

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



Ms DATWANI Meena
Chief Executive Officer

The year 2010-2011 was a particularly challenging and busy one in the Hong Kong Deposit Protection Board's brief 5-year history as the Board moved forward to a new regime of enhanced deposit protection for bank depositors. Despite an extremely tight schedule, the DPS enhancements which gave depositors a higher protection limit and extended the scope of the DPS to include secured deposits – were brought in place at the start of the year 2011 on 1 January.

Massive preparatory work was undertaken to ensure the transition would be smooth and on schedule, upon the expiry of the Government's full deposit guarantee introduced in the aftermath of the global financial crisis in 2008. More importantly, the Board needed to ensure that the new scheme would have the broad support and confidence of the public, the banking industry and other stakeholders. Towards these objectives, the Board directed its efforts in a number of key operational areas in the year under review.

THE LEGISLATIVE PROCESS TO AMEND THE ORDINANCE

Considerable effort was put into the preparation of the Bill to amend the Deposit Protection Scheme Ordinance. In April 2010, the Board, in collaboration with the Financial Services and the Treasury Bureau and the Department of Justice, introduced to the Legislative Council the Bill embodying the required legislative amendments for implementing the DPS enhancements. The Bill was passed in June; and in October, the Board completed and tabled the enhancements to the representation requirements governing disclosure and increasing transparency of the new DPS to the public. The entire legislative process was finalized in time to usher in the transition on 1 January 2011.

The enhanced DPS raised the compensation limit from HK\$100,000 to HK\$500,000 per depositor per Scheme member, including deposits in currencies other than Hong Kong dollars, thus effectively covering 90% of the depositors in Hong Kong who now can enjoy full DPS protection since January 2011. Under the new scheme, secured deposits are protected but structured deposits will remain outside the protection net. The next survey to assess the implications of the popularity of structured deposits will take place next year. The issue of ensuring adequacy of coverage of the DPS is a subject of regular reviews by the Board, in line with global developments and international best practice.



NEW POWERS TO ENHANCE DPS PAYOUT EFFICIENCY

The Board is fully conscious of the importance and need to ensure the readiness of the DPS to payout in the event of a sudden bank failure. In the exercise of its new powers under the enhanced DPS, the Board has undertaken a number of initiatives to adjust its payout operations including its payout policies, procedures and processes accordingly. The Board spared no efforts to vigorously ensure payout readiness by testing data integrity of Scheme members in compliance reviews, and monitoring proper functioning of the payout system and procedures through simulation tests, payout walkthrough and rehearsal activities to verify and ensure they have the capability to support a payout under the enhanced DPS.

During the year, no fewer than six simulation tests and two walkthroughs were conducted much to the satisfaction of the Board. There is, however, no room for complacency. The Board will continue to undertake initiatives as warranted with its enhanced powers to ensure the Board's payout readiness.

SECURING SUFFICIENT FUNDING TO PAYOUT

To meet the increased liquidity needs of the enhanced DPS, the Board was able to secure from the Hong Kong Monetary Authority (HKMA) an increase in the size of the standby credit facility from HK\$40 billion to HK\$120 billion effective January 2011. Such substantial backup from the Exchange Fund of HKMA is necessary and essential in providing the Board with the financial ability to meet the demands for compensation from affected depositors when there is a bank failure.

During the year, the Board collected a total of HK\$328 million in contributions from Scheme members, representing a 13% decrease over the previous year and this brought the total assets of the DPS Fund to HK\$1,548 million by the end of March 2011. The decrease was due mainly to reduced contribution levy across the board for all Scheme members and the new basis for reporting the amount of relevant deposits for contribution assessment. The Board monitored the accuracy of Scheme members' audited returns for contribution assessment; no material error which would impact on the total contributions was noted. Amidst the continuing low interest environment, the DPS Fund achieved an investment return of 0.7% recording a slight increase than a year ago.

EXTENSIVE PUBLICITY CAMPAIGNS TO BUILD AWARENESS AND CONFIDENCE

It is crucial that the public is well informed of the level and scope of the deposit protection arrangement to ensure effective functioning of a deposit insurance system and banking stability. Our publicity strategy comprised a multi-media, two-phase programme to drive home the DPS messages spanning the entire period from mid-2010 as the legislative process commenced, reminding the public of the imminent migration from the Government's full guarantee to the enhanced DPS, to beginning of 2011 when the new protection limit and other features under the enhanced DPS came into force. In addition, outreach activities for the public were organized through roving exhibitions across the territory, and in collaboration with Scheme members, information leaflets were distributed at most of their branches and as inserts in their monthly statements to customers.



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These massive publicity and educational campaigns have resulted, as indicated in an independent survey, in positive widespread public awareness of the key features of the transition in deposit protection – for instance, some 80% of respondents with prior knowledge of the FDG, were aware of the expiry date of the full guarantee; while some 70% of all respondents were informed of the new protection limit of up to HK\$500,000.

Further, public awareness and understanding was helped by better representation and disclosure of the protection status of financial products on the part of banks in compliance with the enhanced Representation Rules. To assess the extent of compliance, all Scheme members have been required to conduct a self-assessment review at this point in time. On-site compliance checks will also be carried out with the assistance of the HKMA to investigate any potential non-compliance cases.

A SMOOTH TRANSITION AND PLANS FOR 2011-2012

Overall, under the guidance of the Board, our efforts in these key operational areas have achieved the goal with a good measure of success as amply evidenced by the smooth transition. Our mission in protecting depositors and helping to maintain the stability of the Hong Kong's banking system was well and truly accomplished during a challenging year. With the commencement of the new DPS, we will turn our attention to other areas of priority.

In the coming year, we will focus on streamlining the payout mechanisms and procedures in our constant endeavour to maintain an efficient and effective deposit protection scheme. We will conduct more targeted publicity activities to deepen depositors' understanding of the key features of DPS protection. We must keep abreast of developments in the financial markets around the world and the latest recommended best practice consistent with the internationally recognized Core Principles for Effective Deposit Insurance Systems to ensure the long term effectiveness of our deposit protection arrangements.

A VOTE OF THANKS

Taking this opportunity, I would like to express my gratitude to members of the Board for their staunch support and valuable advice in the past year and, in particular, to the former Chairman, Professor Andrew Chan, whose exceptional leadership has made such a lasting contribution in shaping Hong Kong's deposit protection and the growth of the Board from its embryonic days, and the incoming Chairperson, Mrs Pamela Chan, for her vision in steering the Board to new horizons. I must thank also my colleagues for their dedicated services in assisting the Board in discharging its duties in a year of formidable challenge and which enabled a smooth transition to a new enhanced DPS regime.



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