



**Review of operations and  
achievements in 2013–2014  
P.22-37**

# REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2013–2014

## ECONOMIC SITUATION

Hong Kong's economic performance improved during 2013. Real GDP expanded by a moderate 2.9%, up from 1.5% in 2012, and full employment was maintained in the labour market. However, the growth rate was slower than the average of 4.5% achieved in the past decade. This was due to the global economy's lacklustre performance as a result of the sluggishness of advanced economies and a consequential slowdown in the growth of emerging economies. Domestic demand and exports of services were the key driving forces of Hong Kong's economic growth in 2013.

Local stock prices fluctuated considerably during the year. After declining mid-year following jitters about less monetary accommodation in the US and ensuing volatility in the emerging markets, the stock market regained lost ground in the second half as the advanced economies improved and the Mainland economy displayed resilience. It ended the year slightly higher. The Government's introduction of further demand-side management measures in early 2013 stabilised the local property market. The increase in residential prices slowed down and the number of transactions decreased. Lower imported inflation helped to offset the effects of domestic price pressure and contained consumer price inflation during the year. Underlying inflation averaged 4.0% during 2013, compared with 5.3% in 2011 and 4.7% in 2012.

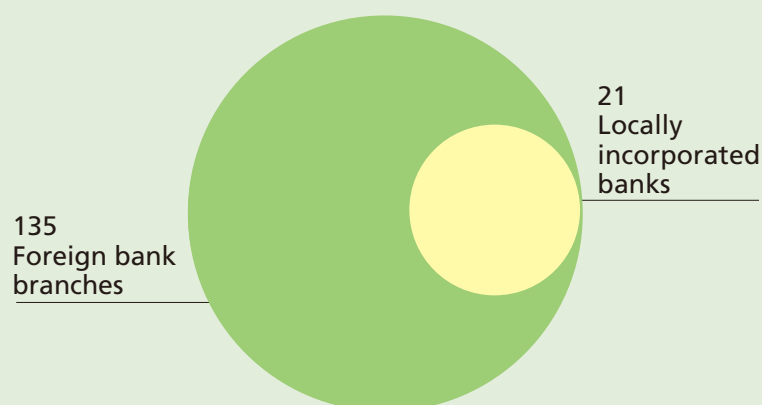
## HONG KONG BANKING ENVIRONMENT

The Hong Kong banking sector remained resilient in 2013. The capital positions of locally incorporated authorized institutions stayed strong following the implementation of the first phase of Basel III capital standards promulgated by the Basel Committee on Banking Supervision during the year. Based on their more-stringent capital definitions, the consolidated capital adequacy ratio of all Hong Kong's locally incorporated authorized institutions stood at 15.9% at the end of 2013, compared with 15.7% a year earlier and well above the international minimum of 8%. The asset quality and liquidity positions of retail banks also remained sound. Their classified loan ratio was just 0.48% at the end of the year. However, their average liquidity ratio decreased from 42.6% in the final quarter of 2012 to 39.6% in the same period of 2013. This was due to the fact that their average qualifying liabilities rose faster than their average liquefiable assets. Despite the decrease, their quarterly average liquidity ratio stayed well above the statutory minimum of 25%.

