

## SCHEME OPERATIONS

### SCHEME MEMBERS' PROFILE AND RELEVANT DEPOSITS

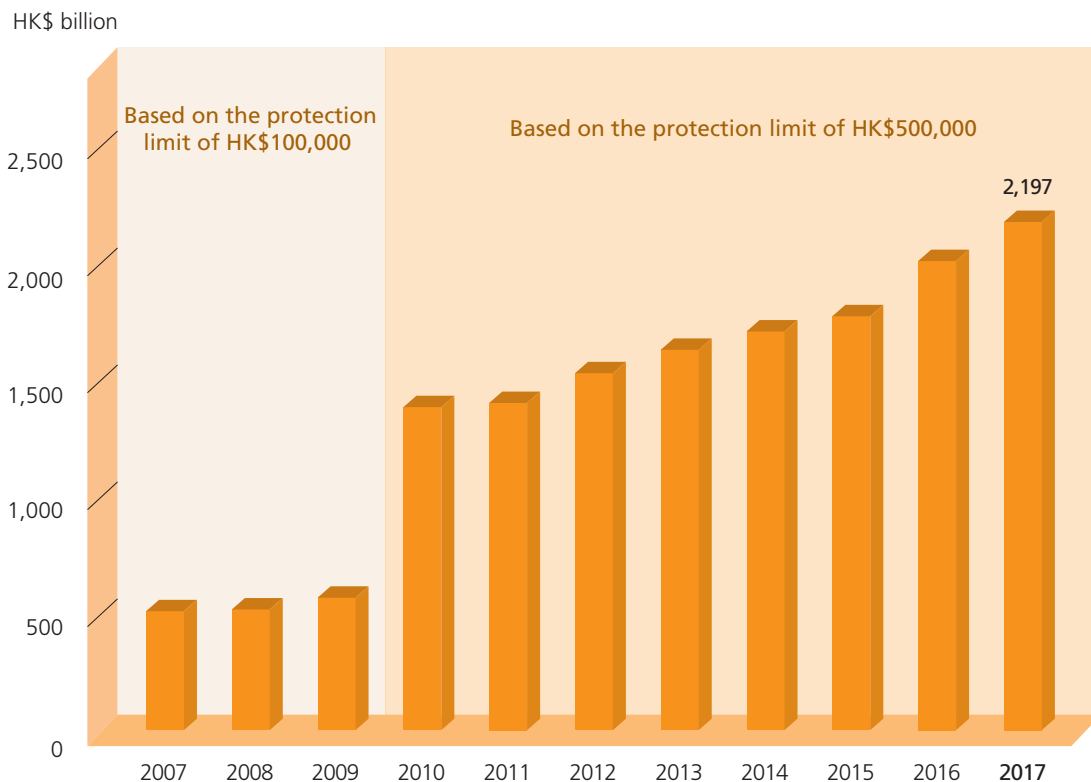
The Scheme had 151 members at the end of March 2018: 22 were incorporated locally and 129 were incorporated outside Hong Kong. This is largely in line with the number of retail and wholesale banks in Hong Kong.

Based on returns submitted by Scheme members, the aggregate amount of their relevant deposits grew by 8% to HK\$2,197 billion during 2017, compared with HK\$2,026 billion in 2016. This was attributed to an increase in total deposits held with Scheme members. The distribution of relevant deposits among Scheme members remained similar to that of the previous year.

The top 20 Scheme members, most of which were retail banks, held 97% of the industry's aggregate relevant deposits.

The Board's objective is for most depositors to be fully protected by the DPS. According to statistics provided by Scheme members, about 90% of depositors are fully protected by the DPS. The regular survey for monitoring the implications of the popularity of structured deposits, which are not protected by the DPS, will be conducted in the fourth quarter of 2018.

