



SCHEME OPERATIONS

SCHEME MEMBERS' PROFILE AND RELEVANT DEPOSITS

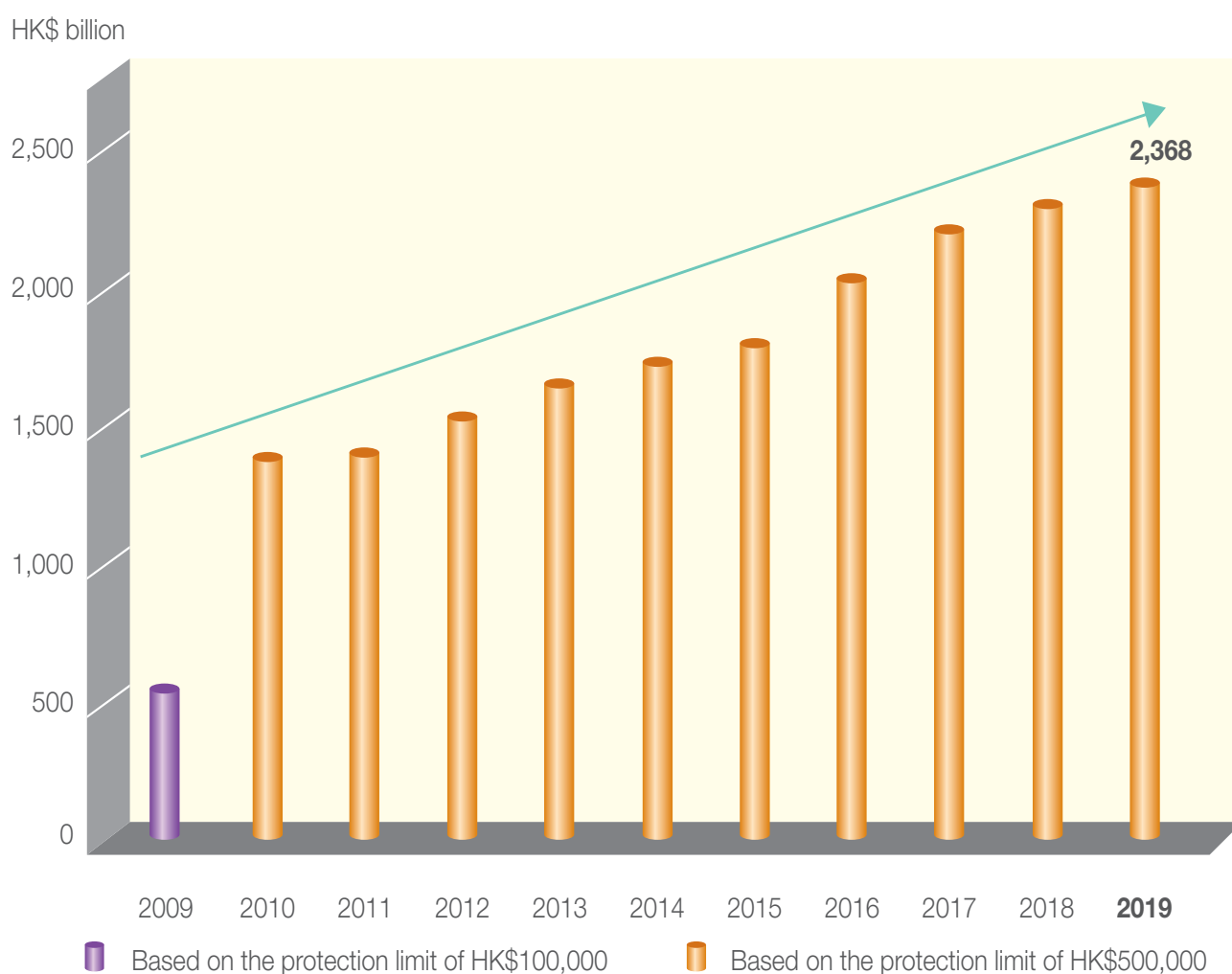
The Scheme had 159 members at the end of March 2020: 31 were incorporated locally and 128 were incorporated outside Hong Kong. This is largely in line with the number of retail and wholesale banks in Hong Kong.

Based on returns submitted by Scheme members, the aggregate amount of their relevant deposits

grew by 3% from HK\$2,290 billion in 2018 to HK\$2,368 billion in 2019. This was attributed to an increase in total deposits held with Scheme members.

