

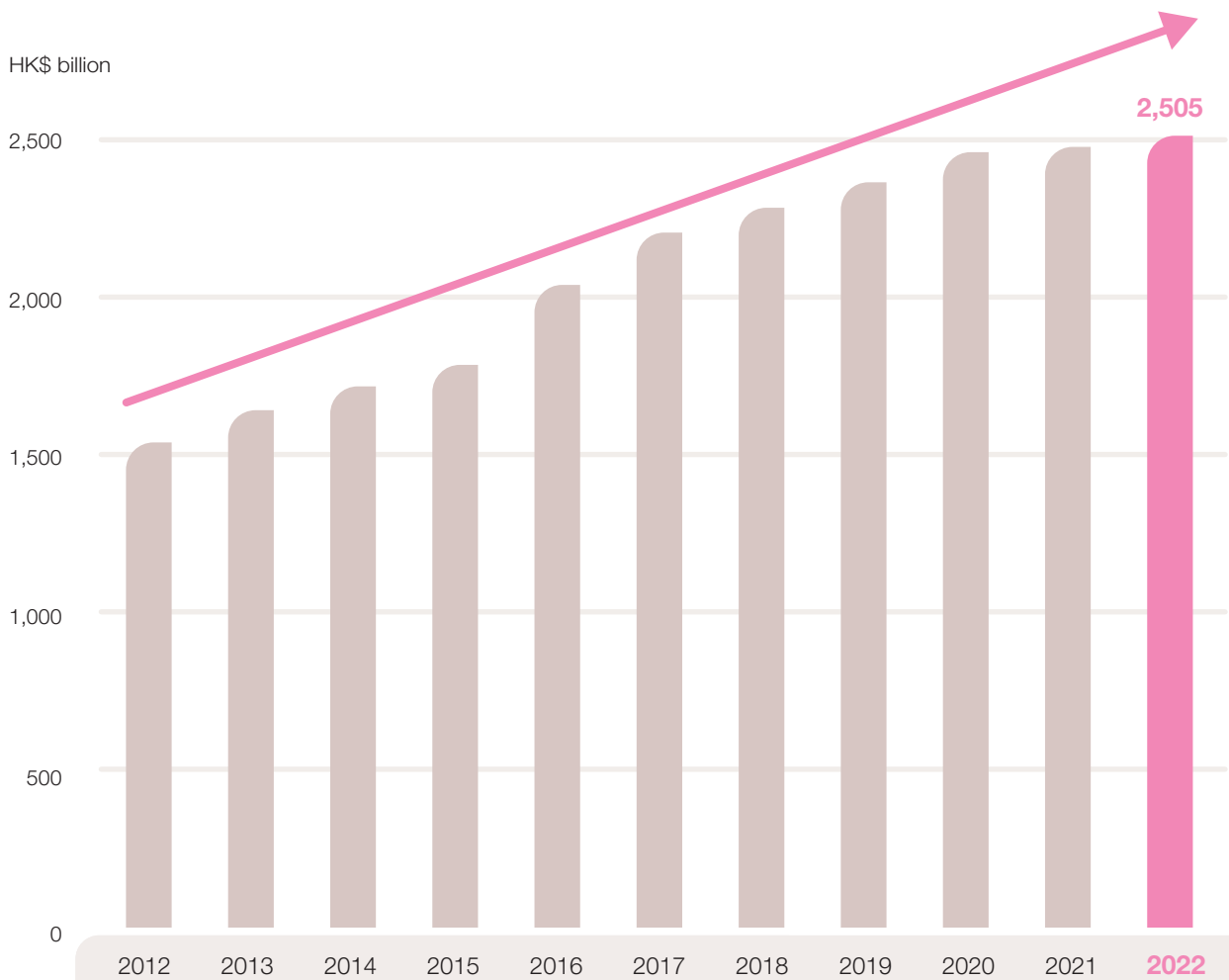


SCHEME MEMBERS' PROFILE AND PROTECTED DEPOSITS

At the end of March 2023, the Scheme had 152 members, with 31 incorporated locally and 121 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 edged up to HK\$2,505 billion in 2022, compared with HK\$2,472 billion in 2021.

