HONG KONG MONETARY AUTHORITY
香港金融管理局

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Completion of the Review of the Deposit Protection Scheme

This inSight article is contributed by Mr Raymond Li, Chief Executive Officer of the Hong Kong Deposit Protection Board. Mr Li, also an Executive Director of the Hong Kong Monetary Authority (HKMA), discusses the latest developments of the Deposit Protection Scheme. The HKMA and the Board have been working closely to achieve the common objective of promoting the stability of Hong Kong's banking system.

On 30 November the Deposit Protection Board published a report of the second phase of its consultation on the Deposit Protection Scheme (DPS). This marked the end of review that began in the fourth quarter of 2008. On behalf of the Board, I would like to thank those who gave their views. Their enthusiasm is especially commendable because the two rounds of consultation were conducted in a short time, since we wanted to make sure that improvements to the DPS can be implemented upon the expiry of the deposit guarantee provided by the Exchange Fund (deposit guarantee) at the end of 2010.

The consultation report indicates that the recommendations proposed by the Board have received broad support from the banking industry, despite the potential cost implications, as well as from the general public. The Board will fine-tune some of the recommendations to address the legitimate concerns raised by the industry during the consultations. For example, we will further reduce the contribution rates paid by banks on deposits to support the DPS Fund to ensure that the contributions are maintained at their current levels in absolute terms. This arrangement will help eliminate the possibility that the costs of deposit protection will need to be passed on to depositors.

Subject to the necessary legislative approval of the recommendations, the maximum protection limit of the DPS will increase to $500,000, fully covering about 90% of all depositors. In other words, about 90% of all depositors will be unaffected by the removal of the deposit guarantee at the end of 2010. In addition to enjoying a higher protection limit, depositors will find it easier to identify what kind or which of their deposits are protected by the scheme. They will also be able to receive compensation sooner, in the case of a payout.

Following the completion of the consultations, the Board will focus on obtaining the required legislative clearance. Obviously, we will continue to need the support of the public and interested parties to complete this difficult task within such a tight schedule. The Board will also arrange a series of publicity activities to make sure that members of the public are fully aware of what we are doing and how they will benefit from the strengthening of the DPS.

Hong Kong's banking sector has clearly demonstrated its resilience and robustness during the global financial crisis. No bank in Hong Kong failed or needed any capital assistance from the Government. With the further improvements to the DPS, we believe that Hong Kong is well positioned to maintain monetary and financial stability at and beyond the expiry of the deposit guarantee at the end of 2010. The Board and the HKMA will continue to work closely to ensure effective protection for depositors.

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