

The outlook

Heightened uncertainties and downside risks will continue to beset the global economy and its outlook for 2012. The growth prospects in many advanced economies will in all probability remain dim, as the sovereign debt crisis in the Eurozone remains unresolved. There are also worrying signs that funding difficulties faced by some European governments are spreading to the banking sector and the wider economy. Should that unfortunately be the case, it could lead to potentially damaging repercussions to the global financial markets. As an international financial centre, Hong Kong can hardly stay unscathed and will inevitably be affected by the ensuing market fluctuations.

Despite the volatile external environment, the medium-term prospect of Hong Kong remains generally optimistic. The Hong Kong economy is expected to continue to benefit from the, albeit moderate, economic growth in Mainland China. But any hopes for strong and lasting growth will in all likelihood be dashed by the anaemic economic performance in the developed countries and the new jolts emerged from the Eurozone. While the local banking sector does not have any significant exposures to the European countries experiencing with sovereign debt problems, the risk of spill over cannot be underestimated if the fiscal woes of certain European countries implode in a renewed turmoil. Hong Kong must stay vigilant and be prepared for any eventualities that might arise in a turbulent global economic and financial environment. The DPS has therefore the important mission to protect depositors and help maintain the stability of Hong Kong's banking system.

Business plan with key initiatives

Core Principles review to ensure effective coverage of the DPS

Taking into account the results of the FSB Peer Review on Deposit Insurance Systems, the Board will undertake a thorough assessment of the various design aspects of the DPS in Hong Kong in accordance with the guidance specified in the Core Principles. The Board's assessment will also make reference to the latest developments and reforms in other major overseas deposit insurance systems to evaluate whether there is any room for strengthening the effectiveness of Hong Kong's DPS or enhancing compliance with the Core Principles.

Survey on popularity of structured deposits to ensure adequate coverage of the DPS

To study whether it is necessary to bring structured deposits (which remain outside the protection net at the moment) under the ambit of the DPS, the regular survey established to monitor the implications of the popularity of structured deposits will be conducted in the second half of 2012.

Business plan with key initiatives

Ensuring high public awareness and understanding of DPS

The Board will continue to attach high importance to the coverage and effectiveness of its publicity and public education activities. In order to enhance public awareness of various protection features, in particular some new or less publicised features, more focused publicity efforts targeted at specific groups less knowledgeable about the DPS will be explored and to be carried out in coming year. This can enable the Board to establish and maintain a more direct and sustained connection with the relevant community associations, allowing the DPS to take root at the district level.

The Board will continue to broaden the awareness of the DPS among the general public. In the pipeline for development is a new creative concept that can be used in multi-advertising channels to give the DPS a fresh image and, at the same time, to focus public attention on important but less known features of the Scheme. The new campaign will not only reinforce public awareness of the key features of the DPS, but also penetrate further into different groups within the community. The overall awareness of the DPS and the effectiveness of different communication channels with the community will continue to be evaluated. A new team will be established to spearhead the efforts to promote the understanding of the DPS at the community level and in developing public education initiatives.

To facilitate the Board's monitoring of compliance by Scheme members with the requirements of the Representation Rules, all Scheme members will have to complete the second self-assessment review assessing their compliance with the enhanced representation requirements by the end of September 2012. With the assistance of the HKMA, the Board will continue to conduct on-site compliance checks to supplement 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 2013 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. The accuracy of the returns of relevant deposits compiled by Scheme members will continue to be monitored by the Board through reviewing audit reports submitted by the members.

Ensuring full readiness of payout systems and processes

The Board remains vigilant in maintaining its readiness to payout and seeking opportunities to improve payout efficiency. Rehearsals, payout walkthroughs and simulation tests will continue to be held regularly to uphold the readiness of payout agents and infrastructure to support a prompt payout.

Taking into account experience accumulated in reviewing compliance of Scheme members with information system requirements, an assessment of the effectiveness of the current review programme will be conducted and, where necessary, adjustments will be made to promote the quality and timeliness of data records to be provided by Scheme members for determining compensation. To monitor the general compliance level of Scheme members, an IT survey will be conducted to collect system statistics and technical system documents from Scheme members to allow the Board to embark on a desktop assessment. Based on findings identified, Scheme members will be notified of any observed gaps for improvements in their technical implementation, and to increase their general awareness of the importance of making accurate information available in a timely manner.

New international standards for effective payouts have been established since the recent global financial crisis. The Board will make reference to these standards and reform actions being undertaken by overseas deposit insurers, and seek changes beyond incremental procedural improvement necessary to expedite paying depositors following a bank failure. Areas of focus will include obtaining adequate advance notice for pre-payout preparation and building a better framework of co-ordination with other financial system safety net participants. At the same time, a thorough review of the payout capacity and contingency planning will be commenced to develop the Board's capability to fulfil its mandate when there is more than one bank failure in a major financial crisis.