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香港金融管理局

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inSight

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Deposit protection

What is - and is not - protected?

The extent of coverage of the Deposit Protection Scheme, and the 100% deposit guarantee announced on 14 October last year which follows the same principles, has recently attracted quite a lot of public attention. This is understandable given the importance to all of us of the safety of our savings. In this article, I will try to make clear, at least in general terms, what types of deposit are and are not covered.

Under the Deposit Protection Scheme, deposits at licensed banks up to HK\$100,000 are protected. The 100% deposit guarantee extends this coverage up to the full amount and to deposits with restricted licence banks and deposit-taking companies, up to the end of 2010. The basic principle is that all deposits meeting the definition of deposit in the Banking Ordinance are protected. This includes the great majority of deposits in Hong Kong, whether in Hong Kong dollars or foreign currencies. However, a few types of deposit are not protected, such as:

- secured deposits (such as those that are used as collateral to secure overdrafts or loans)
- structured deposits (such as foreign-currency-linked and equity-linked deposits)
- bearer instruments (such as bearer certificates of deposit)
- offshore deposits.

Since the Deposit Protection Scheme commenced operation in September 2006, the Deposit Protection Board has launched publicity campaigns to promote awareness and understanding of the Scheme. Following the introduction of the 100% guarantee, the Board and the HKMA have taken further measures to reinforce public understanding of the Scheme's coverage. Two days after the guarantee was announced, the HKMA issued a guideline requiring Authorized Institutions that are not members of the Scheme (restricted licence banks and deposit-taking companies) to make similar disclosures to those that Scheme members (the retail banks that most of us deal with) already make. This should ensure that any depositors who place unprotected deposits with these institutions are aware that this is the case and can make an informed decision.

In December 2008, the HKMA issued a statutory guideline to formalise the representation regime for the 100% guarantee, including requiring all Authorized

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Institutions to issue notices to customers with unprotected deposits not later than the end of May 2009 informing them which part of their money is not protected. Because the guarantee was only introduced recently, time is needed for the institutions to develop and test computer programmes to accurately identify and extract the relevant information from their databases. In the meantime, the Board has launched a number of new publicity materials on the coverage of the Scheme and the guarantee – readers will probably have seen these on television and elsewhere.

Under the Deposit Protection Scheme, banks are required to notify customers of any deposits that are not protected and when a protected deposit will become unprotected, for example, when a deposit is pledged for obtaining credit facilities. The same requirements have been included in the statutory guideline issued by the HKMA in respect of the guarantee. Generally speaking, a depositor should be made aware that a deposit that he or she pledges to a bank for a specific purpose will become unprotected.

There has been some public concern about deposits held in integrated accounts being pledged without the customer being aware of it, and hence becoming unprotected. While the terms and conditions governing the integrated accounts offered by different banks may vary, the practice of automatically offering credit facilities to customers under an integrated account and charging all the customer's deposits under the account for the facility is not a common one. One major bank that does adopt this practice has agreed to change the arrangement and will notify its customers shortly. The HKMA issued a circular on 5 February 2009 to all Authorized Institutions, requiring them to inform all holders of integrated accounts as soon as practicable whether a secured credit facility is offered under the type of integrated account they hold. Holders of integrated accounts without secured credit facilities will be able to tell from the notification that their deposits in the account will not become pledged without their knowledge due to the bundling of services under the account. Where a secured credit facility is offered under an integrated account and a customer has pledged deposits for the facility, details of the pledged deposits will be sent to the customer together with those of any other unprotected deposits in the notice to be issued by banks before the end of May 2009. Holders of integrated accounts should therefore pay particular attention to the notifications.

Another important point is that, under the Scheme, compensation is paid on a net basis. For example, the protected deposits of a borrower to a bank will be applied to repay any loan that he or she owes the bank in the first instance. The balance of protected deposits remaining, if any, will be paid as compensation to the borrower.

As always, if you are unsure whether your deposits are protected, the best thing to do is to contact your bank.

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