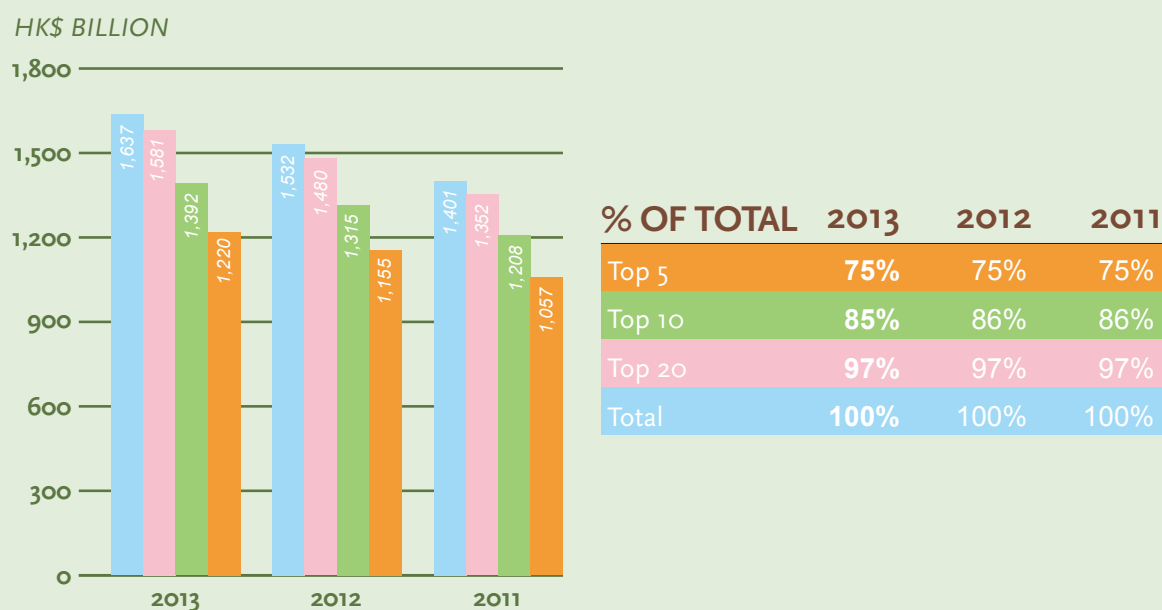
## SCHEME MEMBERS' PROFILE

The Scheme had 156 members at the end of March 2014, compared with 153 a year earlier. Four newly licensed banks became members during the year, while one bank's membership was revoked because of its group restructuring. Twenty-one of the 156 Scheme members were locally incorporated banks and 135 were foreign bank branches. This was largely in line with the numbers of retail and wholesale banks in Hong Kong.

## NUMBER OF SCHEME MEMBERS AS AT 31 MARCH 2014



## RELEVANT DEPOSITS HELD WITH SCHEME MEMBERS



Based on returns submitted by Scheme members, the aggregate amount of their relevant deposits grew by 7% to HK\$1,637 billion during 2013, compared with HK\$1,532 billion in 2012.

The distribution of relevant deposits among Scheme members remained similar to that of the previous year. The top 20 Scheme members (all of which were retail banks) held 97% of the

industry's aggregate relevant deposits, whereas the wholesale banks held the other 3%. In terms of growth, retail and wholesale banks recorded increases in their relevant deposits of 7% and 8% respectively.

## RELEVANT DEPOSITS HELD BY RETAIL BANKS AND WHOLESALE BANKS

(HK\$ billion)	2013	2012	+
Retail banks	1,585	1,484	7%
Wholesale banks	52	48	8%

## CONTRIBUTING TO BETTER PROTECTION

A self-assessment against the Core Principles for Effective Deposit Insurance Systems jointly issued by the Basel Committee on Banking Supervision and the IADI was conducted in 2012. Based on the results of the self-assessment, a more focused internal review was carried out to explore various ways to achieve faster payouts. The results led to the formulation of concrete enhancement proposals. One key proposal is to adopt the gross payout approach, which would enable the DPS to pay depositors within a shorter period. Other technical enhancements to the payout process would also help to minimise the payout timeframe. These proposals will be the subject of further consultation before they are formally adopted.

Externally, the FSAP led by the IMF evaluated Hong Kong's crisis management and bank resolution framework, including the establishment of the DPS and its contribution to an effective financial safety net framework. This FSAP assessment complemented our internal review on the ways to enhance the DPS.

Included in the review was an assessment of the scale of the DPS Fund and its funding structure in order to ensure the Fund's sustainability. A particular focus was to ensure the appropriate assumption of responsibility for the costs associated with problem banks by the private sector, without undue reliance on fiscal resources. The assessment covered the target size for the Fund and its premium structure, as well as the surcharge mechanism for Fund replenishment and back-up funding. While the overall funding modalities are sound and in line with international practice, the Board will continue to monitor changing conditions in the banking sector to ensure the continued effectiveness of the DPS.