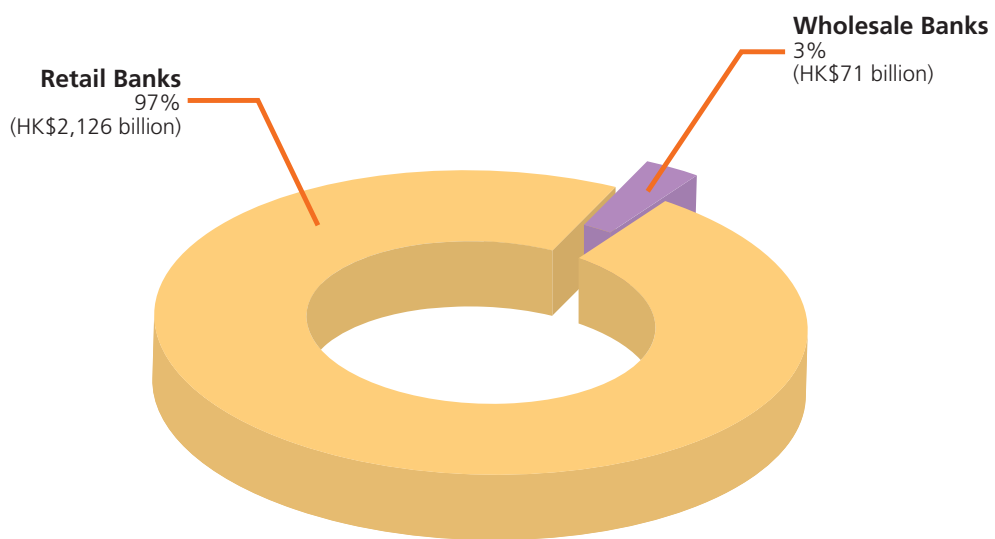
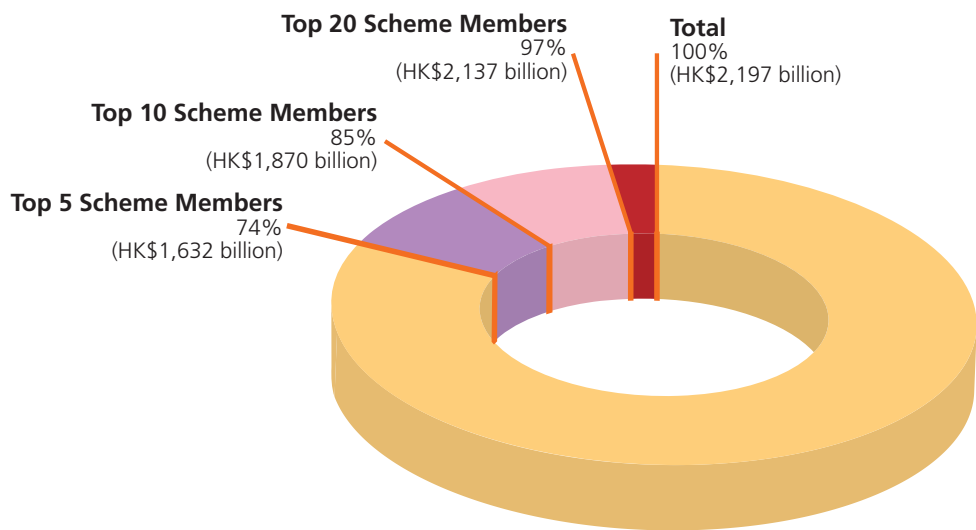
### Relevant Deposits Held with Scheme Members (2007 - 2017)



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## Distribution of Relevant Deposits in 2017



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### PAYOUT READINESS

#### Overview

We regularly conduct a series of activities to ensure that the Board is geared up for achieving the target of making compensation payments within seven days. These include payout rehearsals, walk-through exercises with payout agents, compliance reviews on Scheme members' data readiness, and simulation tests on systems and processes. The experience gained from these activities helps enhance the Board's preparedness in managing various potential eventualities. Also, as part of our continuing effort to improve efficiency, we are renewing the payout system and exploring the use of electronic payment channels to make compensation to depositors in addition to paper cheques.

#### Payout Rehearsal and Contingency Planning

A full payout rehearsal was conducted in 2017 with the joint participation of the Board's personnel and an extensive network of payout agents. The "close-to-real-life" rehearsal verified the overall payout readiness of the Board's procedures, systems and personnel, and tested the command, control and communication framework. Members of the Board were actively engaged in the simulated decision-making processes, providing steering and oversight on payout and communication strategies. The results have affirmed that the Board is well prepared to meet the seven-day payout target.

