



SCHEME OPERATIONS

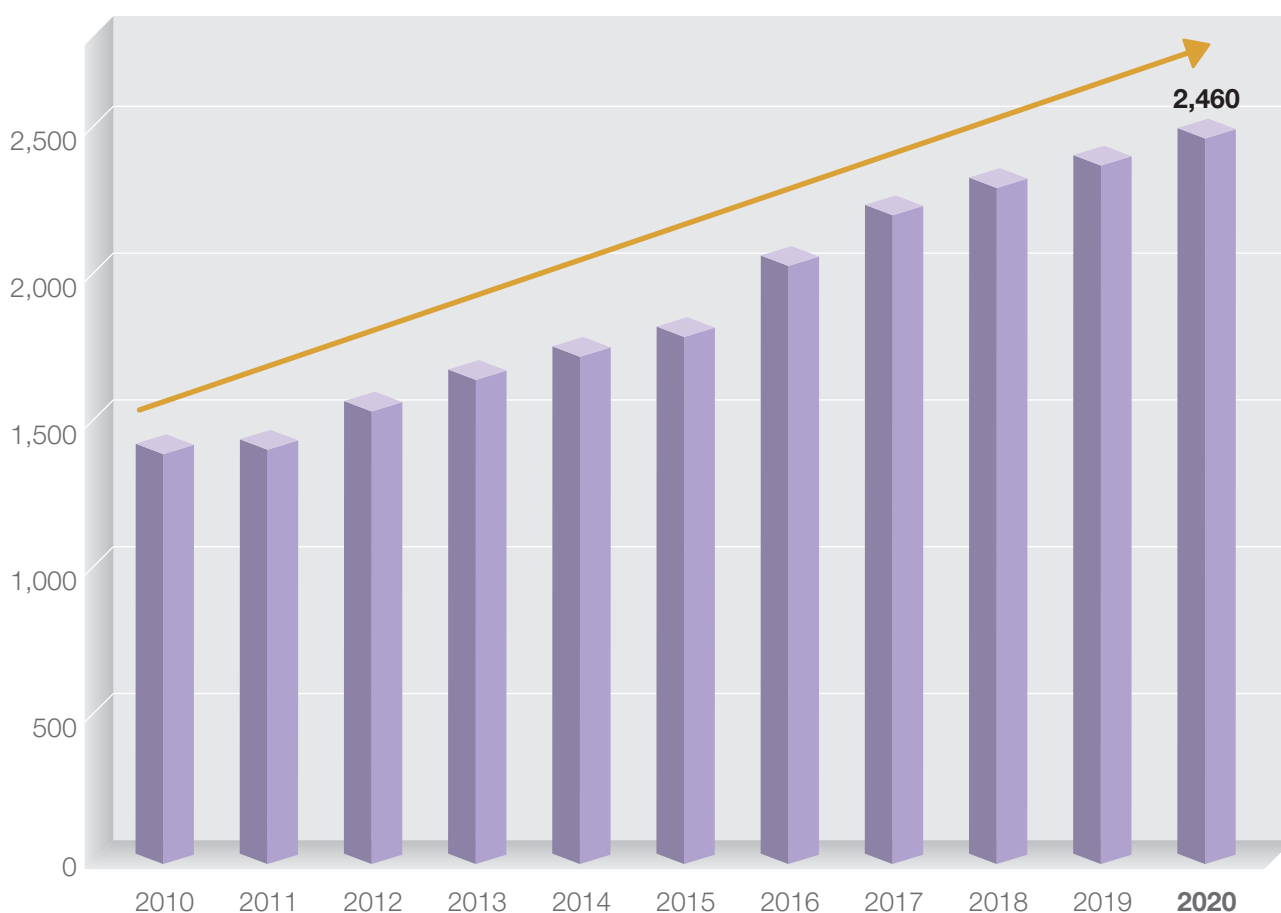
SCHEME MEMBERS' PROFILE AND PROTECTED DEPOSITS

At the end of March 2021, the Scheme had 159 members, with 31 incorporated locally and 128 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 deposits under DPS protection grew by 4% to HK\$2,460 billion in 2020, compared with HK\$2,368 billion in 2019. This was attributed to an increase in total deposits held with Scheme members.