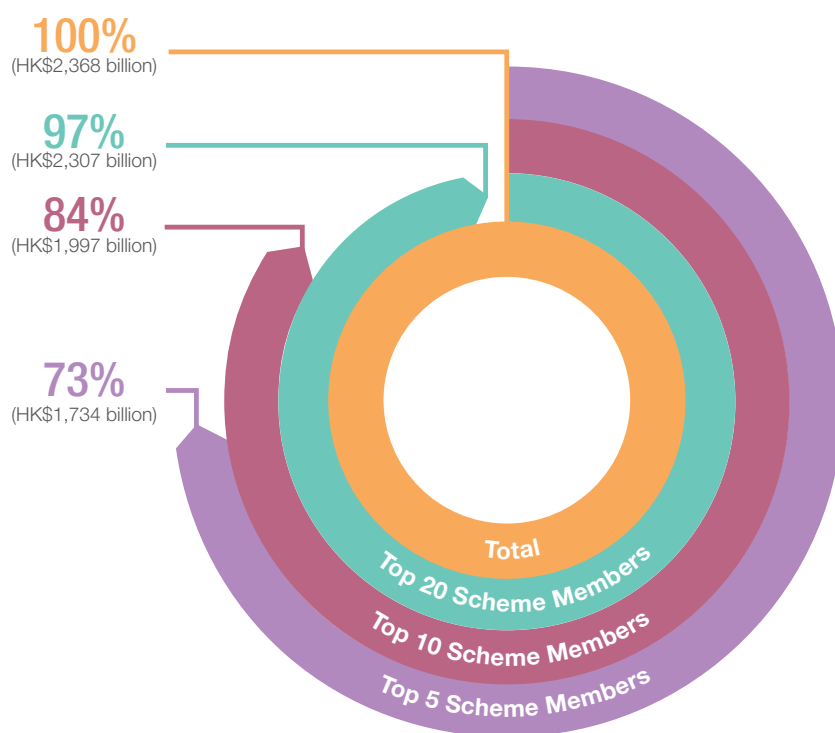
The distribution of relevant deposits among Scheme members in 2019 was similar to that of 2018. The top 20 Scheme members, most of which were retail banks, held 97% of the industry's aggregate relevant deposits. According to statistics provided by Scheme members, about 90% of depositors are fully protected by the DPS.

Relevant Deposits Held with Scheme Members

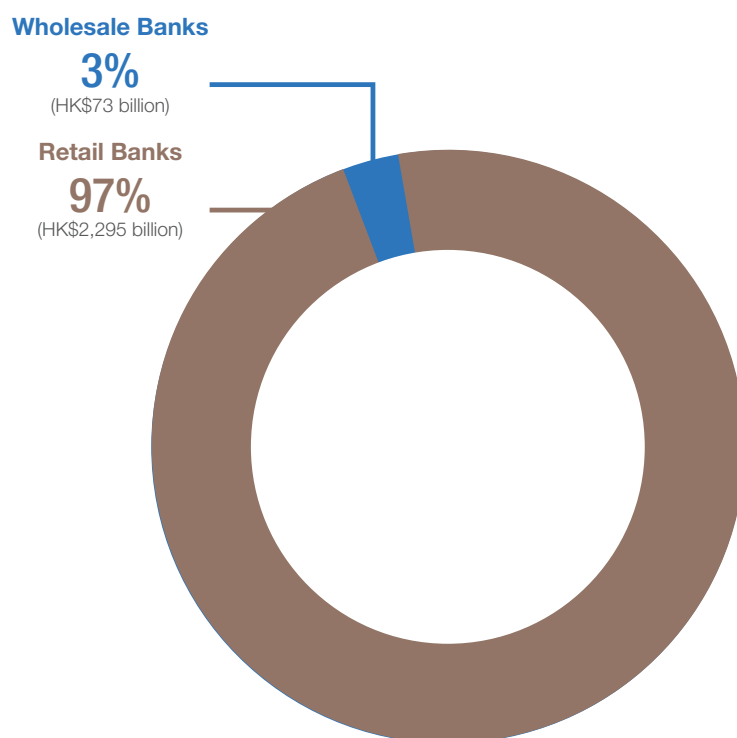


Distribution of Relevant Deposits in 2019

As a percentage of total relevant deposits:



Represented by:





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PAYOUT READINESS

Overview

During the year, the Board continued its ongoing efforts to ensure that it is well prepared for effecting a timely payout in the event that the Scheme is triggered. These efforts included monitoring Scheme members' compliance with the data requirements for payout, and maintaining readiness through a payout rehearsal, which affirmed that the seven-day payout

target can be met. Additionally, given the rapid development and increasingly widespread adoption of electronic payment technology, the Board embarked on a project to improve DPS compensation payment using electronic payment channels for payout. Looking at the challenging year ahead, the Board will stay vigilant and make every effort to maintain its capacity and capability so that the objective of prompt payout is not affected.