A comprehensive contingency plan is crucial for guiding prompt responses to various banking crisis scenarios. Taking into account the experience gained from the rehearsal and the operational benefits to be brought by the scheduled launch of the new payout system by the end of 2018, we will enhance the versatility of our contingency measures after undertaking a thorough review.

Simulated Committee Meeting



Simulated Payout Operation



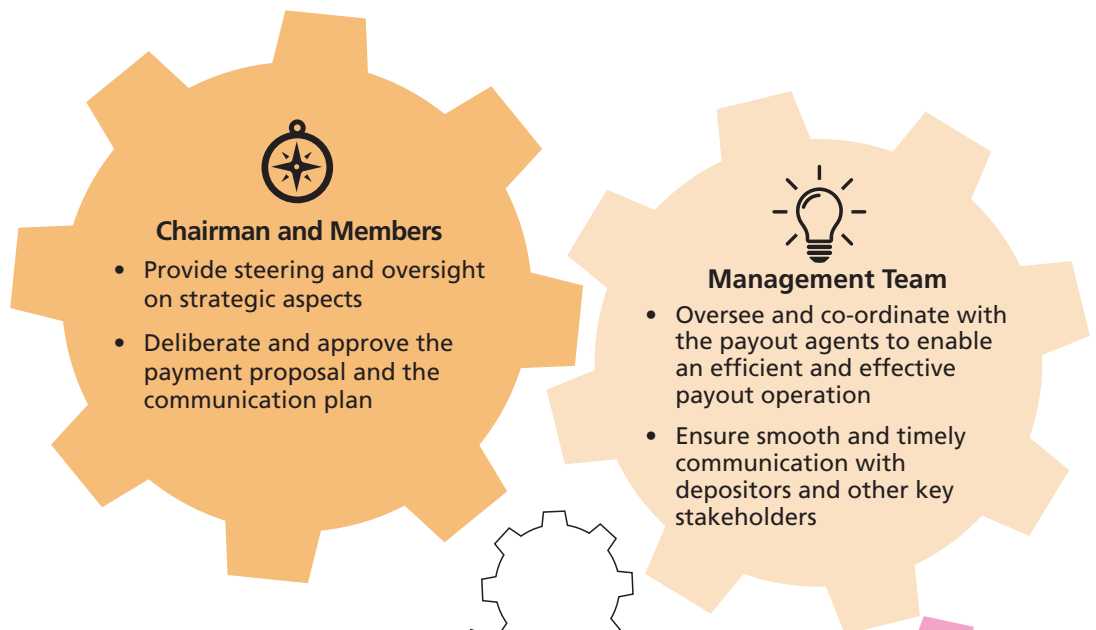
The Board personnel and payout agents work hand-in-hand during various stages of the payout rehearsal