Protected Deposits Held with Scheme Members

HK\$ billion





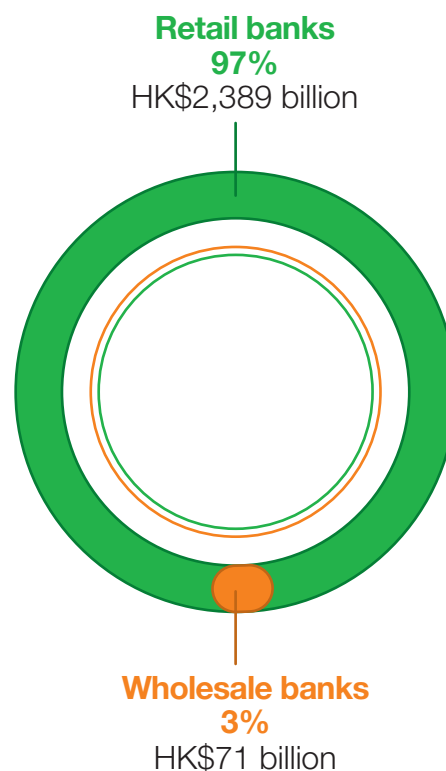
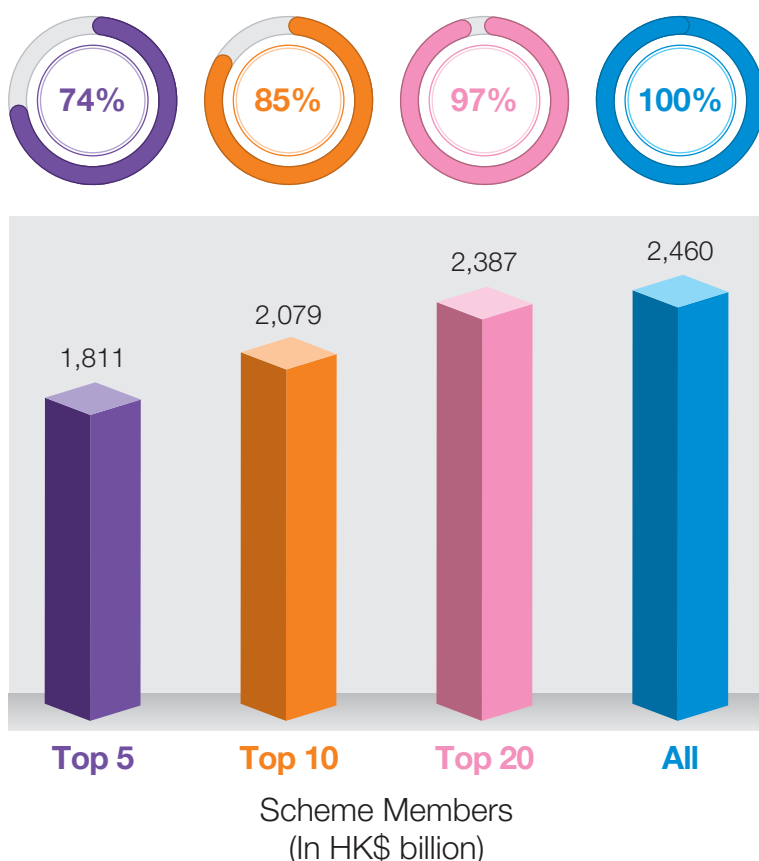
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The distribution of protected deposits among Scheme members in 2020 was similar to that of 2019. The top 20 Scheme members, most of which were retail banks, held 97% of the industry's aggregate protected deposits. According to statistics provided by Scheme members, about 90% of depositors are fully protected by the DPS.

REVIEW OF THE DPS

In line with international best practice, the Board conducts a review of the DPS periodically to ensure that it remains efficient and effective in serving its public policy objectives in the light of the latest economic and financial developments in Hong Kong. As such, the Board plans to conduct a review of the modalities of the DPS in 2021. The purpose of the review will be to ensure that the DPS in Hong Kong remains effective.