As a component of the financial safety net system, the Board was actively involved in consultations about the resolution regime that commenced in early 2014. Despite their respective functions in the financial safety net, there are synergies between the DPS regime and the resolution regime that will make it possible to deploy the most effective strategies to deal with any banking problems that arise. Closer collaboration on crisis-management and resolution between the two different functions will, therefore, help promote financial stability.

## ENSURING PAYOUT READINESS OF THE DPS

### INFORMATION READINESS OF SCHEME MEMBERS

An amended information system guideline was issued in September 2013. Based on earlier rehearsals and simulations, this has been developed to enhance and standardise the mandatory requirements for information from Scheme members, in order to make it possible to determine compensation payments swiftly in the event of a payout. The amended guideline tightened the timeframe for Scheme members to submit information. Three briefing sessions in October 2013 helped Scheme members prepare themselves to comply fully with the new requirements before the end of 2014. Scheme members' progress in this process is being monitored through regular surveys.

The compliance of Scheme members with the guideline's requirements is also being monitored by a new review programme that is being phased in. This will verify their ability and readiness to submit the required information within a shortened time period. Moreover, Scheme members will be required to conduct regular independent assessments and submit annual compliance declarations to demonstrate their readiness to provide deposit records completely, timely and accurately. To assist Scheme members, a guide on the assessment approach and steps to be taken was issued in September 2013.

### ESTABLISHMENT OF AN EARLY WARNING SYSTEM WITH THE BANKING SUPERVISOR

During the year, the Board worked closely with the HKMA, the banking regulator, and reached agreement on an effective early warning system. Such an arrangement would enable the Board to gain early access to the problem bank's depositor records in order to ascertain its status and data quality, and to undertake payout preparation. In addition, a process model of the payout preparatory review was developed which covers the strategy of resource allocation, review procedures and operational arrangements. These will enable the Board to begin planning and preparation work as soon as possible for the speedy completion of its payout tasks after the bank closes.

### LATEST PAYOUT INFRASTRUCTURE DEVELOPMENTS

The adequacy, efficiency and effectiveness of the payout system's infrastructure are reviewed regularly. To accommodate larger and more-complex payouts during a banking crisis, the capacity of IT systems and the payout operation centre were further upgraded.

IT consultants were engaged to conduct a broad review of the system functions to support the reformed payout model. As a result of the review, the process flow was redesigned and development work is now underway to enable it to make the fullest use of the additional efficiencies offered by the new payout preparation mode, which includes an early alert from the banking regulator, as well as the more-comprehensive information provision by Scheme members under the amended guideline.

## CONTINGENCY PLANNING MODEL AND REHEARSAL

It is crucially important for the public to have confidence in the Board's ability to compensate depositors efficiently under any circumstances. To ensure this, effective contingency planning and rehearsal exercises are essential.

The contingency planning framework underwent a major revamp during the past year. New elements were added to facilitate appropriate strategic decisions being taken during a crisis involving different bank-failure scenarios. These have enhanced different aspects of the crisis

management capabilities, including strategic decisions on the deployment of resources (people, systems and infrastructure), crisis management oversight, public communication and payout arrangements.

The effectiveness of the revised framework was confirmed during a payout rehearsal involving a number of simulated bank failure scenarios. The rehearsal, conducted in conjunction with payout agents, demonstrated the Board's ability to coordinate the planning, organisation of resources and activation of the payout infrastructure facilities in response to changing circumstances during a banking crisis.



