HONG KONG MONETARY AUTHORITY
香港金融管理局

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

27 October 2022

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

**Credit Risk Management for Personal Lending Business**

I am writing to inform you that the arrangements for launching products under the "New Personal-Lending Portfolio" (NPP) framework pursuant to our guidelines of May 2018 and August 2019 have been streamlined. With immediate effect, AIs are no longer required to discuss with the HKMA before a product under the NPP framework is launched.

Since the introduction of the NPP framework in 2018, a total of 18 authorized institutions (AIs) have made use of the policy framework to introduce personal lending products by harnessing advanced data analytics. The HKMA has recently reviewed the performance of the NPP. The overall asset quality of the NPP has been comparable to that of the conventional portfolios. In our review of NPP proposals submitted by AIs, we note that AIs are generally prudent and adhere to the HKMA's guidelines when developing the NPP business. In view of this, we consider that a prior discussion with the HKMA before an NPP product is launched is no longer necessary.

The streamlined arrangements aim to facilitate AIs to accelerate the adoption of advanced data analytics in their credit underwriting and product design. That said, AIs are expected to remain prudent. AIs should continue to adhere to the principles governing the NPP business outlined in our circular of 29 August 2019 (extracted in the **Annex**) and other applicable guidelines issued by the HKMA from time to time. Furthermore, AIs that have rolled out NPP products are expected to notify the HKMA on an ex-post basis and report relevant data to the HKMA regularly based on a template that will be provided separately. The HKMA will continue to monitor AIs' credit risk management practices for NPP business through day-to-day supervision.

The above arrangements are also applicable to AIs' adoption of new credit risk management practices for lending to small businesses.

Should you have any questions about this circular, please contact Mr Dennis Tsang on 2878-1445 or Mr Sun Ngai on 2878-1400.

Yours faithfully,

Raymond Chan
Executive Director (Banking Supervision)

Encl.

**Annex**

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.