For Information

Employees Compensation Insurance -
Reinsurance Coverage for Terrorism

Introduction

At the special meeting of the Legislative Council Panel on Financial Affairs held on 20 December 2001 to discuss the proposed $10 billion facility to cover terrorism risk in respect of employees compensation ("EC") insurance, the Administration undertook to provide quarterly reports on –

(a) the facility;

(b) the up-to-date market situation regarding the availability of reinsurance coverage for terrorism in the EC insurance market; and

(c) the need to continue to provide the concerned facility.

This is the second quarterly report of 2005. The relevant information is set out in the following paragraphs.

The Facility

2. With the approval of the Finance Committee on 11 January 2002, we set up the $10 billion facility covering terrorism risks in respect of EC insurance business. With the cover provided by the facility, the protection rendered to employees under EC insurance policies has remained intact. Employers continue to enjoy insurance protection and insurers continue to provide cover for work-related death or injury caused by terrorist activities. Participation in

the scheme is voluntary for insurers. However, for those insurers who do not participate in the scheme but wish to underwrite EC policies, they have to demonstrate to the Commissioner of Insurance that they are able to secure alternative cover. Those insurers participating in the scheme are required to pay to the Government a charge of 3% of the gross premium of the EC policies they underwrite in Hong Kong.

3. During this quarter, one insurer withdrew from the scheme due to cessation of business in Hong Kong. As a result, the number of EC insurers having an agreement with the Government on the provision of the facility ("the Agreement") was reduced from 69 to 68 as at 30 June 2005.

4. Up to the end of June 2005, the Government had received a total sum of around $341 million from the charge levied on the participating insurers. The $10 billion facility has not been invoked since its establishment on 11 January 2002.

Availability of Reinsurance Coverage

5. One of the provisions of the Agreement is that the participating insurers shall endeavour to obtain the relevant EC reinsurance cover from the market. According to the quarterly returns received by the Office of the Commissioner of Insurance ("OCI") reporting the position in the second quarter of 2005, all the participating insurers have confirmed that such reinsurance cover was still not available in the market on a treaty arrangement[1] basis.

[1] Arrangement whereby a standing facility is provided by the reinsurers for reinsurance coverage on all businesses accepted by the direct insurer during the year without individual assessment of the risks by the reinsurers.

6. Separately the OCI has approached reinsurers operating in Hong Kong. They confirm that they are not yet prepared to provide terrorism reinsurance cover for EC business in Hong Kong on a treaty arrangement basis.

7. In the absence of reinsurance cover for terrorism risks in the EC insurance market, it is necessary to maintain the facility. We have made it clear that we will withdraw the facility once the relevant reinsurance cover has returned to the market. Towards this end, the OCI will continue to monitor the development in the reinsurance market closely.

Financial Services and the Treasury Bureau/OCI
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