Protected Deposits Held with Scheme Members

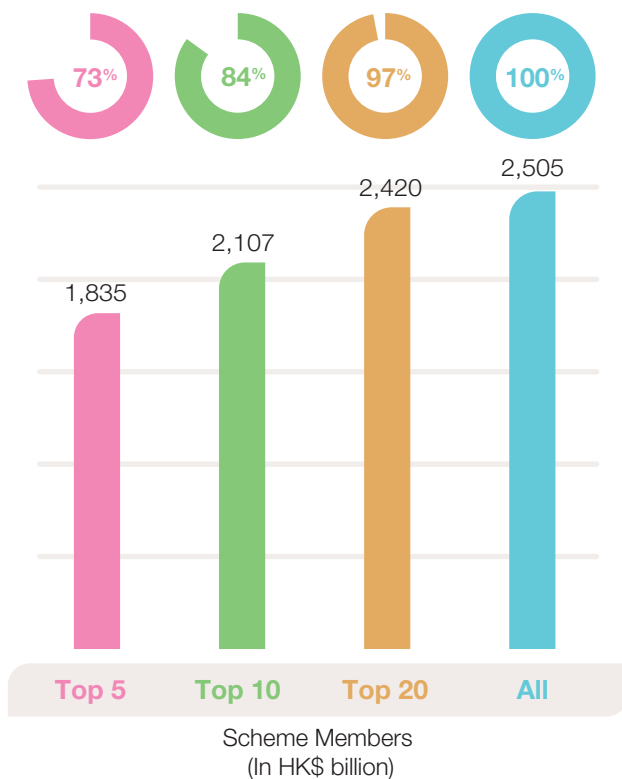




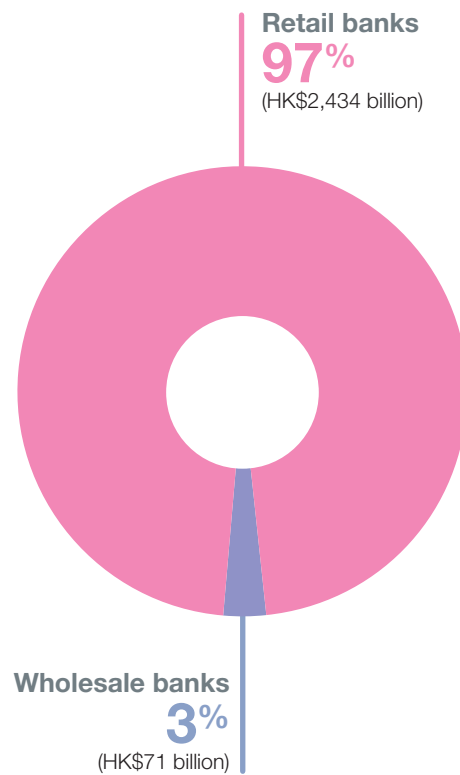
Scheme Operations

The distribution of protected deposits among Scheme members in 2022 was similar to that of 2021. The top 20 Scheme members, most of which were retail banks, held 97% of the industry's aggregate protected deposits. According to the latest statistics provided by Scheme members, 89% of depositors are fully protected by the DPS.

Distribution of Protected Deposits in 2022



Protected Deposits Held by Retail Banks and Wholesale Banks in 2022



REVIEW OF THE DPS

The DPS is a core part of the financial safety net that helps protect depositors, thus maintaining their confidence in Hong Kong's banking system and supporting financial stability. To ensure that the DPS remains effective in serving its public policy objectives and is well aligned with international best practice, the Board conducts periodic reviews to identify possible areas of enhancing the Scheme.

Since the launch of the DPS in 2006, the Scheme has undergone two rounds of major enhancements, in 2011 and 2016 respectively. These two exercises led to an increase in the protection limit from HK\$100,000 to HK\$500,000 in 2011, and a change in the payout approach to a gross basis in 2016 by removing the need to set off liabilities against protected deposits held by depositors. The change in payout approach substantially shortened the time required for disbursing compensation to depositors from 42 days to just seven days.



