

Consultation on Enhancements to Deposit Protection Scheme

Frequently Asked Questions

1. What is the reason for introducing the proposed enhancements?

The proposed enhancements are aimed at simplifying the compensation calculation process, mainly through the adoption of gross payout, to enable a faster payout under the Deposit Protection Scheme (DPS) in the event of a bank failure. After the 2008 global financial crisis, many jurisdictions have enhanced their contingency measures and the efficiency of their deposit insurance systems, including the adoption of gross calculation basis for achieving faster payout, in order to improve their crisis management ability. Although Hong Kong has a sound financial system and an effective banking regulatory system, there is still room for further strengthening of protection to depositors and the overall functions of the financial safety net.

2. How can the proposals benefit depositors?

After adopting the gross payout approach, the DPS will be able to streamline the processes of compensation determination and verification of depositors'

information so as to better ensure that a payout can be made within a shorter period of time. Under the current full netting approach, if a relatively complex crisis or failure situation is encountered, the Hong Kong Deposit Protection Board (HKDPB) may need to split the payout into two stages - making an interim payment to affected depositors within two weeks and taking up to six weeks for the final payment. In contrast, it is expected that depositors can access their funds within one week under most circumstances upon adopting the proposed gross payout approach. Furthermore, it will be easier for depositors to understand the scope of DPS protection, thus increasing their confidence in the DPS.

3. In addition to the benefits to depositors, what are the other advantages of a faster payout?

A faster payout does not only enable depositors to have more ready access to their compensation payment, it can also help reduce the risk of bank runs and prevent contagion arising from a banking crisis. With a more effective DPS functioning in the financial safety net, a faster payout can contribute to the general banking stability and bring the DPS more in line with the international development, which in turn consolidates Hong Kong's status as an international

financial centre.

4. Are the benefits only relevant to depositors with both deposits and liabilities in the same bank?

No. As the disapplication of set-off will substantially simplify the compensation determination process, the entire payout framework of the DPS will become more efficient. As a result, all depositors will benefit from a faster payout.

5. After receiving the first \$500,000 (current DPS protection limit) under the proposed gross payout approach, will the remaining deposit of a depositor be subject to set-off against his or her liability owed to the failed bank?

Yes. Under the proposed gross payout approach, set-off between the protected deposit held by a depositor and his or her liability owed to the failed bank will only be disappplied up to the protection limit of the DPS (i.e. \$500,000) for determining and distributing the DPS compensation payment. If a depositor has a deposit of over \$500,000, the liquidator will continue to apply the insolvency set-off to the excess portion against his or her outstanding liability with the failed bank.

6. *If a depositor has not more than \$500,000 deposit in the failed bank, what will happen to his or her liability that remains outstanding because of the disapplication of set-off?*

If a depositor has a deposit balance of not more than the DPS protection limit of \$500,000, he or she is entitled to claim back the full amount without being subject to set-off at the time of the payment. However, the depositor will still be obliged to repay to the liquidator any outstanding debt balance owed to the failed bank.

7. *Will the adoption of gross payout under the DPS result in higher amount of contribution payable by banks?*

The level of premium rates payable by banks will not be subject to any adjustment upon the implementation of the enhancement proposals. Nonetheless, as the amount of protected deposits reported by some Scheme members of the DPS may be higher on a gross basis as compared to that calculated on a net basis, it is possible that individual banks would need to pay slightly more premium. The impact on contribution payable by individual banks

would vary. Having said that, banks could benefit from IT and compliance costs savings due to simplified depositors' data maintenance and reporting requirements under the gross approach, which could partly offset the relevant premium increase.

8. *What will be the impact of revising the “Quantification Date” on a payout?*

The proposal will specify the Quantification Date for a failed Scheme member as the triggering date of the DPS or the date of appointment of the provisional liquidator (whichever is the earlier) in order to eliminate the uncertainties of the reference date used for determination of compensation hence speeding up a payout.

9. *When will a depositor receive an electronic notice from the HKDPB according to the proposal set out in the consultation paper?*

The HKDPB will issue an electronic notice to depositors based on the records of the failed bank after careful assessment of the records' reliability and completeness. At this stage, depositors will not be required to make an advance application. Regardless of whether a depositor has received electronic notice,

all depositors will receive a written payment notice for confirmation and record-keeping. The electronic notice can allow the affected depositors to receive the relevant compensation details in a more timely manner thus alleviating their concern if the DPS is triggered.

10. Regarding the use of electronic notices, how will the data privacy of depositors be safeguarded?

To enhance the reliability of the email contacts used in a payout, the HKDPB's revised Information System Guideline has included email addresses of depositors as specified information required to be maintained by banks. In addition, the HKDPB will conduct suitability assessment and put in place appropriate security measures to protect data privacy of depositors.

Financial Services and the Treasury Bureau

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