

# MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



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Chief Executive Officer*

It is time once again to review the achievements of the past year as we prepare to tackle the challenges confronting deposit insurance systems the world over as a result of the recent financial crisis. In pursuance of our dual mission to maintain confidence in the banking system and protect depositors from losses in case of a bank failure, we embarked on a number of initiatives in 2013-2014 to enable us to better manage any financial crisis leading to bank failure.

Looking back, it has been a busy but thankfully productive year. In addition to carrying out an internal review of various enhancement measures consistent with international best practice and standards, the Deposit Protection Board (DPB) took part in a rigorous Financial Sector Assessment Program (FSAP) review of Hong Kong's crisis management which covered our deposit protection framework. We also embarked on a two-year payout reform plan, completed the enhancements to the Information System Guidelines, conducted a payout rehearsal and launched a number of innovative publicity schemes. Although there is no room for complacency, we feel we have fortified the Deposit Protection Scheme (DPS) and are entering 2014-2015 in a stronger position.

## INTERNAL AND EXTERNAL REVIEWS STRENGTHEN DEPOSITOR PROTECTION

The DPB is committed to ensure compliance with international standards, strengthen the protection for depositors and improve the efficiency and effectiveness of the DPS as part of the core component of the financial safety net system in Hong Kong. In 2013-2014 we carried out a comprehensive internal review and were subject to an external review as part of the International Monetary Fund-led FSAP assessment of Hong Kong's crisis management and depositor protection framework. This resulted in a number of enhancement proposals.

The detailed internal review, which took into account the various measures undertaken by overseas jurisdictions after the financial crisis, assessed the status of the DPS when benchmarked against the key design features of an effective DPS set out in the Core Principles for Effective Deposit Insurance Schemes jointly issued by the Basel Committee on Banking Supervision and the International Association of Deposit Insurers. These Core Principles are included in the Financial Stability Board's (FSB) 2011 list of the key elements of a sound

financial system. I am pleased to say that the FSAP review acknowledged that the DPS is both transparent and trusted. Key recommendations included in the FSAP report are closely in line with the enhancement proposals identified in our internal review for further improving the Scheme's capacity and payout mechanisms to further optimise Hong Kong's financial safety net.

The enhancement proposals and recommendations have involved a rigorous research process, and a public consultation will be launched to gauge the public's views. The focus will be on changes to the payout basis, specifically the proposed payment of compensation on a gross, i.e. without deducting liabilities, rather than a net basis, and increasing the flexibility of electronic payment channels. Upon implementation of the proposals, the DPS will be able to achieve faster payout by removing impediments to compensation determination, reduce inconveniences that might be caused to the public when facing a bank failure, and thus should contribute to a safer and more robust financial system.

## A YEAR OF INITIATIVES

The DPB also undertook a range of other initiatives to further improve the effectiveness of the DPS, speed up the payout process and ensure the Board's ability to handle more complex bank failure scenarios through a two-year payout reform focusing on upgrading the Information System Guidelines, specifying the early warning system and developing the compliance review programme.

We implemented several amendments to the Information System Guidelines to strengthen the availability and quality of information provided by Scheme members. One of these amendments specifies a standardised data format for all member banks regardless of their size, thus simplifying data-handling procedures and resulting in speedier compensation calculations and payouts. A shorter timeline for the submission of information would naturally result in swifter payments of compensation. This more robust information regime, to be in place by the end of 2014, should greatly enhance payout effectiveness.

Another significant initiative aimed at boosting our readiness was the enhancement of the early warning system. The upgrade will allow the DPB to begin preparations at an earlier stage in the event of a potential banking crisis. We also continued to work actively with our overseas counterparts throughout the year to strengthen information exchange in both normal and crisis periods and establish protocols to resolve cross-border banking problems.