The Board has conducted a comprehensive review to ensure that the Scheme would keep up with international best practice and the latest developments in Hong Kong. The review consisted of a self-assessment against the Core Principles for Effective Deposit Insurance Systems stipulated by the International Association of Deposit Insurers, and a consultancy study to examine whether the design features of the DPS remain appropriate and the latest deposit insurance practices of selected jurisdictions. The Board also took the opportunity to review the representation regime in Hong Kong, which has been in operation for more than a decade since the 2011 enhancement, to make sure that the representation requirements on Scheme members remain appropriate and keep pace with the latest market developments.

Based on the findings of the review, the Board plans to solicit views from the public and other key stakeholders on a package of proposed enhancements to the DPS in 2023.

PAYOUT READINESS

Overview

The Board is constantly working to maintain operational readiness for paying DPS compensation to depositors promptly in the event of a bank failure. During the year, the Board conducted training and drills with its payout agents to ensure that they were well prepared to respond efficiently and effectively under a payout scenario. In 2023-2024, the Board will hold a rehearsal to ensure the payout readiness of all related parties and take the opportunity to pursue further improvement in the effectiveness of the payout process.

Payout Readiness Activities

To maintain the payout readiness of the Board's extensive network of payout agents, a payout walkthrough exercise and drills with these agents were carried out throughout the year. During the exercise, the Board provided both classroom training and simulation test for its pre-engaged payout agents, which were accounting firms and IT service providers, to maintain their readiness for payout operations.



Payout walkthrough exercise



Scheme Operations

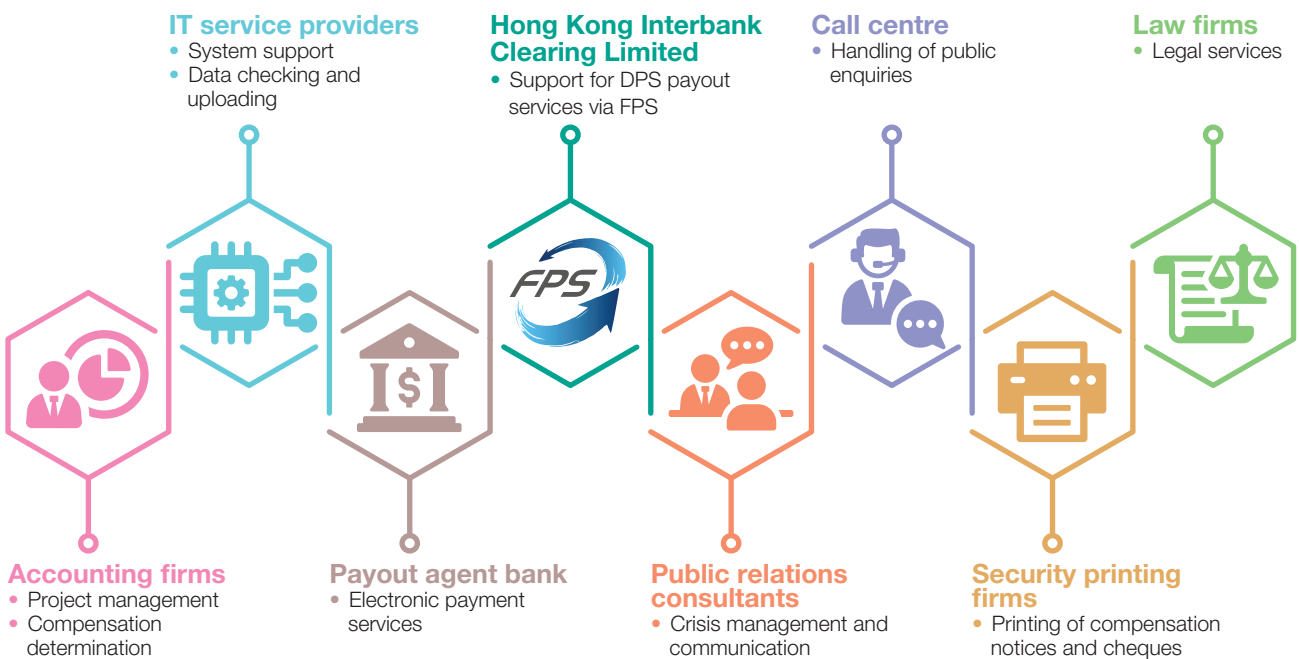
In the fourth quarter of 2022, a comprehensive drill was conducted with the banking sector to practise processing DPS compensation payments on electronic payment channels, with a special focus on the use of the Faster Payment System (FPS).

