

For information on  
15 March 2007

## **LegCo Panel on Manpower**

### **Progress Report on the Implementation of the Employees' Compensation Insurance Residual Scheme**

#### **Purpose**

This paper briefs Members on the progress of implementation of the Employees' Compensation Insurance Residual Scheme ("Scheme") by the insurance industry.

#### **Background**

2. Under the Employees' Compensation Ordinance, Cap.282, all employers are required to take out insurance policies to cover their liabilities both under the Ordinance and at common law for injuries at work in respect of all their employees. Soon after the '911' terrorist attack and SARS outbreak, there was increased public concern over the potential non-availability of employees' compensation ("EC") insurance cover and escalating premium costs for certain high-risk occupations. Against this background, the Hong Kong Federation of Insurers ("HKFI") presented a proposal to the Government in early 2005 on ways and means to improve the employees' compensation insurance ("ECI") system, including the setting up of the Scheme to address the concerns and problems faced by high-risk industries in taking out ECI.

3. The Labour Advisory Board ("LAB") was briefed on the framework and key features of the Scheme on 20 April 2005 and the proposal was put to the Manpower Panel of the Legislative Council for consideration on 19 May 2005.

4. The HKFI, in consultation with the Labour Department and the Office of the Commissioner of Insurance, has now worked out the structure and mode of operation of the Scheme. The HKFI plans to launch the Scheme in May 2007.

#### **Features of the Scheme**

5. The major features of the Scheme are as follows:

(a) Objective

The Scheme will operate as the market of last resort for employers who are unable to acquire ECI cover from the open insurance market.

(b) Participation of insurers

All authorized EC insurers in Hong Kong are required to participate in the Scheme on the basis of co-insurance.

(c) Eligibility criteria

The Scheme will provide ECI cover for employers who are able to prove that –

- i) they have been declined ECI cover by at least three EC insurers<sup>1</sup>;  
or
- ii) in providing cover, the premium rates quoted by such insurers are 30% over the corresponding premium benchmark rates of the relevant High-Risk Groups ("HRGs") specified by the Scheme.

(d) Premium rates

Premium benchmark rates of 19 HRGs have been worked out by an independent actuary commissioned by the HKFI for the purpose. For occupations outside the list of HRGs, the Underwriting Committee of the Scheme will come up with a premium quote having regard to factors like risk type, the current market rate, past claim experience and actuarial opinion etc

(e) Date of implementation

The HKFI intends to launch the Scheme in May 2007.

6. A progress report on the implementation of the Scheme, prepared by the HKFI, is at the Annex. Representatives of the HKFI will attend the meeting of the LegCo Panel on Manpower to explain the Scheme in greater detail, especially the methodology and approach adopted by the independent actuary in developing the premium benchmark rates, and respond to any queries that Members may have on the Scheme.

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<sup>1</sup> Provided that the non-availability of insurance is not by reason of the employer failing to pay premiums due or meet statutory requirements on occupational health and safety imposed as a condition of the grant of insurance.

## **Consultation**

7. On 29 January 2007, the LAB was briefed on the progress on the setting up of the Scheme. The LAB noted the features of the Scheme and agreed to its implementation schedule, including regular review of progress.

8. To facilitate interested parties to understand more about the Scheme and its key features, the HKFI organised two briefings on 8 March 2007 and some 700 employers' and employees' organisations were invited to attend. An information leaflet has been produced and will be widely distributed to members of the public through the service outlets of District Offices and the Labour Department. A website will be developed to facilitate internet access to information on the Scheme and online application for insurance cover.

Office of the Commissioner of Insurance  
Labour Department  
March 2007

## **Proposed Employees' Compensation Insurance (ECI) Residual Scheme**

### **Progress Report**

#### **Introduction**

On 18 March 2005, the Hong Kong Federation of Insurers ("HKFI") presented a proposal to the Labour Department outlining the core objectives and concepts of setting up a residual scheme to act as a market of last resort to assist employers who have difficulties finding ECI cover. We believe the existing services rendered by employees' compensation ("EC") insurers, coupled with an ECI Residual Scheme ("Scheme") should be able to address the needs and concerns of employers seeking ECI cover. The proposal was presented to the Labour Advisory Board and the Manpower Panel of the Legislative Council in April and May 2005 respectively.

