



HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

14 Sep 2004

Credit card operations

Our Ref: B1/15C

14 September 2004

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Credit card operations

The Hong Kong Monetary Authority ("the HKMA") has completed a round of on-site examinations on authorized institutions ("AIs") which are active in credit card business. The objective is to assess their underwriting criteria, risk management practices and the extent to which consumer credit data are used in the card underwriting process.

The HKMA is satisfied that effective risk management systems have been put in place by the AIs examined. Nevertheless, we believe that it would be useful to share with you the following observations:

1. Income proof

Individual institutions were found to have waived income proof requirement for applicants of selected affiliated card programme and accepted proof on home ownership or car ownership as a proxy (income surrogates). In our view, the fact that an applicant is a homeowner or car owner is not necessarily a good proxy for income proof as he/she may have a mortgage loan in negative equity and his/her car may be of little value.

Institutions are reminded that, as set out in the "Best Practices for Credit Card Operations" (the "Best Practices Guide") enclosed in our circular of [22 February 2002](#), it should not be a standard practice to accept income surrogates in place of proper income proof. In addition, income surrogates are acceptable only if they provide reliable data to enable an AI to accurately estimate the income level of the applicant and where income surrogates are used, the AI should consider granting a lower credit limit to cater for the additional risk.

Institutions should also note that they should, as recommended in the Best Practice Guide, establish guidelines for handling applications from customers who do not have a stable income source. Such guidelines should set out,

among others, how the repayment ability of these customers should be assessed and how the credit limit should be set.

2. Use of consumer credit data

It is encouraging to note that all the AIs examined have made use of consumer credit data in their card underwriting process. This has provided the AIs with useful information and enabled them to make a more accurate assessment of applicants' creditworthiness. The HKMA considers that using consumer credit data for assessing credit applications and conducting credit reviews is an essential part of an AI's credit management system. AIs are therefore expected to continue to use consumer credit data actively.

Despite the satisfactory results of the onsite examinations, AIs should ensure that they continue to adhere to the Best Practices Guide and other relevant guidelines/circulars issued by the HKMA in relation to credit card operations.

AIs are also reminded to observe the [Code of Banking Practice](#) issued jointly by the banking industry associations. In particular, AIs should act responsibly in the issue and marketing of credit cards. AIs should take reasonable steps to draw customers' attention to the major terms and conditions¹ related to their credit card services and should have arrangements in place to answer any queries of customers or prospective customers relating to the terms and conditions.

Should you have any questions on the above, please do not hesitate to approach your usual contact in the HKMA.

Yours faithfully,

Y K Choi
Executive Director
(Banking Supervision)

¹ These include all fees and charges which will apply, and the basis on which interest or finance charges will be determined and when they will be payable. The major terms and conditions should be described or highlighted in plain language (both in English and Chinese) in the application forms for credit card services. The description should be printed in clear and legible type and in a font size that facilitates easy reading.