

# Application of Financial Technology in Personal Lending Business

The following is issued on behalf of the Hong Kong Monetary Authority:

The Hong Kong Monetary Authority (HKMA) issued today (May 9) guidelines to banks on Credit Risk Management for Personal Lending Business. The guidelines allow banks to adopt innovative technology to manage credit risks related to personal lending business, in a bid to improve customer experience in the digital environment.

Under the new guidelines, banks may carve out a portion of their personal lending portfolio as "New Personal-Lending Portfolio" (NPP), in respect of which adherence to conventional lending practices will not be required. Instead of collecting borrowers' income proof to assess their repayment ability, banks may adopt new credit risk management techniques and practices enabled by innovative technology, such as big data and consumer behavioural analytics, to approve and manage the related credit risks.

To ensure proper management of the associated risks, banks should set a limit for the NPP, which should not exceed 10 per cent of their capital base. At the initial stage, the amount of credit extended to individual borrowers should generally be smaller than that of conventional credit products. In applying new credit risk management techniques and practices, banks should conduct the lending business in a responsible manner and provide customers with adequate information, including key product features and their repayment obligations under the loan product, to enable them to make informed borrowing decisions and avoid over-indebtedness. The HKMA will review the effectiveness of the new risk management practices at a suitable juncture, and consider the future scope of application of the new arrangements.

The Deputy Chief Executive of the HKMA, Mr Arthur Yuen, said, "The new guidelines will enable banks to be more innovative and adopt more financial technology in personal lending business in order to improve digital customer experience. This is also a major development in banking supervision."

As part of the HKMA's seven initiatives to promote Smart Banking in Hong Kong in September, 2017, the Banking Made Easy initiative aims to streamline banking supervisory practices, thereby facilitating the application of financial technology, in a bid to improve digital customer experience. The new guidelines are developed after consultation with banks and tech firms undertaken by the HKMA's Banking Made Easy taskforce.