

**Bills Committee on
Employees Compensation Assistance (Amendment) Bill 2002**

LC Paper No. CB(2)1682/01-02(02)

**Measures adopted by the UK and Canada
in response to the Insolvency of the HIH Group of Companies**

Introduction

At the Bills Committee meeting held on 3 April 2002, Members requested the Administration to provide information on -

- (a) the compensation arrangements in the United Kingdom (UK) and Canada for policyholders affected by the insolvency of the HIH Group of companies; and
- (b) in response to the incident, the new measures adopted by the relevant authorities in the supervision of EC insurers.

The relevant information is set out in the following paragraphs.

Compensation Arrangements

UK

2. Compensation arrangements in the UK in the event of insurer insolvencies have been explained in the paper which was discussed at the Bills Committee meeting on 3 April 2002. As far as we are aware, before December 2001, the Policyholders' Protection Scheme (PPS) offered protection to policyholders in the event of an insurer becoming insolvent. The scheme covered all classes of life and non-life business¹ and was financed by a levy on insurers.

3. On 1 December 2001, the PPS was replaced by the Financial Services Compensation Scheme (FSCS) which covers all sectors of the financial services, including insurers, banks and investment houses.

4. According to the information provided by the relevant overseas authority, a total of three HIH Group companies were authorized to carry on

insurance business in the UK. One of them was incorporated in England and wrote a small portfolio of travel insurance. It remained solvent and has been sold by the liquidators of HIH Group. As such, there was no need to compensate the policyholders concerned. The other two operated as the UK branches of two Australian companies. They had ceased to write new business in the UK since 1977 and 1999 respectively. Both of them became insolvent in March 2001 following the collapse of HIH Group in Australia. These UK branches used to write non-compulsory *commercial* lines of business only and not personal lines nor employees compensation business, hence their policyholders are not covered by the FSCS². Thus, the FSCS has not been invoked in response to the HIH incident.

Canada

5. In Canada, the Property and Casualty Insurance Compensation Corporation (PCICC), a non-profit organization, responds to claims of policyholders in the event of the insolvency of a property and casualty (i.e. non-life) insurer. The maximum protection offered to a policyholder is 250,000 Canadian dollars with respect to all unpaid claims for losses arising from a single occurrence. Property and casualty insurers are required to contribute to the PCICC.

6. It has been confirmed that the HIH Group had no insurance operation in Canada, and hence the arrangement under PCICC has not been invoked either.

New Measures adopted by the UK and Canada

7. As we understand it, no particular action regarding the supervision of EC insurers has been taken by the relevant authorities in the UK and Canada in response to the HIH incident.

**Financial Services Bureau/Office of the Commissioner of Insurance
20 April 2002**

¹ In the case of non-compulsory insurance, the insurance must be in form of personal line, i.e. the policyholder must be a natural person or partnership, but not a company. Otherwise, it would not be covered by the PPS, and now, FSCS.

² Employees compensation insurance is compulsory in the UK and therefore it is covered by FSCS, whether it is written in the form of commercial line or personal line.