Annex

Key Observations and Sound Practices on Consumer Protection in respect of Digital Platforms for the Application of Credit Products

(A) Applicability of consumer protection measures

When designing the digital platforms for the application of unsecured personal loan and credit card products ("Credit Products"), authorized institutions ("AIs") are reminded to follow the principles enshrined in the Treat Customers Fairly ("TCF") Charter in respect of providing disclosure and transparency to customers and taking into account interests of customers, as well as the consumer protection measures as set out in the Code of Banking Practice ("CoBP") where applicable. In addition, AIs are reminded to observe relevant guidance issued by the Hong Kong Monetary Authority ("HKMA") which include, among others, the HKMA's circular dated 4 September 2020 on "Enhanced Disclosure Measures in respect of Digital Platforms for the Application of Unsecured Loan and Credit Card Products".

Moreover, AIs are reminded to comply with other applicable legal and regulatory requirements, including the Personal Data (Privacy) Ordinance ("PDPO") and any relevant codes of practice issued by the Privacy Commissioner for Personal Data ("PCPD") giving guidance on compliance with the PDPO.

(B) Disclosure in digital environment

Display of Key Facts Statement ("KFS") and Terms and Conditions ("T&Cs")

When designing the digital application platforms for Credit Products, AIs are reminded to provide **clear and prominent disclosures** and **obtain customers' confirmations of understanding** in respect of the key product features as well as T&Cs of the Credit Products.

Observations

Some AIs have not prominently displayed the KFS of certain Credit Products[1] which aims to provide information of significant concern to customers before displaying the T&Cs in the digital application journey.

A few AIs have not designed the digital interface in such a way that customers have to read the KFS and T&Cs before they could indicate that they have read and understand the KFS and T&Cs.[2] By way of some common and non-exhaustive examples:

- customers were allowed to click the confirmation button that they have read and understood the KFS and T&Cs without the need for the customers to scroll down / through the KFS and T&Cs to read the information;

- the KFS was not prominently displayed but a hyperlink was provided instead where customers were not required to click the hyperlink and scroll down / through the KFS to read the information before confirming their reading and understanding of the KFS; and

- the KFS and T&Cs were displayed at the beginning of the application of Credit Products through the AI's public website. However, in cases where the applications were initiated through other digital channels such as mobile banking and internet banking, the KFS and T&Cs were not prominently displayed in the digital application journey.

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[1] KFS should follow the standard template provided in the relevant guidelines issued by the industry associations. Under existing requirements, KFS should be provided to customers when they apply for loans or credit cards, and on request, as in other banking products provided by AIs.

[2] Under existing requirements for digital environment, KFS should be prominently displayed to customers (before displaying the T&Cs) on a webpage / screen which asks customers to explicitly confirm that they have read and understood the KFS and T&Cs before they could proceed to the next step of the application process.

A few AIs have displayed different versions of KFS of different effective dates in different locations or hyperlinks in the various digital platforms of the AIs. For example, while the latest version of the KFS was displayed in the product landing page in the digital platform, an older version of the KFS was found in the customer confirmation page in the digital application journey.

Sound practice 1 – Effective disclosure of KFS and T&Cs

Some AIs have prominently displayed the KFS before displaying the T&Cs. In addition to the full T&Cs which are provided via hyperlinks at the time of displaying the KFS, AIs also displayed the key information and major terms and conditions of the full T&Cs.[3]

The interface of the digital platforms has also been designed in such a way that customers must scroll down to read the KFS and T&Cs until the end of the relevant page before they can check the confirmation box to indicate that they have read and understood the KFS and T&Cs.

If the customer fails to read the full set of KFS and T&Cs or check the confirmation box, a message will pop up to remind the customer to read and confirm the understanding of the KFS and T&Cs. Without such confirmation, the digital platform would not allow the customer to proceed with the next step of the application in the digital platform.

Display of key details of the specific Credit Product

In addition to the key product features as well as T&Cs of the Credit Product, AIs are reminded to provide **clear and prominent disclosures and obtain customers' confirmations of understanding** in respect of the **key details on the specific Credit Product** that will be applicable to the borrower, or that the borrower applies for, and the **educational messages on responsible borrowing** so that the customers as prospective borrowers are clear about their repayment obligations.

