



香港存款保障委員會
HONG KONG DEPOSIT
PROTECTION BOARD

Current developments on deposit protection in Hong Kong

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Overview of Deposit Protection in Hong Kong (1)

- the Deposit Protection Scheme (DPS) in Hong Kong is a paybox-type scheme, it commenced operation in September 2006
- the DPS is administered by an independent statutory body, the Deposit Protection Board (DPB), and its funding wholly comes from the banking industry
- the DPS protects deposits held with licensed banks (LBs) (the two other types of institution that can take deposits in Hong Kong, i.e. restricted licence banks (RLBs) and deposit-taking companies (DTCs), are not members of the DPS)
- the protection limit of the DPS is HK\$100,000 (equivalent to about USD13,000) per depositor per bank



Overview of Deposit Protection in Hong Kong (2)

- as a pre-emptive measure to reinforce confidence amid the global financial crisis, the Hong Kong SAR Government introduced a full deposit guarantee in October 2008
- the guarantee is provided on the back of the Exchange Fund, i.e. Hong Kong SAR's foreign currency reserves (now standing at about HK\$2,152 billion, equivalent to about USD276 billion)
- it covers deposits held with all 3 types of institutions that can take deposits in Hong Kong, on top of those covered by the DPS
- it follows the principle of the DPS in terms of product coverage and compensation calculation basis in providing protection
- it is scheduled to expire by the end of 2010



Overview of Deposit Protection in Hong Kong (3)

Deposits at	Protection limit	Protection provided by
Licensed Banks	First HK\$100,000	DPS (operated by the DPB)
	Above HK\$100,000 (until end-2010)	Full deposit guarantee (provided by the Hong Kong SAR's Exchange Fund)
Restricted Licence Banks and Deposit- Taking Companies	Full protection (until end-2010)	



Latest developments in Hong Kong

- Preparations are being made on all fronts to get ready for uplifting the deposit guarantee as scheduled, i.e. by end-2010, the key considerations include:-
 - international and local financial conditions by the end of 2010
 - readiness of depositors
 - readiness of financial institutions
 - regional financial stability



International and local financial conditions

- signs of improvement seen in major overseas markets
- the time, pace and impacts of major markets retreating from quantitative easing, however, remain uncertain
- emerging international principles and best practices for orderly exits
- local banking system remains sound and robust
- considerable uncertainties exist, especially from overseas markets, the authority to keep monitoring and review conditions approaching end-2010



Readiness of depositors

- the DPS might have helped contain the spillover effect of a bank run occurred in Hong Kong during the crisis, however, its coverage may not be adequate
- to reform the DPS (to take effect by the beginning of 2011)
 - to raise DPS protection limit to HK\$500,000 (equivalent to about USD64,000) to fully cover over 90% of depositors
 - also include other changes, for expanding product coverage, mitigating cost, speeding up payouts and improving transparency of coverage (for details, see the **Annex**)
- to launch a publicity campaign in 2010 to alert the public on the enhanced DPS and the expiry of the guarantee



Readiness of financial institutions

- possible deposit flows among LBs after the guarantee expires as the level of protection will drop to HK\$500,000
- possible deposit flows out of RLBs and DTCs as they will no longer be covered after the guarantee expires
- HKMA, the banking supervisor in Hong Kong, reminded and to monitor the institutions to get ready for the transition, especially in terms of liquidity management
- publicity campaign to be launched in 2010 will be helpful in promoting early and orderly deposit flows



Regional financial stability

- blanket deposit guarantee was also introduced in other markets during the crisis, e.g. Singapore, Malaysia
- possible cross-border deposit flows due to significant disparity in the level of protection in different markets
- formed a tripartite working group with Singapore and Malaysia to map out a co-ordinated exit strategy (their guarantees are also scheduled to expire by end-2010)
- currently, no intention to uplift early or extend the guarantee



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End



Annex - Reform of the DPS in Hong Kong

- The DPB commenced a two-phase review of the DPS in Q4 2008, and completed the review in Q4 2009
- Major recommendations concluded in the review include:-
 - raising DPS protection limit to HK\$500,000
 - expanding DPS coverage to include secured deposits
 - reducing premium rates to keep annual contribution of the banking industry unchanged
 - adding flexibilities to the compensation determination process to improve payout efficiency
 - adding disclosure requirements to enhance the transparency of DPS coverage