The Board's designated payout agent bank and the Hong Kong Interbank Clearing Limited (HKICL), the two payout agents supporting electronic payment services, also participated in the drill. The results

affirmed the familiarity of all parties with the payout procedures and their preparedness in distributing compensation payments through electronic channels in an orderly and efficient manner.

In 2023, the Board will perform a payout rehearsal with payout agents to ensure the readiness of all related parties and seek to further improve the effectiveness of the payout process.

Roles of Payout Agents and Their Coordination in Case of a Payout





Information System Requirements and Compliance

The information System Guideline (IS Guideline) issued by the Board sets out the requirements for Scheme members to prepare and submit the required information for compensation calculation during a payout. A swift payout requires Scheme members to carry out timely submission of quality information. The Board regularly monitors Scheme members' compliance with the IS Guideline using various measures under its Compliance Review Programme: a) carrying out regular and comprehensive reviews of selected Scheme members, b) requiring Scheme members to commission an independent auditor to assess their systems and processes every three years, and c) requiring each Scheme member to make a self-declaration of its compliance status every year. According to the results of compliance monitoring activities held throughout 2022-2023, the overall compliance status of Scheme members was satisfactory.

Regular training was organised to maintain Scheme members' understanding of the IS Guideline requirements. The Board held four information webinars in 2022-2023, engaging with more than 880 participants.

Monitoring of Scheme Members' Compliance with IS Guideline



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



Commissioned 49 Scheme members to submit independent assessment reports under the Compliance Review Programme



Reviewed all Scheme members' annual self-declaration on their compliance with the information system requirements



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

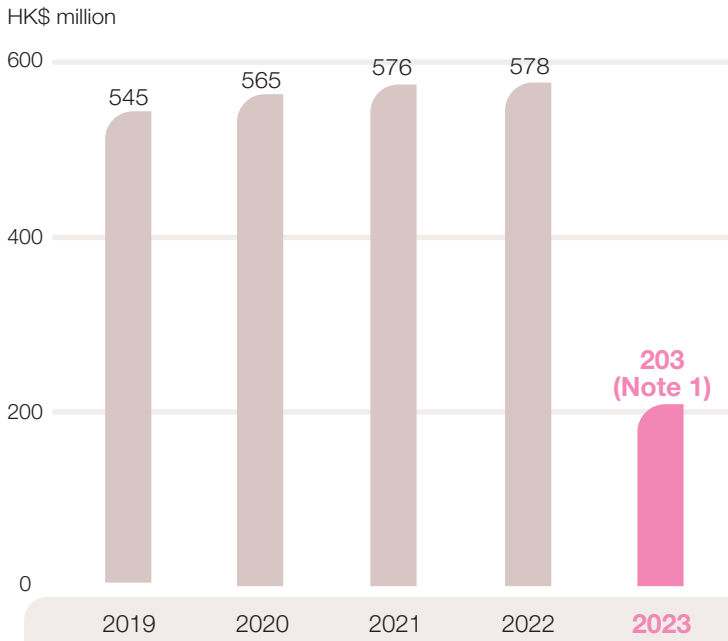
Contributions collected from Scheme members in 2023 amounted to HK\$203 million, a decline of 65% from 2022. Since the balance of the DPS Fund was close to the target fund size, according to section 3(6) of Schedule 4 to the DPSO, the total contributions payable by Scheme members for 2023 have been reduced to the extent that the balance of the DPS Fund after including the 2023 contributions will not exceed the target fund size. Similar to the distribution of protected deposits, the contributions collected from the top 20 Scheme members accounted for about 95% 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 report to the Board in accordance with the Board's return review policy. The Board selected 25 Scheme members to submit an audit report on the accuracy of their returns in 2023. The audit results were generally satisfactory.

