

Press release

LCQ7: The Deposit Protection Scheme

Wednesday, October 22, 2008

Following is a question by the Hon Frederick Fung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (October 22):

Question:

In response to my question about reviewing the Deposit Protection Scheme (DPS) raised on November 7 last year, the Government advised that the Hong Kong Deposit Protection Board (DPB) considered that there was no need to adjust the maximum protection limit of \$100,000 per depositor at that stage, and DPB would continue to closely monitor the effectiveness of DPS as well as review and adjust the relevant arrangements under the scheme, including the limit and scope of protection, according to the need of the community at an appropriate time. Given the recent turmoil in the local financial market and there was even a bank run last month, will the Government inform this Council whether:

- (a) it knows the percentage of depositors with deposits of \$100,000 or below among those who had withdrawn the full amount of their deposits in the bank run mentioned above;
- (b) it has assessed if the bank run reflects that the existing DPS fails to enhance public confidence in small and medium banks; and
- (c) the authorities will make adjustments to the related arrangements of DPS, including following the practices of other places to immediately increase the maximum protection limit to reinforce the confidence of depositors, extend the protection coverage and raise the level of public awareness of DPS; if they will, of the implementation timetable; if not, the reasons for that?

Reply:

President,

While the Hong Kong banking system is fundamentally sound, with capitalisation well above international standards, there is a need for the Administration to enhance the relevant pre-emptive measures in order to maintain depositors' confidence in banks, having regard to the recent nervousness in the global financial scene.

The Financial Secretary announced on October 14 to use the Exchange Fund to guarantee the repayment of all customer deposits held in all authorised institutions in Hong Kong. This arrangement takes immediate effect and will remain in force until the end of 2010, when a decision will be made on whether it should be extended in the light of the international financial conditions. The arrangement is precautionary in nature, the purposes of which are to reinforce the confidence of and protection for depositors and maintain the stability of the Hong Kong financial system. DPB and the Hong Kong Monetary Authority (HKMA) are launching a new round of publicity in order to enhance the awareness of the public as regards the new measure.

In addition, the Chief Executive has announced in the 2008-09 Policy Address that the coverage and protection limit of DPS will be reviewed in order to provide enhanced protection to depositors. HKMA is assisting DPB to conduct this review. DPB has already started collecting information from DPS members for analysis. It will consider the analysis results and opinions collected by HKMA and come up with detailed recommendations in the first quarter of 2009, following which consultations with the industry and the public will commence.