

REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014–2015



Economic Situation

Hong Kong's economic growth momentum softened in 2014, with real GDP growth slowing to 2.5% from 3.1% in 2013. This was largely attributed to a weaker domestic demand with sluggish growth in private consumption expenditure and a slight decline in investment expenditure. The external trade performance and export of services (mainly weighted by a decline in tourist spending) remained lacklustre. Nevertheless, labour market conditions remained generally stable in 2014 and the seasonally adjusted unemployment rate stayed low at 3.3%.

The local stock market was volatile in 2014. Following a soft start, the Hang Seng Index rallied from the second quarter underpinned by the announcement of the Shanghai-Hong Kong Stock Connect pilot programme, improved global economic growth and the US Federal Reserve's ongoing accommodative monetary stance. It reached a six-year high in early September, then lost ground amid increased fluctuations in global financial markets with renewed concerns over a slowdown in global economic recovery, the oil price slump and heightened geopolitical tensions. The Hang Seng Index managed to close the year just 1.3% higher than at the end of 2013. The residential property market was quiet in the first quarter of 2014, but revived in the remaining months of the year in terms of both transaction volume and prices. This upward trend was also broadly reflected in the commercial and industrial property market. Underlying inflation retreated to 3.5% in 2014 from 4.0% a year earlier, primarily reflecting a moderation in domestic and imported price pressures with an easing global commodity price environment.

Hong Kong Banking Environment

The local banking sector remained resilient in 2014 despite the economic slowdown in some major economies and the uncertainties in the timing and pace of a hike in US interest rates following the end of its quantitative easing programme. The asset quality of retail banks continued to be robust. The classified loan ratio declined mildly to 0.45% at the end of 2014 from 0.48% the previous year. All locally incorporated authorized institutions remained well capitalised. Their consolidated capital adequacy ratio increased to 16.8% at the end of 2014 compared with 15.9% the previous year, which was well above the international minimum standard of 8%. The liquidity position of retail banks remained sound with the average liquidity ratio increasing to 41.1% in the last quarter of 2014 from 39.6% at the same time in 2013, standing firmly above the statutory minimum of 25%.

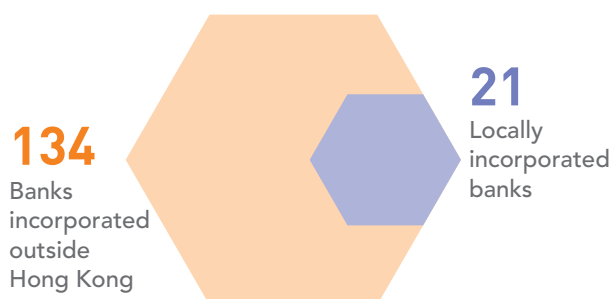
The Regulatory Consistency Assessment Programme review of Hong Kong was carried out by the Basel Committee in 2014 and the overall results of Hong Kong's capital and liquidity regulations were assessed as compliant with the relevant Basel standards. At the beginning of 2015, Hong Kong implemented the second phase of the Basel III capital standards and the Basel III Liquidity Coverage Ratio.

REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014-2015

Scheme Members' Profile

The Scheme had 155 members at the end of March 2015, slightly lower than the 156 members a year ago. One new member joined the Scheme as a result of an upgrade to a licensed bank from a restricted licence bank, while two memberships were revoked because of group restructuring. Twenty-one of the Scheme members were locally incorporated banks and 134 were banks incorporated outside Hong Kong. This was largely in line with the number of retail and wholesale banks in Hong Kong.

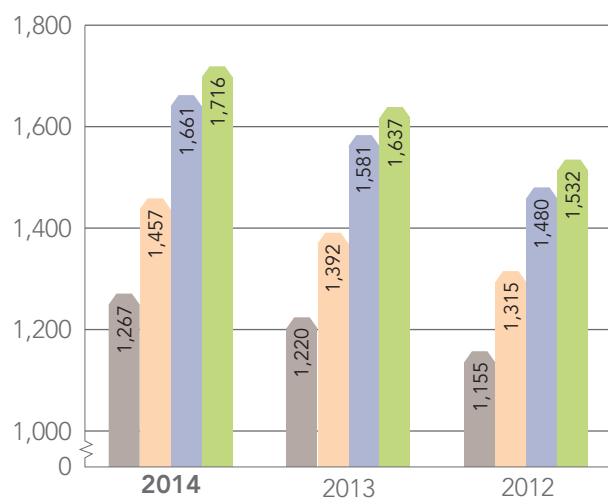
Number of Scheme Members at 31 March 2015



Based on the returns submitted by Scheme members, the aggregate amount of their relevant deposits grew by 5% to HK\$1,716 billion during 2014, compared with HK\$1,637 billion in 2013. 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. Wholesale banks held the remaining 3%.

