

PLANS FOR 2013–2014

The outlook

The external environment remains unstable and challenging in the year ahead. It is expected the global economy will continue to maintain a modest growth and faces potential downside risks. As an open international financial centre, Hong Kong can hardly stay unscathed and will inevitably be affected by external market fluctuations. Despite the volatile external environment, the Hong Kong economy is expected to continue to benefit from the strong fundamentals in Asia and the economic growth in Mainland China. Taking into account all the macro economic factors, the economy is expected to maintain a modest growth which may be lower than previous years.

Notwithstanding the volatility of the external market environment, the local banking sector is generally resilient to the shocks experienced abroad. However, the risk of spillover cannot be underestimated if there is still uncertainty on the pace of global economy recovery. Hong Kong must stay vigilant and be prepared for any eventualities that might arise in a turbulent global economic and financial environment. The DPS, therefore, plays an important role to protect depositors and help maintain the stability of Hong Kong's banking system.

Business plan with key initiatives

Enhancement of the DPS regime

In view of recent international reform trend and the results of self-assessment against the Core Principles for Effective Deposit Insurance Systems, the Board in the coming year will focus on further enhancing the current payout framework and process to enable faster compensation payment. As the existing payout framework is constructed on the foundation of the applicable liquidation regime in Hong Kong of which the objectives are generally put on the protection of asset value and equitable treatment of creditors, some enhancements may be desirable to better cater for the need of rapid payout. One of the possible enhancements is to simplify or dis-apply the netting requirements for the determination of compensation for insured deposits. More

extensive assessment and consultation will be carried out to evaluate the potential legal, financial and operational implications to the Board as well as other major stakeholders in order to formulate the most suitable strategy to speed up the payout process with the highest degree of operational certainty. In parallel to the exploration of the feasibility of various enhancement options, the Board will also have the DPS funding model reviewed to ensure its ongoing validity. Additionally, the Board will take advantage of the upcoming comprehensive third party review of Hong Kong's DPS through the International Monetary Fund-World Bank's Financial Sector Assessment Program update to help identify any areas that may further improve the effectiveness of the scheme.

The recent global financial crisis has demonstrated that a more robust and credible recovery and resolution framework is vital to ensure both public authorities and financial institutions can respond effectively to shocks that threaten to undermine the financial soundness of individual financial institutions or financial market infrastructures. In order to better reflect the latest best practices and new standards in Key Attributes of Effective Resolution Regimes for Financial Institutions issued by the Financial Stability Board, Hong Kong is developing the necessary enhancements. The Board will actively assist in strengthening the financial safety net framework in Hong Kong and ensure an effective interaction between the DPS and other resolution tools to contribute to greater financial stability.

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 community education activities. In order to equip the depositors with a more comprehensive understanding of the Scheme, in addition to the mass advertising campaign, publicity efforts targeted at specific groups who demonstrated limited knowledge and understanding of the DPS will be carried out in the coming year. This will most probably involve the Board establishing and maintaining a more direct and sustained partnership with the relevant community associations, allowing the DPS to take root at the district level.

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To broaden the awareness of the DPS among the general public, the Board plans to develop the “Bao, Bao, Bao” campaign to a higher level of execution to reinforce awareness of the DPS and its key features. More targeted activities are planned such as a bun-making initiative targeted at housewives, themed consumer events, and competition targeted at students, all aimed at reaching out to different groups in the community. The overall awareness of the DPS and the effectiveness of different communication channels within the community will continue to be evaluated. The newly formed inhouse Publicity & Community Education team, with the advice of the Advisory Panel on Communication and Public Education, will spearhead the formulation and implementation of publicity and community education activities.

To facilitate the Board’s monitoring of compliance by Scheme members with the requirements of the Representation Rules, all Scheme members will continue to be subject to the annual self-assessment review assessing their compliance with the representation requirements. With the assistance of the Hong Kong Monetary Authority (HKMA), the Board will also 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 2014 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 the readiness of payout systems and processes

Over the next two years, the Board will set a new payout target after enhancing requirements of the data provision by Scheme members under a specified timeframe, building closer cooperation with financial safety-net players through

formalising the coordination protocols, getting early access to information necessary for payout preparation, and adopting a range of payment methods. In view of the importance of getting Scheme members’ cooperation on timely and accurate depositor records submission, the Board will give priority to implementing the revised information system guideline and compliance program following consultation of banking industry and audit practitioners in 2014.

Experience of overseas deposit insurers confirmed that undertaking a payout preparatory review when a bank is at imminent risk of failure greatly contributes to an increase in payout efficiency. The Board will liaise with the supervisory authority to establish arrangements to get early warning of a likelihood of a bank failure and access to bank data for payout preparation. The payout model and the payout procedures will be revamped accordingly to set out the resource planning and review procedures to be developed following an advance notice served to the Board before the DPS is triggered. Furthermore, the contingency planning model will be enriched with more focus to consider on the impact analyses to facilitate the Board to make appropriate strategic decisions on payout readiness when faced with a major financial crisis.

The efficiency of making compensation fund accessible to the affected depositors is equally important for fast payouts. The Board will explore various payment methods to supplement payment by mailing cheque so as to reduce the time necessary to transfer payment to depositors, especially the group of most needy, following the completion of compensation determination.

To effectively support the reformed payout model, it is imperative to have a robust and efficient technology based system solution. A major review of the payout system is scheduled in the coming year to define the new requirements necessary to implement the payout reform initiatives. Rehearsals, payout walkthroughs and simulation tests will continue to be performed regularly to enhance the readiness of payout agents and infrastructure. The Board will explore the opportunity to further improve the network of payout agents available to be engaged in payout by establishing contractual arrangements to ensure adequate capacity to manage different bank failure scenarios.