

Part A – Deposit Protection Scheme

Q1. What is a deposit protection scheme?

A1. A deposit protection scheme protects depositors by paying compensation to them in the event of a bank failure. In Hong Kong, the DPS is established under the Deposit Protection Scheme Ordinance (DPS Ordinance). In case a member bank of DPS (a Scheme member) fails, the DPS will pay compensation up to a maximum of HK\$500,000 to each depositor of the failed Scheme member.

Q2. What is the objective of introducing the DPS in Hong Kong?

A2. The objective of introducing the DPS is to contribute to the stability of the banking system through the provision of protection to depositors.

Q3. Do other countries have schemes for protecting depositors similar to the DPS in Hong Kong?

Q3. Yes. Comparable schemes can be found in most developed countries like the US, the UK, Canada, Singapore and Japan.

Q4. When did the DPS in Hong Kong commence operation?

Q4. The DPS in Hong Kong commenced operation on 25 September 2006.

Q5. Who operates the DPS?

A5. The DPS is operated by the Hong Kong Deposit Protection Board. The Board is an independent statutory body established under the DPS Ordinance.

Q6. Do I need to pay for the protection under the DPS?

A6. No, you do not need to pay for the protection under the DPS. The DPS is funded by contributions paid by Scheme members to the Board.

Q7. Will banks pass on the cost of the DPS to depositors?

Q7. Whether banks pass on the cost of the DPS to depositors is a

commercial decision for them. However, intense competition in the banking sector should limit their ability to do so.

Q8. Do I need to apply for protection under the DPS?

A8. No. You do not need to make any application for protection under the DPS.

Q9. Can I choose not to be protected by the DPS?

A9. No. The DPS protects all eligible depositors in accordance with the DPS Ordinance.

Q10. Is the DPS subsidised by the Government? Does the Government provide any subsidy to the DPS?

A10. No. The DPS is funded by contributions paid by Scheme members.

Q11. What is the size of the DPS Fund? Is it sufficient for paying compensation to depositors when a bank failure occurs?

A11. The target size of the DPS Fund is 0.25% of the aggregate amount of protected deposits in the banking sector. The Board has secured a credit facility from the Exchange Fund for the purpose of paying compensation to depositors in the event of a bank failure. The size of the credit facility is sufficient to cope with the simultaneous failures of two medium-sized banks.

Q12. If the DPS Fund is exhausted due to a bank failure, will the DPS go bankrupt or be wound-up?

A12. No. The Board can require Scheme members to pay additional contributions to replenish the Fund.

Q13. How is the DPS Fund managed?

A13. The DPS Ordinance has set out clear guidance on how the DPS Fund should be managed. The Fund can only be invested in deposits with the Exchange Fund, Exchange Fund Bills, US Treasury Bills, and other investments approved by the Financial Secretary, and exchange rate and interest rate contracts for hedging purpose.

Q14. How frequent does the Board collect contributions from Scheme members?

A14. The Board collects contributions from Scheme members on an annual basis.

Q15. How does the Board determine the contributions payable by individual Scheme members?

A15. The contributions payable by individual Scheme members are determined by the amount of protected deposits held with the Scheme members and the supervisory ratings assigned to them by the HKMA.

Part B – Hong Kong Deposit Protection Board

Q16. Is the Board part of the Government? If not, why doesn't the Government operate the DPS directly?

A16. No. The Board is not part of the Government. It is an independent statutory body established under the DPS Ordinance. The DPS is funded by the banking industry. It is more appropriate for the DPS to be operated by a statutory body independent of the Government.

Q17. Does the Board regulate banks in Hong Kong? What are the functions of the Board?

A17. No. The Board does not regulate banks in Hong Kong. Its main responsibilities are to collect contributions from Scheme members, invest the funds collected from Scheme members, make compensation to depositors when a Scheme member fails and recover compensation paid to depositors from the liquidator of the failed Scheme member.

Q18. How many members does the Board have? Who are members of the Board?

A18. The Board has six to nine members. Please refer to the Composition of the Board for details. They come from different professions including accounting, banking, consumer protection, insolvency law, investment, information technology and public administration.

Q19. Who appoint members to the Board?

A19. Members of the Board are appointed by the Financial Secretary under the delegated authority of the Chief Executive.

Q20. Do members of the Board receive any remuneration?

A20. No.

Q21. Who is responsible for monitoring the operation of the Board? To which authority is the Board accountable?

A21. The Board is an independent statutory body established under the DPS Ordinance. It does not report to a particular Government Official. However, the Board is required under the DPS Ordinance to submit its budget to the Financial Secretary for approval every year. Its annual report and accounts must be audited and laid before the Legislative Council for public scrutiny.

