

LegCo Panel on Manpower

Overall Review of the Employees' Compensation Insurance Residual Scheme

Purpose

This paper informs Members of the outcome of the overall review of the Employees' Compensation Insurance Residual Scheme ("Scheme") conducted by the Employees' Compensation Insurance Residual Scheme Bureau Limited ("ECIRSBL").

Background

2. In early 2005, the Hong Kong Federation of Insurers presented a proposal to the Government on setting up a residual scheme to address public concern over the potential non-availability of employees' compensation insurance ("ECI"), particularly for the high-risk occupations.

3. After detailed deliberation both within the insurance industry and with relevant stakeholders, the industry launched the Scheme on 1 May 2007. In the process, Members of the Labour Advisory Board ("LAB") and the Manpower Panel of the Legislative Council ("LegCo Panel on Manpower") were briefed on the framework, key features and implementation of the Scheme. The Scheme acts as a market of last resort to assist employers who have difficulties in acquiring ECI cover.

4. The ECIRSBL agreed to conduct a mid-term review of the Scheme one year after its implementation and an overall review after operating the Scheme for two years.

Mid-term Review of the Scheme

5. The mid-term review report compiled by the ECIRSBL on the progress of the Scheme covering the period 1 May 2007 to 30 April 2008 was submitted to the LegCo Panel on Manpower and LAB on 17 July 2008.

Overall Review of the Scheme

6. The ECIRSBL has completed the overall review of the Scheme covering the period 1 May 2007 to 30 April 2009. The review report is at Appendix.

7. The Scheme has been operating smoothly, though there was no need for it to exercise its role as a market of last resort. Specifically, 24 applications were received during the period. Of these, 22 were accepted by individual insurance companies during circulation. As for the remaining two applications, one was closed because the company was no longer in operation while the other applicant withdrew its application as the training programme that required ECI cover was suspended owing to insufficient funding. This indicates that the existing services rendered by EC insurers, coupled with the Scheme, should be able to address the needs and concern of employers seeking ECI cover.

Way Forward

8. Looking ahead, the ECIRSBL will continue to improve, as necessary, the operation of the Scheme in the light of practical experience and assist employers having difficulties in seeking ECI cover.

Office of the Commissioner of Insurance
Labour Department
September 2009

Report of an Overall Review on the Employees Compensation Insurance ("ECI") Residual Scheme for the period from 1 May 2007 – 30 April 2009

Introduction

On 18 March 2005, the Hong Kong Federation of Insurers ("HKFI") presented a paper to the Labour Department outlining the core objectives and concepts of setting up a residual scheme to act as a market of last resort for employers having difficulty in seeking ECI cover. The proposal was presented to the Labour Advisory Board of the Labour Department and the Manpower Panel of the Legislative Council in April and May 2005 respectively.

Since then, the HKFI worked closely with the Labour Department, the Insurance Authority and the industry to map out the scope, basic structure and mode of operation of the proposed scheme. Members of the Labour Advisory Board and the Manpower Panel of the Legislative Council were further briefed on the framework, key features and implementation schedule of the scheme in January and March 2007 respectively.

The ECI Residual Scheme ("Scheme") was launched on 1 May 2007. The Employees' Compensation Insurance Residual Scheme Bureau Limited ("Scheme Bureau") is incorporated to take over the administration of the Scheme. The Scheme Bureau has agreed to conduct an overall review after operating the Scheme for two years. This paper reports on the overall review covering the period from 1 May 2007 to 30 April 2009.