Relevant Deposits Held with Scheme Members

(HK\$ billion)



% of total	2014	2013	2012
Top 5	74%	75%	75%
Top 10	85%	85%	86%
Top 20	97%	97%	97%
Total	100%	100%	100%

Relevant Deposits Held with Retail Banks and Wholesale Banks

(HK\$ billion)

	2014	2013
Retail banks	1,666	1,585
Wholesale banks	50	52

Contributing to Better Deposit Protection

During the year, the Board thoroughly analysed the feasibility of adopting the gross payout approach and other enhancements to the Scheme to make faster payouts. The analysis took into account the suggestions in a report issued by the International Monetary Fund under the Financial Sector Assessment Programme, and the results of the Board's own internal review. The final proposals were presented by the Government in a three-month public consultation exercise launched in September 2014 on enhancing the effectiveness of the DPS. Bolstered by public support for the proposals during the consultation process, the Board began the necessary planning and preparation for implementing the faster and more efficient gross payout approach, subject to the completion of the required legislative amendments. This approach, with its simpler and more easily understood method to determine compensation, will strengthen depositor confidence in the DPS and improve its function as part of the safety net for maintaining banking stability in Hong Kong.

The effectiveness of resolving banking problems and depositor protection depends on a robust financial safety net. Therefore, a seamless interface between the DPS and the resolution regime for financial institutions being developed by the Government together with the financial regulators is essential in facilitating an effective functioning of the financial safety net framework.

Through its role in protecting depositors, the Board contributed to the design of the local regime such that the DPS would work with the resolution system in a co-ordinated and efficient manner.

Ensuring Payout Readiness of the DPS

Information Readiness of Scheme Members

In early 2015, all Scheme members completed the implementation of the new requirements under the Information System Guideline issued in 2013. The computer systems and operations of Scheme members are now ready to provide depositor records in a much reduced timeframe, and in a standardised data format. This has greatly improved the quality of the data and the timeliness of members' submissions necessary for determining compensation in the event of a payout.

To better ensure continuous compliance with the Guideline, amid the ever-changing systems and business operation environment, a reinforced compliance surveillance programme was introduced to gauge the effectiveness of Scheme members in meeting the Guideline's requirements. Under the new programme, Scheme members are required to return annually a self-declaration of compliance status and a questionnaire on depositor statistics and major system changes made in the reporting year. Two briefing sessions were held to assist Scheme members in preparing their first return. In

REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014-2015

addition, selected Scheme members were required to commission independent auditors to assess their readiness to submit the required information to the Board upon request.



Briefing for Scheme members on the self-declaration of compliance with information submission requirements

In compliance reviews during the year, six simulation tests were conducted with payout agents using customer records in the new standardised format submitted by Scheme members.

Early Preparation for a Potential Payout

To ensure an expeditious payout, it is imperative that early preparations are made for a possible trigger of the DPS. Based on the established early warning system, more detailed co-operative arrangements were agreed between the Board and the HKMA (the banking regulator) to facilitate the required strategic and resources planning, data verification and other essential preparatory work before any payout. At the same time, more elaborate procedures, under different scenarios, were developed to enable payout agents to perform their tasks more efficiently during the pre-payout stage. With these pre-payout procedures in place, the Board is better equipped to reimburse depositors as quickly as possible in the event the DPS is triggered.

Payout System Revamp

System efficiency is crucial for the processing and analysis of a large volume of bank records, particularly in a stressed timeframe. Following the implementation of the revised Information System Guideline, the efficiency of the payout system was improved and new features were introduced to make full use of the more comprehensive information provided by Scheme members. The revamp of the payout system also enabled commencement of some payout processes well ahead of a payout.