Q22. How does the Board perform its functions? How many staff members does the Board have?

A22. The Board is required under the DPS Ordinance to perform functions through the Hong Kong Monetary Authority (HKMA), unless it is otherwise directed by the Financial Secretary. The Board has around 12 staff members. Most of them are HKMA staff seconded to assist the Board to perform its functions.

Q23. Is the Board part of the HKMA?

A23. No. The Board is an independent statutory body. Because the Board is required to perform functions through the HKMA, the HKMA can be regarded as an executive arm of the Board. The work of the HKMA in relation to the administration of the DPS is subject to the scrutiny of the Board.

Q24. How can the Board make compensation to depositors with such a small staff force?

A24. The Board has engaged a network of service providers, including accounting firms, an IT firm, a call centre operator and a security printing firm, to help the Board determine and make compensation to depositors when necessary.

Part C – Scheme members

Q25. Who are members of the DPS?

A25. Please refer to the Scheme Members List for details.

Q26. What institutions are covered by the DPS? How can I distinguish between members and non-members of the DPS?

A26. All licensed banks, unless exempted by the Board, are covered by the DPS. A Scheme member is required to display a DPS membership sign prominently at their branches. The sample DPS membership sign is shown below:



Q27. How do I know whether a bank is exempted by the Board?

A27. Only branches of overseas-incorporated banks, which are covered by a deposit protection scheme with comparable level and scope of protection, are eligible for exemption. An exempted bank must inform their depositors that they are not covered by the DPS in Hong Kong. They are also required to provide their depositors with information about the protection available under the relevant overseas deposit protection scheme.

Q28. Which banks are exempted by the Board?

A28. Please refer to the Scheme Members List for details.

Q29. When and how will I be notified if my bank is exempted by the Board?

A29. You will be notified in writing by your bank as soon as practicable after your bank is exempted.

Q30. Are restricted licence banks and deposit-taking companies covered by the DPS?

A30. No. Only licensed banks are covered by the DPS.

Q31. Why doesn't the DPS cover restricted licence banks and deposit-taking companies?

A31. To be effective, the DPS should be able to cover a large majority of depositors. As the percentage of depositors at restricted licence banks and deposit-taking companies with a deposit balance of less than HK\$500,000 (i.e. the DPS protection limit) is relatively low, the extension of DPS coverage to them may not add much to the general banking stability.

Q32. Are other financial institutions such as securities companies and insurance companies covered by the DPS?

A32. No. Only licensed banks are covered by the DPS.

Part D – Level of protection

Q33. What is the level of protection available under the DPS?

A33. The maximum level of protection of the DPS is HK\$500,000 per depositor per bank.

Q34. Why is the protection limit set at HK\$500,000? Is the protection limit too low?

A34. In light of the results of the review of the DPS completed by the Board in 2008, the protection limit was set at HK\$500,000 per depositor per bank after extensive public consultation. With a protection limit of HK\$500,000 per depositor, the DPS in Hong Kong is expected to be able to provide full protection to about 90% of depositors. This is in line with international standards.

Q35. If a bank fails, what would happen to that part of my deposit in excess of HK\$500,000? Will I be compensated in any way for the excess portion?

A35. The depositor is entitled to make a claim for the remaining balance of his deposit in the liquidation of the failed Scheme member.

Q36. If I have more than one deposit account in the bank, am I entitled to compensation up to a maximum of HK\$500,000 for each of my deposit account?

A36. No. Each depositor is entitled to compensation up to a maximum of HK\$500,000 regardless of the number of deposit accounts he or she is holding in one bank.

Q37. Will I have more protection if I divide my deposit and maintain it with different banks?

A37. Yes. You will have more protection under the DPS. But you will need to consider the inconvenience and the costs involved.

Q38. If I have a personal account and a limited company account, will both accounts be protected up to a maximum of HK\$500,000?

A38. Yes. Each separate legal entity will be protected up to a maximum of HK\$500,000.

Part E – Depositors protected

Q39. Are companies protected by the DPS?

A39. Yes. Both personal and corporate depositors are protected by the DPS.

Q40. If I have a deposit over HK\$500,000, am I protected by the DPS?

A40. Yes. You are protected by the DPS, but you will only be compensated only up to a maximum of HK\$500,000.

Q41. If I have a joint account with my spouse, are both of us protected?

A41. Holders of a joint account are normally deemed to have an equal share in the deposit. Each of them is entitled to compensation up to a maximum of HK\$500,000.

Q42. Are deposits held by a sole proprietorship protected by the DPS?

A42. Deposits held by a sole proprietorship are protected by the DPS. Since a sole proprietorship and the sole proprietor are regarded as a

single person under law, the sole proprietorship and the sole proprietor together are entitled to compensation up to a maximum of HK\$500,000.

