Press Release

Embargoes until 4:30 p.m. 27 March 2002

Second Public Consultation on Deposit Insurance

The Hong Kong Monetary Authority (HKMA) released today (27 March 2002) a second consultation paper on the proposed introduction of deposit insurance. The paper sets out the HKMA's detailed proposals on how the deposit insurance scheme (DIS) in Hong Kong should be structured.

Following the Executive Council's approval in principle for the establishment of a DIS in Hong Kong, the HKMA has undertaken in-depth studies on the various aspects of this subject. Two focused consultations, one on netting arrangements and one on the funding approach of the DIS, have been completed over the past year.

"We have now substantially completed the consideration of how the DIS should be structured. In developing the proposals, we have drawn reference from the practices and experiences of leading deposit insurers in the world. We have also benefited from the advice provided by insolvency practitioners in Hong Kong," said Mr David Carse, Deputy Chief Executive of the HKMA.

A key consideration in the design of the scheme has been to keep the cost low and to minimise the potential moral hazard. Bearing this in mind, the HKMA recommends that the DIS in Hong Kong should contain the following features:-

- An independent Deposit Insurance Board should be established to operate the scheme;

- The Board should operate with a lean structure. Its functions should be confined to collection of premiums, management of the funds of the DIS (DIS Fund), assessment of claims, making compensation payments and recovering payments from the estate of the failed bank;

- Participation should be compulsory for full licensed banks, but foreign bank branches in Hong Kong which are covered by a comparable scheme in their home jurisdiction may seek exemption.

- Coverage limit should be set at HK$100,000 per depositor per bank;

- A differential premium system based on the CAMEL ratings of banks should be adopted by the scheme;

- The DIS should be funded by the industry. The target level of the DIS Fund should be set at 0.3% of the total balance of insured deposits of all banks (approximately HK$1.5 billion based on the level of insured deposits at May 2001).

- The Exchange Fund would provide back-up liquidity to the DIS in the event that payout by the scheme is triggered.

- The scheme should adopt full netting. This means that a depositor's liabilities to the failed bank should be fully set off against his deposits before his entitlement is determined.

The consultation paper also contains proposals to deal with issues such as an appeal system for the scheme, protection of multi-beneficiary accounts, treatment of accrued interest, investment of the DIS Fund and co-ordination between the Board and the HKMA. A summary of the HKMA's detailed recommendations can be found at Annex A of the consultation paper, which can be downloaded from the HKMA's website at http://www.hkma.gov.hk.

Members of the public are welcome to submit their comments to the HKMA before 31 May 2002. Taking into account the comments received, the HKMA will proceed to prepare the relevant bill which should be ready before the end of this year.

Hong Kong Monetary Authority
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