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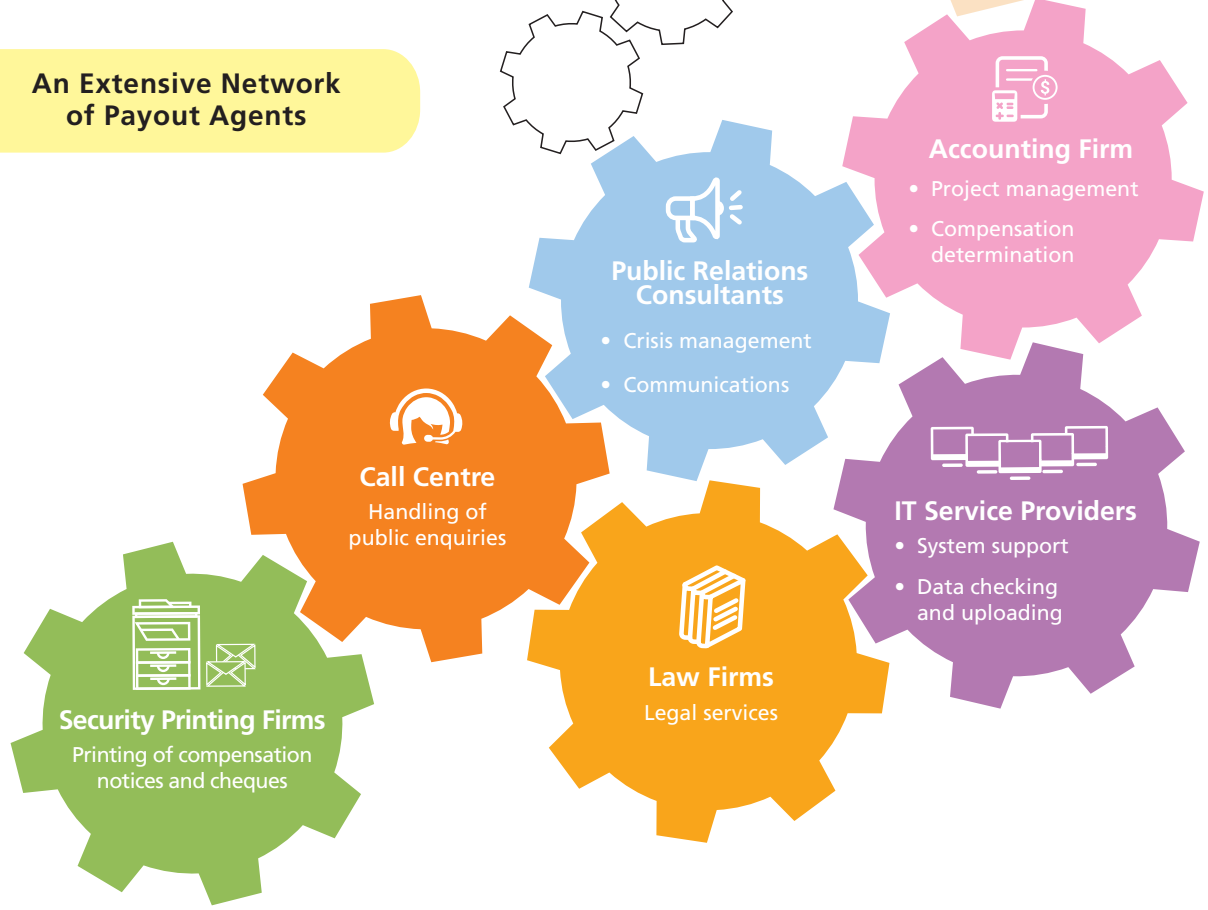


## A Collaborative Effort: the Duties of Various Parties to Achieve a Speedy Payout

### Hong Kong Deposit Protection Board



### An Extensive Network of Payout Agents



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### Modernisation of the Payout System

Under the two-year project to revamp the payout system, the new hardware was put into service in January 2018, speeding up processing time by 30%, and enhancing system resilience and data security. The redeveloped application, to be launched by the end of 2018, will further improve operational efficiency and effectiveness by streamlining the payout workflow and supporting electronic payment channels. To take full advantage of the new system in the payout operations, we will revise the relevant procedures and provide training to the payout agents.

### Benefits of the New Payout System

#### Data Uploading



Simplify the uploading process of depositor records obtained from a failed Scheme member

#### Data Checking



Improve the efficiency of data checking and reconciliation

#### Compensation Determination



Streamline the process through redesigned calculation logic

#### Compensation Disbursement



Increase flexibility by supporting electronic payment channels to supplement paper cheques

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### Information System Requirements and Compliance

Quality information provided by Scheme members in a timely manner for compensation calculation is vital to a speedy payout. Therefore, the Board adopts various measures under the Compliance Review Programme to monitor Scheme members' on-going compliance with the information submission requirements. In addition to the compliance reviews of selected Scheme members conducted by the Board, all Scheme members are required to submit a self-certification annually and an independent auditor's assessment report every three years. The overall compliance level of the industry during the year was satisfactory. We will continue to organise regular briefing sessions for Scheme members and auditors to strengthen their understanding of the information requirements.



Briefing session on compliance with the information submission requirements

### Electronic Compensation Payment

To further improve the speed of compensation payment to depositors in case of a trigger of the DPS, we are exploring the feasibility of adopting the Faster Payment System (to be launched by the HKMA in September 2018) as a secure electronic payment channel to supplement paper cheques.

