

NOTE FOR FINANCE COMMITTEE

Contingent Liability of the Hong Kong Export Credit Insurance Corporation

PURPOSE

This note informs Members that the Secretary for Commerce, Industry and Technology intends to introduce a resolution for approval by the Legislative Council (LegCo) in March 2006 to raise the cap on the contingent liability of the Hong Kong Export Credit Insurance Corporation (ECIC) from \$12.5 billion to \$15 billion.

BACKGROUND

2. ECIC was established in 1966 under the Hong Kong Export Credit Insurance Corporation Ordinance (Cap. 1115) to encourage and support export trade through the provision of insurance protection for Hong Kong exporters against non-payment risks arising from commercial and political events.

3. Section 18 of this Ordinance provides that the Government shall guarantee the payment of all moneys due by ECIC, and section 23 stipulates that the contingent liability of ECIC under contracts of insurance (i.e. the amount for which ECIC is contractually liable to indemnify policy-holders in respect of its insurance policies) shall not exceed a specified amount which may be determined by LegCo by resolution.

4. Over the years, the cap on ECIC's contingency liability has been raised several times. As recent examples, it was revised from \$7.5 billion to \$10 billion and to \$12.5 billion through resolutions approved by LegCo on 17 December 1997 and 13 March 2002 respectively.

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5. As at 31 December 2005, ECIC's contingent liability amounted to \$11.712 billion, or 93.7 per cent of the maximum liability permitted. ECIC forecasts that the existing cap on its contingent liability will be reached by March 2006. To cater for business growth in the next few years, ECIC proposes to raise the cap by \$2.5 billion to \$15 billion. This proposal is supported by the ECIC Advisory Board and agreed by the Government.

Commerce, Industry and Technology Bureau
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