13 July 2023

Enhancements to the Deposit Protection Scheme
Frequently Asked Questions

1. Is the review of the Deposit Protection Scheme (DPS or the Scheme) triggered by the recent banking events in the US?

No. The Hong Kong Deposit Protection Board (the Board) reviews the DPS on a regular basis to ensure that it remains effective in maintaining banking stability and keeps up with international best practice. The latest review of the DPS was initiated in 2021 as part of the regular review exercise, with the support of an external consultant. In other words, it was not triggered by recent banking events in other parts of the world. Nevertheless, the implications of those banking events have been taken into account when coming up with our policy recommendations on enhancing the Scheme.

2. What are the proposed enhancements to the DPS arising from the latest review?

Based on the findings of the latest review, while the DPS is substantially in compliance with international standards, there is room for enhancement in certain areas, including:

- Protection limit – raising the protection limit from the current HK$500,000 to HK$800,000;
- Levy system – switching back to the build-up levy to cater for a higher protection limit, with the build-up levy rates kept unchanged;
- Deposit protection arrangements in the event of a bank merger – providing enhanced coverage to affected depositors for six months upon a bank merger; and

- Representation regime – requiring Scheme members to display the DPS membership sign on their digital channels, in addition to their physical premises; and streamlining the disclosure requirements on non-protected deposits for private banking customers.

3. **If the protection limit is to be raised to HK$800,000, how many more depositors will be fully protected and how much more deposits will be covered by the DPS, as compared to the existing protection limit of HK$500,000?**

At the current protection limit of HK$500,000, around 20.4 million depositors, representing 89% of total depositors, are fully protected. If the protection limit is to be raised to HK$800,000, the number of fully protected depositors would increase by around 830,000 to 21.2 million, equivalent to 92% of total depositors. The total amount of protected deposits would also increase by 26% from around HK$2.6 trillion to HK$3.3 trillion, equivalent to 25% of total deposits in the banking system.

4. **Why is HK$800,000 considered an appropriate level for the protection limit under the DPS?**

A host of factors determine the protection limit of a deposit insurance scheme. A higher protection limit would enhance depositor protection and further strengthen financial stability. However, the appropriateness of a protection limit cannot be considered without taking into account the additional costs involved.

The Board proposes to raise the protection limit of the DPS to HK$800,000, as this level (representing an increase of 60% from the existing protection limit of HK$500,000) would suitably enhance protection to depositors while keeping additional costs at a manageable level. In particular,

(i) the percentage of depositors fully covered will be restored to 92.2%, which is in line with international guidance with a reasonable buffer from the minimum of 90%;

(ii) the real value of the protection limit will increase by 21% after taking into account cumulative inflation, providing a reasonable enhancement in protection to depositors;

(iii) the protection limit as a percentage of per capita GDP will be comparable to many other major jurisdictions;

(iv) the potential loss to the DPS is kept at a manageable level, so there is no need to raise the existing target fund size of 0.25% of total protected deposits, and hence the increase in the annual contributions payable by Scheme members can be contained at about 26%; and

(v) the increase in moral hazard should be manageable since the percentage of fully protected depositors is in line with international guidance.

5. How is the protection limit of HK$800,000 compared with other major jurisdictions?

When comparing different jurisdictions, a commonly used indicator is protection limit as a percentage of per capita GDP. If the protection limit is to be raised to HK$800,000, Hong Kong's protection limit as a percentage of per capita GDP will jump from the current 129% to 206%, lifting Hong Kong's position from ninth to sixth among the 12 jurisdictions selected for the purpose of the review[1] (see **Table**, which ranks jurisdictions according to protection limit as a percentage of per capita GDP). In fact, Hong Kong's protection limit is higher than that of many other Asian peers.

[1] The other 11 jurisdictions were selected for comparison based on the economy size, funding mechanism, deposit insurer's mandate, levy system and availability of information.

Table: Protection limit as a percentage of per capita GDP

Jurisdiction	Protection limit		Protection limit as a percentage of per capita GDP
	In local currency	In USD*	
Mainland China	RMB500,000	72,240	575%
Malaysia	MYR250,000	56,767	511%
United States	USD250,000	250,000	356%
United Kingdom	GBP85,000	102,853	221%
Germany	EUR100,000	107,044	209%
Hong Kong	**HKD800,000 (proposed)**	**102,459**	**206% (ranked 6th)**
Japan	JPY10 mn	76,268	194%
Denmark	EUR100,000	107,044	157%
Canada	CAD100,000	73,815	142%
Hong Kong	**HKD500,000 (current)**	**64,037**	**129% (ranked 9th)**
South Korea	KRW50 mn	39,632	113%
Ireland	EUR100,000	107,044	107%
Singapore	SGD75,000	55,947	77%

** The protection limits in USD terms are calculated based on exchange rates as at end-2022.*

6. Why is a protection limit of higher than HK$800,000 not recommended?

The marginal benefits of raising the protection limit to a level beyond HK$800,000 in terms of increasing depositor coverage would diminish, and these improvements would be disproportionately costly to make as the potential loss to the DPS is estimated to rise sharply. This would exert a larger financial

impact on the banking industry, making it more likely for it to pass on the additional cost to bank customers.

