

SCHEME OPERATIONS

SCHEME MEMBERS' PROFILE AND RELEVANT DEPOSITS

The Scheme had 152 members at the end of March 2019: 25 were incorporated locally and 127 were incorporated outside Hong Kong. This is largely in line with the number of retail and wholesale banks in Hong Kong.

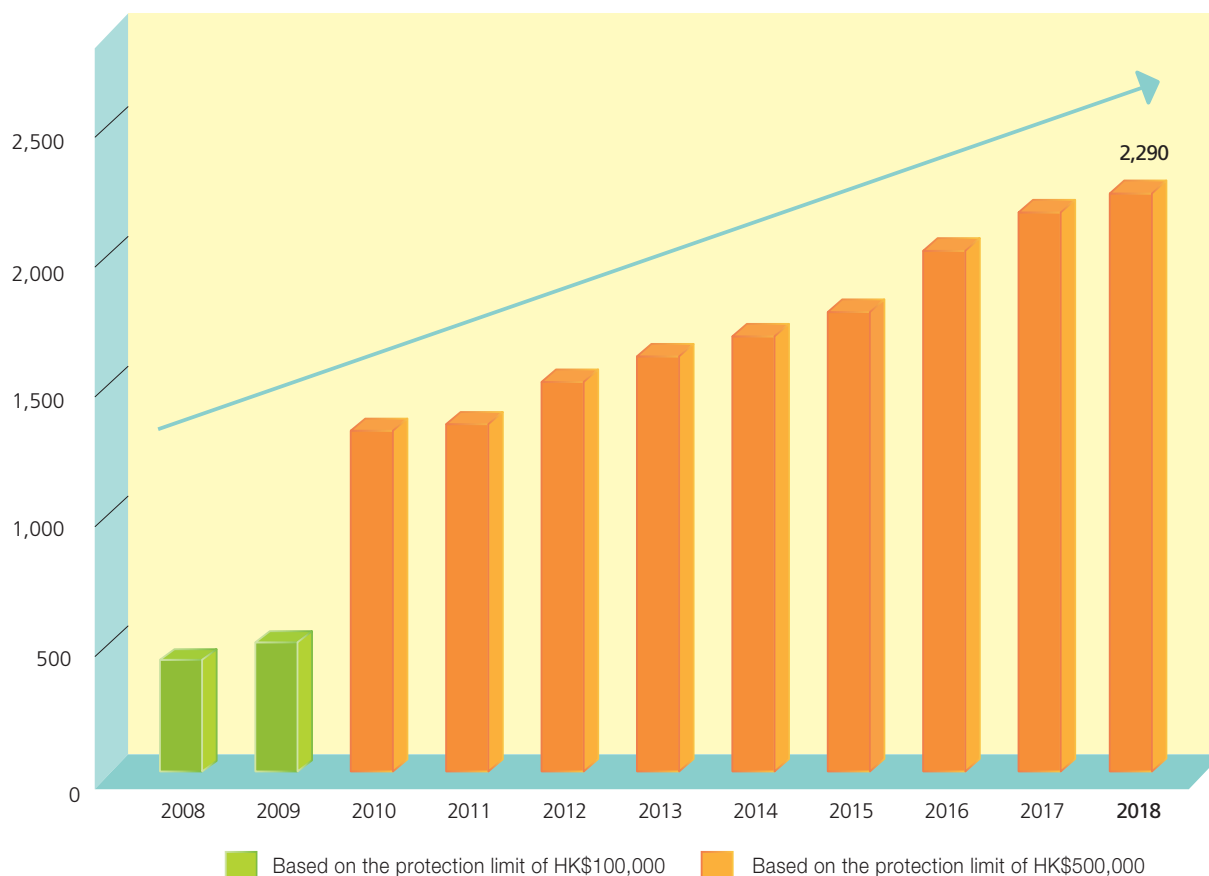
Based on returns submitted by Scheme members, the aggregate amount of their relevant deposits grew by 4% to HK\$2,290 billion during 2018, compared with HK\$2,197 billion in 2017. This was attributed to an increase in total deposits held with Scheme members.

