



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
B9/147C

29 August 2019

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Guidelines on Credit Risk Management for Personal Lending Business

I write to inform you that amendments have been made to the HKMA's earlier guidelines on Credit Risk Management for Personal Lending Business to provide greater flexibility to AIs in the use of new credit risk management tools powered by financial technology.

As part of the Banking Made Easy initiative, the HKMA issued the said guidelines in May 2018. The guidelines allow AIs to carve out a small portion of their personal lending portfolio as "New Personal-Lending Portfolio" (NPP) and apply innovative credit analytic tools built upon financial technology such as big data analysis to assess and approve credit applications.

Several AIs have since rolled out new retail credit products following the guidelines and the business has been operating smoothly. In view of this latest development, the HKMA considers that it is no longer necessary to set an across-the-board limit applicable to all AIs on such lending (i.e. 10% of an AI's capital base). Instead, the HKMA expects AIs intending to develop this business to set a limit of their own, which should be commensurate with their risk appetite and risk management capability. The HKMA's guidelines have therefore been updated and are reproduced in the **Annex** for the ease of reference.

AIs intending to develop NPP business are expected to discuss their plan with the HKMA. Should you have any questions about this circular, please contact Ms Sophia Chan on 2878-1169 or Ms Zoe Wong on 2878-1619.

Yours faithfully,

Raymond Chan
Executive Director (Banking Supervision)

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Revised Guidelines for New Personal-Lending Portfolio (NPP)

- (i) A suitable portfolio limit commensurate with the AI's risk appetite and risk management capability should be set. Normally, the portfolio limit should be set as a percentage of the AI's capital base or, in the case of a foreign bank branch, as a percentage of the AI's personal lending portfolio;
- (ii) The amount of credit extended to each borrower under NPP should generally be smaller than the amount of credit that would have been granted to the borrower in the case of conventional credit products such as tax loans or revolving facilities under credit cards;
- (iii) Proactive steps should be taken by the AI to ensure that the NPP lending business is being conducted in a responsible manner and that borrowers understand the key features, terms and conditions of the credit products, and their repayment obligations. In this regard, AIs should follow the requirements, as set out in the Code of Banking Practice (including those relating to proper and timely disclosure of key product features), and promote responsible borrowing by customers. When designing their online finance platforms or applications, AIs should consider the use of proper tools, such as pop-ups and hyper-linked text, to provide customers with adequate information and adequate chance to consider the implications of their borrowing behaviour in order to enable them to make informed borrowing decisions;
- (iv) Adequate controls should be in place to manage and, where appropriate, mitigate the risks associated with NPP. In cases where external models are used in credit assessment, the AI should ensure that it has a sufficient understanding of the methodology, limitations and assumptions employed by these models; and
- (v) Periodic post-implementation reviews should be undertaken to evaluate the effectiveness of the new credit risk management practices and compliance with responsible lending principles.