Concerted Efforts to Make a Fast Payout: Duties of Various Parties in a Payout



Payout Rehearsal

It has always been one of the top priorities of the Scheme operations to maintain readiness to perform a payout at any time. To this end, the Board conducted a payout rehearsal during the year, which tested the coordination among payout agents in a “close-to-real-life” situation using the new payout system implemented last year. The rehearsal verified again that the seven-day payout target could be met, and it demonstrated the improved efficiency and resilience of the new payout system. Despite this enhanced payout capability, an efficient payout process also relies on Scheme members’ ongoing ability to maintain up-to-date personal and contact details of depositors.

Electronic Payment Channels for Compensation Payment

The HKMA launched the Faster Payment System (FPS) in 2018, an electronic payment infrastructure that enables users to transfer money in Hong Kong instantly, easily and safely to recipients. The FPS has

been rapidly adopted in Hong Kong since its launch, illustrating the demand for and benefits of such a service. In the light of the success of the FPS, the Board is working on a project that aims to provide safe and fast DPS compensation payments through the introduction of electronic payment channels, including the FPS, to supplement the use of paper cheques for payout. During the year, the Board commenced the project with the initial steps of system development and business process formulation, together with payout agents. In the second half of 2020, the Board will engage the banking sector in comprehensive testing of the system, since effective implementation of the new electronic payment channels involves seamless system interfaces with many banks. When the project is rolled out in 2021, the use of electronic payment channels will enable even speedier payout to depositors, providing them with safer, faster and more convenient access to DPS compensation.

Common Reasons for Delays in Receiving Compensation Payments



Invalid address

Affected depositors may be unable to receive paper cheque compensation if their correspondence address information maintained by the failed bank is invalid



Incorrect/outdated telephone number

Delays may arise if affected depositors cannot be reached by telephone to clarify relevant information used to determine the compensation amount



Incorrect name

Affected depositors may be unable to cash their compensation cheque at other banks if records of their names maintained by the failed bank are incorrect or outdated (e.g. if their names have been changed)



It is important for depositors to keep their personal information up to date with their banks



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Information System Requirements and Compliance

In order for the Scheme to calculate compensation quickly and accurately, Scheme members need to provide the Board with complete and correct deposit records in a timely manner. To this end, the Board uses a range of measures under the Compliance Review Programme to regularly monitor Scheme members' compliance with the Information System (IS) Guideline. Under the Programme, each Scheme member is required to submit a self-declaration annually and to commission an independent auditor to conduct a thorough assessment of its systems and processes once every three years. This year, the Board requested 47 Scheme members to undertake such an independent assessment and it conducted comprehensive reviews on six selected Scheme members. The results revealed that the overall compliance status was satisfactory.

During the first half of 2019, the HKMA granted licences to eight virtual banks. Accordingly, these virtual banks became Scheme members and are eligible for the same deposit protection as all other Scheme members that are conventional banks. To enable these virtual banks to ensure that their business processes and information systems meet the data requirements set by the Board for payout, the Board organised an information session with them in September 2019 when they were preparing to launch their businesses.

Monitoring of Scheme Members' Compliance with the IS Guideline



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



Commissioned 47 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



The information session for virtual bank Scheme members

DEPOSIT PROTECTION SCHEME FUND

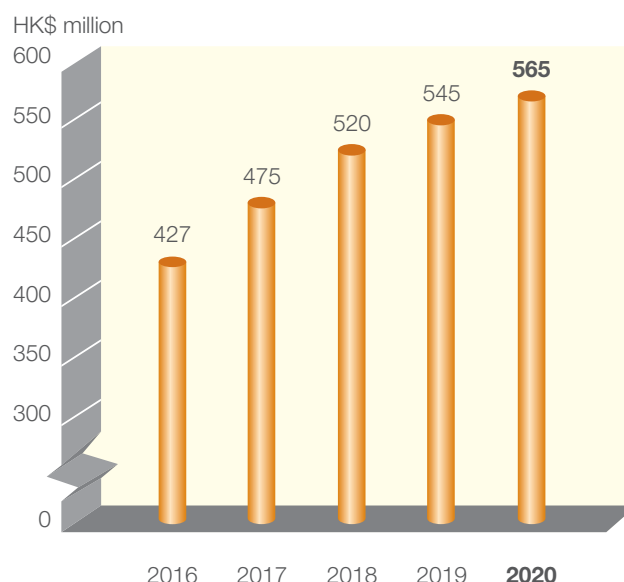
Composition of the DPS Fund

The DPS Fund is built up from two main sources: 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 of each Scheme member as decided by the HKMA, serves as the basis for determining Scheme members' contributions for the coming year.

