

Press release

LCQ15: Protection of bank deposits

Wednesday, February 25, 2009

Following is a question by the Hon Starry Lee and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (February 25):

Question:

Under the existing Deposit Protection Scheme (DPS), in case of failure of a member bank, each affected depositor is entitled to compensation up to a maximum of HK\$100,000. On October 14 last year, the Government announced that following the principles of DPS, all customer deposits held in authorised institutions in Hong Kong would be fully guaranteed (full guarantee measure) with immediate effect until the end of 2010. However, it has been reported that when opening an integrated account for customers, some banks will provide "secured overdraft facility" for such account even though the customers have not requested for it. As such, deposits in the account will be treated as security, regardless of whether the customer has used the facility. According to the principles of DPS, deposits held as security are not protected by DPS and the full guarantee measure. In this connection, will the Government inform this Council whether it knows:

- (a) the types of bank accounts which are not protected by DPS and the full guarantee measure;
- (b) which banks provide integrated account service at present; the total number of such accounts and, among them, the respective numbers of those with overdraft facility and secured overdraft facility, as well as the respective total amounts of deposits in such accounts; and
- (c) since the implementation of the full guarantee measure, what measures various banks have taken to ensure that customers of integrated account with "secured overdraft facility" understand that their deposits are not protected by DPS and the full guarantee measure, as well as the respective numbers of enquiries and requests for cancellation of overdraft facility received by the banks?

Reply:

President,

The Administration's detailed response to the question is as follows -

(a) Under the Deposit Protection Scheme (DPS) launched since September 2006, eligible deposits placed with the DPS members, regardless of the currency in which they are denominated, would be entitled to a compensation up to a maximum of HK\$100,000. Eligible deposits include all common types of deposits such as current accounts, savings accounts and time deposits with a maturity not exceeding five years. However, time deposits with a maturity exceeding five years, structured deposits (such as equity-linked and foreign exchange-linked deposits), secured deposits, bearer instruments (such as bearer certificates of deposits) and offshore deposits, as well as financial products other than deposits such as bonds, stocks, warrants, mutual funds, unit trusts and insurance policies, are not protected under the DPS.

On October 14, 2008, the Government announced the use of the Exchange Fund to guarantee customer deposits held with all Authorised Institutions in Hong Kong with immediate effect until the end of 2010, following the principles of the DPS (Full Guarantee Measure). The types of eligible deposits covered by the Full Guarantee Measure are the same as those covered by the DPS.

(b) Neither the Hong Kong Monetary Authority (HKMA) nor the Hong Kong Deposit Protection Board (HKDPB) possesses the relevant information, including the number of banks providing integrated account service, the number of integrated accounts, the number of integrated accounts with overdraft facilities and secured overdraft facilities respectively, and the respective total amounts of deposits in such accounts.

(c) According to the guideline issued by the HKMA in December 2008, banks should write to depositors holding unprotected deposits by the end of May 2009, setting out which deposits held by these depositors are not protected under the Full Guarantee Measure. The relevant requirement is also applicable to unprotected deposits held in integrated accounts.

Recently, there has been some public concern on whether deposits held in integrated accounts would be pledged without the knowledge of the customers concerned, making the deposits unprotected under the Full Guarantee Measure. While the arrangements under the contractual terms of different banks may vary, automatic offering of credit facilities to customers holding integrated accounts and charging all deposits under the relevant accounts for credit facilities is not a common practice. A major bank which has adopted this practice has already agreed to change the arrangement, and will notify all affected customers in this month.

The HKMA also issued a circular on February 5, 2009 to all Authorised Institutions, requiring them to inform holders of all integrated accounts under their purview by letter or email as soon as practicable of whether any secured credit facilities are offered under the types of integrated accounts held. This arrangement will enable depositors to know whether their deposits have been pledged and therefore become unprotected under the Full Guarantee Measure. In addition to banks' notification to customers, both the HKMA and the HKDPB have stepped up effort to educate the public and publicise the types of unprotected deposits through such means as TV Announcements in the Public Interest, newspaper advertisements, information leaflets, press release and "Viewpoint" articles published on the website of the HKMA, with a view to further increasing the awareness of the public regarding eligible deposits under the DPS and the Full Guarantee Measure.

With respect to the figures concerning the respective numbers of enquiries and requests for cancellation of overdraft facilities received by banks as mentioned in the question, neither the HKMA nor the HKDPB has the relevant information.

Ends