Distribution of Protected Deposits in 2020





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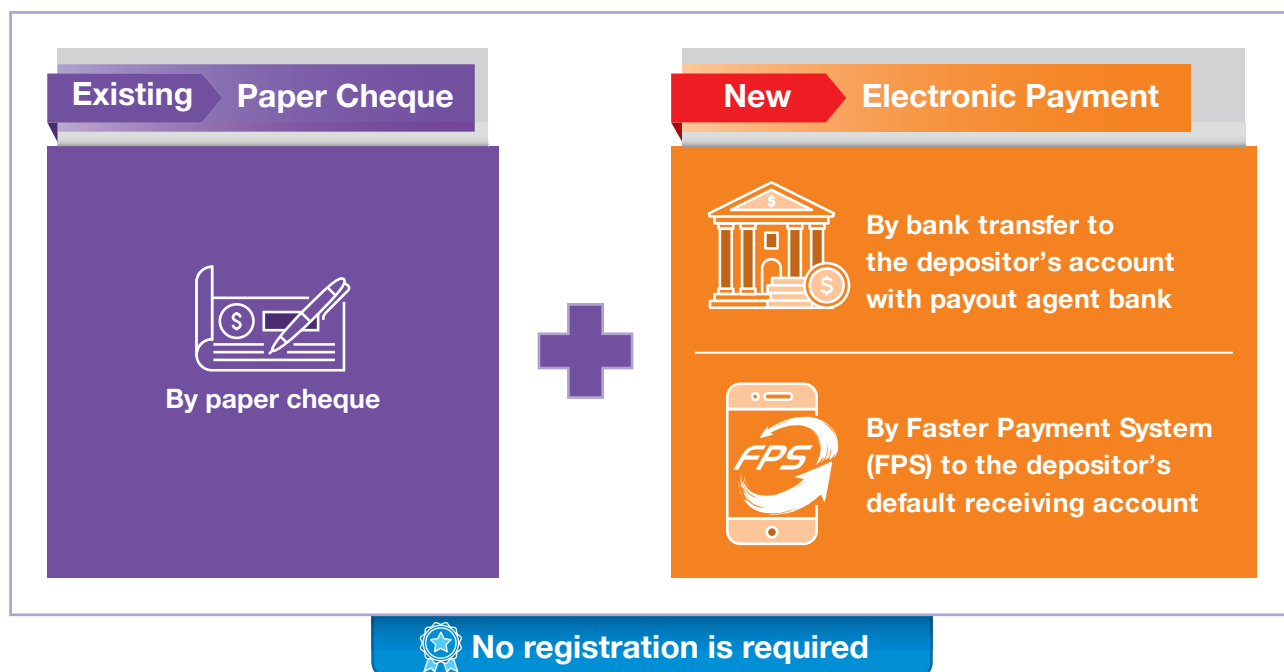
PAYOUT READINESS

Overview

As the official Guardian of bank deposits in Hong Kong, the Board is firmly committed to meeting its objective of paying compensation within seven days to depositors affected by the failure of a bank. A key focus of the Board's work is therefore to maintain payout readiness and enhance payout efficiency. At the same time, the Board is mindful that it is

serving a society which is becoming increasingly accustomed to using digital means for transactions. Good progress has been made on a project to introduce electronic payment channels to speed up the disbursement of DPS compensation. While the pandemic continues to pose uncertainties to the economy, the Board will remain vigilant and has planned to conduct a payout rehearsal in 2021 with a special focus on the use of new electronic payment channels.

Payment Methods for DPS Compensation





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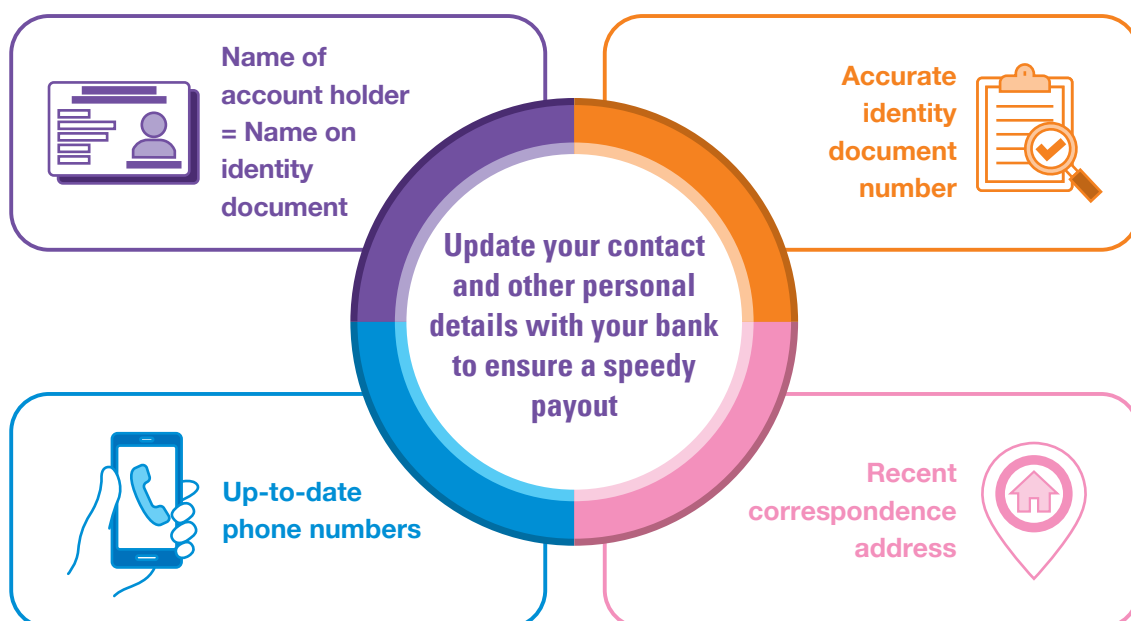
Electronic Payment Channels for Compensation Payment