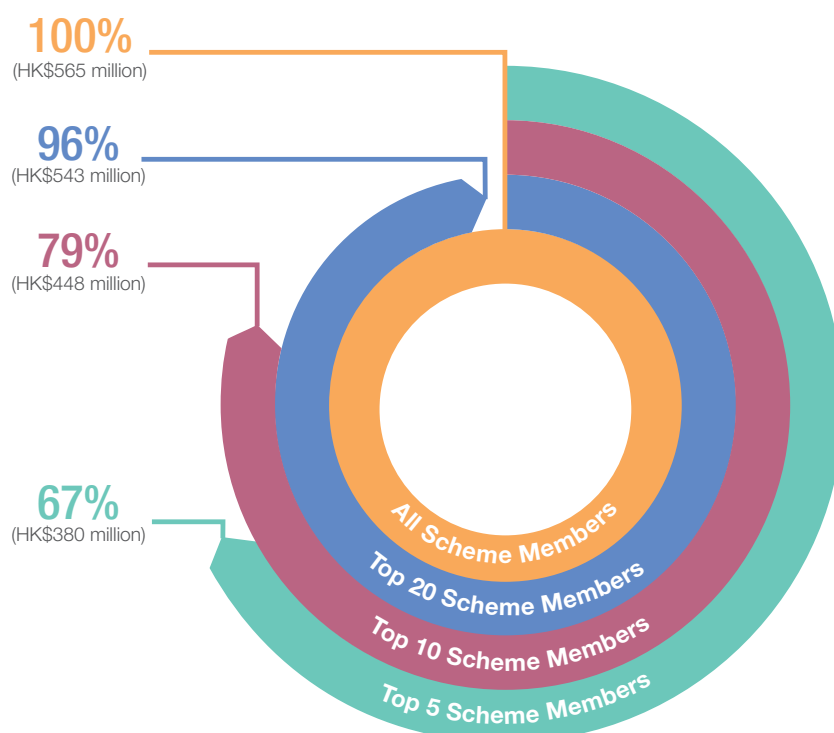
Assessment and Collection of Contributions

The contributions collected from Scheme members in 2020 amounted to HK\$565 million, an increase of 4% from 2019. 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 validate the accuracy of reporting made by Scheme members on their relevant

