

# Credit Reporting Companies, Legal Entities and Positive Data Reporting

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# Agenda

- TransUnion's History in Hong Kong
- Regulatory Environment
  - Government Organizations
  - Overview of Regulations and Codes
    - Positive Data Sharing
    - Lobby Initiatives
- Creating a Positive Database
- Today's Environment – Successes to Date
- Moving Forward

# TransUnion History

- Established in Hong Kong in 1982
- Owned by 8 shareholders – TransUnion still the largest since 1999
- Timeline
  - Mid 1980s – began negative data collection
  - Late 1980s – began public record information collection
  - August 2003 – began sharing positive information
- Our role:
  - Centralize and process credit information
  - Improve risk lending and expedite lending decisions
  - Stimulate domestic consumption
  - Protect members and consumers

# Regulatory Environment

Credit Reporting is highly regulated in Hong Kong

## Key Regional Authorities

- Consumer Council
- Legislative Council
- Privacy Commissioner
- Hong Kong Monetary Authority

# Regulatory Environment

Credit Reporting is highly regulated in Hong Kong

## Governing Regulations / Codes

- Privacy Ordinance (PDPO) since 1996
- Code of Practice on Consumer Credit Data
- Code of Practice on Banking Industry

# Regulatory Environment

## Positive Data Sharing

- High-profile banking industry executives say:
  - Banks with large customer base
    - “I have enough customer information to manage my risk”
    - “I have a much deeper pocket to lose than my competitors”
    - “Why should I use my asset to help my competitors”
- Consumer groups say:
  - Intrusion of privacy
  - Use the public’s privacy to trade for more profit
  - Banks should learn how to better manage their risk
  - Banks should not lend to students

# Regulatory Environment

## Lobby Efforts – Right Song ... Right Audience

### Consumer Groups and the Press Messaging

- Positive database is the only way to tell others how good you are
- Increase your bargaining power/ cheaper rate
- Positive database penalizes bad consumers, whereas negative database penalizes good consumers
- Over 90% population is good – the majority gains the benefit

### Government/Society Messaging

- Promote good payment behaviour
- Increase banking stability
- Grow the consumer banking in a healthy manner
  - **Result:** local consumption will be stimulated

# Regulatory Environment

## Lobby Efforts – Right Song ... Right Audience

- **Banks/Data User**
  - Better understand the relationship customers have with other banks
  - Expedite approval process, increase competitiveness
  - Increase application quality, increase profitability
  - Position and design better marketing strategy

# Creating of a Positive Database

## “The King of Credit” – Statistics Speak Louder than Words

- Consumer opened 72 lines of credits over a 2-yr. period
- No late payments were recorded – Consumer made minimum payments with money received from opening new lines of credit
- First negative information reported after 72<sup>nd</sup> credit line was granted.
- Consumer had credit lines with most providers, including the largest banks

**Lesson Learn:** Sharing positive data would have provided creditors with a with a complete picture of this individual and prevented this situation.

