



Plans for 2014–2015

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THE ECONOMIC OUTLOOK

Hong Kong's economy is expected to grow moderately in the coming year, as a result of the gradual recovery of the world's advanced economies and the general resilience of Mainland China's economy. Despite the possibility that external fluctuations may affect the local economy, the favourable employment condition and prevailing positive business sentiment are likely to underpin domestic demand. However, a number of risks continue to overshadow the prospects of full global economic recovery. In particular, it remains uncertain whether the normalisation of US monetary policy will trigger volatility in financial markets, liquidity and fund flows. Moreover, slower-than-expected growth in the world's advanced economies and the Mainland's economy might also have a knock-on effect on Hong Kong.

The Hong Kong banking sector is generally sound, due to the solid capital, liquidity and asset quality of its retail banks. Even so, the potential risks created by changes to the accommodative global monetary policy that has prevailed during the past few years cannot be taken lightly. If this triggers unfavourable market adjustments, the ample liquidity conditions and the extraordinarily low interest rate environment to which we have become accustomed cannot be taken for granted. However, Hong Kong already has in place a robust regulatory and supervisory framework as well as the DPS. These are designed to reduce the likelihood and impact of banking and financial instability. Yet substantial efforts still need to be made to ensure that these overall financial safety net functions are sufficiently robust to deal with the constantly evolving financial environment both locally and internationally.

BUSINESS PLAN AND KEY INITIATIVES

ENHANCING THE DPS

A consultation will be conducted to collect views on how best to attain a more robust DPS through faster payout. The enhancement proposals have undergone thorough research and taken into account the recommendations of the FSAP mission. The key proposals will include the adoption of gross payout, improvements to the certainty of determining a quantification date for compensation, and the use of electronic notices. It is expected that these proposed enhancements would reduce the target payout timeframe considerably. Depending on the results of the consultation, the relevant legislative proposals for amending the DPSO will be contemplated.

The Board will continue to contribute to the formulation of a resolution regime for financial institutions in Hong Kong, which is currently the subject of a public consultation. The interactions between the DPS and the resolution regime will be considered in order to ensure good coordination with the resolution authority and the effective implementation of resolution tools to safeguard financial stability.

INCREASING READINESS FOR A FAST PAYOUT

We are now entering the full implementation phase of the payout reform plan. Its completion will be a milestone in the Board's mission to provide better protection to depositors by establishing a new payout target timeframe. To this end, the Board will continue to monitor the progress of Scheme members in ensuring they implement the new information submission requirements in a timely manner. The payout system will be gradually enhanced to support

the reformed payout model which requires depositor information to be processed more efficiently. A more-comprehensive set of policies and procedures for the smooth completion of the complex and time-bound payout process will also be put in place to cater for the objectives of the reformed payout model.

The reform plan underscores the need to enable a number of channels to arrange payouts. An implementation roadmap for this will be drawn up following the completion of a feasibility study to evaluate the efficiency and economic viability of various options. If the use of any electronic channels is deemed likely to speed up the payment of compensation, the roadmap will include the requirements for building the necessary supporting technological infrastructure and payment processes.

At the same time, the Board will continue to conduct compliance reviews, payout simulations and walkthroughs in order to ensure the readiness of Scheme members, payout agents and infrastructure to make payouts.

ENSURING A HIGH DEGREE OF PUBLIC AWARENESS AND UNDERSTANDING

The Board will continue to attach great importance to the coverage and effectiveness of its publicity and community education activities. It will strive to maintain the public's awareness and trust in the protection provided by the DPS by conducting mass advertising campaigns during the coming year. These will run side-by-side with publicity programmes targeted at specific groups which are less conscious of the DPS messages.

A number of new initiatives are in the pipeline to attract the public's interest. A brand-new video leveraging on the popularity of the "Bao" jingle will be produced to refresh the messages about the DPS. Meanwhile, innovative outreach programmes will be launched to establish closer contact with people in the community and encourage them to participate in DPS activities.

The Board will explore various ways to develop a longer-term publicity and educational strategy. It will conduct detailed research to better understand the general public's perception of the DPS, and the factors that would increase their confidence that their deposits are well protected. At the same time, it will continue to monitor general awareness of the DPS through regular opinion surveys.

All Scheme members will continue to be subject to an annual self-assessment review to assess their compliance with the Representation Rules. This will help to ensure that their disclosures to the public about their status and the protection of deposit products are appropriate. With the HKMA's assistance, the Board will also continue to conduct on-site examinations to supplement the self-assessment review, and investigate any potential non-compliance issues that it identifies.

ADMINISTRATIVE EFFICIENCY AND EFFECTIVENESS

The Board will assess and collect contributions by Scheme members for 2015 under the well-established mechanism based on their returns of relevant deposits and the supervisory ratings assigned to them by the HKMA. The accuracy of these returns will remain subject to monitoring by the Board through reviews of their audit reports.