Policy and Performance of the DPS Fund Investment

In view of the extremely uncertain investment environment, 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 2023, the DPS Fund amounted to HK\$6.4 billion, of which around 46% and 25% were invested in US Treasuries and Exchange Fund papers respectively, while the remaining sum was predominantly in the form of Hong Kong dollar deposits. The DPS Fund achieved an investment return of 1.59% for the year.

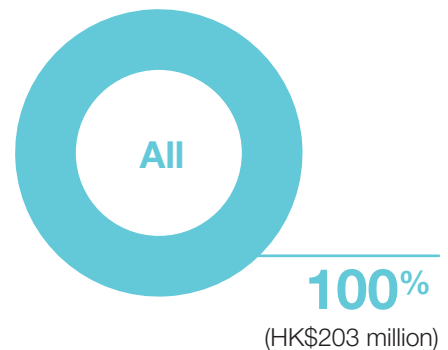
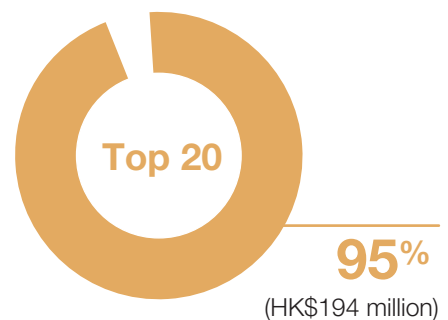
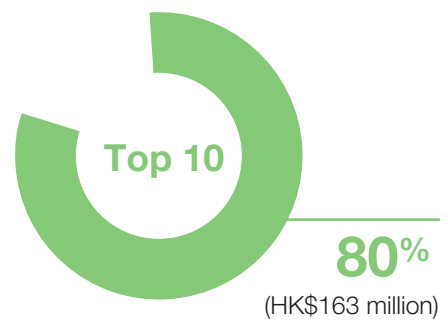
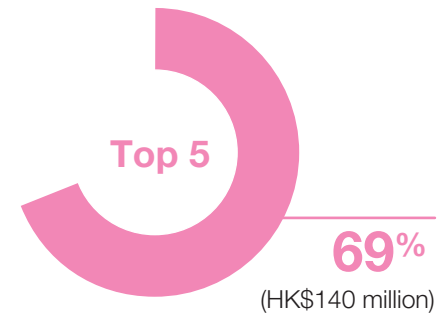


Contributions Paid by Scheme Members

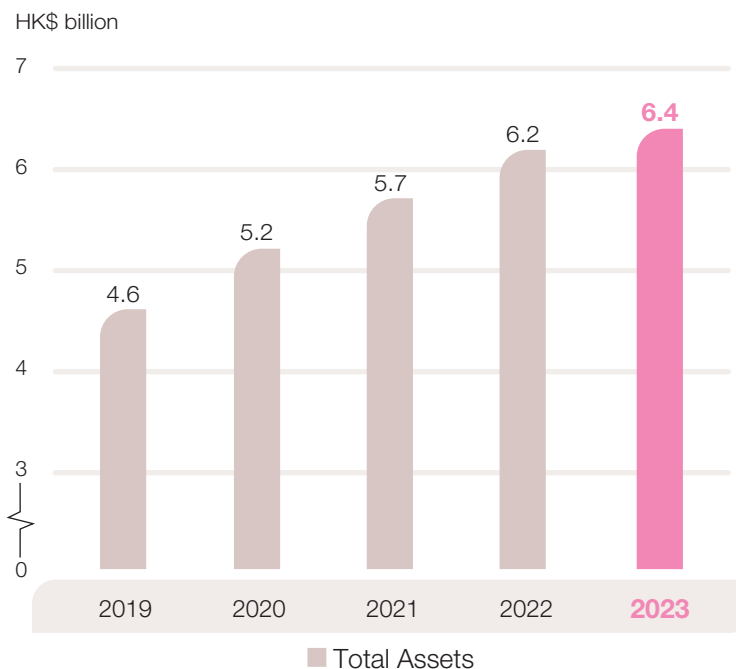


Note 1: Since the balance of the DPS Fund was very close to the target fund size, according to section 3(6) of Schedule 4 to the DPSO, the total contributions payable by Scheme members for 2023 have been reduced to the extent that the balance of the DPS Fund after including the contributions will not exceed the target fund size.