*Snapshot of a payout walkthrough*

## SIMULATION TESTS AND PAYOUT WALKTHROUGH

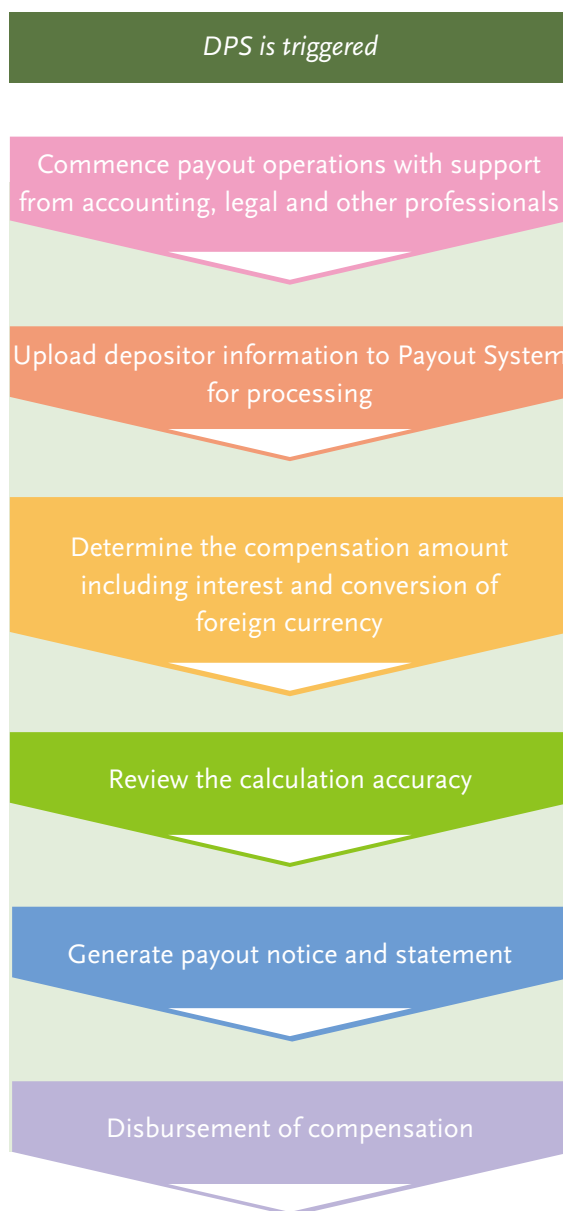
Six simulation tests using full sets of customer records obtained from Scheme members during compliance reviews were conducted during the year. They ensured the payout infrastructure would be able to handle payout operations of any magnitude and involving a combination of the products and depositors of any Scheme members. Service providers were involved in the simulations to familiarise them with certain complex payout procedures.

Contractual agreements were signed with a number of new service providers to expand the network of agents available for payouts. The new service providers received training by undergoing a payout procedure walkthrough, and were involved in the simulation tests. The Board has now built up a dynamic resource pool that is ready to handle payouts triggered by different bank-failure scenarios.

## ACCESS TO PRE-ESTABLISHED FUNDING

Once a DPS payout is triggered, the Board will be obliged to compensate the depositors of the failed Scheme members as soon as practicable. To this end, the Board has in place a standby credit facility for up to HK\$120 billion from the Exchange Fund, which will be used to meet its funding requirements. Any costs and losses incurred during the payout process will be absorbed by the DPS Fund.

## PAYOUT PROCESS





## BUILDING UP THE DPS FUND

### COMPOSITION OF THE DPS FUND

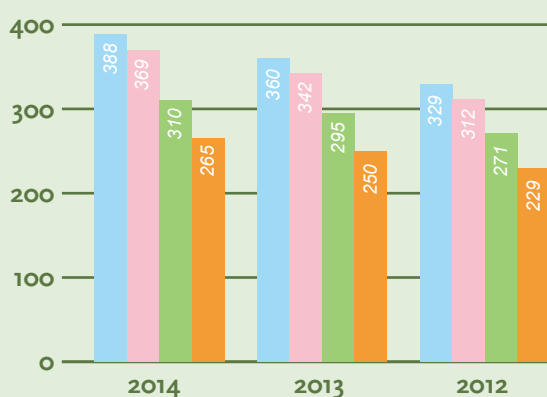
The DPS Fund mainly consists of two components: annual contributions by Scheme members to the Board, and returns generated by the DPS Fund's investments.