Objective

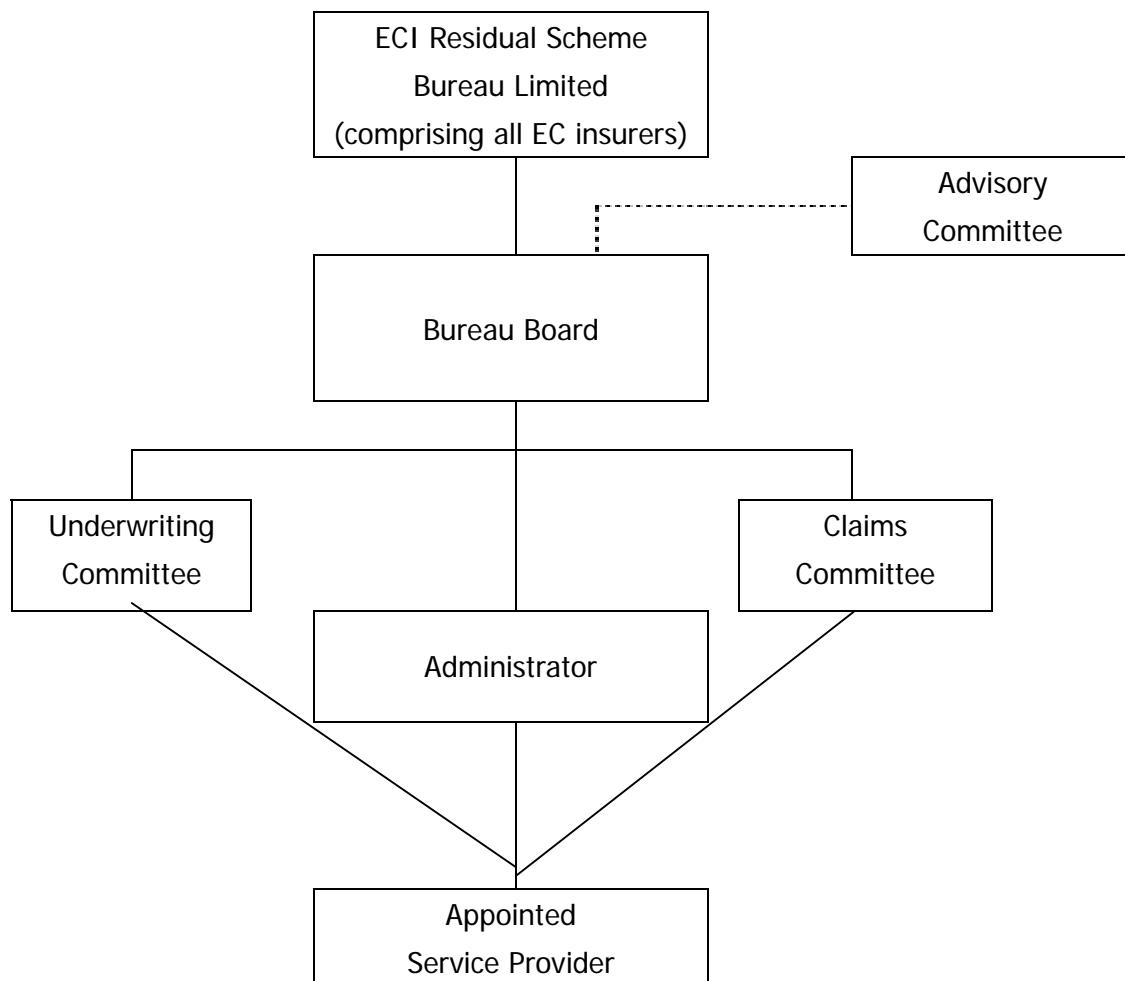
The objective of the Scheme is to act as a market of last resort to assist employers who have difficulties finding ECI cover, especially employers of the High Risk Groups ("HRGs"). A list of HRGs is attached (Annex 1).

Scheme Structure

- 1 All insurers writing ECI business in Hong Kong ("EC insurers") are members of the Scheme;
- 2 The Scheme is supervised by a Board comprising 15 EC insurers;
- 3 An Advisory Committee consisting of representatives from employers, employees, accounting, legal and insurance sectors, the Labour Department and the Insurance Authority, is formed to monitor and advise on smooth establishment and operation of the Scheme; a list of Advisory Committee members is attached (Annex 2);
- 4 An Underwriting Committee and a Claims Committee, comprising representatives from the Board members, are formed to formulate underwriting guidelines and claims procedures respectively;

- 5 A Service Provider is appointed to accept risks, handle claims, issue policies to Qualified Employers ("QE") 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. Chevalier Insurance Co Ltd is appointed as the Scheme Service Provider for a period of two years after a tendering exercise; and
- 6 HKFI has been appointed as Administrator to conduct day-to-day operation of the Scheme.