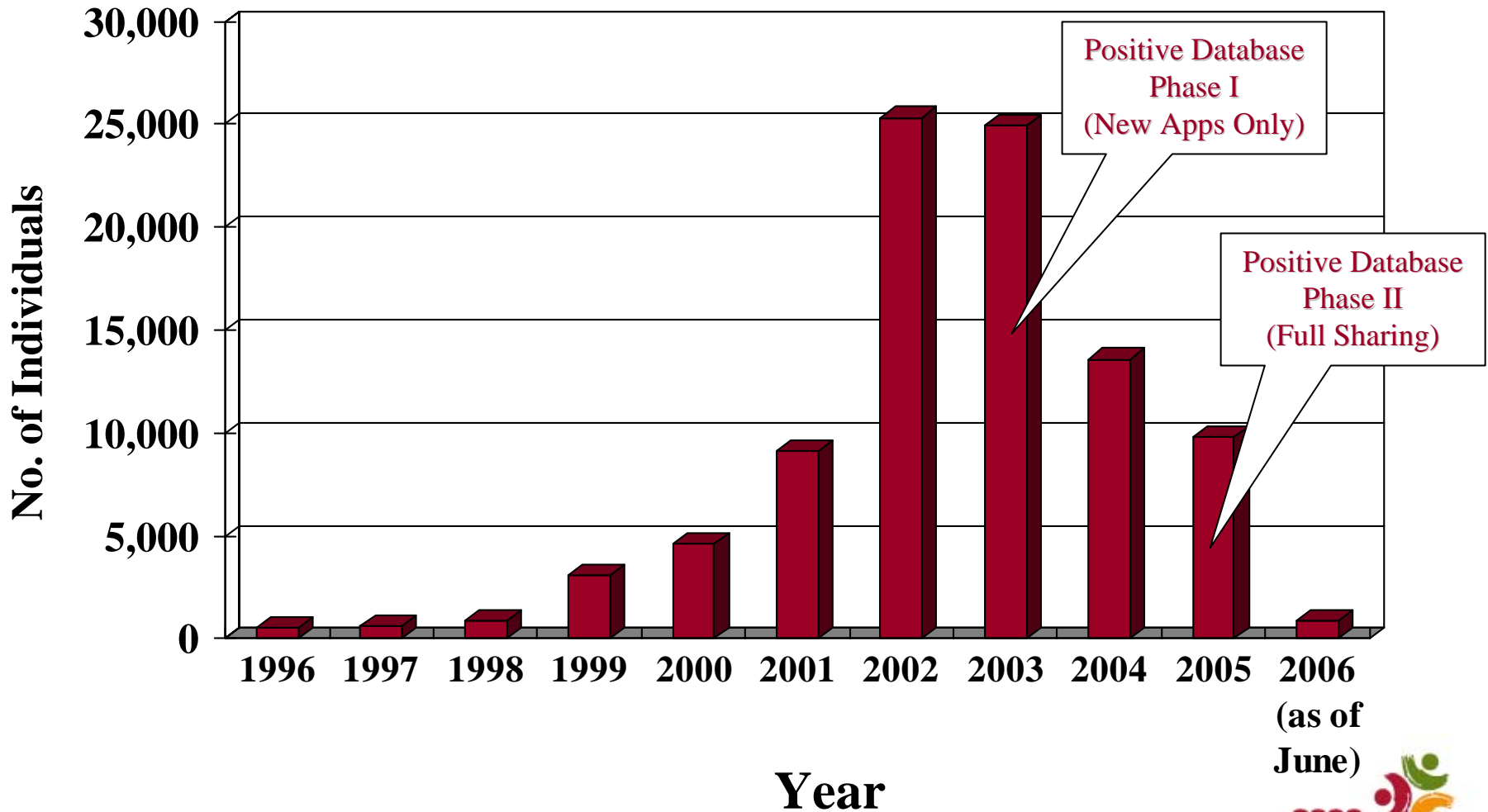
# Creating of a Positive Database

## Two Steps Approach - to avoid credit crunch

### Two years Moratorium

- **June 2003** – collection of positive data
- **August 2003** – sharing of positive data for new credit application only
- **June 2005** – positive information used for reviewing and scoring existing bank customers

# Bankruptcy Statistics 1996 vs. 2006 (1H)



(as of  
June)

# Today's Environment

## Positive Data Study – Hong Kong Monetary Authority and TransUnion

### Results – Aug. 2003 and Sept. 2005

- Credit card receivables increased by nearly 10% from \$54B to \$59B
- Rollover amounts (borrowing of which cardholders have not fully repaid) fell 17% from \$29B to \$24B
- The rollover ratio (the percentage of rollover amounts to the total amount of card receivables) declined 13% to 41%

# Today's Environment

## Positive Data Study – Hong Kong Monetary Authority and TransUnion

### Results (continued) – Aug. 2003 and Sept. 2005

- Individual unsecured credit (non credit cards) loans increased by 38% from \$29B to \$40B from December 2003 to December 2005
- Non-bank financial institutions that offer loans to consumers increased marketshare 5% to 30%
- Dramatic decline in bankruptcies

# Moving Forward

## Positive Data

- **Hong Kong is a positive example of TransUnion working with various government entities and financial institutions worldwide on regulatory/market issues regarding the importance of full-file reporting**
  - Latin America Study
  - Japan Study
- **Security and the Regulatory Environment**
  - **It is important for organizations like TransUnion, the CDIA and others to work with government entities to craft data security regulations that do not limit the free flow of credit information, which, in numerous studies, has shown to stagnate and impede economic growth.**