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. A regular survey for monitoring the popularity of structured deposits (currently not under the protection of the DPS) was conducted in the fourth quarter of 2018. The results showed that the number of depositors with structured deposits was not material. In view of this, the Board concluded that the non-protection status of structured deposits should remain unchanged.

Relevant Deposits Held with Scheme Members

HK\$ billion

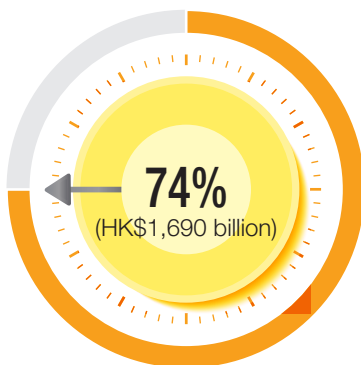


SCHEME OPERATIONS

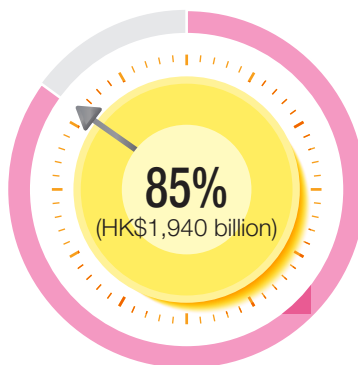
Distribution of Relevant Deposits in 2018

As a percentage of total relevant deposits:

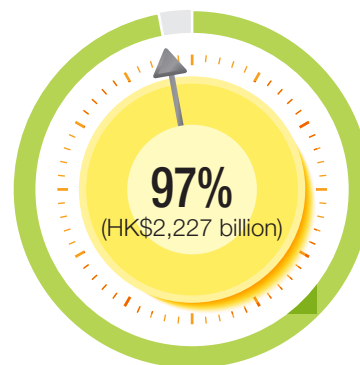
Top 5 Scheme Members



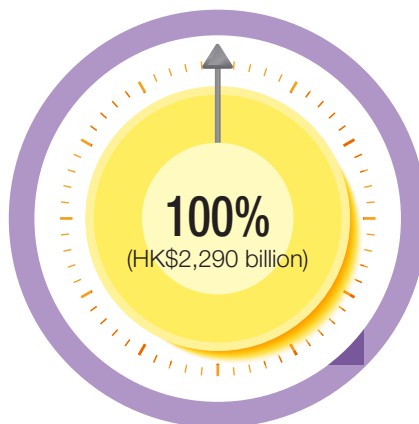
Top 10 Scheme Members



Top 20 Scheme Members

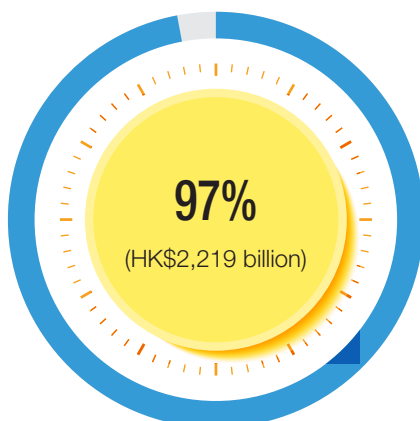


Total

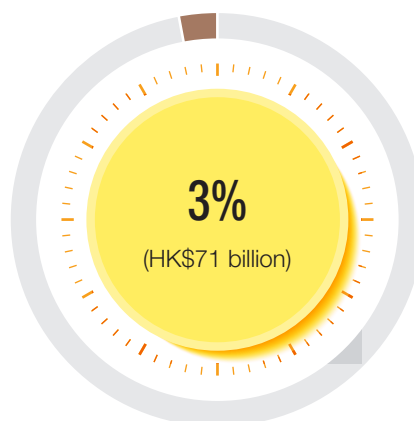


Represented by:

Retail Banks



Wholesale Banks



SCHEME OPERATIONS

PAYOUT READINESS

Overview

The Board is firmly committed to meeting its objective of paying compensation to depositors of a failed Scheme member within seven days in most cases if the DPS is triggered. In order to achieve this, it is crucial to have in place an efficient payout system and to monitor Scheme members' compliance with the information system requirements on the maintenance of good quality deposit records.

