to take appropriate measures to safeguard the security of data and protect them from unauthorised access or change; and
- (d) consumers' rights of access and correction—you have right of access to your files kept by credit reference agencies and to correct any wrong information contained therein. This would help ensure that your data held by the CRAs are accurate and complete.

5. Is my consent required before my bank discloses my data to a CRA?

Yes. The terms and conditions of banks generally provide for the sharing of credit data. You give your consent to your data being shared when you establish relations with a bank and accept the terms and conditions for banking services.

However, the Code of Practice on Consumer Credit Data does not currently allow positive credit data to be shared. If the Privacy Commissioner ultimately decides to change the Code to permit the sharing of positive credit data, banks will have to examine the relevant terms and conditions to make sure that they have got the consent of their customers. If not they will need to seek that consent.

6. Are positive credit data being shared elsewhere?

Yes. Almost all advanced economies in the world such as the US, UK and Canada permit the sharing of positive credit data. This is increasingly being seen as an essential piece of financial infrastructure to facilitate the development of the consumer finance market. For example, Shanghai has allowed sharing of positive credit data and plans are being made to extend this to other Mainland cities. Singapore also intends to do the same in September 2002.

7. Why doesn't the HKMA first take a firmer stance to regulate the

banks and stop their "irresponsible" lending behaviour, before pushing for the proposal to share more positive credit data?

It is of course important for the banks to lend responsibly. The HKMA has been closely monitoring banks' lending policies and procedures to ensure that they are prudent and meeting the required standards. Special on-site examinations and off-site reviews conducted recently reveal that some banks' credit standards could be improved, but by and large banks' underwriting standards and lending policies and procedures are meeting our supervisory expectation. However, the fact remains that even the most prudent lenders are to some extent lending "blind" if they are not in possession of accurate information about the overall indebtedness of their customers. This emphasises the need for banks to be able to share positive credit data so as to lend responsibly and help restrain extreme levels of indebtedness.

8. What are the benefits of positive credit data sharing?

According to overseas experience, positive credit data sharing would have benefits for both consumers and banks (please click here for more details):

- (a) helps increase the availability of credit and reduce its cost—cost savings from improved risk controls are likely to be passed on to consumers in a competitive environment. At present, due to the inability of banks to charge their customers in a way that reflects differences in risk, most borrowers pay the same price for credit regardless of their creditworthiness. Positive credit data sharing should help remove this cross-subsidisation between good borrowers (who are in majority) and bad ones (in minority);
- (b) facilitates new entrants into the credit market and increases healthy competition;
- (c) prevents tightening of bank credit which could delay the recovery of the economy,
- (d) helps mitigate the problem of over-indebtedness by some borrowers— it gives banks knowledge of the borrowers' overall debt exposure and thus puts them in a better position to lend responsibly; and
- (e) helps safeguard employment opportunities as financial institutions feel safe to maintain or increase their investment in the retail banking sector.

9. Following implementation of positive credit data sharing, by how much will interest rates be lowered for the good borrowers?

To the extent that positive credit data sharing helps improve the risk management ability of banks and reduce their bad debt charge, at least part of the benefits should be passed on to customers in a competitive market.

Consumers stand to benefit more from the enhanced competition once banks are able to identify the good risks. This can be supported by experience overseas.

10. Would the sharing of positive credit data help to address the over-indebtedness problem of university students?

The sharing of positive credit data should help to address the multiple indebtedness problem in general. If a bank knows that a credit applicant is likely to over-extend himself financially, the bank would avoid extending further credit to him.

11. According to the Consumer Council, only one-third of the credit cardholders are not settling their credit card balances in full and on time. Is it reasonable to sacrifice the privacy of the majority for the minority?

A good credit history will benefit users of all types of consumer lending, i.e. not just credit card lending. So even those credit cardholders who settle their card balances on time could benefit from the lower interest rates as a result of greater sharing of credit data so long as they borrow in other forms, e.g. tax loans, hire purchase etc. Even for those consumers who do not have any form of consumer lending at present, building up a credit history will benefit them in the future as and when they need to borrow.

12. Despite servicing multiple debts, I've not had any repayment difficulties so far. However, I'm worried that on implementation of positive credit data sharing, my overall indebtedness will be known to my banks and they will reduce or even cut my credit, thus giving me no choice but to become bankrupt. Hasn't the HKMA considered the social impact of the proposal?

Both the HKMA and the banking sector are fully aware of the possibility that the implementation of positive credit data sharing might have some short-term impact on some borrowers who are already over-extended. The HKMA will encourage banks to adopt a sensible approach to avoid pushing such customers into bankruptcy unnecessarily. After all, it is in the interest of the banks concerned to work out a solution with the borrowers. It is unlikely that banks would abruptly cut off credit and demand repayment from over-extended borrowers, particularly if these borrowers were paying on time.

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