

## PLANS FOR 2011–2012

### THE OUTLOOK

The economic prospect for the coming year is still full of risks and challenges, stemming mainly from the concern over whether the advanced economies can emerge out of the shadow cast by the global financial crisis and the uncertainties regarding the timing and the pace of unwinding the extraordinary monetary and fiscal stimulus measures and their potential impact on the global and local financial markets. European sovereign debt problems appear likely to continue, posing risks to the system until there is a more comprehensive solution to the fiscal imbalances of the highly indebted economies in the euro zone. As the Asian markets are likely to continue to outpace the advanced economies, due to the unprecedented economic expansion, the general economic outlook of Hong Kong remains positive. However, the banking industry should remain vigilant of possible global financial market adjustments and increasing risk of inflation and asset market bubble.

After the commencement of the enhanced DPS in 2011, the top priority of the Board in the coming year is to concentrate on consolidating the existing system for operating the enhanced Scheme and streamlining the newly established mechanisms to ensure an efficient and effective payout in the event of a bank failure. Promoting public awareness on the protection of the DPS and deepening depositors' understanding of the key features will be another focus of the Board in the year ahead.

### BUSINESS PLAN WITH KEY INITIATIVES

#### Ensuring adequacy of coverage of the DPS

With the increase in the protection limit of the DPS to HK\$500,000 at the beginning of 2011, 90% of the depositors in Hong Kong have become fully protected by the DPS. While it is not expected that the percentage of depositors fully covered will have any noticeable change in the near future, the Board will continue to closely monitor the adequacy of the DPS coverage by analysing statistics collected from regular simulation tests with Scheme members and keeping a close watch on relevant market developments.

While secured deposits became protected by the DPS with effective from 2011, structured deposits remain outside the protection net. The regular survey established to monitor the implication of the popularity of structured deposits will continue and the next survey will take place in 2012.

Since many countries in other parts of the world are still reviewing the actual experience from operating their deposit insurance system during the financial crisis and undergoing reforms to further strengthen their deposit insurance arrangements, the Board will also keep abreast of these international developments and draw relevant lessons to make the necessary changes to the DPS in Hong Kong in order to render it more effective in contributing to banking stability. In particular, the Board, in collaboration with the HKMA, will participate in a thematic peer review of deposit insurance systems conducted by the Financial Stability Board. It is envisaged that the core features of the DPS will be assessed with reference to the Core Principles for Effective Deposit Insurance System issued by the Basel Committee on Banking Supervision and the IADI. This exercise can help the Board benchmark its operation against international best practices and further excel where appropriate.



## **Ensuring high public awareness and understanding of DPS**

The Board attaches much importance to the coverage and effectiveness of the publicity activities that it launches. After the expiry of the FDG and the implementation of the enhanced DPS, the Board will continue to focus on promoting public awareness and understanding of the new protection limit and other key protection features in order to maintain the public confidence and the effectiveness of the DPS in contributing to the financial stability in Hong Kong. Massive publicity campaigns, mainly through innovative and educational TV, radio and print advertisements, will be carried out to disseminate the DPS messages widely to general depositors in the territory. In addition, the Board will broaden the spectrum of audience by conducting outreach activities at the community level to enable more direct and interactive contacts with the public and developing customised public education programmes for specific groups.

To facilitate the Board's monitoring of compliance by Scheme members with the requirements of the enhanced Representation for Rules, all Scheme members will complete conducting self-assessment review by the end of September 2011 assessing their compliance with the Rules. With the assistance of the HKMA, the Board will also conduct on-site compliance checks to support the self-assessment exercise and investigate any potential non-compliance cases identified in the self-assessment review.

## **Ensuring efficient and effective administration of the DPS**

The Board will continue to assess and collect contributions from Scheme members for 2012 under the well-established mechanism, with reference to the returns of relevant deposits submitted by Scheme members and their supervisory ratings provided by the HKMA. As a result of the change in the deposit profile of the Scheme members under the new protection limit and the basis for reporting the amount of relevant deposits, the Board will re-examine the policy on review of returns of relevant deposits and update it where appropriate, to ensure that it continues to serve as an appropriate basis for commissioning audit reviews to verify the correctness of the compilation of the returns.

## **Ensuring the readiness of payout systems and processes are ready**

Looking ahead, the Board will continue to develop processes, procedures and systems to implement the Board's enhanced powers alongside with the amended features of the DPS. The Board will consult the industry on the guidance notes regarding how the Board will exercise its powers to make reasonable estimate of values relevant for compensation determination. Taking into account the comments from the industry, the related principles, approaches and the defined processes will be incorporated into the Board's policies and procedure manual for guiding the Board's payout operation in a transparent and accountable manner.

The Board will also continue to conduct simulation tests concurrently with compliance reviews of Scheme members to ensure readiness of Scheme members' systems and the Board's payout system. Two subject-specific rehearsals are planned for 2012 which will drill on specified payout scenarios to promote coordination effectiveness of payout agents and to address special issues on compensation determination. These targeted rehearsals will give the Board an opportunity to assess the extent of work that will be required during a payout when dealing with complex issues. All these activities are essential measures for the Board to ensure its payout readiness.



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### **Maintaining the transparency and credibility of the Board**

In 2011, the Financial Stability Board (FSB), an international financial standards setting and advising body established to promote effective regulatory and supervisory policies, will conduct a thematic review to assess the latest position of FSB member jurisdictions in reforming their deposit insurance schemes in line with the practices recommended in the Core Principles for Effective Deposit Insurance Systems. The Board will take this opportunity to further review the design of the DPS and evaluate whether any international reform experiences in the aftermath of the financial crisis may be useful for improving the effectiveness of the DPS in future.

The perception of the public and other stakeholders about the integrity and credibility of the Board is also crucial to the confidence of the public in the DPS. In 2008, the Board conducted the first review of its corporate governance structure against the best practices applicable in Hong Kong and other relevant international standards. The Board has committed to perform regular reviews once every three years to ensure the maintenance of a strong governance structure. In accordance with the schedule, the Board is currently conducting another corporate governance review which will be completed in the latter part of 2011 to keep track of the latest best practices adopted by deposit insurers around the world.