During the year, the Board undertook a number of initiatives to enhance payout readiness. A new payout system was launched and contingency

measures were strengthened to cope with different payout scenarios. The Board also conducted training and drill exercises for the payout agents to ensure that they would be ready to respond promptly under a payout scenario. In addition, in order to further improve payout efficiency, the Board completed a feasibility study on the introduction of electronic payment channels to supplement paper cheque payment, which would provide depositors with safe, faster and more convenient access to compensation payment. In 2019-2021, the Board will work on the implementation details of adopting electronic payment channels for making compensation payment.

Depositors are Compensated when the Deposit Protection Scheme is Triggered



Automatic Protection

Depositors are automatically protected by the DPS.



No Submission of Claim is Needed

Depositors do not need to apply or submit a claim when a Scheme member fails.



Public Communication

The Board keeps depositors updated on payout process through multiple channels (e.g. press releases and media announcements). Enquiries can be made through the designated hotline and website.



Compensation Calculation

The compensation amount of each depositor is calculated based on deposit balances maintained with the failed Scheme member. The determination is a highly automated process.



Compensation Payment

Cheques and payout notices will be posted to depositors within seven days in most cases.

SCHEME OPERATIONS

Modernisation of the Payout System

The Board completed a two-year payout system modernisation project and officially rolled out the new system in December 2018. The new payout system helps strengthen system resilience and enhance personal data protection. As compared with the old payout system, which was used for more than a decade, the new system further streamlines work processes for compensation calculation under the gross payout approach (i.e. each compensation payment is calculated without the need to deduct the liabilities owed by the depositor to the bank concerned). This has helped speed up the system processing time by an average of 76%, resulting in a shorter payout time frame. During the year, the Board also provided training to payout agents in conducting a payout operation using the new system to help them take full advantage of its benefits.

Contingency Planning and Rehearsal

The Board developed a contingency plan with procedures to ensure that the payout agents are able to respond quickly under different banking crisis scenarios. With the rollout of the new payout system, the contingency plan was updated, taking into account the improved payout capacity. Moreover, the enhanced contingency plan also addressed possible unexpected disturbances during a payout operation, such as an interruption of operation due to inclement weather.

To further strengthen the operational readiness of the Board's extensive network of payout agents, the Board conducted six training sessions and five drill exercises for these agents during the year. The Board will also conduct a payout rehearsal in 2019 to test the execution of payout operations using the new system.

Accomplishments of Payout System Modernisation

Infrastructure Renewal

- ☒ Refreshed obsolete hardware
- ☒ Strengthened system resilience
- ☒ Enhanced personal data protection
- ☒ Reduced cost of maintenance

Application Redevelopment

- ☒ Streamlined payout work processes
- ☒ Shortened system processing time
- ☒ Supported multiple payment channels

Information System Requirements and Compliance

As the quality of deposit records maintained by Scheme members and the prompt submission of records are essential to ensuring a speedy payout, the Board monitors Scheme members' compliance with the information system requirements through different measures and follows up on areas where there is room for improvement.

SCHEME OPERATIONS

As part of the Compliance Review Programme adopted by the Board, we completed six comprehensive compliance reviews on selected Scheme members and reviewed annual self-declarations from all Scheme members on their compliance with the information system requirements during the year. Each Scheme member is also required to conduct an independent assessment once every three years to assess the adequacy of systems and processes to ensure compliance with the information system requirements. Given the three-year cycle, the Board invites around one-third of the Scheme members to conduct independent assessments every year. This year the Board required 51 Scheme members to perform the independent assessments and found an improvement in their overall compliance as compared to the assessments conducted three years ago.