Contributions Paid by Scheme Members



Distribution of Contributions Collected from Scheme Members





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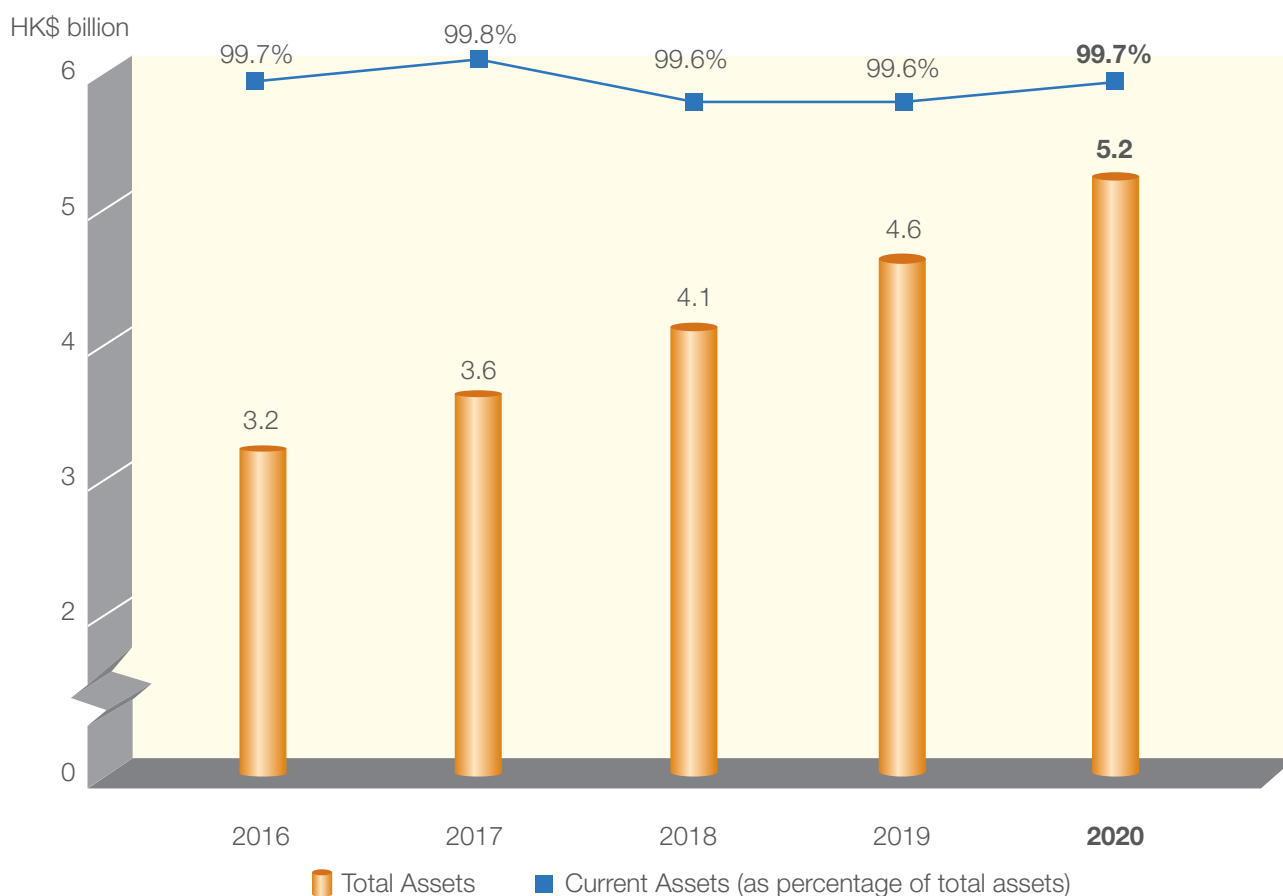
deposits, the Board has since 2007 requested Scheme members to conduct regular audit reviews of their returns of relevant deposits in accordance with the policy for reviewing these returns. The Board selected 24 Scheme members to submit an audit report on the accuracy of their returns in 2020. The audit results were generally satisfactory, and the Board noted that there was no reporting error leading to a material impact on the amount of contributions collected.

DPS Fund Investments

In view of the uncertain and volatile investment environment during the financial year 2019-2020, the

Board continued to adopt a prudent approach in managing the investment of the DPS Fund. Investments were made in strict compliance with the DPSO, the DPS Fund's investment policy and the DPS Fund's investment control policy. The DPSO and the policies set out clear guidelines on risk assessment and control measures, and the segregation of duties required for investment activities. As at the end of March 2020, the DPS Fund held highly liquid assets predominantly in the form of Hong Kong dollar deposits. The DPS Fund achieved an investment return of 1.26% for the financial year 2019-2020.

DPS Fund's Assets



REINFORCING PUBLIC AWARENESS AND UNDERSTANDING OF THE SCHEME

Overview

In the second year of implementing its three-year communication strategy, the Board launched the “DPS Piggy Bank” publicity campaign in early 2019, putting extra focus on enhancing the public’s in-depth understanding of the DPS key features, on top of maintaining a high level of public awareness of deposit protection. In addition to piggy bank-themed publicity and consumer campaigns, a variety of other public relations, promotional and community education activities were implemented to reach out to different target groups. In response to the exceptional circumstances under the coronavirus outbreak, publicity efforts were reprioritised in the first quarter of 2020 to reinforce awareness of the DPS with the aim of fortifying public confidence.

Multimedia Publicity

Mass Advertising and Consumer Campaigns

To maximise the exposure of the animated piggy bank characters created to promote the DPS, two advertising campaign bursts employing the “DPS Piggy Bank” TV commercials were executed to reach the general public through traditional channels like TV, print and outdoor advertising, as well as through new platforms like digital and social media for targeted audience groups. Synergistically, “My Piggy Bank” Art Installation roving roadshows were held in different locations around Hong Kong to directly engage the public with DPS educational games, interactive workshops and information panels promoting the DPS key features.



Visitors participating in DPS educational games and taking pictures with piggy-bank art pieces at roving roadshows



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People often save money for personal reasons, suggesting there are untold stories of love and devotion behind their deposits. To convey the message that people's valuable deposits are protected, and to deepen the public's understanding of the DPS key features, the Board selected and showcased a few of these personal stories by adapting them into creative formats that appealed to different target audiences. "Deposits are Protected. Save with Confidence!", an infotainment drama series epitomising people's money-management stories during different stages of their lives, was broadcast during prime time on a major TV channel. And around Mother's Day, videos and interviews sharing money-saving stories from mothers of different ages were posted on the "Moms' Money-Saving Hacks" column of a popular online portal to share DPS knowledge.