2. Since then, the HKFI has been working closely with the Labour Department and the Insurance Authority to map out the scope, basic structure and mode of operation of the proposed Scheme. To help ensure that the Scheme is properly structured and operated with maximum transparency in meeting the expectations of relevant stakeholders, the ECI Residual Scheme Advisory Committee ("Advisory Committee"), comprising representatives from employers, employees, government departments and professionals from the legal, accounting and insurance fields, has been set up to advise on the wide-ranging issues in relation to the establishment of the Scheme. A membership list of the Advisory Committee is at Appendix 1.

3. After detailed deliberation both within the industry and with relevant stakeholders, the industry is ready to set up the Scheme along the lines and principles agreed with the Government. This paper reports on the progress made in this regard and the way forward.

#### **Progress Report**

##### Structure of the Scheme

4. The ECI Residual Scheme Bureau Ltd will be formed and subscribed by all insurers authorized to write ECI in Hong Kong. Fifteen EC insurers

have been enlisted to form an ECI Residual Scheme Bureau Board (“Board”) to oversee the direction and execution of the Scheme. An Administrator has been appointed to conduct day-to-day operations, while an Underwriting Committee and a Claims Committee have been formed to respectively specify underwriting guidelines and claims procedures. The Advisory Committee will monitor the operation of the Scheme and advise on areas of improvement. An organization chart of the Scheme is at Appendix 2.

### Mode and Administration

5. The Scheme is to operate as the market of last resort and accept risks on the basis of co-insurance subscribed by participating EC insurers. With the endorsement of the Insurance Authority, all authorized EC insurers are required to participate in the Scheme and sign a Market Agreement. The Scheme will have re-insurance arrangement made to protect the risk exposures similar to the model of the Motor Insurance Bureau. Participating EC insurers will bear a share of each risk underwritten by the scheme proportional to their respective market share of the ECI business of Hong Kong in the preceding year.

6. A Service Provider will be appointed to accept risks, handle claims, issue policies to qualified employers and settle claims in accordance with the underwriting and claims guidelines and procedures laid down by the Underwriting and Claims Committees and approved by the Board. In this connection, Chevalier Insurance Co. Ltd. has been appointed as the Service Provider of the Scheme for an initial term of two years.

### Underwriting and Claims Guidelines and Procedures

7. The Underwriting and Claims Committees, comprising representatives from the top ten plus some smaller EC insurers, have formulated a final set of operating guidelines and procedures after submitting their final draft for review by the Advisory Committee. The system has incorporated a mechanism for handling appeals in respect of underwriting and claims decisions. There is also a clear set of service standards to ensure the provision of quality service and smooth operation of the Scheme.

### Eligibility Requirements for Employers to Obtain Coverage under the Scheme

8. The Scheme aims to operate as the market of last resort for employers, particularly for those undertaking high-risk occupations. The eligibility criteria for joining the Scheme are as follows:

- (a) Employers who have been declined insurance cover by at least three EC insurers<sup>1</sup>; or
- (b) In providing cover, the premium rates quoted by such insurers are 30% over the corresponding premium benchmark rates of the relevant High-Risk Groups (HRGs) specified by the Scheme.

9. Upon receiving a completed proposal form and the required documentation from the employer, the Administrator will circulate the risk to all EC insurers for consideration of coverage. If no offer of insurance has been received within two working days, the Administrator will accept the risk according to the premium and terms prescribed by the Underwriting Committee. The employer will then be provided ECI cover necessary to meet the statutory requirement of the Employees' Compensation Ordinance within ten working days on receipt of the completed proposal form.

10. All covers provided by the Scheme will be offered back into the market upon expiry. It will remain in the Scheme as long as there is no cover available in the market.

### Premium Rates

11. From our operational experience and taking into account the views of stakeholders, we have identified 19 HRGs that may experience difficulties in obtaining ECI cover. To help develop premium benchmark rates for the HRGs, an independent actuary – S. Yu & Partners Ltd (SYP) - was commissioned as the project consultant by tendering. Based primarily on the data of the Insurance Authority and information collected by SYP, SYP has worked out suggested premium benchmark rates for the relevant HRGs. The methodology and approach adopted by SYP have been reviewed by the National Council on Compensation Insurance (NCCI) - an independent body running the great majority of the EC residual markets in the United States. From NCCI's point of view, the model employed by SYP is deemed technically sound and appropriate.

12. After several rounds of discussion with stakeholders on the pricing mechanism for HRGs and occupations outside the HRGs, it was agreed to proceed on the following basis:

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<sup>1</sup> Provided that the non-availability of insurance is not by reason of the employer failing to pay premiums due or meet statutory requirements on occupational health and safety imposed as a condition of the grant of insurance.

