



HONG KONG MONETARY AUTHORITY
香港金融管理局

inSight

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Public consultation on the review of the DPS

The consultation gave us useful information.

The two-month consultation period on our recommendations for improvements to the Deposit Protection Scheme (DPS) ended in late June. During the consultation, the Board launched an extensive publicity campaign to encourage public participation. I believe most readers will have seen or heard our messages in the media. Towards the end of the consultation, we also conducted a territory-wide opinion survey to obtain the public's views about our recommendations. Apart from soliciting comments from the general public, we have also approached a number of key stakeholder groups to gather their opinions, including industry and professional bodies, consumer groups, academics and the legislature. Generally speaking, the consultation concluded that there is broad-based public support for the recommendations. I would like to take this opportunity to thank members of the public and the various stakeholder groups for sharing their views with us.

We received more than 800 responses from members of the public. This level of response indicates that the consultation achieved its objective of triggering an extensive discussion on the subject in the community.

Among the recommendations, the attention of the general public mainly fell on the level of protection and coverage of the DPS. Depositors generally welcomed the higher level of protection and broader coverage recommended in the consultation paper. As expected, many indicated a wish to raise the limit even higher than \$500,000, or to remove the cap entirely. Many depositors also felt it would be desirable to expand the coverage to include deposits that are currently not protected, for example, deposits at deposit-taking institutions other than banks, structured deposits and even non-deposit investment products. These views are perfectly understandable. However, the appropriate level and scope of protection has to be set with careful regard to cost and moral-hazard considerations, as well as what the community finds desirable. The results of the opinion survey do suggest that a majority of respondents found the proposals of the Board acceptable.

The recommendations were also endorsed by the major stakeholder groups consulted. Some of them even contributed views on the risks and technical aspects of implementing the recommendations. Most of the comments, including those from the industry, support raising the limit to \$500,000. Some alternative proposals were also received, for example, setting the limit at below \$500,000 to better control moral hazard and cost, and providing partial protection to deposits above \$500,000. The industry drew to the Board's attention the

preparations banks would have to make to extend protection to secured deposits. The Board also received legal advice highlighting the potential complexities of defining secured deposits for the purposes of conferring protection on them. While noting the Board's rationales for keeping certain features of the DPS unchanged for the time being, a key consumer-interest body suggested that these matters should be kept under review in the light of developments in the regulatory and competitive environment of the banking industry and emerging international best practices. Finally, petitions were received from non-bank deposit-takers calling for DPS membership to be opened to them.

The Board noted the industry's concern that the cost-mitigation measures proposed in the consultation paper may not fully offset the cost of implementing the recommendations. As mentioned in the consultation paper, the Board is mindful of the impact of the costs on banks and that these costs, if substantial, may increase the likelihood of the cost of protection being passed on to depositors. If it turns out that the actual cost due to the recommendations is more significant than expected, the Board will be prepared to explore with the industry ways to further contain the cost, subject to the condition that the accumulation of the capital required for backing the DPS will not be unduly delayed.

Based on the results of the consultation, we believe that our recommendations can create a better balance among the effectiveness of the Scheme, moral-hazard concerns and cost, while making it better able to meet public expectations. Nevertheless, we will carefully consider the comments to see whether refinements should be made to the recommendations or new changes should be initiated. A lot of work still has to be accomplished to turn the recommendations into legislative proposals, and continued public support will be vital at the legislative stage.

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