Q43. Are deposits held by a partnership protected by the DPS?

A43. Deposits held by a partnership are protected by the DPS. The partnership will be regarded as a person separate from its partners and is entitled to compensation up to a maximum of HK\$500,000 on its own.

Q44. Are deposits held by an association, society, club, or other unincorporated entities protected by the DPS?

A44. Each separate legal entity will be protected up to a maximum of HK\$500,000.

Q45. Are deposits held in a trust account or a client account protected by the DPS?

A45. Deposits held in trust and client accounts are protected by the DPS. The DPS Ordinance has laid down clear rules on how such deposits are protected.

Q46. Who are excluded from the protection of the DPS?

A46. According to the DPS Ordinance, several types of persons (the excluded persons) are not protected by the DPS:

- a related company of the Scheme member
- a multilateral development bank as defined in paragraph 1 of the Third Schedule to the Banking Ordinance (Cap. 155)
- an authorized institution, i.e. licensed banks, restricted licence banks and deposit-taking companies
- a foreign bank which is not an authorized institution in Hong Kong
- the senior management, controllers and directors of the Scheme member and its related companies.

Part F – Financial products protected by the DPS

Q47. What financial products are protected by the DPS?

A47. Only deposits held in Scheme members are protected by the DPS. Other financial products such as bonds, stocks, warrants, mutual funds, unit trusts and insurance policies are not protected by the DPS.

Q48. What deposits are protected by the DPS?

A48. The DPS protects Hong Kong dollar, Renminbi and other foreign currency deposits. Secured deposits are also protected. However, certain deposits such as time deposits with a maturity longer than 5 years, structured deposits, bearer instruments and offshore deposits are not protected by the DPS.

Q49. Is it possible that the protection status of similar products offered by different banks can be different?

A49. It is possible because the products offered by different banks may have different terms and conditions, and hence their protection status may be different. However, banks are required to disclose whether your deposits are protected or not. In case of doubt, you can consult your bank for more information.

Q50. Is it possible that a financial product which is not called or described as a deposit is protected by the DPS?

A50. It is not common but possible. A financial product which is not called or described as a deposit may fall within the definition of 'deposit' under the Banking Ordinance, and hence is protected by the DPS. Please consult your bank whether a financial product offered by it is protected by the DPS.

Q51. Does the DPS protect deposits which were placed with a Scheme member before the DPS commences operation?

A51. Yes. Whether a deposit is made before or after the DPS commences operation is not relevant to the Board's determination of a depositor's entitlement to compensation.

Q52. Does the DPS protect the valuables kept in my safe deposit box opened with a Scheme member?

A52. No. They are not protected by the DPS.

Q53. Which types of deposits are not protected by the DPS?

A53. The following types of deposits are not protected by the DPS:

- structured deposits
- bearer instruments
- term deposits with a maturity exceeding 5 years
- deposits the repayment of which are secured on the assets of the Scheme member
- off-shore deposits
- deposits held for the account of the Exchange Fund
- deposits held by an excluded person

Q54. What is a secured deposit? Is it protected?

A54. A secured deposit means a deposit pledged to a bank, normally for the purpose of obtaining a credit facility from the bank. Yes, it is protected by the DPS from 2011.

Q55. What is a structured deposit?

A55. Structured deposits can take many different forms. Typical examples of structured deposits are foreign currency linked deposits and equity linked deposits. The amounts of principal and/or interest to be repaid for such deposits are linked to the performance of the underlying financial assets.

Q56. Why are structured deposits excluded from the protection of the DPS?

A56. Because of the complex features of structured products, it is often difficult to determine whether or not they fall within the definition of “deposit” under the Banking Ordinance, and therefore whether or not they are protected. It would be better to provide absolute clarity to consumers so that they can make their own decisions. Therefore, all structured deposits are excluded from protection.

Q57. What is a bearer instrument?

A57. A bearer instrument, in simple terms, is a financial instrument

where the holder of the instrument is entitled to the repayment of the money underlying the instrument. A typical example of a bearer instrument is a bearer certificate of deposit, where the holder of the certificate evidencing the deposit is entitled to the repayment of the principal from the issuing bank, whether or not he or she is the person who made the deposit at the beginning.

Q58. Why are bearer instruments excluded from the protection of the DPS?

A58. This is a common international practice. The purpose is to avoid abuse of the protection limit (e.g. a holder of a bearer instrument may, after a bank failure, transfer the instrument to another person to increase their aggregate entitlement to compensation).

Q59. A term deposit with a maturity exceeding 5 years is not protected, how is the term to maturity determined?

