

## MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



Ms DATWANI Meena, JP  
Chief Executive Officer

It was another year of intense activities for the Deposit Protection Board that involved a detailed self-assessment, payout review and a full-scope rehearsal, in our constant endeavours to ensure Hong Kong's DPS is at the forefront of international best practice. All of these activities involved extensive planning, execution and coordination (including with our network of service providers from various professions and businesses). The outcome of these various exercises, I am pleased to report, has led to a reform plan, which will result in an upgraded and improved DPS.

The global economic and financial environment remains volatile and uncertain, therefore, we have to be ever vigilant and prepared to discharge our statutory functions — to payout compensation to depositors affected in a bank failure at short notice. We are confident that the DPS, as part of a robust financial safety net, has the confidence and support of the depositor public, and will help maintain the stability of Hong Kong's banking system in a financial crisis. We are nevertheless conscious that we cannot be complacent and need to review and introduce necessary enhancements to the DPS to meet new challenges from market developments.

I would like to take this opportunity to highlight some of the major work we have undertaken, with a good measure of success, over the past 12 months and some of the initiatives we will be taking in 2013–2014.

### Self-Assessment Affirms DPS in line with International Standards

First and foremost, the Board conducted its first-ever overall self-assessment of Hong Kong's DPS in benchmark against the Core Principles on Effective Deposit Insurance Systems (Core Principles) jointly developed by the Basel Committee on Bank Supervision and the International Association of Deposit Insurance. The Core Principles set out the international standards and practices for enhancing the effectiveness of deposit insurance systems. The Core Principles incorporate valuable lessons gained from the recent financial crisis including practices adopted by major economies.

The assessment affirmed that Hong Kong's DPS is closely in line with the practices enshrined in the Core Principles; more importantly, the exercise enabled us to identify areas for enhancing payout efficiency. Having regard to the Core Principles, the Board has formulated a work plan to study in detail various options for enhancement as well as the costs and benefits of such options. With experience since 2006 and the new insight gained from the self-assessment, the Board is well positioned to play an active role in contributing to the upcoming International Monetary Fund — World Bank Financial Sector Assessment Program (FSAP) in its assessment of the financial safety net and crisis management arrangements of the financial sector in Hong Kong.

## Review Concludes DPS on Target with Payout Timeframe

Secondly, the Board undertook a comprehensive review of our existing payout framework against international practice and reform experience of overseas countries. Payout readiness is one area requiring constant vigilance as the external environment is still volatile and vulnerable. The review, to our satisfaction, concluded that we are well placed to meet our payout timeframe. This is consistent with the results of our previous reviews which demonstrated that our infrastructure and contingency plan are adequate to support payout of banks of various sizes.

Notwithstanding this, the Board is committed to ensuring greater efficiency through faster payouts. On the basis of the review findings, we have formulated a reform plan outlining the road map for achieving the objective of a shorter payout period. In addition, we have stepped up our investment in technology and other infrastructure to upgrade our payout system to cope with a banking crisis. The imperative for speed in payout compels us to ensure that every single facet of our payout system is in tip-top condition.

## Full Rehearsal Validates DPS Capacity under Stress Test

Thirdly, a full scope rehearsal was conducted during the year which involved a complete network of the service providers necessary to operate a payout operation. This “close-to-actual” rehearsal covered the whole scope of payout procedures from the triggering of the DPS to the eventual delivery of both interim and final payments to depositors. The operation effectively put to test the combined efforts of a complete network of service providers and agents ranging from accounting, legal, IT, security printing, call centre and business continuity establishment, and public relations, who were all mobilized in accordance with the policy and procedures of the

Board for the purposes of effecting a payout. Also actively involved throughout the rehearsal were Members of the Board who provided critical decisions and supervisory oversight relating to the payout and publicity arrangements.

The rehearsal demonstrated again the certainty of our payout system in meeting the target payout timeframe in the event of bank failure. Its strength to support a sizable payout operation was validated by the stress test encompassing both user operations and intensive batch processing. Valuable recommendations were also put forth by the Project Manager to further enhance the payout infrastructure, public communication strategy and contingency planning model.

## Compliance Checks on Information Readiness of Scheme Members Satisfactory

Fourthly, an essential prerequisite for efficient payout is the availability of complete, adequate and accurate depositor records from the Scheme members concerned in a timely manner when the DPS is triggered. To this end, the Board’s Guideline on Information Required for Determining and Paying Compensation (the IS Guideline) prescribes the format and contents of the information that Scheme members should maintain at all times. Regular compliance reviews have been conducted since 2008 with generally satisfactory results.

During the year, the Board conducted a survey to collect from Scheme members relevant statistics and system documents to monitor their general compliance status. The survey revealed certain deficiencies as well as opportunities to collect additional information to help facilitate a faster payout. Amendments to the IS Guideline which seeks to verify conformity with the data maintenance requirements have been proposed and will soon be undergoing industry consultation.

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### Riding on the Success of New Thematic Advertising Campaign

Last but not least, following hot on the heels of the new thematic “Bao, Bao, Bao” TV commercial which has enjoyed enormous popularity since its launch earlier in the year, the Board has embarked on new initiatives to target specific sectors of the community, including a series of interactive consumer events and an innovative comic design contest.

Under the guidance of the Advisory Panel on Communication and Public Education, a myriad of publicity drives through the creative use of different channels and advertising media were staged to further exploit the publicity generated by the “Bao, Bao, Bao” advertising. This strategy paid off as borne out in the latest independent opinion survey: the level of public awareness of DPS rose and reached a record high of 78%; among these respondents 74% were aware of the expanded HK\$500,000 protection limit of the DPS. The Board is conscious that a high level of public awareness is essential to building public confidence and banking stability.

### Looking Ahead and Planning for 2013 — 2014

Much still remains to be done to implement the various enhancement initiatives identified from the self-assessment against Core Principles and payout rehearsal. Our priority, in the coming year, will be to focus on further enhancing the current payout framework and process to enable faster compensation payment. Additionally, the Board will take advantage of the forthcoming FSAP to identify further enhancements in ensuring that the DPS is in line with the Core Principles and other international best practices.

We will continue with our educational and publicity efforts to increase public awareness and understanding of DPS. In addition to the mass publicity campaigns, we will roll out a diverse range of programs tailor-made to engage target audiences such as housewives, the elderly and the young, through establishing and maintaining a direct and sustained communication link with the relevant bodies and associations in the districts. Our goal is to expand and strengthen the credibility of the DPS at the community level across the territory.

### A Vote of Thanks

We are indebted to the advice and guidance from the great many individuals and organizations who so generously offered their time and expertise to the Board in its endeavours to increase the effectiveness of the deposit protection regime in Hong Kong. Without their assistance and support we would not have achieved what we did last year. I would also like to express my most sincere appreciation to the Scheme members, the HKMA, the government and our payout agents and service providers for their invaluable contribution. But no words can adequately express my deep personal gratitude to the Chairperson and Members of the Board whose wisdom and exemplary service is a source of constant inspiration to me and my team as we strive to enhance the effectiveness of the deposit protection scheme as an important financial safety net in Hong Kong. Last but not least, my heartfelt gratitude to my team for their professionalism and dedication which makes my work at the Board so fulfilling. Thank you.



DATWANI Meena  
Chief Executive Officer