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## On Deposit Insurance in China

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On March 31st 2015, the State Council of the People's Republic of China (PBOC) announced the "Deposit Insurance Scheme", which is expected to protect the interests of the depositor and function as one of the financial safety nets in China.

According to the scheme, up to half a million yuan per depositor will be guaranteed. The People's Bank of China says that this will cover 99.63%<sup>1</sup> of the depositors in China and is possible to change the guaranteed amount depending on circumstances. Also, under this deposit insurance system, not only will the insurance be paid directly to the depositor, but it will protect the depositors by supporting the financial institution that has succeeded the operations of the defaulted financial institution.

In relation, in Hong Kong the deposit insurance system started in 2006, in which up to HK\$100,000.00 was guaranteed and was said to have covered approximately 84% of the depositors in Hong Kong. Later, from October 2008 to the end of 2010, in order to cope with the global financial crisis, full amount of deposits were guaranteed. Afterwards the system was revised and the type of deposit to be guaranteed was increased and the guaranteed amount was raised to HK\$500,000.00, covering approximately 90% of the depositors. In mainland China, in managing the deposit insurance system, the experience of Hong Kong will probably be used as reference.

In the Q&A announced by the Legal Affairs Office of the State Council and the PBOC, in China, the first time deposit insurance was considered was in 1993, in Hong Kong it was first considered in 1991<sup>2</sup>. It took a while to be established, not only because, due to the cost of establishing a deposit insurance system, problem of moral hazards, etc., there were all kinds of discussions in the designing of the system, but probably also because the financial system change rapidly from time to time that there were many trials and errors to find the appropriate scheme. In any case, in China, the deposit insurance system has covered almost all depositors

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<sup>1</sup> According to the Q&A announced by the PBOC, by global customs the guarantee amount is two to five times GDP per capita (Japan is two times), China has set it as 12 times the GDP per capita.

<sup>2</sup> According to the press release from the Hong Kong Deposit Protection Board, in Hong Kong consideration of deposit insurance started after the financial crisis that followed the default of Bank of Credit and Commerce Hong Kong in 1991.

and has taken the stance to support the financial intermediation function, reflects that the deposit insurance is going to highly contribute to the stability of the financial system in China.

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