Distribution of Contributions Collected from Scheme Members



DPS Fund's Assets





Scheme Operations

REINFORCING PUBLIC AWARENESS AND UNDERSTANDING OF THE DPS

Overview

The period 2022-2023 was the second year of execution of the Board’s three-year communications plan, which aimed to reassure the public that their bank deposits would always be safe. Publicity initiatives were implemented to promote the Board’s role as the “Guardian of Deposits”. At the same time, the Board spared no effort in continuing educational outreach activities and allocated more resources to digital channels to deepen the public’s understanding of the DPS.

Mass Publicity

Multimedia Publicity Campaigns

Ah Chuen and Ah Po are the Board’s two iconic characters. Building on the rapport they had cultivated with the public, a new television commercial themed “Keep Calm and Deposit Safely On” was launched as part of a three-round advertising campaign and strategically deployed on various media channels to target different audiences. In addition to mass media publicity, the Board used Hongkong Post’s unique advertising platforms to extend the reach of its message to the elderly, homemakers and domestic helpers.



Advertising placements on TV, digital and outdoor media platforms





Social Media Campaigns

The Board devoted more resources to promoting the DPS on digital and social media to capitalise on the acceleration of digital adoption in the community.

- Two series of funny motion graphic videos were produced with the title, “Smart Picks – Protecting Ah Chuen” to promote the public’s understanding of the DPS. The videos, named “The Rumour Killer” and “Smart Challenges”, showed Ah Chuen and Ah Po playing games of strategy to tackle savings and real-life challenges.



- The Board also partnered with a popular YouTube channel to reach wider young audiences. A video campaign, “Ah Chuen & Ah Po Team-up Battle”, featured the iconic duo joining forces with artistes to compete in action games using their good knowledge of money management and DPS features.





Scheme Operations

Consumer and Public Relations Campaigns

With the end of the pandemic in sight and the relaxation of social distancing measures, the Board rolled out an in-person consumer campaign, “DPS Guardian Wagon”, in early 2023. A promotional truck wrapped with the visuals of latest DPS advertisements was parked at different bustling spots around town on weekends to engage passers-by with interactive games while distributing educational giveaways to disseminate the message, “DPS protection is for people from all walks of life”.



The “DPS Guardian Wagon”

Survey on “Hongkongers’ Sense of Security on Savings”

In 2022, the Board conducted the fifth multiyear survey to keep track of the saving behaviours of the public and a younger sub-group aged 18 to 29. An online media briefing was organised to announce the survey results, which generated extensive coverage in the media. As bank deposits continued to be the most common method of saving money, this finding once again reinforced the importance of the Board’s role as the “Guardian of Deposits” in Hong Kong.

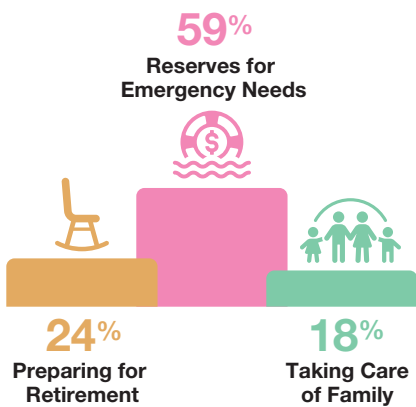
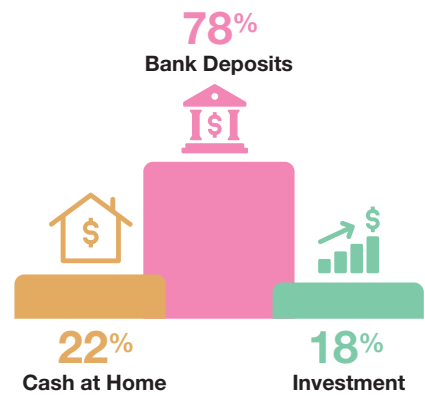
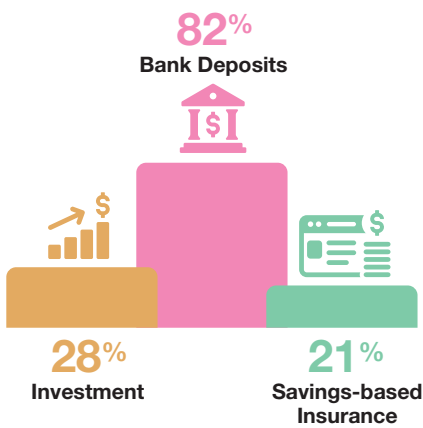
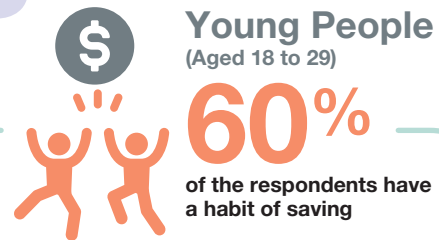
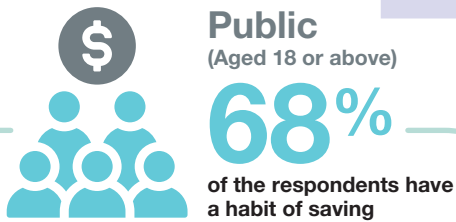