### REPORTING OF RELEVANT DEPOSITS

Scheme members are required to report the amount of relevant deposits they hold in the fourth quarter of each year. The reported figure, together with the supervisory rating provided by the HKMA, serve as the basis for determining their contributions for the coming year.

### CONTRIBUTION PAID BY SCHEME MEMBERS

HK\$ MILLION



### BY RELEVANT DEPOSITS HELD

% OF TOTAL	2014	2013	2012
Top 5	68%	70%	70%
Top 10	80%	82%	82%
Top 20	95%	95%	95%
Total	100%	100%	100%

### ASSESSMENT AND COLLECTION OF CONTRIBUTIONS

The contributions collected from Scheme members during the year amounted to HK\$388 million, an increase of 8% on the previous year. All contributions were paid in accordance with the DPS Contribution Rules during the first quarter of 2014. Similar to the distribution of relevant deposits, the amount of contributions collected from the top 20 Scheme members accounted for 95% of the total. To ensure that the deposit data reported by Scheme members is accurate, the Board has since 2007 requested Scheme members to

conduct regular audit reviews of their Returns of Relevant Deposits in accordance with the policy for reviewing returns. A total of 35 Scheme members were requested to submit an audit report to the Board on the accuracy of their returns in 2014. The results reviewed were generally satisfactory, and no reporting error leading to a material impact on the amount of contributions collected by the Board was noted. After the completion of the review in 2014, more than 99% of the relevant deposits reported would have been verified by an auditor, thus increasing our confidence in the accuracy of the total amount of contributions payable by the industry.



## INVESTMENTS OF THE DPS FUND

In view of the uncertainty of global financial markets and the primary investment objective of the Fund being capital preservation, the Board continued to exercise caution and adopted a conservative investment strategy to guard against possible losses arising from any sharp fluctuations in the financial markets. Investments were made in strict compliance with the DPSO and the investment control policies of the DPS Fund, which set out clear guidelines on risk assessment and control measures, and the segregation of duties required for investment activities.

In view of the low yields of short-term US Treasury and Exchange Fund papers, the Board did not purchase any security papers during the year. As at the end of March 2014, the DPS Fund's assets were predominantly held as deposits and almost all were denominated in Hong Kong dollars, with only a minimal balance in US dollars. During the year, the DPS Fund achieved a positive investment return of 0.24%, despite the low interest rate and uncertain investment environment.

## THE DPS FUND'S MIX OF CASH AND INVESTMENTS (AS AT 31 MARCH)

(HK\$ million)	2014	2013
Cash and deposit balance	<b>2,425</b>	2,103
Investment securities	<b>0</b>	0
Total	<b>2,425</b>	2,103

## THE DPS FUND'S CURRENCY MIX OF CASH AND INVESTMENTS (AS AT 31 MARCH)

(HK\$ million)	2014	2013
HK dollars	<b>2,424</b>	2,102
US dollars	<b>1</b>	1
Total	<b>2,425</b>	2,103

## ENHANCING PUBLIC AWARENESS AND UNDERSTANDING

### COMMUNICATING WITH THE PUBLIC

The Board continued to promote the protection offered by the DPS to the public via mass publicity channels and outreach programmes. These ongoing efforts aim to increase the public's knowledge of the DPS, and their confidence in the DPS to ensure their deposits are safeguarded.

The Board regularly reviews its publicity and community education strategies to ensure that its messages are being conveyed effectively to different segments of the community. Besides

conventional media and outreach channels, the Board developed a series of new initiatives that included the use of social media and partnership programmes with non-profit organisations, an educational institution and a celebrity chef to engage the public during the year.

### MASS PUBLICITY CAMPAIGNS

#### Television

The main strategy to maintain public awareness of the key features of the DPS was a short video screened on major terrestrial and paid TV channels. In addition, five consecutive infotainment segments with daily life scenarios to illustrate specific DPS concepts were broadcasted on TV and the Internet.