Organization Chart



Criteria for entering the Scheme as QE

- 1 Employers have been declined insurance cover by at least three EC insurers; or
 - 2 The premium rates quoted by insurers are 30% over the corresponding premium benchmark rates of the relevant HRGs specified by the Scheme;
- 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.

How the Scheme provides cover to QE

Upon receiving a completed proposal and the required information from the QE, 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 QE 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 by the Administrator.

Discount and Loading Mechanism

A discount and loading mechanism to the extent of up to 50% of the premium benchmark rates will be put in place to adjust the rates to be offered according to factors like the safety performance and preventive measures adopted by employers. By introducing the discount and loading mechanism, the Scheme helps promote good practices in occupational safety and health measures by providing incentives for QEs to reduce risks at work.

19 HRGs

An independent actuary, Sheng Yu & Partners ("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 ECI residual markets in the United States. From NCCI's point of view, the model employed by SYP is technically sound and appropriate.

The premium benchmark and the list of HRGs are subject to an annual review. Based on the applications received in the term 2007/2008, the Board concurred that there was no need to revise the list. As for the premium benchmark, SYP will collect data from members of the Scheme and submit a report to the Board annually.

Risk other than the HRGs

On receipt of an application from an QE 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 including the risk as one of the HRGs in case risks of the same nature are repeatedly received during the year. The actuary will then collect the relevant data of that particular risk and work out the premium benchmark rate accordingly.

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

Publicity

In order to introduce the Scheme to the public, especially employers and employees, the Board has:

- 1 printed pamphlets detailing the objective, structure and operation of the Scheme and distributed them to some 1,000 employers' associations and employees' unions, brokers & agents associations and to members of the public through the offices of the Labour Department, Occupational Safety & Health Council and Home Affairs Department;
- 2 conducted briefings to employers, employees representatives and Tripartite Committee of the Labour Department;
- 3 informed relevant organizations of the objective of the Scheme and offered to conduct briefings on the Scheme as and when they required;
- 4 solicited the assistance of brokers and agents associations in referring QEs to make applications under the Scheme;
- 5 issued press releases;
- 6 issued 2007/2008 Annual Report; and
- 7 developed a website on the Scheme (www.ecirsb.com.hk) for public information and QEs to apply on line for insurance cover.

Membership

The total number of members in the Scheme at the end of this review period is 55. A list of members is attached (Annex3).

Applications received

24 applications have been received since 1 May 2007. All the cases had been declined insurance cover by at least three EC insurers. 22 of them were accepted and provided ECI cover by individual Scheme members during circulation of the applications. Two applications were not processed as the Scheme was advised that one applicant was no longer in operation and the other applicant, which was a Youth Centre providing craft training course, withdrew application as the posts involved in a training programme that required ECI coverage were suspended as a result of not being able to secure the necessary budget to organize the programme.

Only three out of the abovementioned 22 applications belong to the HRGs. The remaining 19 QEs could not find cover in the market due to poor risk management or change of job nature during the policy term. The summary of the applications is attached (Annex 4).

Observation

Experience shows that the Scheme has been operating smoothly. Apart from functioning as a market of last resort to assist employers who have difficulties in securing ECI cover in the market, it also provides a platform to facilitate access by employers to EC insurers and communication between employers and insurers in the provision of EC insurance. Furthermore, by applying benchmark premium rates in conjunction with a discount and loading mechanism, the Scheme has set a market standard driving the insurers to apply proper risk-based considerations in underwriting EC insurance while instigating the insured employers' awareness of occupational safety and implementation of proper risk management measures.