[3] While AIs should make the T&Cs as concise as practicable, in case the full T&Cs are unavoidably long causing them uninviting to read, AIs are encouraged to display key information instead of the full T&Cs.

Observations

After the customers have completed the application details of the specific Credit Product (e.g. loan amount, tenor, etc.), some AIs displayed a summary page containing information of the specific Credit Product. That said, it is noted that certain key information such as interest rate or Annualised Percentage Rates ("APRs") which is crucial to customers for making their borrowing decisions, was not included in the summary page. Some AIs also did not display early repayment charges prominently on the summary page of the digital application journey.

In cases of credit card products, when displaying the application details, some AIs did not disclose the APRs for retail purchase and cash advances prominently and conspicuously, together with the annual card fee, so as to facilitate comparison among different charging structures.

It is also noteworthy that where certain key information such as interest rates and monthly repayment amounts can only be finalised at a later stage, a few AIs have displayed an indicative range of such information in the summary page, but without giving prominence to the fact that such range is indicative only and subject to the final offer by the AI.

Sound practice 2 – Effective disclosure of borrower's specific loan application details

To ensure that customers are clear about their repayment obligations, some AIs have included key information of the specific Credit Product in a summary page displayed after the customers have completed the applications details. Examples of the key information in the summary page include the loan amount, interest rate, loan tenor, monthly instalments, early repayment charges, relevant fees and changes, etc.

In cases where some AIs provide an option for customers to apply for an instalment loan (e.g. loan-on-card product) whose amount may be higher than the credit limit of the customers' credit cards, some AIs have designed the interface in such a way that prompts are displayed to draw the customers' attention that, if they choose to do so, their credit limit of the designated credit

card will be increased upon successful application of the loan. As the consequential increase in credit limit is clearly disclosed to the customers, it can help ensure that the customers are provided with adequate opportunity and information to consider the implications of their repayment obligations before deciding whether to proceed with the applications.

(C) "Double reminder" to customers

AIs are reminded to consider the use of proper tools and designs in the digital application process to give customers a **"double reminder"** so that they could **consider their borrowing decisions** during the application process before deciding whether to proceed with the application.

Observations

AIs generally asked their customers to explicitly confirm that they have read and understood the KFS and T&Cs before they could proceed with the application process in the digital platforms. Nevertheless, some AIs did not ask their customers to explicitly confirm that they have read the summary of the specific Credit Product and fully understood the reminders on responsible borrowing before they could proceed with the applications in the digital platforms.

Sound practice 3 – Explicit confirmations of customers' understanding

Some AIs have designed the interface of the digital application journey in such a way that customers have to scroll down to read the summary of the specific Credit Product and reminders on responsible borrowing before providing their confirmation by checking two separate boxes to confirm that they have (i) read and fully understood the summary the specific Credit Product as well as (ii) read and fully understood the reminder on responsible borrowing. If the customers fail to check the confirmation boxes, they could not proceed with the next step of their applications.

(D) Digital disclosure approaches

AIs are encouraged to **test digital disclosure approaches to ensure their effectiveness from customers' perspectives**, taking into account factors such as screen sizes, reasonableness of font sizes, minimum scroll down time, prominence of the important information, clarity and conciseness of the information, ease of understanding, etc.

Observations

An AI has not taken into account the screen sizes of devices such as mobile devices so as to ensure effective digital disclosure from customers' perspective. In this case, the KFS and T&Cs displayed in the digital application journey through the AI's mobile app were not in readable format due to very small font sizes. Reading which can only be enabled by using zoom-in function to enlarge the KFS and T&Cs does not facilitate reading and understanding by customers.

Sound practice 4 – Effective disclosure in digital environment

When designing the digital application journey, some AIs have adopted innovative techniques to present key information in a simple and more effective way through the use of digital tools such as live chats, infographics and Q&As to cover essential information that customers should be aware of.

To enhance customer engagement, some AIs have mapped out their digital application journey with user interface design, focusing on the use of visual and interactive elements, such as animated graphics or prompt screens for additional information so that key information is displayed prominently where customers could focus their attention to the most important information upfront in the digital application.

Some AIs have also provided more value-added functionalities to their customers on digital application platforms such as repayment schedule calculators to help customers understand their repayment obligations before deciding whether to proceed with the application.