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### DEPOSIT PROTECTION SCHEME FUND

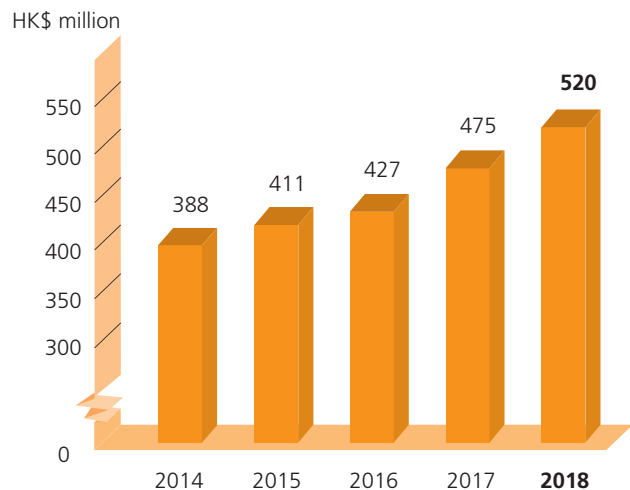
#### Composition of the DPS Fund

The build-up of the DPS Fund is mainly from two sources, namely annual contributions paid to the Board by Scheme members, and the returns generated by the DPS 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.

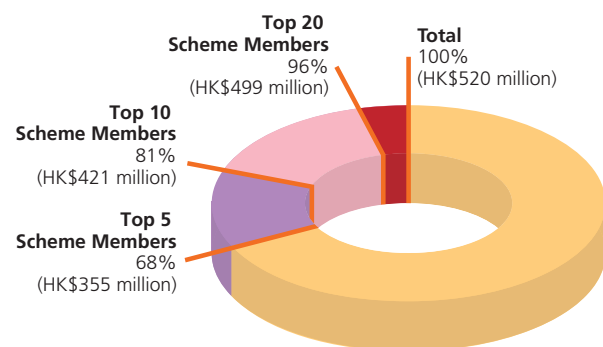
#### Assessment and Collection of Contributions

The contributions collected from Scheme members during the year amounted to HK\$520 million, an increase of 10% from the previous year. Similar to the distribution of relevant deposits, the amount of contributions collected from the top 20 Scheme members accounted for more than 95% of the total. To ensure the reporting accuracy of Scheme members, 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. The Board selected 22 Scheme members to submit an audit report on the accuracy of their returns in 2018. The audit results were generally satisfactory, and no reporting error leading to a material impact on the amount of contributions collected by the Board was noted.