(a) *Premium Benchmark Rates of HRGs*

The benchmark rates are meant to provide a reference base for calculating premiums. A discount or loading, to the extent up to 50% of the premium benchmark rates, will be applied to adjust the rates to be offered with regard to risk factors like the safety performance of and preventive measures adopted by employers. By introducing the discount and loading mechanism, the Scheme helps promote good practices in occupational and safety measures by providing incentives for employers to reduce risks at work. The premium benchmark rates for the 19 HRGs are at Appendix 3. These rates will be reviewed periodically to ensure that the premium benchmark of the HRGs reflects the current market trend.

(b) *Rates for risks outside the HRGs*

In view of the huge number of occupations in the employment market, it is practically impossible for the actuary to work out the premium benchmark rates for all occupations. On receipt of an application from an employer for coverage of a risk outside the HRGs, the Underwriting Committee will take into account factors like risk type, the current market rate, past claim experience, actuarial opinion etc to come up with a premium quote. Consideration will be given to classifying the risk as one of the HRGs in case many risks of the same nature are received during the year. The actuary will then collect the relevant data of that particular risk type and work out the premium benchmark rate accordingly.

13. The premium benchmark rates and the discount and loading mechanism will be reviewed periodically by the Board with the assistance of an independent actuary and in consultation with the Advisory Committee.

Publicity

14. A dedicated website has been developed and is ready to operate once the Scheme comes into operation. Relevant documents such as the Memorandum of Association, Service Agreement, Market Agreement, premium benchmark rates for HRGs, list of the Scheme members and panel of service providers etc. will be uploaded to the website for public information.

15. An information leaflet explaining the structure and operation of the Scheme will be prepared in layman's terms to ensure that it is easily understood by the public. The leaflets will be distributed free of charge to members of the public.

## **Way Forward**

16. It will take about six to eight weeks to complete the formalities required to launch the Scheme. Barring any unforeseen circumstances, we plan to bring the Scheme into operation by 1 May 2007.

Provisional Employees' Compensation Insurance  
Residual Scheme Bureau Board  
February 2007