DPS 15-sec. advertisement



One-minute infotainment video



Bus shelter advertisements in 18 Hong Kong districts



A "tunnel wrap" at an interchange junction in Kowloon Tong MTR Station

### Out-of-Home Media

A new creative advertising series featuring cute cartoon characters was developed for out-of-home displays on bus shelters, in-vehicle bus and train TV, and pedestrian tunnels in Kowloon Tong and Causeway Bay MTR stations. These highlighted key features of the DPS via a Q&A dialogue between a member of the public and an ATM machine representing the DPS.



Ad series in daily papers



Newsletters to employees

### Radio and Print Advertising

Radio advertising promoted the core features of the DPS to the public, especially households and senior citizens. Moreover, a print advertising campaign consisting of advertorials placed in major newspapers, weekly magazines and newsletters to employees conveyed the DPS messages to a wide cross-section of the community.



Advertorial in magazines



## COMMUNITY EDUCATION ACTIVITIES

### “Ensure Your Protection, Save with Confidence” Bun-Making Campaign

To leverage on the success of the “Bao, Bao, Bao” video, the Board developed a bun-making campaign with a celebrity chef. The chef introduced a series of bun recipes and

filmed 10 bun-making videos to introduce educational messages about the DPS in a fun way and through a dialogue with the Board’s Chairperson. The videos were broadcasted on digital media and the website of the Board. To increase their impact, online engagement campaigns with an interactive quiz and photo contest were launched side-by-side on a social networking platform.



“Ensure Your Protection, Save with Confidence” – Maria Cordero and Pamela Chan, Chairperson of the Board



A recipe booklet with DPS messages widely distributed to the public



“存保bun” (“bun (包 or bao)” in Chinese means “cover/inclusive” which associates with the coverage of the Scheme)