To provide further guidance to Scheme members on identifying common cases of non-compliance, the Board incorporated more assessment steps into the Programme Guide for the Independent

Assessment Programme. Furthermore, the Board held four information sessions for auditors and information technology practitioners of Scheme members to deepen their understanding of the data requirements and to provide clarification on the updated Programme Guide.

Electronic Payment Channels for Compensation Payment

To supplement paper cheque payment, in 2018 the Board completed a feasibility study on the introduction of electronic payment channels, including the Faster Payment System launched by the Hong Kong Monetary Authority in 2018, for paying DPS compensation. The study confirmed the technical feasibility of introducing electronic payment channels, which would provide depositors with safe, faster and more convenient access to compensation payment by the Board without compromising payment accuracy. In 2019-2021, the Board, in collaboration with service providers, will complete system development and establish operational procedures, with a view to launching electronic payment channels in 2021.

Monitoring of Scheme Members' Compliance



Conducted 6 comprehensive compliance reviews of controls and correctness of deposit records submitted by selected Scheme members



Commissioned 51 Scheme members to submit independent assessment reports under the Compliance Review Programme



Reviewed annual self-declarations submitted by all Scheme members on their compliance with the information system requirements

SCHEME OPERATIONS

DEPOSIT PROTECTION SCHEME FUND

Composition of the DPS Fund

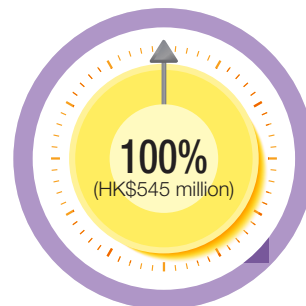
The build-up of the DPS Fund is mainly from two sources, namely annual contributions paid to the Board by Scheme members, and the returns generated by the DPS Fund's investments. The amount of relevant deposits reported by Scheme members, together with the supervisory rating provided by the HKMA, serves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

Assessment and Collection of Contributions

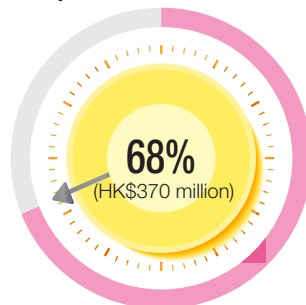
The contributions collected from Scheme members during the year amounted to HK\$545 million, an increase of 5% from the previous year. Similar to the distribution of relevant deposits, the amount of contributions collected from the top 20 Scheme members accounted for more than 95% of the total. To ensure the reporting accuracy of Scheme

