



香港存款保障委員會
HONG KONG DEPOSIT
PROTECTION BOARD

**Professor
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Chairman

“The financial crisis has brought about new challenges as well as opportunities for the Deposit Protection Scheme in Hong Kong.”

The DPS entered its second full year of operation in 2008. As readers can reasonably expect, the Board was heavily engaged in streamlining the operation of the relatively young scheme during the year. The deepening global financial crisis, however, has opened up a new dimension to the work of the Board: coping with the challenge and opportunity of redefining deposit protection arrangements in Hong Kong.

The turbulence experienced by global financial markets last year was rarely seen in the financial history. The US sub-prime crisis deepened and eventually precipitated into a global financial crisis. Extraordinary measures, such as capital injections to banks and blanket deposit guarantees, were introduced by many countries to combat the crisis and keep their financial institutions afloat. As one of the key international financial centres, Hong Kong was not immune from the contagion of the crisis. A small-scale bank run occurred in September 2008 due to unfounded rumours. Pre-emptive measures were introduced by the authorities to reinforce confidence amid the crisis. While the crisis has taken a heavy toll of financial institutions overseas, the local banking system has been able to withstand the storm relatively well, because of the robustness of Hong Kong's financial system, and the timely and decisive measures taken by the authorities.

However, the crisis revealed a host of supervisory and regulatory issues warranting close attention by financial regulators and central banks worldwide. It has also fuelled a rapid growth of attention to and demand for enhancing protection for financial market participants. Proposals for stepping up market surveillance and reforming financial regulatory regimes have been put forward by local and overseas authorities. The Board has been paying close attention to these market developments. Although the crisis has not led to the triggering of the DPS, it has brought about new challenges, some of which can only be addressed by making adjustments to the DPS framework. The Board has also seen credible opportunities for fortifying the deposit protection arrangements in Hong Kong. Despite the added pressure of the crisis on the day-to-day operations of the DPS, the Board embarked on a review of the DPS framework.



Chairman of the Board makes an opening speech at the press conference on the public consultation on enhancing the DPS

The first phase of the review was completed on schedule in early 2009. While concluding that the existing design features of the DPS substantially complied with international best practices, a number of improvements were identified based on past operating experience and lessons learnt from the latest international developments. For example, our recommendations on raising the protection limit and expanding the coverage to include secured deposits are expected to add significantly to the effectiveness, adequacy and clarity of the DPS coverage. The Board has also commenced work on improving the operating efficiency of the DPS under the second phase of the review. We believe these enhancements will bring the DPS in Hong Kong to the forefront among its peers in being able to provide protection with a clear and comprehensive coverage, as well as having an efficient mechanism for compensating depositors.

I am greatly impressed with the diligence and persistence demonstrated by the Management Team in taking on these new challenges posed by the rapidly changing environment, notwithstanding the enormous pressures the financial crisis has already put on the DPS operations. Taking this opportunity, I would also like to pay tribute to my fellow Board members for their invaluable advice and contributions over the past year.

No doubt, the financial crisis has brought about challenges and hardships; it has also opened up new horizons for perfecting our system. We are glad to note the recommendations concluded from our review have received broad public support. Nevertheless, a lot of work still has to be accomplished to turn the recommendations into operative legislation, and a continued support of the public remains inevitable. We therefore look forward to working hand in hand with the public in making the DPS better able to meet their expectations and more effective in contributing to banking stability in Hong Kong.

A handwritten signature in black ink that reads "cF Chan". The "c" is lowercase and the "F" is uppercase, both in a cursive style. "Chan" is written in a similar cursive script.

Andrew Chan Chi-fai

Chairman