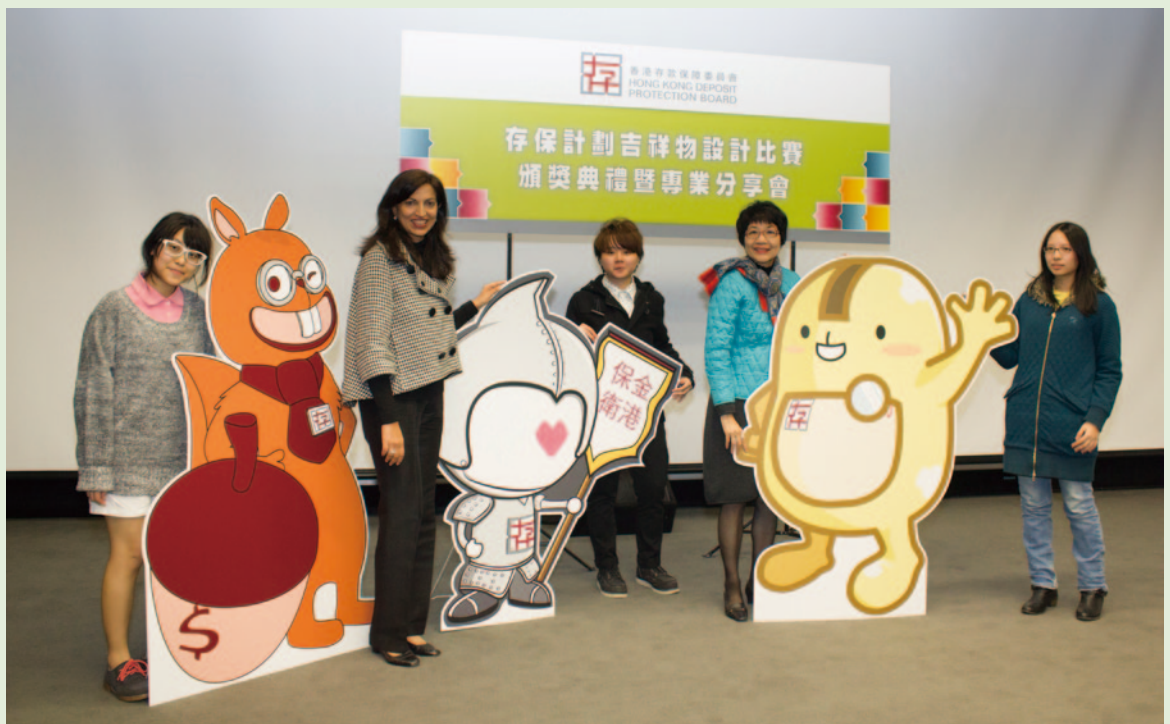


Bun-making Campaign – Facebook Page

### *DPS Mascot Design Competition*

The Board invited Hong Kong Design Institute (HKDI) students to create a mascot as the DPS Ambassador. The shortlisted designs were uploaded on a social media platform for public voting. The mascot named Jewellery

Box designed by Chu Ki Chun was selected as the winner by an independent judging panel. A prize presentation ceremony held at the HKDI also included sharing sessions on DPS, money management, and professional design experience.

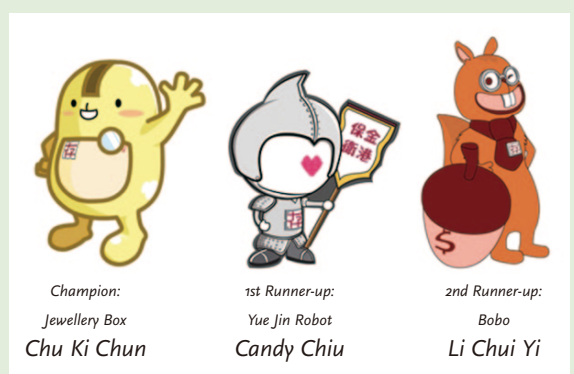


*The Chairperson and the CEO of the Board, together with the winners and their mascots, at the DPS Mascot Design Prize Presentation Ceremony*

*(Left to right: Li Chui Yi (Second Runner-up), Meena Datwani (CEO of the Board), Candy Chiu (First Runner-up), Pamela Chan (Chairperson of the Board) and Chu Ki Chun (the Winner))*



*Introduction to the Concept of Savings and Money Management for Gen-Y by Mr Francis Wong of the IFA HK*





### Consumer Shows

Participation in high-traffic consumer shows provided good opportunities for the Board to engage more closely with the public via

interactive games, one-on-one introductions, information panels and the distribution of publicity materials.



Exhibition at the Flower Bird Insect and Fish Show in North District in December 2013



48th Hong Kong Brands and Products Expo Fair in January 2014

### Partnership with Hongkong Post

The Board partnered with Hongkong Post and took advantage of the wide network of post offices in different neighbourhoods to distribute DPB card-sized magnifiers to customers using its “PayThruPost” services during the second half of 2013.



Partnership campaign with Hongkong Post

### DPS Talks

As part of its ongoing community outreach programme, the Board gave more than 50 presentations to elderly, student and family

groups in various districts around Hong Kong. These featured interactive role-play, games and case studies enhanced the participants' awareness and understanding of the Scheme.



*DPS talks for the elderly*



*DPS talks for students*

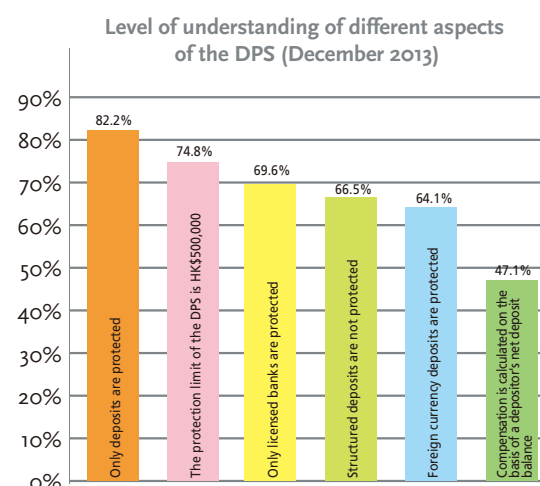
### Community Outreach Programme

A new community outreach platform has been created by leveraging on financial education workshops organised by the Hong Kong Association of Banks. Since February 2014, core messages about the DPS are being incorporated into the presentation and publicity materials distributed at these events, so that participants can learn about DPS protection.

