

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 risks in respect of employees compensation (“EC”) insurance, the Administration undertook to provide quarterly reports on –

- (a) operation of the facility;
- (b) updated market situation on availability of reinsurance coverage for terrorism in the EC insurance market; and
- (c) the need to maintain the facility.

This is the second quarterly report of 2007. The relevant information is set out in the following paragraphs.

The Facility

2. With approval given by the Finance Committee on 11 January 2002, we have set up the facility to cater for terrorism risks in respect of EC insurance, thereby ensuring that protection is rendered to employees, that employers may continue to enjoy insurance coverage, and that insurers could underwrite work-related death or injury caused by terrorist activities. Participation in the scheme is voluntary. Insurers who decide not to join the scheme but

nonetheless wish to underwrite EC policies have to demonstrate to the Commissioner of Insurance that they are able to secure alternative cover, while those participating in the scheme are required to pay to the Government a charge pitched at 3% of the gross premium of EC policies they underwrite in Hong Kong.

3. During this quarter, one insurer withdrew from the scheme due to cessation of insurance business while an existing insurer who was granted authorisation to write EC business joined the scheme. As a result of these changes, the number of EC insurers having an agreement with the Government on provision of the facility (“the Agreement”) remained unchanged at 64 as at 30 June 2007.

4. Up to the end of June 2007, the Government had received around \$508 million from the charge imposed on the participating insurers. The facility has not been invoked since its establishment.

Availability of Reinsurance Coverage

5. One main provision of the Agreement is that the participating insurers should endeavour to obtain the relevant EC reinsurance cover from the market. According to returns received by the Office of the Commissioner of Insurance (“OCI”) for the second quarter of 2007, all participating insurers have confirmed that reinsurance cover was still not available in the market on a treaty arrangement¹ 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 and reaffirmed 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 local EC insurance market, it is necessary to maintain the facility. We will continue to monitor developments closely and will withdraw this facility once reinsurance capacity has returned to the market.

Financial Services and the Treasury Bureau/OCI

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