Electronic payment channels provide a fast, safe and convenient means of disbursing DPS compensation in addition to using paper cheques. The Board launched a project in 2019 to introduce electronic payment channels, namely the use of bank transfers to accounts held by depositors with the Board's designated payout agent bank, and the use of the FPS, which moves money to the default receiving accounts of depositors. The project is progressing well. During the year, the Board and its service providers completed system development and held comprehensive drills with the banking sector to ensure that the technical infrastructure and procedures were ready for the adoption of electronic payment channels. The whole payment process is triggered immediately upon a bank's failure and eligible depositors do not need to file a claim or register for payment.

It is worth highlighting that the success of using electronic payment channels to compensate depositors hinges on banks maintaining depositor data of good quality, especially up-to-date contact information and other personal particulars. In 2020, the Board issued a guidance note to Scheme members in order to clarify the reporting requirements they must observe in adopting electronic payment.

At the depositors' end, the Board sought to obtain feedback on the use of electronic payment methods. A communications consultant was engaged to update the crisis management plan and gather public opinions through focus group discussions. Through the focus groups, the Board found that the public was receptive to electronic payment as a method of DPS compensation and was satisfied with the Board's payout arrangements.

Importance of Accurate, Up-to-date Personal Particulars





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Contingency Planning and Payout Rehearsal

It is crucial for the Board to maintain payout readiness at all times so as to make swift compensation payment if and when the DPS is triggered, even under challenging circumstances. Amid the COVID-19 pandemic, the Board deployed special work arrangements, such as split-team operations, to mitigate the potential risk of a disruption to payout operations. The Board also enhanced its business continuity plan with additional measures and guidance to payout agents on how to cope with different types of interruption which could arise from the pandemic.

In 2021, the Board will conduct a payout rehearsal with a special focus on testing the operations of the use of electronic payment channels in making compensation to the affected depositors. Payout agents, comprising the Board's service providers, will participate in the rehearsal to co-ordinate the payout operations, plan for public communication, and execute contingency arrangements when faced with a disruption to payout operations due to the pandemic.

Information System Requirements and Compliance

It is important that Scheme members maintain deposit records of good quality and submit such records promptly to the Board when needed in order to facilitate accurate and timely calculation of compensation payment. The Board requires Scheme members to implement a sound information system (IS), monitors their compliance with the IS requirements and follows up on areas where there is room for improvement. Selected Scheme

members come under comprehensive reviews by the Board regularly, and all Scheme members have to commission an independent auditor to conduct a thorough assessment of their systems and processes once every three years. According to reviews and assessments conducted throughout 2020-2021, the overall compliance status of the banking industry remains satisfactory.

Regular information sessions are organised to help Scheme members understand the IS requirements and to raise their awareness of common cases of non-compliance. In the first quarter of 2021, two information webinars were held for more than 360 participants from Scheme members and audit firms conducting independent assessment of them.