Distribution of Contributions Collected from Scheme Members

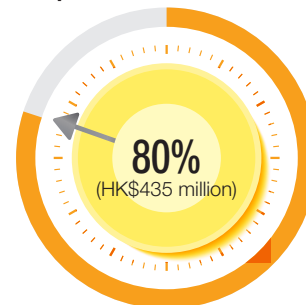
Total



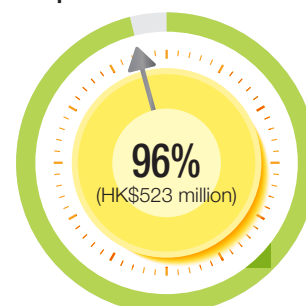
Top 5 Scheme Members



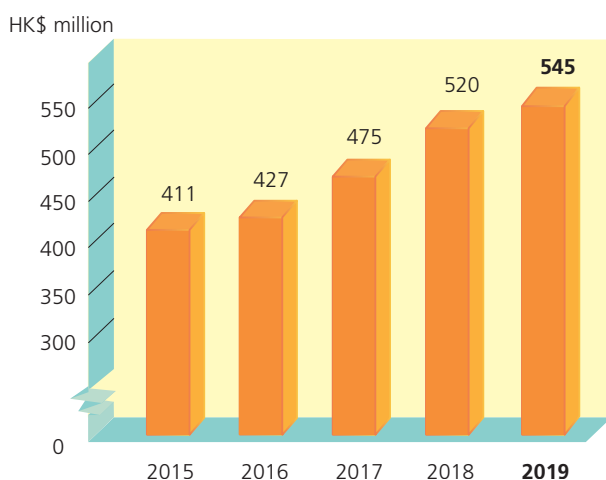
Top 10 Scheme Members



Top 20 Scheme Members



Contributions Paid by Scheme Members



SCHEME OPERATIONS

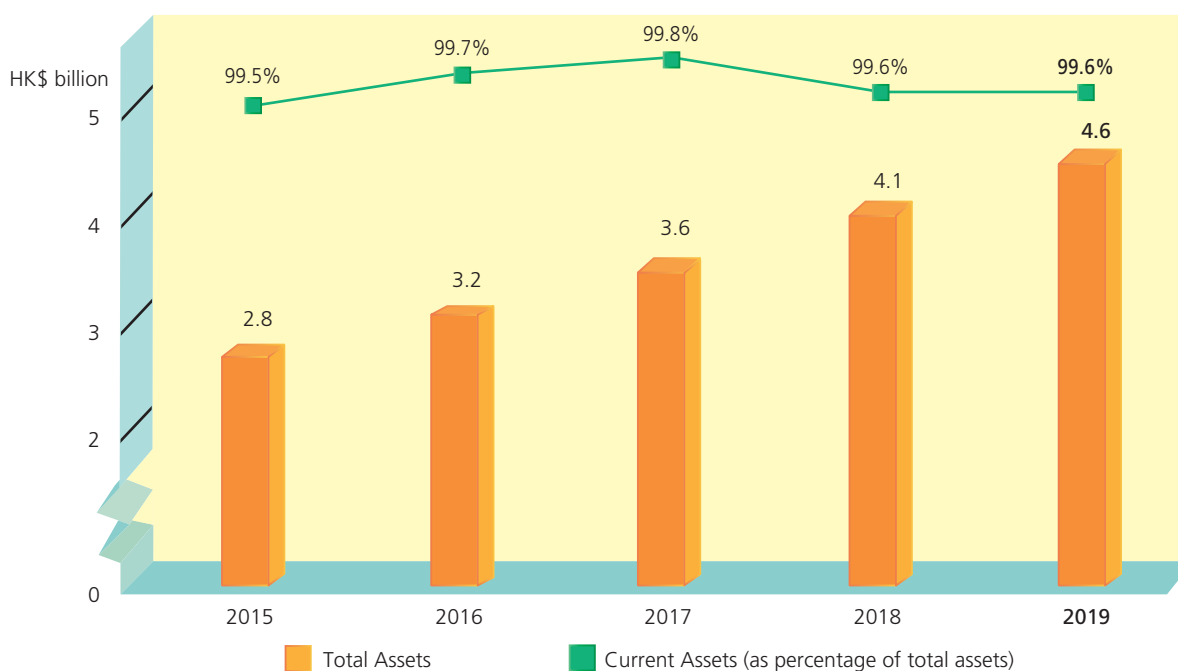
members, the Board, since 2007, has requested Scheme members to conduct regular audit reviews of their returns of relevant deposits in accordance with the policy for reviewing returns. The Board selected 19 Scheme members to submit an audit report on the accuracy of their returns in 2019. The audit results were satisfactory, and no reporting error leading to a material impact on the amount of contributions collected by the Board was noted.

DPS Fund Investments

In view of the uncertain investment environment, 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 predominantly held in the form of Hong Kong dollar deposits at the end of March 2019. The DPS Fund achieved an investment return of 1.45% for the year.