Survey on "Hongkongers' Sense of Security on Savings"

The second annual "Hongkongers' Sense of Security on Savings" survey was conducted this year to monitor Hong Kong people's saving behaviours and money management habits. To account for the increasing importance people attach to retirement planning, a sub-study of the survey this year investigated how pre-retirees prepare for retirement with savings. Interesting findings of the survey were announced at a press briefing, with the extensive media coverage that followed reinforcing the Board's important role as the "Guardian of Savings".



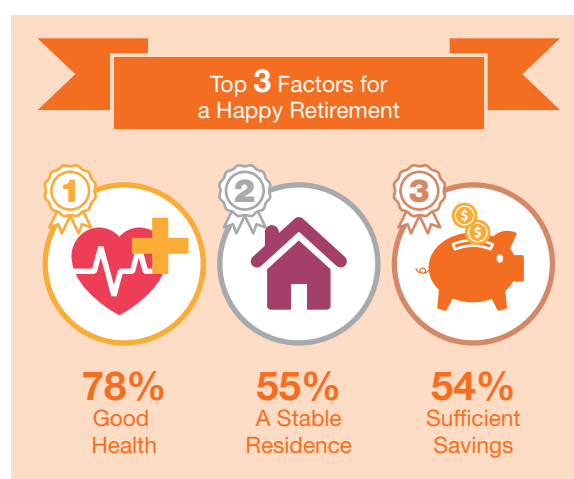
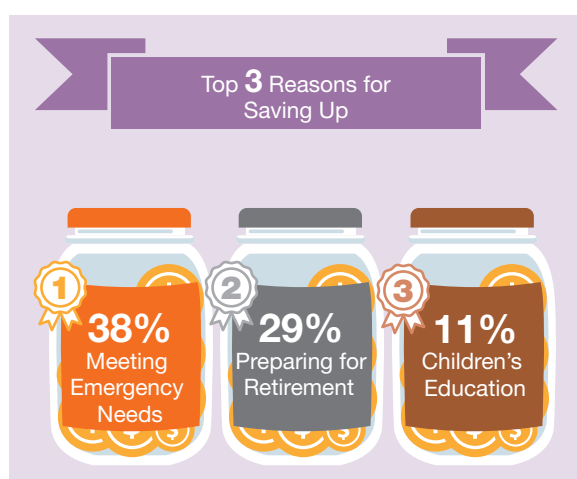
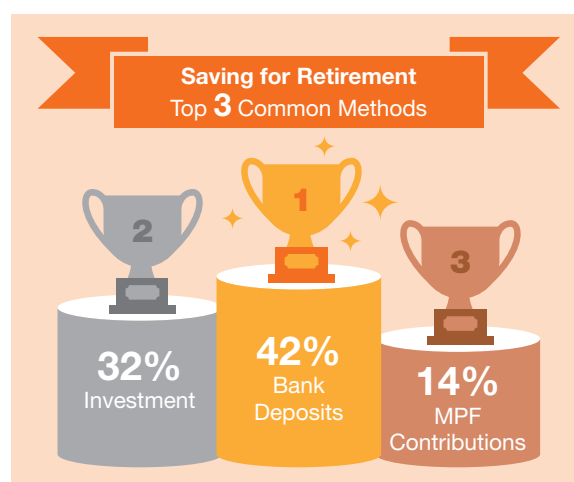
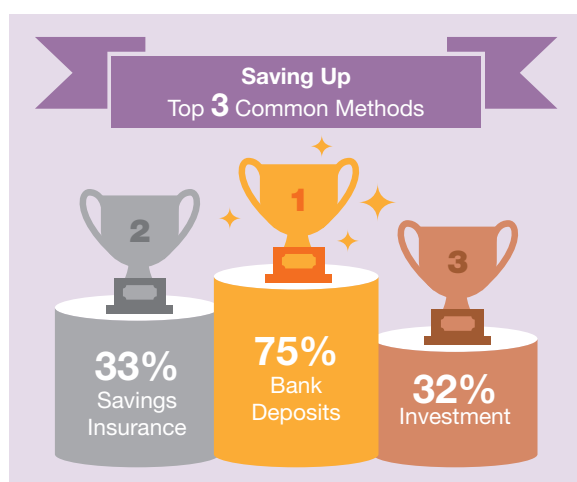
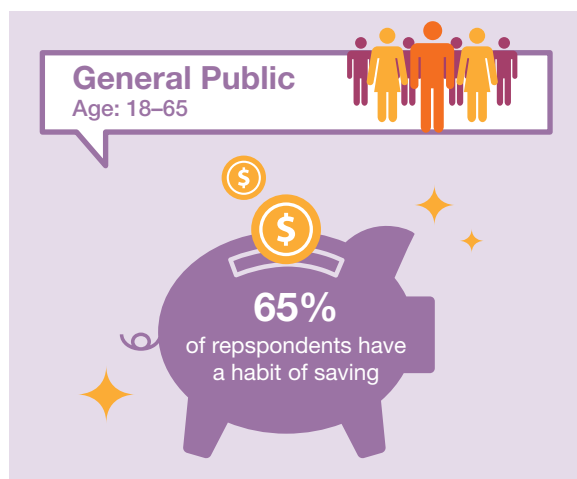
Snapshots of the infotainment drama series and money-saving stories from mothers