**Membership list of the Advisory Committee**  
**顧問委員會成員名單**

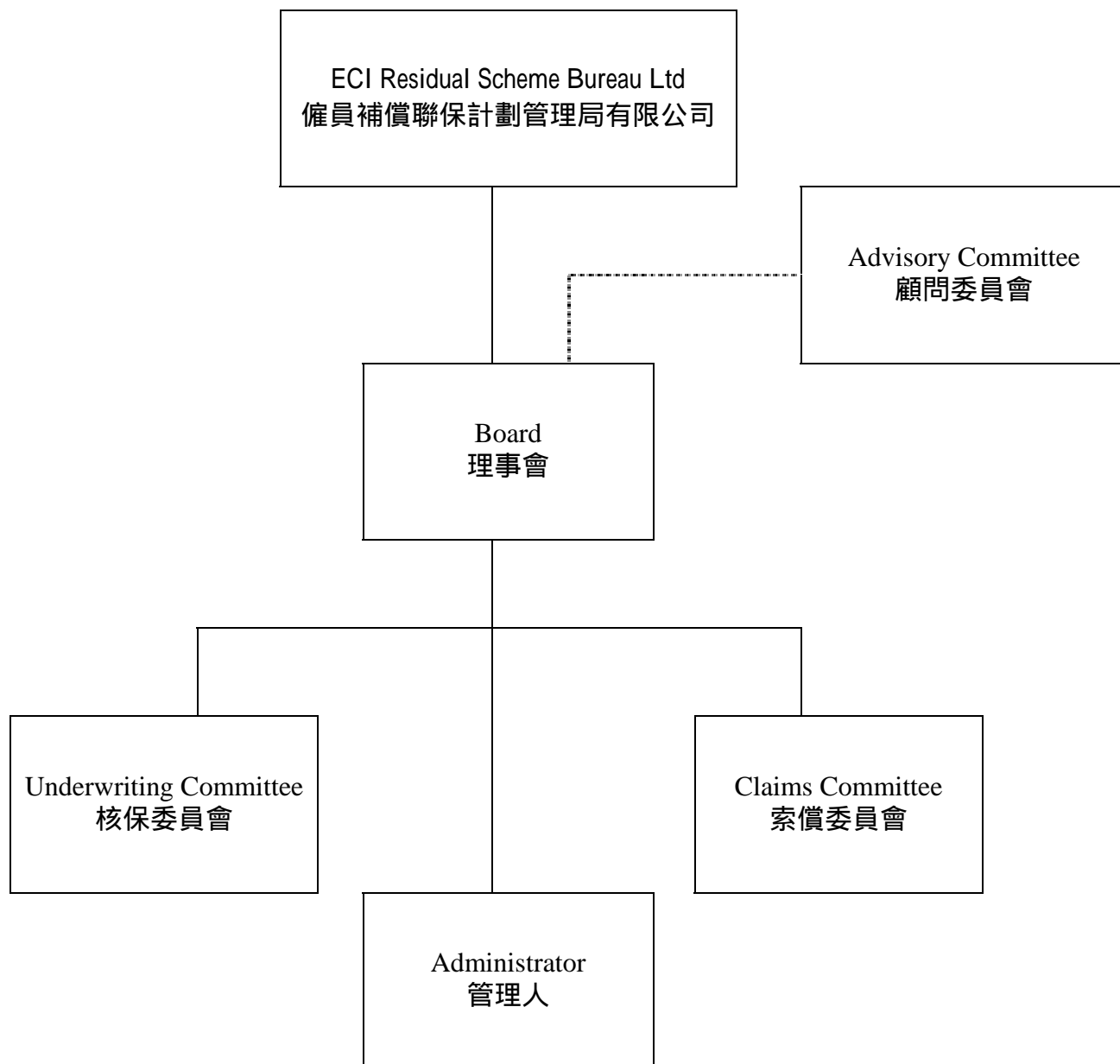
**Chairman 主席**

Mr Leo Ma 馬陳鏗先生	Chairman of the Hong Kong Federation of Insurers 香港保險業聯會主席
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**Members 成員**

The Hon Kwong Chi Kin 鄭志堅議員	Legislative Councillor 立法會議員
The Hon Bernard Chan, GBS, JP 陳智思議員, GBS, JP	Legislative Councillor 立法會議員
Mr Paul Yin, BBS 尹德勝先生, BBS	Member of the employers' sector 僱主業界代表
Dr Wong Lung Tak, JP 黃龍德博士, JP	Accounting profession representative 會計專業代表
Ms Angela Yim 嚴淑兒小姐	Legal profession representative 法律專業代表
Mr Bernard Fung 馮紹禹先生	Member of the insurance brokers' sector 保險經紀業界代表
Mr O F Leung, JP 梁安福先生, JP	Member of the insurance agents' sector 保險代理業界代表
Mr K P Chan, JP 陳健波先生, JP	Member of the reinsurers' sector 再保公司業界代表
Mrs Agnes Koon 管胡金愛女士	Chairperson of General Insurance Council 一般保險總會主席
Mr Henry Pun 潘克原先生	Representative of the ECI Residual Scheme Provisional Board 僱員補償聯保計劃管理局臨時理事會代表
Mr Ros Lam 林家泰先生	Representative of the Office of the Commissioner of Insurance 保險業監理處代表
Mr Stanley Ng 吳家光先生	Representative of the Labour Department 勞工處代表

Scheme Organization Chart  
計劃架構圖表



**Employees' Compensation Insurance Residual Scheme**  
**僱員補償聯保計劃 - 高風險行業保費費率基準**  
**PREMIUM BENCHMARK RATES OF THE HIGH RISK GROUPS ("HRG")**

No. 號數	High Risk Groups 高風險行業	Premium Benchmark Rate (% of Payroll) 保費費率基準(工資百份比)
1	Blasting 從事爆破	32.29%
2	Demolition Work 建築物清拆工作	87.79%
3	Diving 潛水	55.20%
4	Earth Removal 搬泥	27.78%
5	Excavation 挖泥	27.78%
6	Filling & Reclamation 填土及堆填	27.78%
7	Gondola Worker/ Window Cleaner 吊船工人/ 抹窗工人	56.91%
8	Scaffolding 搭棚	18.40%
9	Ship Repairer 船隻維修工人	11.86%
10	Steel Bending & Erection 紮鐵及鋼架工程	8.66%
11	Stevedores 碼頭裝卸工人	31.37%
12	Tunnelling 隧道工程	58.92%
13	Well Sinkers and Borers 掘井工人及鑽井工人	30.47%
14	Worker on board Launch/ River Trade Vessel 在內河商船上工作人士	10.99%
15	Drain Repairer 修渠工人	6.85%
16	Air Conditioner Installation Worker/ Repairer 冷氣機安裝工人/ 維修工人	7.08%
17	Neon Light Signboard Installation Worker/ Repairer 霓虹燈箱安裝工人/ 維修工人	4.41%
18	Crane Operator 吊機操作員	14.86%
19	Steeplejacks 高空作業工人	66.21%