DPS Fund's Assets



SCHEME OPERATIONS

REINFORCING PUBLIC AWARENESS AND UNDERSTANDING OF THE SCHEME

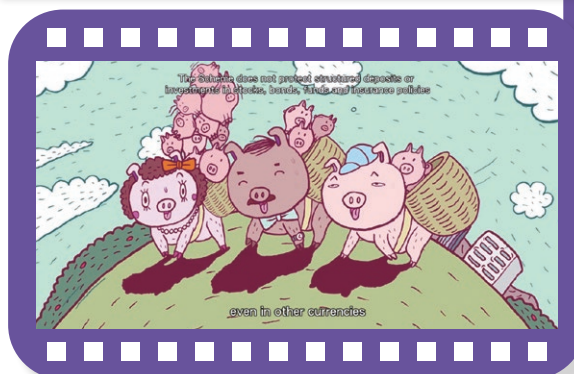
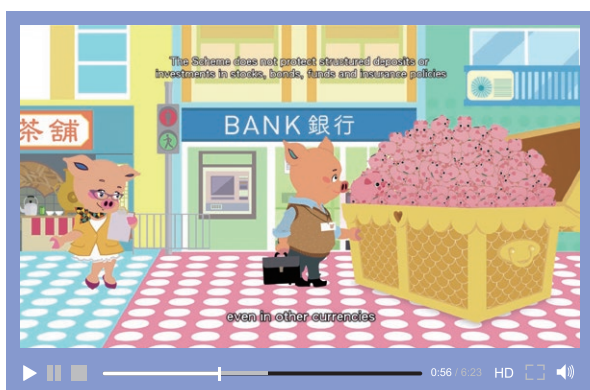
Overview

As public awareness and understanding are key to maintaining an effective DPS, the Board devotes intense effort to enhancing public understanding of key features of the DPS. During the year, the Board rolled out a new three-year communication strategy that has the goal of giving depositors peace of mind. As part of the strategy, the Board launched a multimedia publicity campaign centred around the creative concept of the “DPS Piggy Bank” which generated significant public interest and media attention on the DPS. The Board also engaged in a variety of community education and outreach activities to convey key messages of the DPS to specific target groups.

Multimedia Publicity

Mass Advertising and Consumer Campaigns

To tie in with the Year of the Pig, the Board developed a new advertising campaign using the concept of a piggy bank to resonate with the public's perception of savings. In January 2019, the Board launched a new series of three 15-second TV commercials with animated piggy bank characters created by three famous local illustrators: Ms Theresa Lee (“13 Dots”), Mr John Chan (“Din Dong”) and Mr Nicky Sun (“Picnic by the Motorway”). The TV commercials conveyed key messages of the DPS, including the statutory protection offered to bank deposits and the automatic protection limit of up to HK\$500,000, reassuring depositors that they can save with confidence. In addition to the TV commercials, the Board placed advertisements through other channels, such as print, outdoor and digital platforms, to broaden the reach of the key messages on deposit protection.



The new series of TV commercials launched in January 2019

SCHEME OPERATIONS

To go along with the creative concept of the “DPS Piggy Bank”, the Board also rolled out the “My Piggy Bank” roving Art Installation (Art Installation) during the Chinese New Year holiday period at Lee Tung Avenue and Hopewell Centre in Wanchai. The Art Installation featured 66 piggy bank art pieces, all of which reflected the ideas of students and local artists based on their understanding of the DPS. Moreover, visitors could obtain more detailed information on the DPS through participation in various interactive workshops and drama sessions. The Art Installation, which engaged more than 1,000 visitors in the interactive workshops and generated widespread media attention, will be held in other districts during the rest of 2019.



Professor Michael Hui, the Chairman of the Board, attended the launch ceremony of the Art Installation



Snapshots of the Art Installation



SCHEME OPERATIONS

Survey on Hongkongers' Savings Habits

To generate wider public interest in saving money and to reinforce the public's impression of the Board as a "Guardian of Savings", the Board conducted the first annual survey on "Hongkongers' Sense of Security on Savings" in August 2018. The objective of the survey was to understand people's saving behaviour and money management habits, and to further promote the benefits of deposit protection. The results of the survey were announced at a press briefing in October 2018, which attracted extensive media coverage.



