

LCQ20: Regulation of money lenders

Following is a question by the Hon Elizabeth Quat and a written reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (June 19):

Question:

The number of licensed money lenders (i.e. finance companies) in Hong Kong has increased substantially over the past decade from 760 in 2008 to 2 153 in 2018 (by about a twofold increase). Moreover, in recent years, quite a number of finance companies have launched massive advertising campaigns on television and the Internet and encouraged borrowing money. In this connection, will the Government inform this Council:

(1) whether it knows, (i) the respective total amounts of loans offered by licensed money lenders and by authorized institutions (including licensed banks) under the supervision of the Hong Kong Monetary Authority, (ii) the change in the ratio between these two amounts, as well as (iii) the number of people borrowing money from the former and the median age of such borrowers, in each of the past 10 years in Hong Kong;

(2) given that under the existing regulatory regime, the Licensing Court, the Police and the Money Lenders Unit respectively regulate money lenders according to the relevant provisions in the Money Lenders Ordinance (Cap. 163) (MLO), coupled with the facts that the number of licensed money lenders has increased substantially and cases of unscrupulous business practices of money lenders and financial intermediaries have occurred from time to time, whether the Government will examine (i) the establishment of an independent institution to regulate money lenders, and (ii) the introduction of legislative amendments to require that money lenders must, before approving a loan, conduct a test on the repayment ability of the loan applicant, so as to reduce the risk of over-borrowing by the borrower;

(3) given that the operation modes of the money lending business and the ecosystem of the industry have changed along with technological development, whether the Government will conduct a comprehensive review on the provisions of MLO to see if they can still suit present-day needs (e.g. whether the ceiling set on the annual interest rate on loans should be lowered); and

(4) in respect of finance companies' practices of launching massive advertising campaigns and encouraging borrowing money, whether the Government will take measures to prevent students and young people from being misled and corrupted by such messages, including (i) stepping up efforts in instilling correct money management and consumption attitudes in students and young people, (ii) imposing restrictions on the contents and airtime of finance companies' advertisements, and (iii) adding other appropriate warning messages in the advertisements concerned, apart from the existing warning message of "You have to repay your loans. Don't pay any intermediaries" required to be included in such advertisements?

Reply:

President,

In consultation with the relevant department and financial regulator, a consolidated reply to Dr Hon Elizabeth Quat's question is as follows:

(1) The Government does not maintain statistics of the annual total amount of loans issued by licensed money lenders, nor the total number and median age of the borrowers. The total amount of loans offered by authorized institutions (including licensed banks) under the supervision of the Hong Kong Monetary Authority in each of the past ten years is as follows:

As at end of	Total loans (HK\$bn)
December 2009	3,288
December 2010	4,228
December 2011	5,081
December 2012	5,567
December 2013	6,457
December 2014	7,276
December 2015	7,535
December 2016	8,023
December 2017	9,314
December 2018	9,723

(2) and (3) Licensed money lenders provide an alternative source of finance for individuals and enterprises with financial needs outside the banking system. Currently, the Licensing Court, the Police and the Money Lenders Unit (MLU) of the Companies Registry have respective roles to play under the regulatory regime for money lenders. The Licensing Court is responsible for the determination of applications for and granting of money lender licences as well as the imposition of licensing conditions. The Police is responsible for enforcing the Money Lenders Ordinance (MLO), including examination of applications for money lender licences and renewal of licences, and investigating complaints against money lenders. As for the MLU, it is responsible for processing applications for money lender licences, maintaining a register of money lenders for public inspection, as well as adopting risk-based supervisory measures to monitor licensed money lenders' compliance with the MLO and the conditions imposed by the Licensing Court when carrying on their money lending business. The MLU also conducts site inspections to ensure licensed money lenders have appropriate systems and measures in place for their business operations.

As for the annual interest rate, Section 24 of the MLO provides that if any person lends at an effective rate of interest exceeding 60 per cent per annum, he shall commit an offence punishable on conviction by a fine and/or imprisonment, and the relevant loan agreement shall also be unenforceable. Section 25 of the MLO also provides that where proceedings are taken in any

court by any person for the recovery of any money lent, or on application by a debtor, the court may, if satisfied that the loan transaction is extortionate, reopen the transaction and substitute just terms. A transaction where the effective rate of interest exceeds 48 per cent per annum is presumed prima facie to be extortionate.

The existing regime strikes an appropriate balance between combating the money lending activities of usury, and providing those in need a lawful channel to borrow money and suitable protection. We will continue to monitor the implementation of the relevant provisions in the MLO. The Companies Registry and the Police will also maintain close liaison and strengthen enforcement actions.

(4) To remind the public of the risk of over-borrowing, more stringent licensing conditions have been imposed on all money lenders since 2016. Licensed money lenders are required to include a warning statement in their advertisements, namely, "Warning: You have to repay your loans. Don't pay any intermediaries". The Government has also rolled out public education and publicity activities, including collaborations with the Investor and Financial Education Council and the Consumer Council to remind the public of issues requiring attention when borrowing and to promote the message of prudent borrowing. We will continue to monitor the latest development in the market, and to review and update our public education activities as appropriate.