#### Contributions Paid by Scheme Members



#### Contributions by Relevant Deposits Held with Scheme Members



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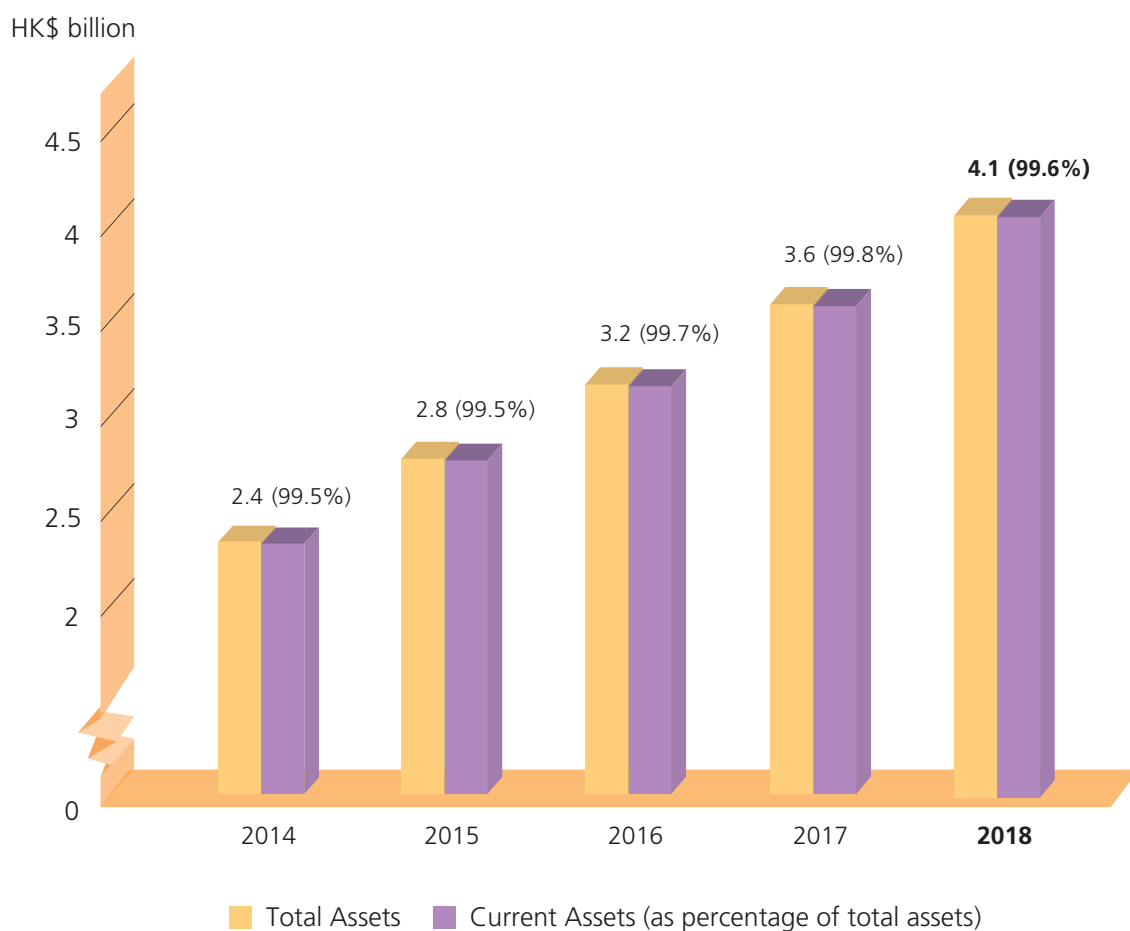


### DPS Fund Investments

Considering the uncertainties surrounding the global financial markets, the Board continued to maintain a cautious approach by adopting a capital preservation and conservative strategy for the investment of the DPS Fund. 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. The DPS Fund's assets were maintained with highly liquid assets and were predominantly held in the form of Hong Kong dollar deposits at the end of March 2018. Despite the uncertain investment environment, the DPS Fund achieved an investment return of 1.28% for the year.

### DPS Fund's Assets





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### REINFORCING PUBLIC AWARENESS AND UNDERSTANDING OF THE SCHEME

#### Overview

To reinforce public awareness and understanding of the DPS, the Board continued to adopt an integrated communication strategy during the year. This comprised a multi-media publicity campaign and a variety of community education outreach activities targeting different audience groups.

Building on the high public awareness and understanding of the DPS sustained over the years, the Board will further deepen public understanding of the Scheme through creative means and multiple communication channels. For community groups which might be less easily reached by mass communications, we will continue to engage them through tailored community education activities.

#### Multi-media Publicity

##### *Thematic Campaign “Everyone Can Save with Confidence”*

A new TV advertisement on the theme of “Everyone Can Save with Confidence” was premiered in September 2017. Narrated by the iconic voices of famous artistes Mr Lo Hoi-pang (盧海鵬) and Ms Tam Yuk-ying (譚玉瑛), the advertisement shares the key features of the DPS and highlights that the DPS protection covers people from all walks of life. A radio advertisement, together with out-of-home, digital and social media publicity, was also launched to amplify the impact and extend the reach to a wider audience. Interesting elements about the advertisement were shared on the DPS Facebook Page “Save with Confidence”, further engaging visitors through fun yet informative games.

