Hong Kong Needs a Sensible System of Bank Deposit Protection

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摘要

本港應否實行銀行存款保險備受爭議。大銀行普遍反對，其它銀行則多表贊成。反對存款保險者指它會引發道德風險，使銀行為逐高回報而罔顧風險。其實，只要採取「分數式」存款保險，銀行進行高風險投資的動機即能減少，再配合慎密的監管，存款保險絕對不會危及銀行體系的穩定性。事實上，存戶一般無法洞悉銀行運作情況，在沒有存保下，被迫存款於大銀行。大銀行恃其大反而可能會進行高風險投資，同時又給存戶較低的息率。有了存保，金管局便毋須懼怕大銀行倒閉引起的衝擊，便可以容許不當經營的大銀行倒閉。從這個角度看，設計完善的存款保險除增加銀行體系的穩定性，更可促進健康的競爭和減低道德風險。

The H.K. Monetary Authority has been advised by its consultants to introduce a bank deposit protection plan that would in the first instance provide a coverage cap of HK$100,000. Under the proposal, only licensed banks would be covered, as restricted licence banks and deposit taking companies are not allowed to accept deposits less than $100,000. Insurance premia are to be charged on a flat rate basis. The proposal met with staunch criticism from the bigger banks, but has been welcomed by the smaller banks. Objections are also voiced by some economists who warn of potential moral hazard problems.

To be fair, the moral hazard problems are real but often exaggerated. Depending on the design, a deposit insurance plan actually can reduce moral hazard problems and enhance competition, thus improving economic efficiency.

Much of the evidence about deposit insurance aggravating the moral hazard problem in fact merely underscores the fact that lax supervision could spell disaster. It is well known that the savings and loans debacle in the United States was associated with fraud and tax supervision much more than with risky investments. In fact, in the US federal deposit insurance has been in place since 1933, and an extremely low 1/12 of one per cent premium had been more than adequate to maintain the system through the early 1980s. Only rapid deregulation in the 80s caused problems.

Complemented with a sound system of supervision, deposit insurance will enhance stability and competition. Given the high costs of access to accurate and relevant information for bank depositors and the difficulty of interpreting even accurate information, it is unrealistic to expect bank depositors to choose banks after careful and fair assessment of all the relevant information. If professional detectives, who have the legal authority to look into confidential documents and interrogate key decision makers, cannot always spot problems and cases of fraud, the man in street certainly has little chance of self-protection through a fair assessment of the risks of banking with different banks. They will then be forced to bank with the largest banks, banks that are regarded as too big to fail. As a result, well-run, smaller banks cannot compete with the bigger banks on a level playing field. The bigger banks could invest in risky ventures with less fear of chasing away depositors. This would be another form of moral hazard.

I conclude, in the interest of stability to the banking system and the overall economy, and in the interest of fair competition, we need a system of bank deposit insurance.

Yet I agree that the design of our bank deposit insurance scheme should take account of moral hazard considerations. I recommend a bank deposit system that would provide 100 per cent protection to *all* chequing account deposits, 80 per cent protection to *all* savings deposits, and 60 per cent to *all* time deposits. I would not impose a ceiling to the protected amount.

Chequing account deposits in Hong Kong currently do not earn interest. They are not in the nature of investment and are always held only to honour payments that are expected to come due shortly. In the absence of protection creditors expecting payment may not get the expected payments and this may in turn make it difficult for them to honour their own obligations. Since depositors do not earn interest there is no question of taking bigger risks to earn higher returns. The "moral hazard" problem is irrelevant.

Savings and time deposits, in contrast, do generate income for their owners. Banks may therefore compete for deposits by offering attractive interest rates. Banks that pay a high interest rate may indeed make risky investments that yield lighter returns. Providing *fractional protection* rather than full protection up to a limit will reduce this moral harzard problem. In addition, it will reduce transaction costs for depositors, as the latter will most likely divide their deposits among different banks.

Fractional protection also has important merit. It makes it possible for the regulators to allow big banks to fail. With the understanding that depositors will get back the greater part of their deposits immediately bank regulators will have less to worry about the serious consequences of big banks collapsing. This will eliminate the "moral hazard" problem for big banks. Without bank deposit insurance, bigger banks will have reason to believe that since the authorities will not allow them to fail, they could take bigger risks in their investment decisions and still pay lower interest rates to depositors.

By the same token, full deposit insurance up to HK$100,000 may lead to moral hazard in yet another way. Big depositors either put their money in banks too large to fail, or split their deposits among many different banks and forget about the financial health of their banks. This will not be good for Hong Kong. Covering all deposits by the same fraction is important because failing to do so may hurt innocent people who do not bank with the failing banks themselves but who are creditors to be repaid by debtors whose deposits are affected by a bank failure.

To conclude, I would like to see fractional bank deposit insurance introduced in Hong Kong and extended to restricted licence banks as well as deposit taking companies.