It is also important to note that in the bigger scheme of things, deposit protection is only one of the building blocks of the financial safety net. The recent bank failures in the US have demonstrated that deposit insurance alone cannot fully address all financial stability concerns. Even more important is having robust banking regulation and sound supervision, and putting in place a credible resolution regime to deal with, in an orderly manner, those banks which may have a systemic impact on the financial system should they indeed fail.

In fact, the financial safety net in Hong Kong has been strengthened significantly over the years, and our banking system remains sound and robust. The Board at this stage does not see any particular reason to sharply increase the protection limit under the DPS. Going forward, the Board will continue to closely monitor international developments and, as always, review the protection limit from time to time.

7. What are the proposed enhanced protection to affected depositors in a bank merger and how do they know that their protection has been enhanced?

For depositors who have deposits with more than one of the Scheme members involved before the merger or acquisition, each affected depositor will be entitled to compensation in respect of his/her protected deposits with each of the original Scheme members up to the DPS protection limit during the grace period, as if the merger or acquisition had not occurred.

In determining the total protection limit of the affected depositor, the Board will combine the separate coverage at each of the merging Scheme members, which is the lower of the standard protection limit and insured deposits, at the time of merger or acquisition, with the combined coverage subject to a minimum equal

to the standard protection limit (see **Example**). The grace period is proposed to last for six months from the date of merger or acquisition.

Scheme members involved in a merger or acquisition should notify affected depositors of the arrangements (e.g. via the website of the Scheme members involved, major newspapers or by other means which the Board considers appropriate), as soon as practicable after obtaining relevant approval of the merger or otherwise.

Example: Illustration of depositor protection in the event of a bank merger

This scenario assumes Bank A will merge with Bank B, and all deposits in Bank A will be transferred to Bank B on the date of merger. The standard protection limit is assumed to be HK$800,000 per depositor per bank as proposed in Chapter 2 of the consultation paper.

(a) If a depositor has HK$800,000 at Bank A and HK$800,000 at Bank B, the depositor will be entitled to a maximum compensation of HK$1.6 million at the consolidated Bank B.

(b) If another depositor has HK$500,000 at Bank A and HK$500,000 at Bank B, the depositor will be entitled to a maximum compensation of HK$1 million at the consolidated Bank B.

For cases above, the latest protection limit is the sum of the lower of the standard protection limit and insured deposits at each bank originally[2]. The depositors can effectively enjoy the same protection as before the merger. The enhanced protection limit will remain in place for a grace period of six months,

[2] In case there is another depositor who has HK$100,000 at Bank A and HK$200,000 at Bank B, the sum of the lower of the standard protection limit and insured deposits at each bank originally would be HK$300,000 only, lower than the standard protection limit. In that case, the depositor will be entitled to the standard protection limit of HK$800,000 at the consolidated Bank B, same as other unaffected depositors.

irrespective of any changes in the depositors' total deposit balance during that time. After the grace period expires, the maximum protection available at the consolidated Bank B for each of the depositors will revert to HK$800,000.

8. As it is proposed to require Scheme members to display DPS membership sign on their digital channels, what do digital channels refer to?

Digital channels include the website and principal Internet banking platform(s) of Scheme members. Principal Internet banking platform generally refers to a platform operated by a Scheme member to which customers have access for carrying out online or mobile banking business, e.g. fund transfers, deposit-taking, etc., via the Internet across electronic devices including computers and mobile phones.

The Board proposes that a Scheme member should prominently display the DPS membership sign on the home page and the page following the customer login of its website and principal Internet banking platform(s), with the accompanying hyperlink to the home page of the DPS website.

9. Why does the streamlined approach for negative disclosure requirements on non-protected deposits only apply to private banking customers (PB customers)? Why are retail customers not covered?

PB customers refer to the customers of a private bank or the dedicated private banking unit of a bank. The proposed streamlined, one-off negative disclosure arrangements for PB customers have taken into account the nature of PB customers and the mode of operations of private banks. PB customers frequently enter into non-protected deposit transactions and generally have richer investment knowledge and experience. The Board is of the view that introducing flexibility in the negative disclosure regime for PB customers can help ensure

the relevant requirements are proportionate and commensurate with the sophistication level and investment experience of this type of customers.

On the other hand, in view of the fact that ordinary retail customers are generally less sophisticated than PB customers, no change is proposed to the current transaction-based negative disclosure regime for retail customers, so that they can continue to receive an appropriate degree of protection.

10. What is the timeline for the public consultation? When will the consultation conclusions be issued?

The public consultation on proposed enhancements to the DPS will last for 3 months. Members of the public and other interested parties are welcome to submit their views and comments to the Board on or before 12 October 2023 via the following channels:

- by mail to the Board's office at Room 1802-1810, 18/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (Please indicate: DPS Enhancements)

- by email to dps_enhancements@dps.org.hk

- by fax to (852) 2290-5168

The consultation paper is available on the Board's website (www.dps.org.hk).

The Board will consolidate the views and comments received from the public consultation and take them into account in finalising the proposals. The Board aims to announce the consultation conclusions and introduce legislative amendments to the Legislative Council by early 2024.