Public consultation on proposed enhancements to Deposit Protection Scheme launched

The following is issued on behalf of the Hong Kong Monetary Authority:

The Hong Kong Deposit Protection Board (the Board) issued today (July 13) a consultation paper on enhancements to the Deposit Protection Scheme (DPS). The consultation paper contains a number of policy recommendations on enhancing the DPS following a comprehensive review which was initiated in 2021.

Deposit protection is an important building block of the financial safety net that maintains financial stability. Other major building blocks include prudential regulatory and supervisory framework, resolution regime and the lender of last resort function. The Board reviews regularly the DPS to ensure that it remains effective in contributing to banking stability as intended and keeps up with international best practice.

It should be emphasised that the current exercise is part of this regular review, and was not prompted by the recent banking events in other parts of the world.

The latest review confirmed that the DPS is substantially in compliance with international standards. However, there is room for enhancing certain aspects of the DPS, including: (1) the protection limit; (2) the levy system; (3) deposit protection arrangements in the event of a bank merger; and (4) the representation regime in respect of the display of the DPS membership sign and the negative disclosure requirements.

Proposed Enhancements to the DPS

The Board has set out its specific policy recommendations on enhancements to the DPS in the consultation paper which are highlighted below:

- Protection limit – raising the protection limit from the current HK$500,000 to HK$800,000, as this level will:
  1. keep up with inflation over time, with the real value of deposit protection up by 21 per cent;
  2. fully protect more depositors, up from the current 89 per cent to 92 per cent;
  3. meet international standards; and
  4. keep the related costs at a manageable level.

- Levy system – switching back to the build-up levy to cater for a higher protection limit, with the build-up levy rates kept unchanged.

- Deposit protection arrangements in the event of a bank merger – providing enhanced coverage to affected depositors for six months upon a bank merger.

- Representation regime – requiring the display of the DPS membership sign on the digital channel of Scheme members, and streamlining negative disclosure requirements on non-protected deposits for private banking customers.

The Chairman of the Board, Ms Connie Lau Yin-hing, said, "The Board is firmly committed to protecting small depositors and hence contributing to banking stability. Since its inception, the DPS has been effective in maintaining depositors' confidence in Hong Kong's banking system. We believe that the proposed enhancements to the DPS will help ensure that the Scheme continues to meet international standards and keep up with the latest developments in Hong Kong."

The Chief Executive Officer of the Board, Mr Daryl Ho, added, "The Board has taken into account a host of factors and seeks to strike a reasonable balance between enhancing protection to depositors and keeping the additional costs at a manageable level when considering the protection limit under the DPS. We welcome views and comments from relevant stakeholders on the proposed enhancements to the DPS and will take them into account in finalising the proposals."

The Board welcomes views and comments on the policy recommendations set out in the consultation paper. The consultation starts today and will last for three months. Members of the public and interested parties are invited to submit their views and comments to the Board on or before October 12, 2023, via the following channels:

- by mail to the Board's office at Room 1802-1810, 18/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (Please indicate: DPS Enhancements)
- by email to dps_enhancements@dps.org.hk
- by fax to 2290 5168

The consultation paper is available on the Board's website (www.dps.org.hk).

For general enquiries, please call the Board's hotline at 1831 831.