Monitoring of Scheme Members' Compliance with the IS Guideline



Reviewed all Scheme members' self-declaration



Commissioned 40 Scheme members to submit independent assessment reports under the Compliance Review Programme



Conducted 6 comprehensive reviews of internal control processes and accuracy of deposit records submitted by selected Scheme members



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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 returns generated by the DPS Fund's investments. The amount of deposits under DPS protection 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

Contributions collected from Scheme members in 2021 amounted to HK\$576 million, an increase of 2% from 2020. Similar to the distribution of protected deposits, the amount of contributions collected from the top 20 Scheme members accounted for about 96% of the total. To validate the accuracy of reporting made by Scheme members on their protected deposits, the Board requests Scheme members to conduct regular audit reviews of their total deposits that are under DPS protection and reported to the Board in accordance with the Board's return review policy. The Board selected 22 Scheme members to submit an audit report on the accuracy of their returns in 2021. The audit results were generally satisfactory and no reporting errors were found that would lead to a material impact on the amount of contributions collected.

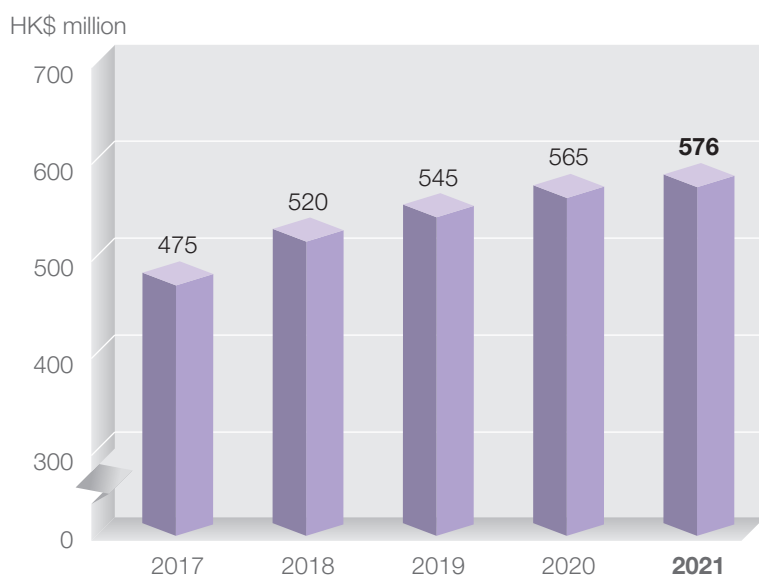
DPS Fund Investments

In view of the extremely uncertain investment environment during the financial year 2020-2021, 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 and the DPS Fund's investment-related policies. 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 2021, the DPS Fund amounted to HK\$5.7 billion, predominantly in the form of Hong Kong dollar deposits. The DPS Fund achieved an investment return of 0.15% for the year.

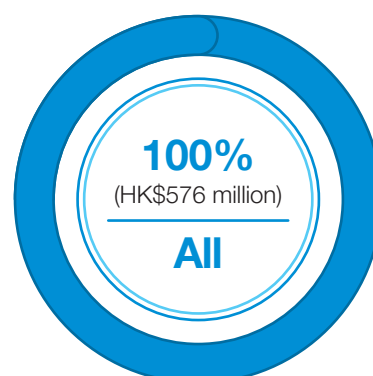
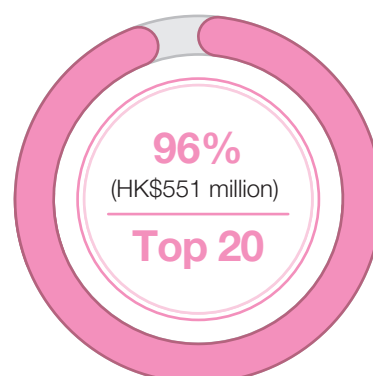
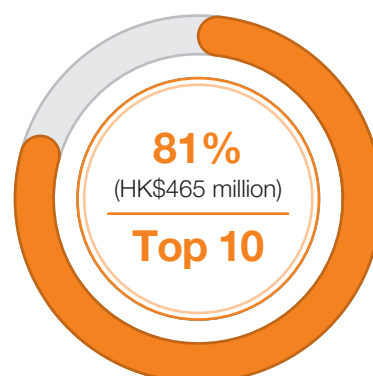
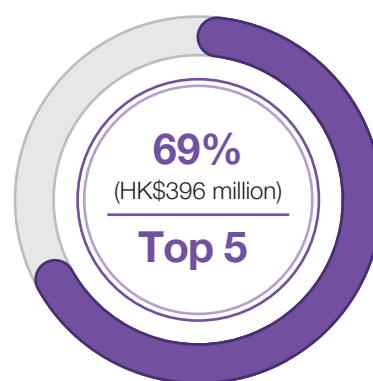