The HKDPB Chairman, Ms. Connie Lau, at the media briefing of the “Hongkongers’ Sense of Security on Savings” Survey



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

2022





Scheme Operations

Community Education and Outreach

DPS Talks, Board Game Workshops and Student Engagement

DPS talks have been among the more effective educational outreach activities in promoting awareness and understanding of the Scheme to target groups. Both in-person and online DPS talks were organised for the elderly and students amid the pandemic to maintain the Board's community education efforts while complying with social distancing measures. Meanwhile, financial education talks have been extended from secondary schools to tertiary education institutions. To bridge the DPS knowledge gap of ethnic minorities, the Board also organised talks for Pakistani, Thai and Vietnamese people during the year.

Introductory workshops on DPS Board Games resumed at secondary schools upon the gradual relaxation of pandemic restrictions in the last quarter of 2022. During the year, the Board also engaged with students of Lingnan University through a project which required them to come up with a proposal on "How to promote the two DPS publicity ambassadors Ah Chuen and Ah Po as key opinion leaders in Hong Kong".



DPS talks at elderly centres and schools



Online DPS talks for ethnic minorities



A student engagement project with Lingnan University



“DPS Fun Day” and “Kids Flea Market”

The Board collaborated with non-governmental organisations (NGOs) to hold “DPS Fun Day” and the “Kids Flea Market” to promote DPS knowledge to children and families. The events featured bun-making, DPS Board Game workshops and game booths during after-school hours and the summer holiday.



“DPS Fun Day” and “Kids Flea Market”

Participation in High-traffic Consumer Shows

The Board took part in two consumer shows, the Hong Kong Book Fair 2022 and the 56th Hong Kong Brands and Products Expo. At these events, the public was engaged using interactive educational games, DPS information leaflets and promotional giveaways.