A59. The DPS does not protect time deposits with a maturity exceeding 5 years. The term to maturity of a deposit refers to the current term agreed to by the depositor at the most recent time the deposit was negotiated. It does not refer to the remaining maturity of a deposit. For example, a 6-year term deposit placed with a Scheme member will not be protected by the DPS although the deposit will mature in 3 years.

Q60. What is an off-shore deposit?

A60. Off-shore deposits refer to deposits placed with overseas branches of Scheme members.

Q61. Why doesn't the DPS protect off-shore deposits?

A61. Overseas funds have little impact on the stability of the domestic financial system. It is therefore a common international practice not to protect off-shore deposits.

Q62. What should I do if my bank tells me that a deposit product offered by it is not protected by the DPS?

A62. You have a choice not to proceed with the transaction.

Q63. What should I do if I want to proceed with the transaction?

A63. Your bank will give you a notice that the deposit product is not protected by the DPS and require you to acknowledge that you have received and understand the notice.

Q64. Can I refuse to give an acknowledgement to the bank?

A64. If you fail to give the acknowledgement, your bank will refuse to complete the transaction with you.

Q65. How can I know whether a financial product is protected by the DPS?

A65. You can ask the Scheme member offering the financial product to you whether it is protected by the DPS.

Part G – Disclosure and Representations

Q66 Will I be notified if my deposit is not protected by the DPS?

A66. Your bank will notify you and obtain your acknowledgement before each transaction of a non-protected financial product that has been described as a deposit but is not protected by the DPS. Nevertheless, if the transaction is made by an institutional customer or is related to money placed into accounts for payment purposes, the bank can instead notify the relevant customer when the account is opened and at least once a year afterwards.

Q67. Will I be notified if my deposit is qualified for protection under the DPS?

A67. In general, if you already maintained a deposit that is protected by the DPS immediately before 1 January 2011, your bank will notify you that the deposit is protected within a period of 90 days from 1 January 2011 through deposit or account statement. If you maintain a protected deposit on or after 1 January 2011, your bank will notify you that the deposit is protected before the account is opened or a deposit is made, or within a period of 30 days from the date on which the account is opened or the deposit is placed.

Q68. I receive a notification from my bank that my deposit is not protected. What can I do?

A68. You may seek assistance from your bank and you may decide not

to renew the product when it matures.

Part H – Compensation

Q69. How will the compensation amount be calculated?

A69. A depositor's entitlement to compensation will be calculated on a net basis, i.e. the liability of the depositor will be deducted from the amount of his protected deposits in determining compensation. For example, if you have \$500,000 in your savings account but you have a personal loan of \$20,000 from the bank, you will be entitled to a compensation of \$480,000 (\$500,000 - \$20,000).

Q70. Does the DPS protect interest on deposits?

A70. Yes, interest accrued on a protected deposit is covered by the DPS.

Q71. Will I receive compensation in foreign currencies in respect of my foreign currency deposits?

A71. All compensation under the DPS will be paid in Hong Kong dollars. The Board will convert foreign currency deposits into Hong Kong dollars in determining the entitlement to compensation of depositors.

Q72. Will the Board deduct the full amount of my liability to a Scheme member or just the amount that is currently due in determining my compensation?

A72. The Board will deduct the full amount of your liability to the Scheme member from your protected deposits in determining your entitlement to compensation. For example, the Board will deduct the whole amount of your mortgage loan with a Scheme member instead of just those instalments that are due for payment.

Q73. Under what circumstances will compensation be paid by the DPS?

A73. Compensation will be paid when (i) the Court issues a winding-up order to a Scheme member; or (ii) the Monetary Authority, after consultation with the Financial Secretary, instructs the Board to pay compensation.

Q74. Will I be notified if compensation under the DPS has become payable?

A74. When compensation under the DPS is triggered in respect of a Scheme member, the Board will inform the depositors of the Scheme member by notice published in major newspapers or by a means which the Board considers appropriate in the circumstances.

Q75. How long does it take for the Board to pay compensation to depositors?

A75. The Board will pay compensation to depositors as soon as practicable in the event of a bank failure. The exact timing will however vary from case to case. Where appropriate, the Board may make interim payments to depositors.

Q76. What should I do if my bank failed?

A76. Depositors do not need to file claim with the Board. The Board will examine the records of the Scheme member to identify eligible depositors and calculate the compensation amounts.

Q77. Can I appeal if I am not happy with the compensation amount?

A77. You should first contact the Board and ask for an explanation. However, if a depositor is still not satisfied with the compensation amount, he or she may appeal to the Deposit Protection Appeals Tribunal. The contact details of the Tribunal are as follows:-

Address : Room 702, Tower Two, Lippo Centre,
89 Queensway, Hong Kong

Telephone : 2912 8553

Fax : 2524 7097