Gearing Up for Payout Reform

It was equally important to ensure that payout agents were fully conversant with the Scheme's latest reforms for the smooth completion of the time-critical payout processes. Therefore, training sessions were held to familiarise the agents with the payout procedures and new system features to instil a high level of readiness. The sessions focused principally on a detailed walk-through of the work to be undertaken for early preparation after receiving advance notice of a likely bank failure.



A walk-through conducted with payout agents

REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014–2015

Payout Reform

Contingency Planning

Established a more comprehensive contingency plan setting out responses to a banking crisis involving different scenarios

Early Preparation for a Potential Payout

Formalised a co-operative agreement with the HKMA to implement an early warning system

Developed elaborate procedures for early preparation of a payout in the event of a potential bank failure

Readiness of Scheme Members

Enhanced information submission requirements to enable speedy submission of depositor records when there is a bank failure

Launched new measures to ascertain and monitor the overall compliance level of Scheme members

Readiness of Payout Agents

Expanded the pool of external payout agents to support a payout

Ensured payout agents are ready to act effectively during a payout

Revamped Infrastructure and System

Upgraded infrastructure to support more complex or larger scale payouts

Completed system revamp to make full use of more comprehensive information provided by Scheme members and for higher efficiency

Exploration of Electronic Payment Channels

An external consultant was engaged to undertake research on existing and emerging payment channels. The study included consultation with the major retail banks and leading industry operators of payment networks making reference to the best and latest practices of overseas deposit insurers. After careful deliberation, and taking into account the possible fragile depositor sentiment at the time of a bank failure, the study concluded that electronic methods for making compensation payment, if used, must be robust and well known to the public. In view of the continuing development of electronic payment channels and the gradual rise in their usage, suitable electronic means will be adopted to supplement paper cheques to speed up depositors' access to payment as and when appropriate.

Sufficient Funding

Once a DPS payout is triggered, the Board is committed to compensating the relevant depositors as soon as practicable. To this end, the Board has always maintained adequate resources through maintaining a highly liquid portfolio of assets and a robust standby credit facility of up to HK\$120 billion from the Exchange Fund.

REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014–2015

Building up the DPS Fund

Composition of the DPS Fund

The DPS Fund mainly consists of two components, annual contributions to the Board by Scheme members, and the returns generated by the Fund's investments. The amount of relevant deposits reported by Scheme members, together with the supervisory rating provided by the HKMA, serves as the basis for determining their contributions for the coming year.

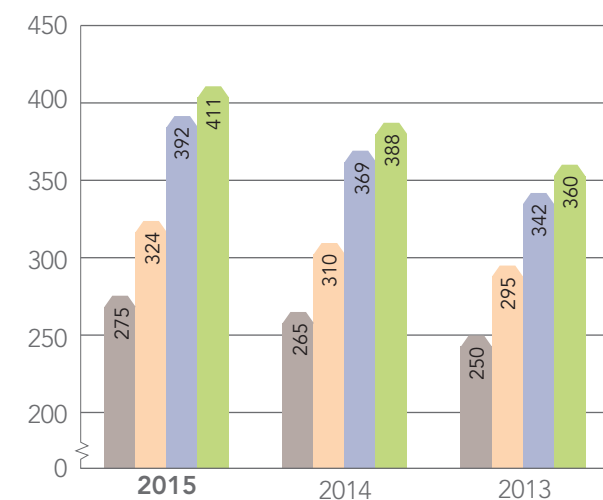
Assessment and Collection of Contributions

The contributions collected from Scheme members during the year amounted to HK\$411 million, an increase of 6% from the previous year. All contributions were paid during the first quarter of 2015. 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, since 2007, has requested Scheme members to conduct regular audit reviews of their Returns of Relevant Deposits in accordance with the policy for reviewing returns. Following a review of the policy during the year, it was decided that to alleviate the reporting burden of small Scheme members, no member with HK\$90 million or less in relevant deposits would be subject to regular

audit review requirements. The review results for the year were satisfactory, and no reporting error was noted. All applicable Scheme members had completed the first round of audit review under the current reporting basis. This gave added confidence to the Board on the accuracy of the total amount of contributions payable by the industry.