Professor Michael Hui, the Chairman of the Board, attended the press conference of the second annual survey

Interesting Findings of “Hongkongers’ Sense of Security on Savings” Survey

2019





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Social Media Campaigns

Three social media campaigns were executed on the Board's social media platforms during the year to promote the public's knowledge of the protection

provided by the DPS in a light-hearted manner. The campaigns led to increased engagement and viewership, reaching more than 1.5 million social media users.

A Quick Glance at the DPS Social Media Campaigns



1 Launched a motion-graphic video series featuring the two DPS Facebook ambassadors, Ah Chuen and Ka Po, whose characters and performances deciphered the “Myths of the City” to introduce the DPS key features.

2 Conducted several rounds of an “E-stamps Collection” campaign, which included questions testing DPS knowledge to engage homemakers and the elderly who habitually collect promotional stamps/coupons.

3 Rolled out a “Street Interviews” campaign with videos posted on the DPS Facebook fanpage featuring interesting street interviews with couples sharing their saving habits and passers-by declaring their determination to quit living pay cheque to pay cheque.

Segment-Targeted Publicity Campaigns

To extend the reach to target groups who are not easily accessible through mass media campaigns (such as foreign domestic helpers, non-Chinese-speaking ethnic community groups, homemakers and the elderly), a segment-targeted campaign was implemented with advertising placements on non-traditional communication platforms. These included advertorials in newspapers and digital website banners targeting Filipinos and Indonesians, and messaging on social media and TVs in residential buildings and private clinics.

In order to sustain effectiveness of the Scheme, the Board strives to maintain a high level of public awareness and confidence in DPS protection through different consumer promotions and publicity campaigns. In response to the changes in lifestyle and media consumption habits of the public during the coronavirus outbreak, publicity efforts have been reprioritised to enhance advertising placements on TV and digital channels, as well as to disseminate DPS board game sets via NGO networks as an educational tool to support home-learning for less-privileged families.

Community Education Outreach

Introducing the New “Fly with DPS” Board Game for Junior Primary Students

Disseminating educational messages through game playing has proven to be effective for students. The Board continues to organise board game workshops for senior primary and secondary students using the board game “Around the World in \$80”, which has resulted in positive responses from schools. This year, the Board engaged students of Hong Kong Community College (an affiliate of The Hong Kong Polytechnic University) via the mentorship programme and also developed the new “Fly with DPS” board game targeting junior primary students.

A “Fly with DPS” launch ceremony, including free trial sessions, was held at the Hong Kong Book Fair 2019, with children from primary schools and new-immigrant families invited to attend the event. Subsequently, board game introductory workshops utilising the two DPS board games (“Around the World in \$80” and “Fly with DPS”) were regularly organised at both primary and secondary schools. A presentation to promote these workshops was also conducted for school heads attending the School Liaison Committee meeting.



“Fly with DPS” launch ceremony in 2019



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Participation in High-Traffic Consumer Shows

Apart from organising DPS talks at elderly centres, the Board also participated in the Hong Kong Book Fair 2019, the 54th Hong Kong Brands and Products Expo, as well as the Child Development Fund Award Ceremony and Fun Day organised by New Home Association to engage the public with DPS educational games and information panels. To better connect with audiences, DPS senior ambassadors were trained to perform in an on-stage drama promoting DPS knowledge.



