

## MESSAGE FROM THE CHAIRPERSON



Mrs CHAN WONG Shui, Pamela, BBS, JP  
Chairperson

The evolution of deposit insurance has entered a new paradigm to become an indispensable cornerstone of the global financial stability framework. The financial crisis has reinforced the function of deposit insurance schemes (DIS), propelling them towards, not just as a means of protecting interests of depositors, but also becoming integral component of the financial safety net.

Deposit insurance is certainly not a new product instituted in response to the recent financial crises. The oldest operating DIS can be traced back to 1930s. And since the early 1990s the world has seen a proliferation of the schemes. According to international statistics, the number of countries providing such schemes grew more than sixfold, from 12 to 88, between 1974 and 2003.

Today, deposit insurance is a norm rather than an exception, with more than 110 schemes operating around the globe. Hong Kong, albeit a relatively new member, is fortunate to have established a DIS which helped us sail through the recent global financial crisis.

While the global economy is still struggling to navigate its way out of the tumultuous events unfolded during the crisis, deposit insurers around the world find themselves at the watershed moment in the evolution of deposit insurance, researching and implementing positive changes.

First, valuable lessons have been learned by the regulators, deposit insurers and other safety-net players. There is now more in-depth understanding of the implications of the interconnectedness of the global financial markets, the contagion effect of systemic crisis and the gaps that existed between the financial safety nets and deposit insurance schemes. These have led to important multi-channel reforms in the regulatory, deposit insurance and resolution frameworks — all contribute to strengthen the crisis management and foundation of the financial system.

Second, Core Principles on Effective Deposit Insurance Systems (Core Principles) have been developed and are now part of the core safety net features of both the Group of Twenty Finance Ministers and Central Bank Governors and other economies. The Core Principles were incorporated by the Financial Stability Board into its Compendium of Twelve Key Standards for Sound Financial Systems officially recognised by the International Monetary Fund and the World Bank for use in Financial Sector Assessment Program. This development is instrumental to building stronger and more effective deposit insurance.

Third, increasingly, the main focus has been expanded across a vast spectrum of areas, from better coverage to faster payout, from removing co-insurance to greater adoption of gross payout

(as compared with deducting liabilities when determining compensation payment), which are crucial to deposit insurance effectiveness enhancement. Closer cross-border coordination and cooperation is also being established in respect of clearly defining and sharing responsibilities for compensation payment to depositors.

As the international trend is moving towards greater efficiency and faster payout so has it become the top priority in our own DIS in Hong Kong. The Board has conducted an extensive self-assessment against the Core Principles to ensure our DIS is closely in adherence of the international guidelines and best practices. To this end, we have developed a plan to improve payout efficiency and readiness in dealing with different payout scenarios — a small step forward but no less an important milestone towards a more effective deposit protection regime in Hong Kong.

We are also implementing, by phases, the different reforms identified from the regular drills and exercises conducted in the year under review. Already we have moved forward to upgrade our existing payout mechanism — through streamlining the payout processes and procedures, the availability of information to determine compensation. We have also on the agenda to explore diversified payment methods, strengthen communication framework, and enhance cooperation among safety-net players.

It has been said that the best way to prevent a crisis is to be prepared for it. That brings home the importance of fostering and maintaining depositors' confidence at normal times. The Board

is resolutely committed to enhancing public awareness and understanding of the protection afforded depositors under the DIS. Our efforts have been well rewarded, according to the latest independent survey, with a record high (78%) positive public response on the salient features of the DIS protection. No doubt we will continue to create and roll out more public education and publicity campaigns to keep up this momentum of public recognition and support in the year ahead. Our goal is for the DIS to ultimately take root at the community level across the territory of Hong Kong.

In closing, I would like to express my deep appreciation to all the major stakeholders, the government and the HKMA whose unwavering support and generous contribution is pivotal to our efforts in operating an effective deposit protection scheme and maintaining Hong Kong's banking stability, and to the depositor public for their confidence they have on DIS. To all the Members of the Board, Committees and Advisory Panel for their tireless guidance and devotion, and in particular a special tribute to outgoing Member Professor Yeung Yuet-bor for his invaluable support over the past 6 years, and a warm welcome to incoming Member Professor Wong Chak-kei, I owe them my gratitude. Last but not least, to the Chief Executive Officer and her brilliant management team for the ingenuity and competence they demonstrated consistently in achieving every single task with diligence and excellence.



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Chairperson