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Contributions Paid by Scheme Members



Distribution of Contributions Collected from Scheme Members



DPS Fund's Assets





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REINFORCING PUBLIC AWARENESS AND UNDERSTANDING OF THE SCHEME

Overview

The year 2020-2021 marked the successful completion of the Board's three-year communication plan, from enhancing public awareness and understanding of key features of the DPS to giving the public peace of mind concerning DPS protection in Hong Kong. The local COVID-19 situation remained severe throughout the year, and strict social-distancing measures posed challenges to the Board's publicity and outreach efforts. Nevertheless, the Board adapted well and reallocated more resources to digital channels in its efforts to educate the public on the DPS.

Mass Publicity

Multimedia Advertising

The Board carried out two advertising campaigns to illustrate the strong relationship between “deposit” and “protection” so as to instil public confidence in DPS protection. The campaigns made use of the two ambassadors of the Board's Facebook fan page, Ah Chuen (symbolising “deposit”) and Ah Po (symbolising “protection”), to helm a new 30-second TV commercial, “Bank Deposits Always Come With Protection” (存保拍住上). Both Ah Chuen and Ah Po continued to play their key roles of engaging with the public and providing assurance of deposit protection at all times. As the pandemic has accelerated the adoption of digital means in daily living, the Board increased multimedia advertising placements on TV, radio and digital platforms to broaden their reach to certain audiences, such as the younger generation and ethnic minority groups.



The new TV commercial “Bank Deposits Always Come With Protection” (存保拍住上)





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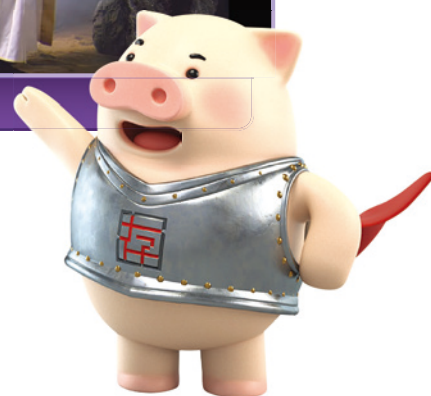
Consumer and Public Relations Campaigns

Leveraging the TV commercial's creative concept of "Good Partners", the Board rolled out consumer campaigns via online and print media based on celebrity pairings. Short videos and advertorials were produced with popular local artistes presenting key features of the DPS in a light-hearted manner to reach out effectively to homemakers and the younger generation.

- "DPS Kung Fu Duo" – a pair of popular artistes introduced key DPS features through a kung fu demonstration and a rap song.
- "DPS Love Story" – a pair of young artistes imparted DPS knowledge and conveyed the importance of savings in a love story.



"DPS Kung Fu Duo"



"DPS Love Story"

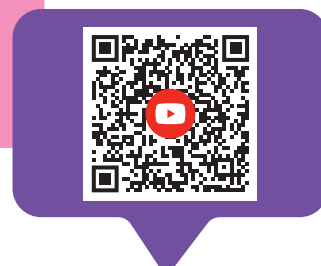




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Social Media Campaigns

Campaigns were executed on the Board's social media platforms to promote knowledge of the DPS. These campaigns reached out to over 2.5 million social media users.



- The Board's social media campaigns included "DPS Saving Duo Comics", in which local illustrators who were popular among the younger generation developed comics to disseminate DPS knowledge. There was also a game inviting Facebook users to share their stories about saving money together with their partners, which received an enthusiastic response of over 200 submissions. Interesting stories were selected for further development into comics to reinforce the importance of DPS in protecting Hong Kong people's hard-earned money.



- In partnership with a popular online media, the Board produced an episode of the game show series, "Manner Game King – Money-Saving", to promote DPS knowledge by challenging online media artistes with interesting questions and tasks.





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Survey on “Hongkongers’ Sense of Security on Savings”

For the third year, the Board carried out an annual survey to keep track of Hong Kong people’s saving behaviour and to study the money management habits of parents with young children. An online media briefing was conducted to announce the survey results, generating more than 100 write-ups

in the media. According to the survey, 67% of Hongkongers in general, and an even higher 76% of parents in particular, had a regular habit of saving up, with bank deposits continuing to be the most common form of savings. The results indicate that the role of the Board as the Guardian of bank deposits in Hong Kong remains very important.