Promoting DPS knowledge at New Home Association's Fun Day

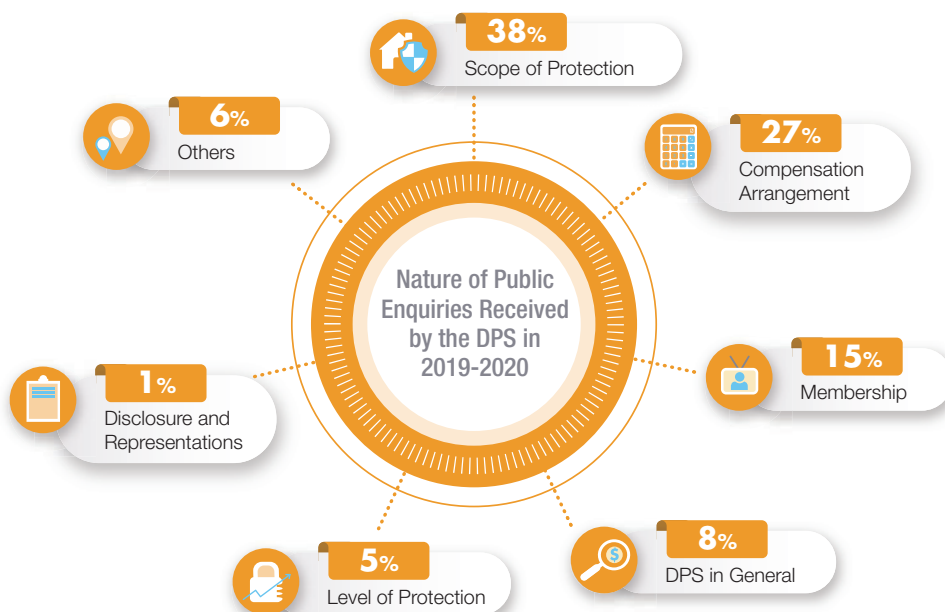
Public Awareness and Enquiries

2019 Opinion Survey Top-Line Results

According to the results of an independent public opinion survey conducted in 2019, the level of public awareness of the DPS remained high at about 78%. Of those aware of the Scheme, around 83% knew about the HK\$500,000 protection limit and close to 87% realised that the protection provided by the DPS is statutory. The Board will continue to use the survey findings to fine-tune its communication strategy.

DPS Public Enquiry Service

The Board 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 Scheme and the functions of the Board. About 40% of the enquiries received in 2019-2020 were related to the scope of protection of the DPS (including the deposit protection coverage of virtual banks and the types of financial products covered by the DPS), and about one-quarter were related to compensation arrangements (including the compensation entitlements for joint accounts and the determination of compensation for foreign currency deposits).



COMPLIANCE WITH THE REPRESENTATION RULES

The DPS (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 Scheme members' compliance with the representation requirements, the Board requested Scheme members to conduct a self-assessment review covering 1 July 2018 to 30 June 2019. In addition, the HKMA continued to conduct on-site examinations to further assess selected Scheme members' compliance with the Representation Rules. The Board reviewed the self-assessment reports and findings of the on-site examinations and took appropriate follow-up actions where necessary. The assessment and examination results indicated that the overall compliance level of Scheme members was generally satisfactory, and no non-compliance cases of a systemic nature 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 signed an MoU that sets out how they should co-operate in the performance of their respective functions in respect of the DPS. In line with the DPSO requirement that the Board perform its functions through the HKMA, the Board and the HKMA have also agreed on the extent of the support provided by the HKMA to the Board on a day-to-day basis. Moreover, the Board has in place a standby facility from the HKMA Exchange Fund to obtain 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 so as 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 with each other. These have been documented in an MoU between the Board, the SFC and the Investor Compensation Company, which was established by the SFC to administer the ICF. The MoU recognises that in the event of a bank failure, the DPS will normally pay depositors first, and that the parties involved will avoid double compensation, facilitated by exchanging relevant information.

International Co-operation

As a member of the International Association of Deposit Insurers (IADI), the Board participates in IADI conferences and seminars and other events organised by IADI members and international organisations, and exchanges knowledge and views on issues relevant to deposit protection in international fora. Such international cooperation is important in enabling the Board to keep up with overseas developments, and to share experience with other IADI members on reform measures, which may provide the Board with insights into possible enhancements of the DPS. In 2019-2020, representatives from the Board took part in a number of international meetings, including the following:

- IADI Asia-Pacific Regional Committee (APRC) CEO Dialogue: Global and Asia-Pacific Economic Outlook and Responses to Challenges Facing APRC Deposit Insurers (in Taipei);
- The 17th IADI APRC Annual Meeting, Technical Assistance Workshop and International Conference (in St Petersburg, Russia); and
- The 18th IADI Annual General Meeting and 2019 Annual Conference (in Istanbul, Turkey).