Contributions Paid by Scheme Members

(HK\$ million)



By Relevant Deposits Held

% of total	2015	2014	2013
Top 5	67%	68%	70%
Top 10	79%	80%	82%
Top 20	95%	95%	95%
Total	100%	100%	100%

REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014–2015

Investments of the DPS Fund

With the uncertainties surrounding global financial markets, and the primary investment objective of the DPS Fund being capital preservation, the Board continued to exercise extra caution by adopting a conservative investment strategy to guard against possible losses arising from any sharp market fluctuations. Investments were made in strict compliance with the DPS Ordinance 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.

At the end of March 2015, the DPS Fund's assets were predominantly held as deposits and almost all were denominated in Hong Kong dollars, with a minimal balance in US dollars. Despite the low interest-rate and uncertain investment environment, the DPS Fund achieved a positive investment return of 0.17% for the year.

The DPS Fund's Mix of Cash and Investments (at 31 March)

(HK\$ million)	2015	2014
Cash and deposit balance	2,766	2,425
Investment securities	0	0
Total	2,766	2,425

The DPS Fund's Currency Mix of Cash and Investments (at 31 March)

(HK\$ million)	2015	2014
Hong Kong dollars	2,765	2,424
US dollars	1	1
Total	2,766	2,425

REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014-2015

Enhancing Public Awareness and Understanding

High level recognition of the DPS supports depositor confidence in the banking system. It was encouraging to note a rising trend in the public awareness and understanding of the Scheme during the year. Given its significance, the Board continued to place great emphasis on conducting various publicity programmes through multi-communication platforms, and organising tailored community education activities to enable depositors to better understand the Board's role and the DPS coverage. With regular evaluation of public opinion survey results and other feedback, the Board adjusts its publicity and community education strategies to improve the effectiveness of different initiatives designed for Hong Kong depositors.

Mass Publicity Campaigns

Television and Radio

Sustaining the momentum of the popular series based on the "Bao Bao Bao" theme, a new TV and radio campaign adopting the same advertising jingle was launched in September 2014. To achieve greater resonance with target audiences, the new campaign featured the storyline and principal characters from the long-running radio drama "18/F Block C". The campaign began with the question, "Where is the best place to keep my money?", and rhyming dialogue was used to highlight the deposit protection messages in a humorous yet easy-to-remember way.

Digital and Print Media

In addition to the TV and radio campaign, the Board publicised the Scheme's key messages



New TV and radio campaign features characters from the long-running "18/F Block C" radio drama



Online news channel video



Newsletter advertorial

REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014-2015

online, including an online news channel to capture the attention of audiences from other media sources, such as young people and housewives.

In addition, advertorials and informative articles were published in newsletters of different target readership groups, such as blue-collar workers, teachers and senior citizens.

Out-of-home Publicity

The Board also utilised a comprehensive range of out-of-home channels with new creative elements echoing the advertising theme.

Advertisements, both static and through infotainment systems, were shown on public transport, such as MTR trains, buses and in fast food outlets to catch the attention of passengers, diners and people on the move.

Publicity materials were also displayed and distributed at public housing estates, public hospitals, Integrated Family Service Centres, The Link shopping centres and the arrival hall at the Lo Wu Control Point. The use of these different platforms enabled the Board to reach target audiences in a cost-effective manner.



Spreading the DPS messages across Hong Kong

REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014-2015

Community Education Activities

Community Engagement Campaigns

To provide easy access to DPS information in densely populated neighbourhoods, the Board operated, on a rotational basis, an interactive digital game booth at shopping malls in different areas, and distributed publicity materials on Sundays at public housing estates and near old tenement buildings. Another promotional initiative at district level was held in selected outlets of a restaurant group around Hong Kong where diners participated in a scratch-card game imbedded with key DPS messages.



DPS game booth at a shopping mall

DPS Senior Ambassadors

To better connect with senior citizens, the Board sought the assistance of established brigades of active volunteers from non-government organisations. In particular, it collaborated with the Caritas Cheng Shing Fung District Elderly Centre (Sham Shui Po) and the Mong Kok Kai Fong Association Chan Hing Social Service Centre to engage the enthusiasts as DPS Senior Ambassadors. These ambassadors promote the DPS to their contemporaries, low income families and new immigrants through regular home visits and other community activities.