Professor Michael Hui, the Chairman of the Board, at the press briefing announcing the results of the "Survey on Hongkongers' Sense of Security on Savings"

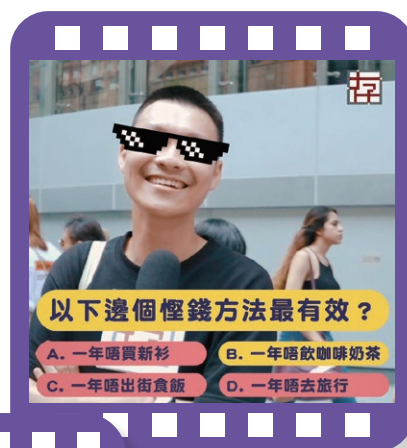
Social Media Campaigns

In order to reach out to social media users who might not have been covered by the mass advertising programme, the Board rolled out new social media campaigns on its Facebook fanpage. During the year, the Board introduced two social media initiatives: (i) "Street Interviews", which explored the public's views and habits

on saving; and (ii) a money-saving competition called the "Saving Piggy Challenge", with participation from local artistes. The Board produced a series of interesting short videos of the two initiatives incorporating DPS messages that were posted on the Board's Facebook fanpage.



Louisa So (蘇玉華) and Gregory Charles Rivers (河國榮) were invited to participate in the "Saving Piggy Challenge" competition



One of the interesting questions that was asked during the "Street Interviews"



SCHEME OPERATIONS

Community Education and Outreach

Key Opinion Leaders' Sharing at DPS Talks

The Board invited key opinion leaders Mr Shih Wing-ching (施永青), Mr Stephen Chan (陳志雲) and Ms Smile Cheung (張笑容) to share their personal saving stories at selected DPS Talks for the elderly and parents in various districts of Hong Kong. This sharing of personal saving stories was intended to promote and deepen audience members' understanding of DPS protection, and the talks were favourably received.



The DPS Talk attracted active participation from the audience



(Left to right) Mr Shih Wing-ching (施永青), Mr Stephen Chan (陳志雲) and Ms Smile Cheung (張笑容) sharing their personal saving stories at selected DPS Talks

SCHEME OPERATIONS

A Quick Glance at the DPS Community Education and Outreach Activities



1. Board Game Activities

Organised board game activities at schools and elderly centres to introduce the DPS and the importance of saving, targeting parents, students, the elderly and the non-Chinese speaking community.

2. Consumer Events and Engagement Activities

Participated in various consumer events to promote public awareness and understanding of the DPS by conducting interactive educational games, dramas and DPS Talks.

3. Ambassador and Promoter Training Workshops

Conducted train-the-trainer workshops to better equip DPS ambassadors and promoters with DPS knowledge to share with their service targets (e.g. the elderly living alone), as well as their families and friends.

4. DPS Talks and Seminars

Disseminated key messages of the DPS to a wide range of audiences, including the elderly, students, homemakers, new arrivals to Hong Kong, low-income groups and the non-Chinese speaking community by collaborating with different organisations.