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

2020

Public

Hong Kong residents aged 18 or above

67%



of respondents have a habit of saving

Parents

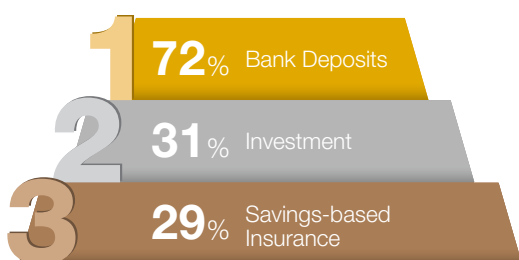
With at least 1 child aged 10 or below

76%

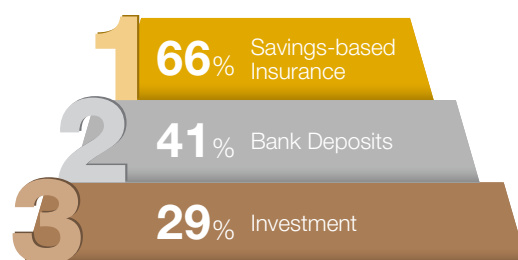


of respondents have a habit of saving

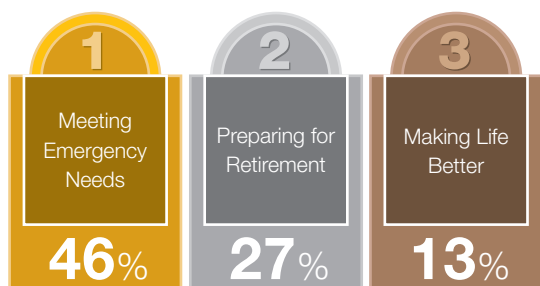
Saving Up Top 3 Common Methods



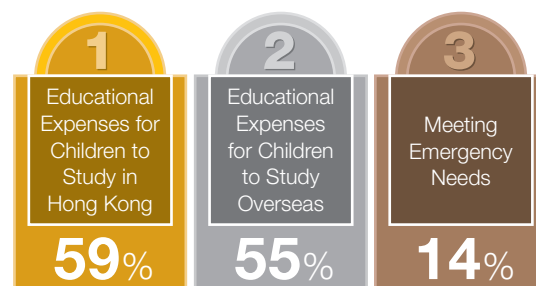
Saving Up for their Children Top 3 Common Methods



Top 3 Reasons for Saving Up



Top 3 Factors for Saving Up for their Children





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Community Education and Outreach

The Board adapted swiftly to challenges posed by the pandemic to its community outreach efforts by shifting many outreach activities online. For example, talks were conducted online jointly with NGOs for the elderly. The Board also wrote columns on deposit protection targeting pre-retirees and new retirees, which were published on NGO websites throughout the year, and disseminated DPS messages to target groups in the form of online articles, mobile phone messages and information packs.

In the past, outreach to students had focused on DPS board games and interactive workshops, which had proven to be effective. With the suspension of board game workshops at schools due to the pandemic, the Board supported students' home-learning efforts by launching YouTube videos and online workshops that taught them to play DPS board games. The Board also distributed DPS board games and promotional material in NGOs' anti-pandemic packs to less privileged families; and held online financial education talks for secondary school students to convey the importance of savings, money management and DPS protection. Academic projects devised by the Board engaged university students in exploring how to promote the DPS to new arrivals in Hong Kong and designing online DPS promotional items using the iconic ambassadors, Ah Chuen and Ah Po.



A video on YouTube about the "Fly with DPS" board game



A digital game proposed by university students to promote the DPS

The Board also organised discussion sessions with target groups that had a lower awareness of the DPS, that is, the elderly, homemakers and younger generation. The discussions yielded insights into their saving habits, money management behaviour and expected responses to a banking crisis, which would help fine-tune the Board's communication strategy.



