

THE OUTLOOK

Widespread pessimism persisted in global financial markets at the beginning of 2009 amid fears of a new wave of turbulence. However, since the start of the second quarter there have been sporadic signs of improvement. The tremendous rescue packages implemented by the overseas authorities appeared to have taken some effects in giving a lift to financial institutions reported to be deeply in trouble at the height of the crisis. Major stock markets have registered noticeable gains from the troughs seen during the crisis. Despite the emergence of some positive signs, there remain significant risks to the economic outlook for 2009. While global financial markets are still vulnerable to fresh waves of turbulence, the full impact of the financial crisis on the real sector has yet to be seen. Therefore, considerable uncertainties remain over the length and severity of the recession in major economies. Whilst the economy of its major trading partner remains frail, a recovery in the domestic economy can be slow and protracted.

The operating environment for banks in Hong Kong is expected to continue to be difficult in 2009. The contagion of the global financial crisis and the slowing domestic economy may put further pressure on the profitability of banks. Nevertheless, in light of the robustness and resilience demonstrated by the banking system in withstanding the crisis so far, it should be well positioned to cope with any new challenges.

On the operation of the DPS, the Board will remain vigilant to the changing market conditions and be ready to collaborate with other financial safety net players in maintaining the stability of the banking system. On work priorities, the Board's prime focus will be on completing the review of the DPS and starting the legislative process for the recommendations concluded from the review. At the same time, the Board will continue to work closely with the HKMA to align the operation of the DPS with that of the blanket deposit guarantee to maximise their effectiveness in maintaining banking stability. Continued effort will also be applied to enhancing the effectiveness and efficiency of the DPS in other operational areas.

ADMINISTRATION OF THE DPS

The Board will assess and collect the contributions from Scheme members payable for 2010 in January, based on the returns of relevant deposits to be submitted by Scheme members in relation to their positions on 20 October 2009 and the supervisory ratings to be supplied by the HKMA. A third batch of Scheme members will be required to submit an auditor's report certifying the correctness of their returns of relevant deposits. The DPS Fund will continue to be invested in accordance with the DPS Ordinance and the investment policy of the Board.

ENSURING ADEQUACY OF THE DPS COVERAGE

The Board will endeavour to complete the review of the DPS and effect the enhancements concluded from the review as soon as possible. After completing the first phase of the review in the first quarter of 2009 as scheduled, the Board published a consultation paper on the review in late April. During the consultation period, the Board launched an extensive publicity campaign to invite public participation, and approached key stakeholders to solicit their views. The comments received during the two-month consultation period indicated broad public support for the recommendations. The stakeholders consulted were also generally supportive of the recommendations.



The Board's Chairman (left) and CEO (right) launching the public consultation at a press conference

In parallel with the consultation on the review's first phase, the Board commenced the second phase of the review, which covers mainly technical amendments for improving the effectiveness and efficiency of the DPS. The recommendations from phase two are expected to be made available for public consultation in the third quarter of 2009. Subject to the progress of consultation and law drafting, the Board intends to introduce an amendment bill to the Legislative Council in the first quarter of 2010 covering enhancements concluded from both phases of the review.

IMPROVING READINESS OF THE DPS TO PAYOUT

Applying the lessons and experience gathered from previous rehearsals and simulations, the Board will continue to improve its payout policies, processes, procedures and tools. For 2009-10, activities will focus on:

- enhancing reporting functionality of the Payout System in order to better support management decision-making;
- fine-tuning certain Payout System processes to continually improve the system's efficiency in giving greater certainty to delivering compensation payments on a timely basis;
- revamping the Payout Procedure Manual to strengthen procedures and workflows on making payments within a short period of time while balancing the Board's exposure to overpayment risks; and
- developing protocols with the HKMA for making payments under the blanket deposit guarantee.

As some of the contracts with payout agents will expire in the coming year, the Board will review its requirements and conduct tenders to ensure it maintains its network of payout agents with appropriate levels of resources and expertise.

The Board will expand the scope of compliance reviews in 2009-10 to perform simulation tests concurrently with all the reviews, as previous simulations, compliance reviews and the IT survey have indicated that an assortment of data issues may be encountered in a payout. This will provide the Board with greater confidence that data available from Scheme members can be utilised promptly by the Payout System for compensation determinations. In addition, commencing in the second half of 2009, the Board will monitor Scheme members' progress in complying with the amended ISG through the use of surveys in which Scheme members self-report their levels of compliance.

The third payout rehearsal, to be conducted in the fourth quarter of 2009, will focus on delivering an interim compensation payment within a specified operational target time while the payout agents operate in a "real-time" mode that approximates, as closely as possible, an actual payout. The Board will also review its strategy for conducting future payout rehearsals to determine how best to use its resources and funds while maintaining an appropriate level of operational readiness.

MAINTAINING AND ENHANCING PUBLIC AWARENESS AND UNDERSTANDING

Promotion and public education

In addition to sustaining public awareness of the DPS and enhancing understanding of its key features, another focus of the Board's publicity plan for the year is to assist with the consultation on the DPS review. As part of this, the Board launched an extensive publicity campaign to promote public participation in the consultation on the recommendations from the review's first phase. The extensive media coverage and the keen response from members of the public indicate the publicity effort was effective in stimulating widespread interest in, and discussion of, the subject.



TV APIs are shown on public transport



Full page newspaper advertisements encourage public participation

The implementation of the enhancements to the DPS concluded from the review is expected to have a significant impact on the Board's publicity strategy in the years ahead. The Board will work closely with its public relations consultant and advertising agent to develop an appropriate publicity plan to facilitate a smooth transition to the new regime when the enhancements take effect.

The Board will continue to use diversified and creative channels to deliver DPS messages to the public to promote awareness and understanding. The effectiveness of these will be monitored through regular opinion surveys.

DPS membership and product representations

To ensure compliance with the Representation Rules by Scheme members, the Board will continue to monitor the standard of compliance through the self-assessment review exercise. In addition, the Board will work with the HKMA to develop and implement a compliance review programme for HKMA bank examiners to conduct on-site examinations on authorized institutions to verify their compliance with the representation requirements under DPS Representation Rules and the statutory guideline issued by the HKMA for the blanket deposit guarantee.