Visitor engagement at consumer show



Scheme Operations

Public Awareness and Enquiries

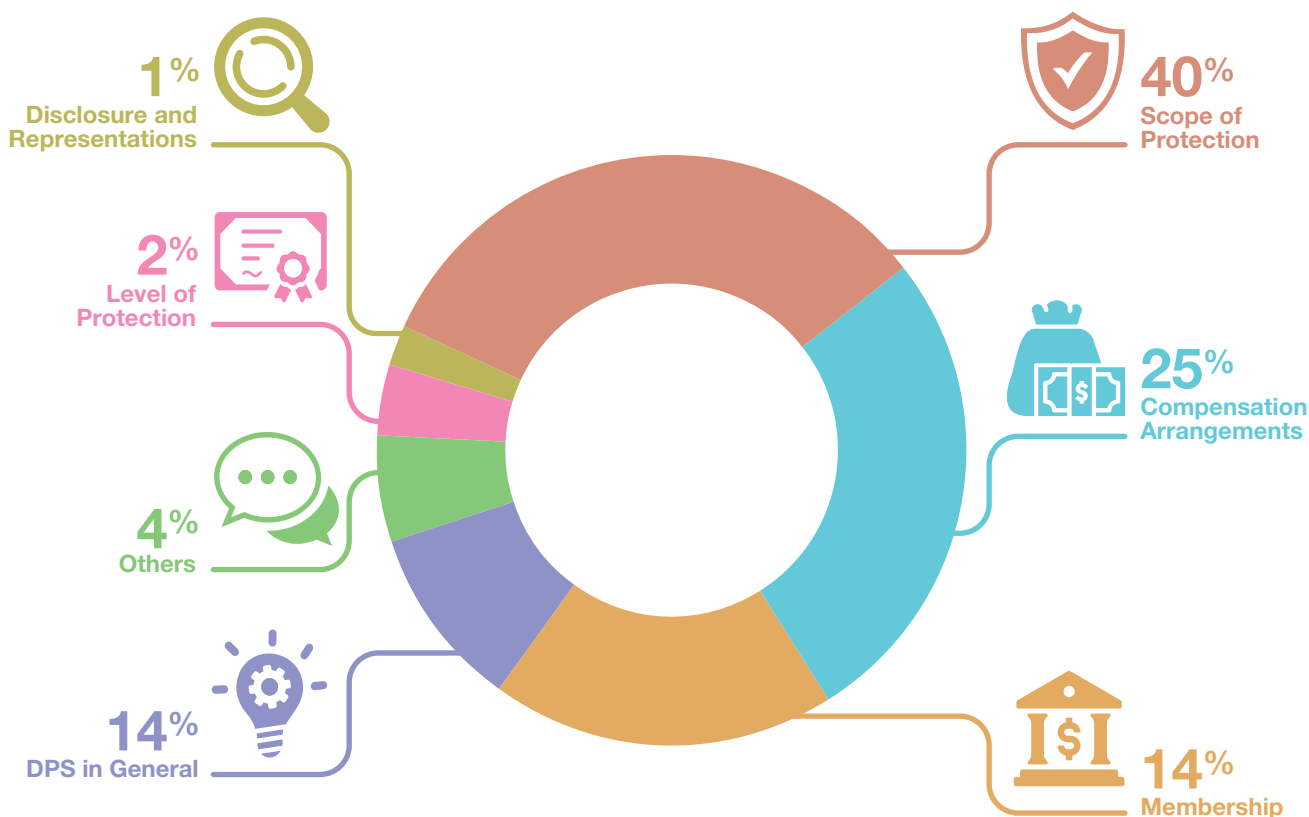
Public Opinion Survey 2022

In 2022, the Board commissioned an independent public opinion survey which found that public awareness of the DPS remained high at 78.1%, of whom 83.1% knew about the HK\$500,000 protection limit and 84.2% 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

The Board operates the DPS Public Enquiry Service on the hotline 1831 831 and the webpage <https://www.dps.org.hk/en/contact.php>. These are convenient and effective channels for members of the public to reach the Board for questions about the Scheme and the functions of the Board. About 65% of the enquiries received in 2022-2023 were related to the scope of protection of the DPS, including the deposit protection coverage at virtual banks, the types of financial products covered by the DPS, the coverage for non-Hong Kong residents, and compensation arrangements for joint accounts.

Nature of Public Enquiries Received by the Board in 2022-2023





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 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 2021 to 30 June 2022. 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 action. 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 objective, 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. 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.



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 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. In September 2022, the Board signed an updated MoU that superseded the original MoU to reflect factual updates agreed among the three parties since it was first signed in 2008.

International Co-operation

As a member of the IADI, the Board participates in IADI conferences and seminars and other events organised by the Association's members and international organisations, and shares relevant experiences on deposit protection issues. Such international co-operation is important in enabling the Board to keep up with overseas developments, which may provide the Board with insights into possible enhancements of the DPS. Representatives from the Board took part in a number of virtual international meetings that included the following:

- 20th IADI Asia-Pacific Regional Committee (APRC) Annual Meeting and International Conference;
- IADI 2022 APRC Meeting;
- IADI APRC Virtual Workshop and Exhibits; and
- IADI APRC Ad-hoc Meeting.