SCHEME OPERATIONS

Educational Radio Programme

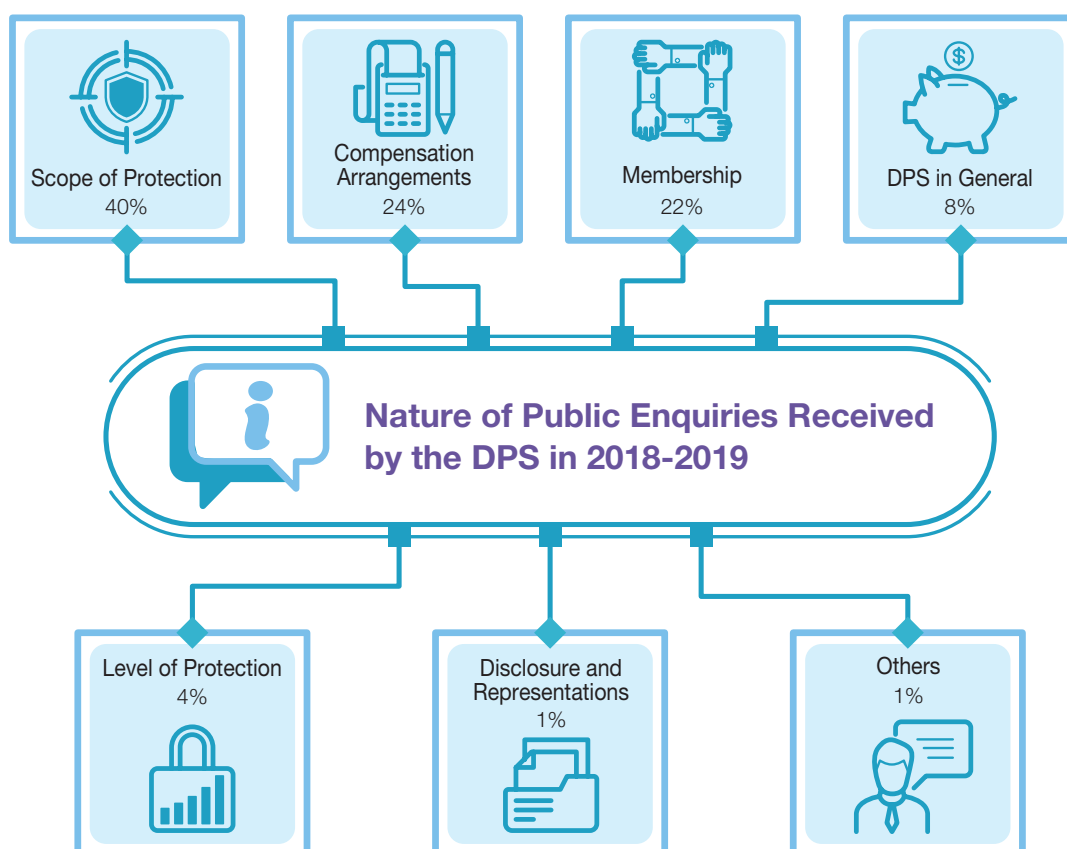
In partnership with Radio Television Hong Kong, the Board developed a year-long DPS educational radio programme comprising 12 five-minute episodes of stories about everyday life, as well as a series of 24 one-minute info-segments on interesting facts about the DPS. The radio programme enabled the Board to disseminate DPS messages to targeted audiences, including homemakers, the elderly and blue-collar workers.

Public Awareness and Enquiries

The Board commissions an independent public opinion survey each year to measure the level of public awareness of the DPS. According to the results of the survey conducted in 2018, the level of public awareness of the DPS remained high at 78%, which was around the same level as the previous year. Of those aware of the DPS, 83%

knew about the HK\$500,000 protection limit and 85% realised that the protection provided by the DPS is statutory. The Board will continue to fine-tune its communication strategy based on the survey findings.

The Board also operates the DPS Public Enquiry Service, which provides a convenient and effective channel for members of the public to ask questions about different aspects of the DPS and the functions of the Board. About 40% of the enquiries received in 2018-2019 were related to the scope of protection of the DPS (including the types of financial products covered by the DPS), and about one-quarter were related to compensation arrangements (including the compensation entitlements for joint account and company account depositors).



SCHEME OPERATIONS

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 2017 to 30 June 2018. 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 share 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 would 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.

SCHEME OPERATIONS

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 experiences on the effectiveness of overseas reform measures that may provide insights and impetus for making future enhancement to Hong Kong's DPS. To enhance mutual cooperation and information sharing, the Board engaged in an Exchange of Letters with the Deposit Insurance Corporation of Japan in August 2018. In 2018-2019, the Board's personnel took part in a number of international meetings, including:

- The 17th IADI Annual General Meeting and 2018 Annual Conference in Basel, Switzerland;
- The 16th IADI Asia-Pacific Regional Committee Annual Meeting, Regional Workshop and International Conference in Hanoi, Vietnam;
- IADI Asia-Pacific Regional Committee Technical Assistance Workshop on Dealing with Failing and Failed Member Institutions: Case Studies and Lessons Learnt, in Taipei; and
- The 11th Deposit Insurance Corporation of Japan Round Table in Tokyo, Japan.