## EFFECTIVENESS OF PUBLICITY CAMPAIGNS

Based on the findings of an opinion survey conducted by an independent research centre in December 2013, awareness about the DPS had reached a very encouraging level of 77%. Of those respondents aware of the Scheme, more than 75% knew about the HK\$500,000 protection limit and over 64% also knew about the protection coverage of deposits denominated in different currencies. Such a high level of awareness can be attributed to the broad range of publicity campaigns and new community educational initiatives to promote the scope and features of the DPS to the public.

The Board will make reference to these findings as it continues to refine and enhance its publicity and community education strategies.



## COMPLIANCE WITH REPRESENTATION RULES

The DPS Representation Rules govern representations made by Scheme members about their DPS membership and the protection status of the financial products offered by them.



To monitor their compliance with the enhanced representation requirements, Scheme members were asked to conduct a self-assessment review covering the period from 1 June 2012 to 30 June 2013. In addition, on-site examinations continued to be undertaken to ascertain in greater detail the level of Scheme members' compliance with the Representation Rules. The Board reviewed the self-assessment reports and on-site examination findings to determine appropriate follow up action.

The results indicated that the overall compliance level of Scheme members was satisfactory in general, and no non-compliance cases with a systemic impact were identified.

## RELATIONSHIP WITH OTHER SAFETY NET PLAYERS

### CO-OPERATION WITH THE HONG KONG MONETARY AUTHORITY

The Board and the HKMA are both financial safety net players, sharing the common objective of promoting the stability of the banking system. To accomplish this, the two parties have signed a Memorandum of Understanding (MoU) that sets out how they cooperate in the performance of their respective functions. In addition, since the Board is required by the DPSO to perform functions through the HKMA, the Board and HKMA have agreed on the extent of the support provided by the HKMA to the Board on a day-to-day basis. The Board also has in place a standby facility from the Exchange Fund to provide the liquidity required to pay compensation in the event of a bank failure. During the year, the Board and the HKMA also worked closely to enhance the early warning system enabling a faster payout.

### RELATIONSHIP WITH THE SECURITIES AND FUTURES COMMISSION AND INVESTOR COMPENSATION COMPANY

In the event of a bank failure, the funds of a depositor or a portion of those funds may in certain circumstances be covered by both the DPS and the Investor Compensation Fund (ICF) established under the Securities and Futures Ordinance to compensate securities or futures investors. To ensure that no person receives double compensation, the Board and Securities and Futures Commission (SFC) have agreed on a set of arrangements to co-ordinate and exchange information between them. These have been documented in an MoU between the Board, the SFC and the Investor Compensation Company (ICC), the company established by the SFC to administer the ICF. The MoU recognises that the DPS will normally pay the depositors first in the event of a bank failure, and that the parties will avoid double compensation by exchanging relevant information.

### INTERNATIONAL COOPERATION

As a member of the IADI, the Board actively participated in its conferences and seminars and other events organised by member deposit insurers and international organisations, and exchanged knowledge and views on issues relevant to deposit protection in international forums. This is particularly important for keeping up to date with international developments, and for sharing experience about the effectiveness of overseas reform measures that may provide insights and impetus for changes to ensure the robustness of Hong Kong's DPS.

In 2013–2014, the Board's personnel took part in a number of international meetings, including:

- The IADI 2013 Research Conference on the evolution of the deposit insurance framework in Basel, Switzerland;

- The IADI Asia-Pacific Regional Committee 11th Annual Meeting and International Conference in Seoul, Korea;
- The IADI 12th Annual General Meeting and 2013 Annual Conference in Buenos Aires, Argentina; and
- A seminar on claims management organised by the Central Deposit Insurance Corporation in Taipei.



*IADI 2013 Research Conference (Basel, Switzerland)*



*IADI Asia-Pacific Regional Committee 11th Annual Meeting and International Conference (Seoul, Korea)*