

6 April 2001

To: Legislative Council Panel on Manpower

### **Review of the Employees' Compensation System in Hong Kong**

The Hong Kong Federation of Insurers ("HKFI") is the trade association representing 109 general and 45 life insurance including reinsurance member companies. In 2000, in view of the deterioration in the claims experience of the employees' compensation business, the HKFI commissioned an independent report of the current system with the intent to identifying the causes for the deteriorating experience and any possible remedies to help reverse this trend. The review was jointly conducted by two professional firms, namely Deacons, solicitors, and Trowbridge Consulting, actuaries. Deacons is a leading firm of solicitors renowned for their handling of liability claims whilst Trowbridge is an independent actuarial firm now part of Deloitte.

The results of their study were presented in the report, copies of which were distributed in November 2000 to the relevant government departments and all other stakeholders. A media conference was also held by the HKFI to draw public attention to this report.

Under the current provision of the Employees' Compensation Ordinance, an employer is obliged to insure against his liabilities for bodily injuries sustained in workplace by his employees. Should negligence on the part of the employer be proven as the cause for an injury, the employee is additionally entitled to damages under common law.

Insurance companies provide financial and risk management services for the employers to assist them in managing the said liabilities at a fixed cost, i.e. the premium. There is no mandatory requirement under the current law that insurance companies must provide such services should they find the business commercially unviable. Insurance companies usually take a long term view and adopt a total relationship approach, to determine assessment of the viability of insurance business. However, like all other businesses, insurance companies can not continue this business if the prospect of a profitable business over the long term is unlikely. Insurance companies do not wish that this will happen.

The result of the consultants' study revealed that without any changes to the current system, the sustainability of the employees' compensation system will be called into question. Their conclusion was drawn based on two main facts:-

- 1) The costs incurred by the insurance companies in the maintenance of the system have become so expensive that the insurance industry as a whole may not continue its funding unless at the risk of bankruptcy. Increase of the premium so that the costs are transferred back to the employers is a short term solution and seems to be accepted by the majority of the stakeholders. Members of the HKFI have already taken steps towards this direction and will continue to do so. For the long term, when the whole of these costs would ultimately fall back on the employers, the international competitiveness of Hong Kong as a place for business may be impaired.
- 2) To maintain the current system, the continued support of the reinsurance companies is vital. Now that the long term prospect of the business is in doubt, the reinsurance companies have begun to revisit the value of their long term commitment to the business. If they decide to withdraw, the insurers' operations may be handicapped.

The HKFI feels obliged to draw the attention of the Government and the relevant stakeholders to these facts.

The consultants who assisted the HKFI in this study have put forward their recommendations for changes to the system in order to make it sustainable. The HKFI and its members are committed to the implementation of the recommendations which the HKFI as a trade body can achieve. For those areas under its control, the HKFI has already taken positive steps to ensure their implementation. For issues involving other stakeholders, the HKFI has to solicit further cooperation of the other stakeholders.

The HKFI respectfully requests the Honourable Members of the Panel on Manpower to exercise your influence to help ensure that the report will receive the adequate attention of the Government and the other stakeholders, and to ensure that the recommendations of the consultants are appropriately considered and where justifiable, implemented, in the interest of the entire community.

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