To ensure that Scheme members are fully prepared to cope with a crisis, we carried out regular simulation tests to check their readiness. After reviewing the results, further upgrades were made to the payout system and infrastructure. Compliance exercises were also conducted to ensure that Scheme members properly adhere to the representation requirements and inform depositors of the protection status of their deposits. Finally, we created a dynamic resource pool to support larger-scale payouts and bolster payout readiness by retaining additional payout agents, such as accounting firms, IT service agents, call centres and security cheque printing companies.

## **PAYOUT REFORM AND REHEARSAL BEAR FRUIT**

Amongst the most important of the DPB's activities during the year was an overhaul of the payout infrastructure and system to ensure greater versatility and the ability to respond rapidly to crisis. Upgrades to the infrastructure included migration to a larger, better-equipped payout operation centre, greatly expanded back-end processing and hotline operation capacities.

Features of the payout system revamp included the development of more sophisticated data analysis techniques to identify optimal payout strategies. The system now offers greater flexibility in addressing different stress scenarios and is able to deal effectively with more complicated calculation rules. The ultimate goal of these initiatives is more timely payouts and hence a stronger financial safety net.

The re-engineered payout system and infrastructure were put to the test in a major payout rehearsal, which also tested the contingency plans for various bank failure scenarios and the system's general payout capabilities. Simulation of a payout situation during the rehearsal assessed the DPB's preparedness to deal with the unforeseen. Rehearsal participants had no prior information on the evolution of the time-critical crisis scenario, which involved a multiple bank failure. I am proud to report that they came through with aplomb.

## **INNOVATIVE PUBLICITY CAMPAIGN RAISES AWARENESS**

As successful as these achievements have been, public awareness of the DPS's key features and role in safeguarding the Hong Kong banking system is essential to our work. During 2013-2014, the DPB engaged in a major publicity drive. With the support of the Advisory Panel on Communication and Public Education, we launched a five-episode infotainment programme to boost public understanding of the DPS's key features. Each episode had a core theme and featured daily-life scenarios, giving the programme particular resonance with housewives and the elderly.

We also launched a major interactive campaign that was targeted at not only these two groups but also the youth. It involved developing a recipe booklet with 10 tailor-made bun recipes and creating bun-making videos broadcast on various digital media, with social-media interactions as extra add-ons. The Board also participated in two major consumer fairs, during which we exhibited information panels and introduced educational games featuring the DPS theme: Ensure your Protection, Save with Confidence. Finally, we partnered with the Hong Kong Design Institute in a DPS mascot design project and competition, with 12 outstanding designs put to public vote via Facebook. These initiatives were particularly effective with the younger tech-savvy generation.

It is clear that these publicity efforts are paying off, as an independent opinion survey revealed that the general awareness level of the DPS stands at an all-time high of around 77%. This as far as I know is among the highest level globally. Riding on the success of achieving a high general awareness level of the DPS, we plan to invest more in publicity and public education initiatives, and devote greater effort to communicating with depositors beyond the reach of conventional advertising media.

## MOVING FORWARD WITH CONFIDENCE

Although it has been a year of considerable achievements, the fragile global recovery is likely to present challenges in the future. Moving forward, we will consolidate the work of the past year, keep abreast of the global situation and ensure that we maintain our state of readiness at all times. Like girl guides, “BP” i.e. “Be Prepared” is our motto!!

Priority will be given to the upcoming public consultation exercise on DPS improvements, continuing with payout reforms and maintaining public trust in the Scheme. In the medium term, we will focus more on the evolving role of the DPS in contributing to financial stability and on collaboration with other safety net players for the design and implementation of the resolution regime which is also part of the crisis management toolkit that will have a close interface with the DPS.

## WORDS OF THANKS

None of the DPB’s many achievements during the year would have been possible without the hard work and support of the Members of the Board particularly our Chairperson, the Advisory Panel and the Board’s committees. My heartfelt gratitude goes to all of them. I am also grateful for the important contributions made by Scheme members, the HKMA, the HKSAR Government, payout agents and service providers. Finally, I must also thank my colleagues for their dedicated commitment in striving to do their best for the DPS and for the protection of depositors in Hong Kong. My sincere appreciation goes to all of you. Thank you.



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