Date	DPS Amount	DPS Balance	DPS Number
28JAN17	*\$1,850.00	*\$1,850.00	1854ADEP 70
09FEB17	*\$1,850.00		2570BW-D 70
5MAR17			3333ADEP 70
7MAR17			4968JNTW 70
30MAR17			5570BUPD 70
			6065A3E3 70

人人存得安心  
Everyone Can Save with Confidence

QR code | PLAY | Progress bar

Mass publicity campaign keeps the key message “Everyone Can Save with Confidence” and DPS features fresh in the minds of the public

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### Media Exposure

In addition to the mass publicity campaign, the Board also engages the media to disseminate key DPS messages and information to the public. During the year, the DPS was featured in newspapers and magazines. Such print media publicity facilitated the Board's sharing of more details targeting different readership groups, enabling them to have a deeper understanding of the DPS and its relevance to their daily lives.

### Community Education Outreach

#### DPS Fun Day

The Board launched the "DPS Fun Day" to engage our target segments in various districts. With an array of weekend activities comprising talks, bun-making classes and DPS board game workshops, we shared DPS knowledge with families covering new arrivals and members of non-Chinese speaking ethnic communities.



The Board Chairman, Professor Michael Hui, promotes the DPS in print media interviews



Magazine advertorial shares DPS information for different age groups



DPS Fun Day participants spend an enjoyable weekend full of fun and learning



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### Expanding Our Communication Network

To strengthen our communication with non-Chinese speaking ethnic communities, the Board launched a multi-language DPS information leaflet covering Hindi, Nepali, Urdu, Tagalog, Bahasa Indonesia, Thai, Punjabi and English. The leaflet is distributed via the Social Welfare Department's integrated family service centres, consulates and non-government organisations (NGOs). The Board has also continued to leverage the e-platforms of NGOs to promote awareness and understanding of the DPS.



Sharing DPS information in multiple languages



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### A Quick Glance of the DPS Community Education Outreach Activities

## Ambassador and Helper Training Workshops

DPS ambassadors and helpers from diversified backgrounds are equipped with the relevant knowledge to share with their service targets (e.g. the elderly living alone), as well as their families and friends.



## Board Game Activities

Through workshops and an inter-school competition on the DPS Board Game "Around the World in \$80", the younger generation learns money management, the basic concept of DPS protection and the importance of saving.



## Consumer Shows and Engagement Activities

Public awareness and understanding of the DPS are enhanced through interactive educational games at a variety of consumer shows and on the DPS Facebook Page.



## DPS Talks and Seminars

By collaborating with various organisations, DPS information is disseminated to a wide audience, including the elderly, students, homemakers, new arrivals to Hong Kong and low-income groups.