DPS Senior Ambassadors



Board Chairperson, Mrs Pamela Chan (centre), invites diners to play the DPS game

REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014-2015

DPS Features in Bun-making Classes

Building on the momentum established by the previous “Ensure your Protection, Save with Confidence” bun-making campaign, and the popularity of the bun-making videos on the Board’s website, the Board hosted a series of bun-making classes for housewives during the year. The Tung Wah Group of Hospitals Jockey Club Tin Shui Wai Integrated Service Centre and the Hong Kong Young Women’s Christian Association Sham Shui Po Integrated Social Service Centre were partners in the series. The participants enjoyed the innovative DPS video featuring the Chairperson and a celebrity chef. The bun-making classes were interspersed with messages about the DPS.



DPS bun-making classes

REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014-2015

DPS Talks

Throughout the year, the Board continued to hold tailor-made talks about relevant aspects of the DPS for different audience groups, including the elderly, housewives and students. In addition, the Board partnered with the Investor Education Centre and The Hong Kong Association of Banks to incorporate key features of the DPS in their financial education workshops

for students of the Elder Academy and low income families respectively. Information about the DPS was also passed on to secondary students at public education seminars held by the HKMA and talks to members of the Women's Club of The Family Planning Association of Hong Kong.



Interactive community education programmes target different audience groups

REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014-2015

Consumer Shows

Consumer shows in areas attracting high pedestrian flows were once again a feature of the Board's approach to closely engage with members of the public. Senior citizens and their carers were welcomed at an interactive DPS information booth at the Hong Kong Retiree and Senior Fair in July 2014. The Board also participated in the North District Flower, Bird, Insect and Fish Show in December. In addition to the distribution of publicity materials and the information panel display, a series of DPS videos was shown to reinforce public knowledge and understanding of the Scheme's main features.

Effectiveness of Publicity Campaigns

There has been an encouraging rise in the levels of awareness and understanding of the DPS. According to the findings of independent public opinion surveys, the awareness level remained at a high level of 78% in 2014. Of those respondents aware of the Scheme, nearly 80% knew about the HK\$500,000 protection limit, an increase of almost five percentage points over the 2013 survey, and just over 80% knew the protection provided by the DPS was covered by

law, a rise of some four percentage points. While these upward trends are welcome, the Board will continue to explore new opportunities to effectively build confidence in the DPS protection.

Compliance with Representation Rules

The 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 representation requirements, Scheme members were asked to conduct a self-assessment review covering the period from 1 July 2013 to 30 June 2014. 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 was satisfactory in general, and no non-compliance cases with a systemic impact were identified.



Board booths at the Hong Kong Retiree and Senior Fair (left) and the North District Flower, Bird, Insect and Fish Show

Relationships 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 an MoU that sets out how they co-operate 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 the 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 formalised an early warning system to enable faster payouts and set out the necessary co-operative arrangements.

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 the 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, 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 Co-operation

As a member of the International Association of Deposit Insurers (IADI), the Board actively participates in its conferences and seminars and other events organised by member deposit insurers and international organisations, and exchanges 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 2014–2015, the Board's personnel took part in a number of international meetings, including:

- The IADI Asia-Pacific Regional Committee 12th Annual Meeting and International Conference in Kyoto, Japan
- The IADI Asia-Pacific Regional Committee's Technical Seminar on "Navigating Too Big to Fail: Strengthening Cross-border Co-operation and Implementing Effective Recovery and Resolution Planning" in Kuala Lumpur, Malaysia

REVIEW OF OPERATIONS AND ACHIEVEMENTS IN 2014-2015

- The 2014 IADI Executive Training Seminar on "Deposit Insurance Funding: Key Questions, Diverse Approaches" in Washington, D.C., USA
- The Joint Financial Stability Institute-IADI Seminar: Bank Resolution, Crisis management and Deposit Insurance Issues in Basel, Switzerland
- The 13th IADI Annual General Meeting and 2014 Annual Conference in Port of Spain, Republic of Trinidad and Tobago.

To foster information sharing and co-operation on cross-border issues, the Board signed an MoU with the Central Deposit Insurance Corporation, Taiwan in August 2014.



MoU signing between the Board and Taiwan's Central Deposit Insurance Corporation



The IADI Asia-Pacific Regional Committee 12th Annual Meeting and International Conference (Kyoto)