HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

05 Jan 2006

Supervisory Policy Manual (SPM): CR-S-5 Credit Card Business

Our Ref: B1/21C
B1/15C

5 January 2006

The Chief Executive
All authorized institutions

Dear Sir / Madam

Supervisory Policy Manual (SPM): CR-S-5 Credit Card Business

I am pleased to inform you that, following consultation with the industry, the Monetary Authority is issuing the above SPM module today. This module is issued as a guidance note and supersedes the guidelines and circulars issued on the subject in 1996, 2001 and 2002.

The purpose of this module is to provide more guidance to AIs on the management of risks associated with credit card business, including the best practices and key controls for major processes (e.g. account solicitation, portfolio maintenance and delinquency management) that AIs should aim to achieve. In developing this module, the HKMA has taken into account its past supervisory experiences on credit card operations, the range of practices currently adopted by AIs, and changes in the external environment that may pose additional risks to such operations. In particular, AIs' attention is drawn to a number of issues affecting credit card business, including:

a. data processing and security controls, and outsourcing arrangements in the light of recent incidents in other jurisdictions regarding the leakage of credit card data;
b. systems and controls to guard against fraudulent transactions, particularly with the growing use of the internet; and
c. considerations for extending sub-prime credits.

In addition, the module promotes the following practices among AIs:

a. making good use of information obtained from the external credit reference agency. Apart from credit checks, such information may be used as a means of developing tiered interest rates or risk-based pricing for credit card customers;

b. taking a constructive view of restructuring and debt relief plans to help cardholders with repayment problems; and
c. developing a framework for assessing the profitability of their credit card business.

The module also provides guidance on underwriting criteria (including the use of "income surrogates") and risk management controls.

On-line access to the module is available under the icon of "Supervisory Policy Manual" in the HKMA's public (http://www.info.gov.hk/hkma) and private web-sites.

Should you have any questions relating to the module, please feel free to contact Ms Rita Yeung on 2878-1388 or Ms Irene Sy on 2878-1624.

Yours faithfully,

Simon Topping
Executive Director (Banking Policy)

cc The Chairman, The Hong Kong Association of Banks
The Chairman, the DTC Association
FSTB (Attn: Mrs Millie Ng)

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