

LCQ22: Deposit Protection Scheme

Following is a question by the Hon Chan Chun-ying and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (September 15):

Question:

The Deposit Protection Scheme (DPS) is a statutory scheme for protecting bank depositors. All licensed banks, including virtual banks, are required, unless exempted by the Hong Kong Deposit Protection Board (the Board), to participate in the DPS as a scheme member and make contributions to the Deposit Protection Scheme Fund (DPS Fund). In the event of a bank failure, the Board is required to pay compensation to depositors. Each depositor's aggregate deposits in a scheme member are protected up to a limit of HK\$500,000 (protection limit), but certain types of deposits and those non-deposit banking products are not protected. In this connection, will the Government inform this Council:

(1) given that the aforesaid protection limit, which took effect in January 2011, was comparable to the then relevant protection limit in the United Kingdom (UK), but the UK and the European Union have raised the relevant limits to the current levels of about HK\$910,000, whether the authorities have plans to raise the aforesaid limit so as to enhance depositors' confidence in the banking system; if so, of the details; if not, the reasons for that;

(2) given that since the DPS commenced operation in September 2006, Hong Kong's banking system has remained sound and the DPS Fund has never been utilised, whether the authorities have plans to review the amounts of contributions payable by scheme members to the DPS Fund and the relevant mechanism; if so, of the details; if not, the reasons for that; and

(3) whether the authorities will consider reviewing the scope of protection of the DPS with a view to including more types of deposits and banking products; if so, of the details; if not, the reasons for that?

Reply:

President,

Having consulted the Hong Kong Deposit Protection Board (the Board), my reply to the various parts of the question is as follows:

(1) and (2) The Deposit Protection Scheme (DPS) has been operating smoothly since its introduction in 2006 and the size of the Deposit Protection Scheme Fund (DPS Fund) amounted to HK\$5.7 billion as at end-March 2021. To ensure that the DPS is effective in serving its policy objective of protecting depositors, the Board has commissioned a periodic and comprehensive review of

the DPS. The review covers key features of the DPS, including the protection limit as well as the mechanism and amounts of contributions payable by DPS members to the DPS Fund, and is expected to complete within 2022.

Moreover, the findings of regular surveys with DPS members conducted by the Board showed that the current protection limit of HK\$500,000 under the DPS is able to provide full protection to about 90 per cent of depositors in Hong Kong, which is comparable with international levels. The Board will take into account a host of factors, including any incremental enhancement of the effectiveness of the DPS, additional costs borne by banks and moral hazard, in examining the need to adjust the protection limit in the periodic and comprehensive review.

(3) Currently, most deposits are protected under the DPS, including various types of conventional deposits (such as savings deposits, current account deposits and time deposits with a term not more than five years), deposits held by individuals (including joint account) or corporations, and secured/pledged deposits.

Only a few types of deposits, such as structured deposits, time deposits with a term more than five years and bearer instruments, fall outside the scope of the DPS protection. The findings of regular surveys with DPS members conducted by the Board showed that less than 0.2 per cent of the total number of depositors make structured deposits. Considering that structured deposits are more akin to investment products and are less prevalent in the market, the Board does not see the case for bringing structured deposits under the scope of the DPS protection at this stage. The Board will continue to review the scope of the DPS protection from time to time to ensure that the DPS is effective in meeting its policy objectives.