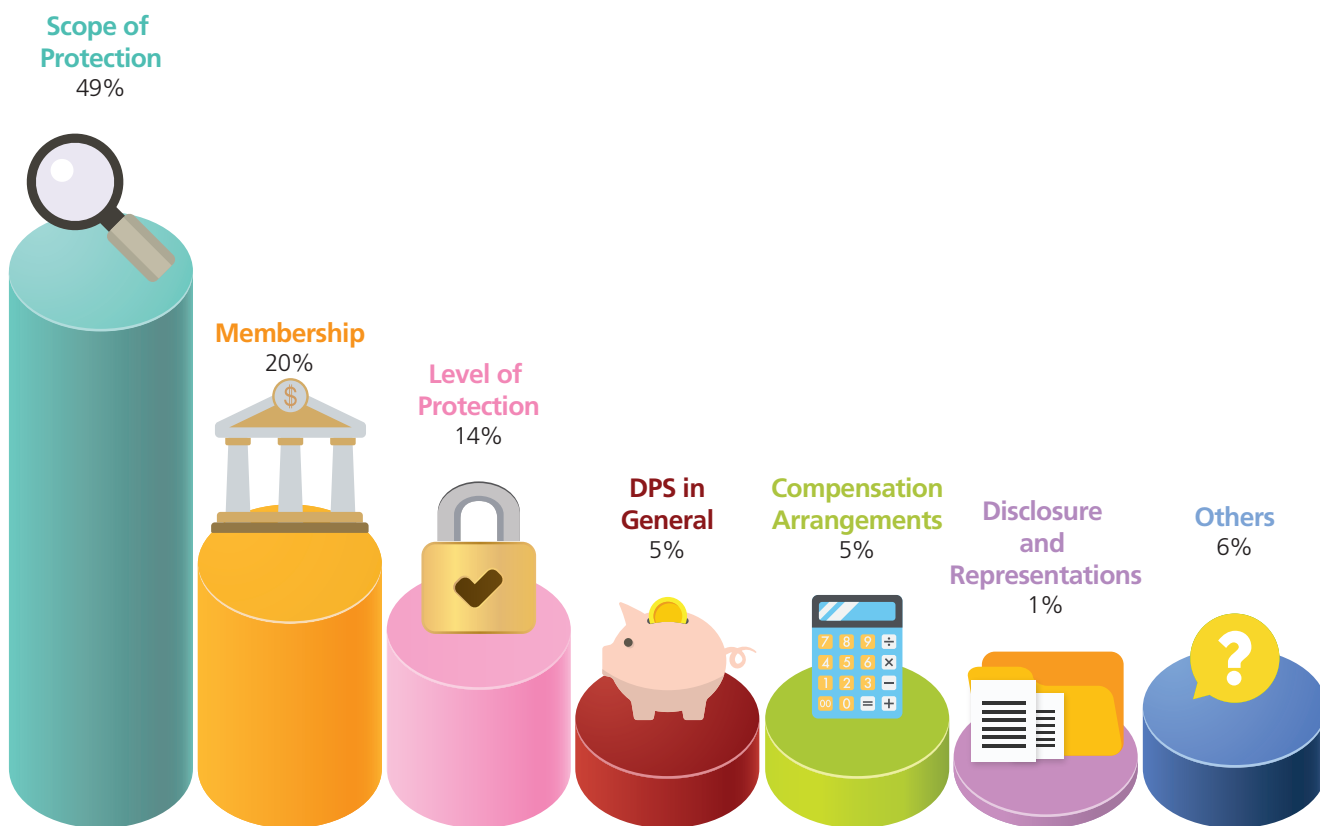
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### Public Understanding and Enquiries about the DPS

According to the results of an independent public opinion survey conducted in 2017, the level of awareness of the DPS remained high at 79%. Of those who had heard of the Scheme, 82% knew about the HK\$500,000 protection limit and 86% realised that the protection provided by the DPS is statutory. The Board will continue to use the findings to fine-tune its publicity and community education strategies.

In addition to gauging public opinion, the Board operates the DPS Public Enquiry Service, which provides a convenient and effective channel for members of the public to enquire about different aspects of the Scheme and the functions of the Board. In 2017-2018, about half of the enquiries received were related to the scope of protection of the DPS, including the types of financial products protected by the DPS, and the compensation entitlements for depositors of joint accounts and company accounts.

### Nature of Enquiries Received by the DPS in 2017-2018



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### COMPLIANCE WITH THE REPRESENTATION RULES

The Deposit Protection Scheme (Representation on Scheme Membership and Protection of Financial Products under Scheme) Rules (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 2016 to 30 June 2017. 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 findings of the on-site examinations conducted by the HKMA to decide the necessity of follow-up actions. The results indicated that the overall compliance level was generally satisfactory, and no non-compliance cases with a systemic impact were identified.

### RELATIONSHIPS WITH OTHER SAFETY NET PLAYERS

#### Co-operation with the HKMA

The Board and the HKMA both have 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 co-operate in the performance of their respective functions. Since the Board is required by the DPSO to perform its 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. In addition, there is a co-operative agreement between the Board and the HKMA on an early warning system of a potential bank failure to enable a fast DPS payout.

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### Relationship with the Securities and Futures Commission and the 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 involved 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. To foster information sharing and co-operation on cross-border issues, the Board signed an MoU with the Singapore Deposit Insurance Corporation Limited in July 2017. In 2017-2018, the Board's personnel took part in a number of international meetings, including:

- The 16th IADI Annual General Meeting and 2017 Annual Conference in Québec City, Canada;
- The 15th IADI Asia-Pacific Regional Committee Annual Meeting, Regional Workshop and International Conference in Yogyakarta, Indonesia;
- 2017 Biennial IADI Research Conference "Designing an Optimal Deposit Insurance System — Theory and Practice" in Basel, Switzerland; and
- The 10th Deposit Insurance Corporation of Japan Round Table in Kyoto, Japan.