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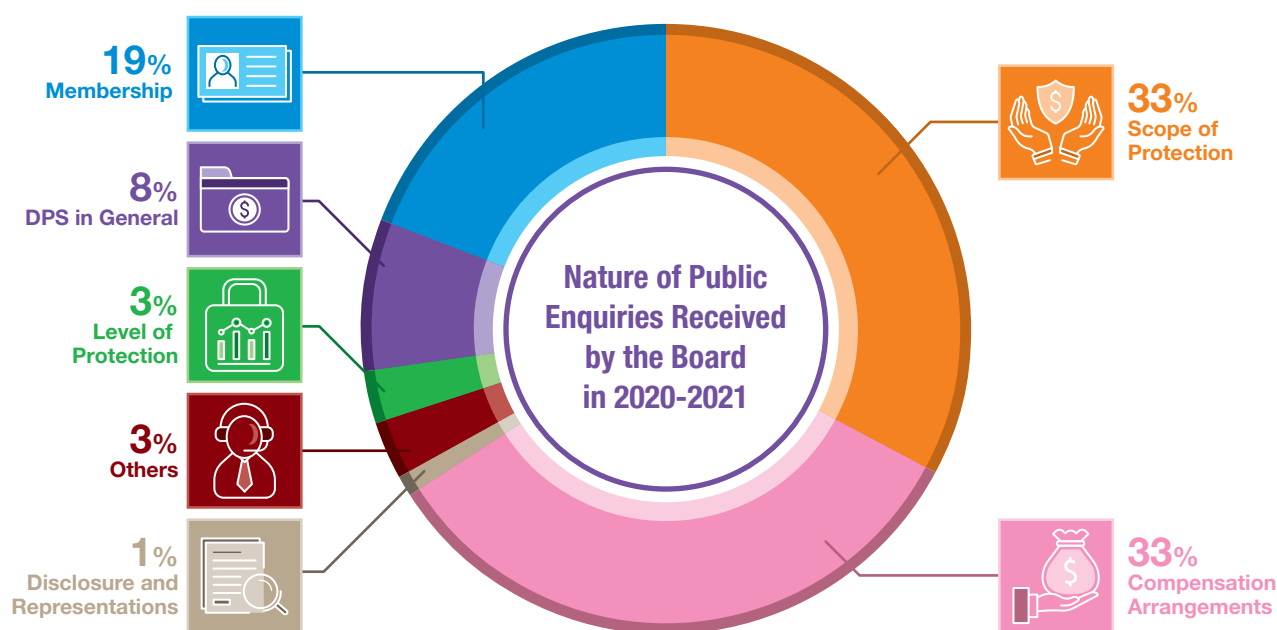
Public Awareness and Enquiries

Public Opinion Survey 2020

In 2020, the Board commissioned an independent public opinion survey. It found that public awareness of the DPS remained high at 79%, of whom 82% knew about the HK\$500,000 protection limit and 85% were aware that the protection provided by the DPS was statutory. The survey results showed clearly that the Board's diligent publicity and community outreach efforts had paid off.

DPS Public Enquiry Service

Members of the public may avail themselves of the Board's DPS Public Enquiry Service on the hotline 1831 831 and the webpage <https://www.dps.org.hk/en/contact.php>. This is a convenient and effective service for people to ask questions about the Scheme and the functions of the Board. About 66% of the enquiries received in 2020-2021 were related to the scope of DPS protection, including the protection coverage of deposits with virtual banks and the types of financial products covered; and compensation arrangements, including compensation entitlements for joint accounts and calculations to determine the compensation amounts.





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COMPLIANCE WITH 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 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 the period from 1 July 2019 to 30 June 2020. 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. The assessment and examination results indicated that the overall compliance level of Scheme members was generally satisfactory.

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 an MoU to set out the mode of co-operation on the operation of the DPS. In line with the DPSO requirement that the Board perform its functions through the HKMA, the two parties have also agreed on the extent of the support provided by the HKMA to the Board on a day-to-day basis. In addition, the Board and the HKMA have a co-operative agreement to establish an early warning system of a potential bank failure so as to enable a fast DPS payout, and in the event of an actual bank failure, the Board has a standby facility from the Exchange Fund to obtain the liquidity required to pay the compensation.



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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 arrangements are 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 be the one to pay depositors first, 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 participates in IADI conferences and seminars and other events organised by IADI members and international organisations, and exchanges knowledge and views on deposit protection issues. Such international co-operation 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. Due to the COVID-19 pandemic, the conferences were held online in 2020-2021. Representatives from the Board took part in a number of virtual international meetings that included the following:

- IADI Virtual Asia-Pacific Regional Committee (APRC) Ad Hoc Meeting;
- 18th IADI APRC Annual Meeting; and
- IADI 2020 Extraordinary General Meeting for Members and APRC Meeting.