Sharing Positive Consumer Credit Data

The proposed sharing of positive consumer credit data by banks - with adequate safeguards to protect privacy - would help banks manage credit, and its pricing, more efficiently: this is good for the economy generally and good for the individual consumer.

The proposal for banks to be allowed to share positive consumer credit data through a credit reference agency has attracted a lot of attention recently. There is considerable support for the proposal, particularly among banks, because the sharing of positive consumer credit data will enable them to conduct better assessments of the creditworthiness of individual borrowers. But there are also strong reservations, in view of the need to provide adequate safeguards to the privacy of bank customers. To encourage informed discussion of the proposal, we are publishing today on our website information about the issue, in the form of "frequently asked questions" (FAQs) and answers to them. I hope the information will prove to be helpful to those with an interest in the subject.

In the discussion so far, we have noticed a few persistent misconceptions, which we would particularly like to dispel. The first is that positive consumer credit data sharing means that all banks would have access to all consumer data through the credit reference agency. This is not true. The privacy laws in Hong Kong ensure that only credit providers with whom consumers have existing borrowing relationships, or are seeking to establish them, will have access to the data. The data cannot be accessed by other persons or organisations and cannot be used for purposes other than the provision of credit - for example, for marketing purposes. Furthermore, the scope of data sharing is restricted to credit-related data only. Other information, such as personal income and deposits held, will not be shared.

The second misconception is that the majority of consumers with good credit would be sacrificing their privacy for the minority of consumers with doubtful credit. This again is not true. The privacy risks have been exaggerated. The data would only be provided to a credit reference agency with the consumers' consent, which they give when they borrow. Such data are protected by the privacy laws in Hong Kong. Without positive consumer credit data sharing, as at present, consumers with good credit have been subsidising those with doubtful credit. The costs of bankruptcies to the banks have been passed on, in one way or another, to all borrowers. This unfair sharing of the burden among borrowers takes the form of higher charges for banking services and higher borrowing costs for consumers. With positive consumer credit data sharing, the banks would be in a position to introduce differential pricing on the basis of credit quality. As a consequence, those with good credit, who are in the majority, will benefit, possibly through more favourable terms for borrowing and for the use of banking services.

The third misconception is that the rapid increase in personal bankruptcies is entirely the responsibility of the banks, in that they have not been prudent in the issue of credit cards. There is some truth in this allegation, but they are only partly responsible. During the course of last year, we reviewed and examined the credit card operations of a number of banks. In the light of our findings, we recommended to the banks in February this year a set of best practices on credit card operations. We have also been conducting special examinations on the majority of credit card issuers that are authorized institutions under the Banking Ordinance. So far, we have only identified one case as requiring substantial improvement in its credit assessment and monitoring processes, and remedial actions are being taken. It must be recognised that the banks play an important role in financial intermediation that promotes economic growth and development. Their credit decisions can only be as good as the information available to them. Positive consumer credit data sharing will enable them to perform that role more effectively, rather than to take a step backwards from that role by being forced into tightening consumer credit generally.

The fourth misconception is that the use of positive consumer credit data for credit scoring could lead to "stigmatisation" of individual customers. Again this is not true. Credit scoring is already widely used by banks in Hong Kong. In other jurisdictions this is a proven statistical method, which helps banks to assess a borrower's creditworthiness. The credit scoring system now used by banks will be much fairer to customers if it is also based on positive consumer credit data, and not just on negative data.

The proposal on positive consumer credit data sharing is not a knee-jerk reaction to rising personal bankruptcies but a measured and targeted approach to enhancing the efficiency and risk management of one important aspect of financial intermediation by the banks. The proposal is similar to established practices in other jurisdictions, for example, those in the United States and the United Kingdom. We welcome views on the proposal.

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