Way forward

The industry is of the view that the existing services rendered by EC insurers, coupled with the Scheme should be able to address the needs and concerns of employers seeking ECI cover. In order to further improve the operation of the Scheme, the Board will, as in the past year, continue to:

- 1 step up the promotion of the Scheme ;
- 2 closely liaise with the Labour Department, Insurance Authority, employers and employees organisations and Advisory Committee to identify possible areas of improvement; and
- 3 review the list of HRGs and the premium benchmark as well as the operational procedure of the Scheme periodically.

Employees' Compensation Insurance Residual Scheme Bureau Limited

August 2009

高風險行業保費費率基準

Annex 1
附件 1

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 寶虹燈箱安裝工人/ 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%

2007-2009 Membership list of the Advisory Committee
顧問委員會成員名單(2007-2009)

Chairman 主席

Mr Leo Ma
馬陳鏗先生

Member of the Governing Committee of the HKFI
香港保險業聯會管治委員會委員

Members 成員

The Hon Kwong Chi Kin 鄺志堅議員	Legislative Councilor 立法會議員
The Hon Bernard Chan, GBS, JP 陳智思議員, GBS, JP	Legislative Councilor 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
Mr. Allan Yu 余健南先生	Chairman of General Insurance Council of the HKFI 香港保險業聯會一般保險總會主席
Mr Henry Pun 潘克原先生	Representative from the ECI Residual Scheme Board 僱員補償聯保計劃管理局理事會代表
Mr Ros Lam 林家泰先生	Representative from the Office of the Commissioner of Insurance 保險業監理處代表
Mrs Leung So Suk-Ching, Tonia 梁蘇淑貞女士	Representative from the Labour Department 勞工處代表

No. Members' List**會員名冊**

1. ACE Insurance Limited	安達保險有限公司
2. Allianz Insurance (Hong Kong) Limited	安聯保險（香港）有限公司
3. American Home Assurance Company	美安保險公司
4. American International Assurance Company Limited	美國友邦保險有限公司
5. Anglo Starlite Insurance Company Limited	星輝保險有限公司
6. Asia Insurance Company Limited	亞洲保險有限公司
7. Assicurazioni Generali Societa per Azioni	忠利保險有限公司
8. AXA China Region Insurance Company (Bermuda) Limited	國衛保險(百慕達)有限公司
9. AXA General Insurance Hong Kong Limited	安盛保險有限公司
10. Bank of China Group Insurance Company Limited	中銀集團保險有限公司
11. Blue Cross (Asia-Pacific) Insurance Limited	藍十字（亞太）保險有限公司
12. CAF International Insurance Company Limited	農銀國際保險有限公司
13. California Insurance Company Limited	加洲保險有限公司
14. Chevalier Insurance Company Limited	其士保險有限公司
15. China BOCOM Insurance Company Limited	中國交銀保險有限公司
16. China Merchants Insurance Company Limited	招商局保險有限公司
17. China Overseas Insurance Limited	中國海外保險有限公司
18. China Pacific Insurance Company (Hong Kong) Limited	中國太平洋保險（香港）有限公司
19. China Ping An Insurance (Hong Kong) Company Limited	中國平安保險（香港）有限公司
20. Chong Hing Insurance Company Limited	創興保險有限公司
21. Concord Insurance Company Limited	合群保險有限公司
22. Dah Sing Insurance Company Limited	大新保險有限公司
23. Falcon Insurance Company (Hong Kong) Limited	富勤保險（香港）有限公司
24. Federal Insurance Company	聯邦保險公司
25. GAN Assurances IARD	/
26. Hang Seng General Insurance (Hong Kong) Company Limited	恒生財險(香港)有限公司
27. HDI-Gerling Industrie Versicherung AG	/
28. Hong Leong Insurance (Asia) Limited	豐隆保險（亞洲）有限公司
29. HSBC Insurance (Asia) Limited	滙豐保險（亞洲）有限公司
30. ING General Insurance Company Limited	安泰保險有限公司
31. Kono Insurance Limited	工安保險有限公司

No. Members' List**會員名冊**

32. Liberty International Insurance Ltd.	利寶國際保險有限公司
33. Min Xin Insurance Company Ltd.	閩信保險有限公司
34. The Ming An Insurance Company (Hong Kong) Ltd.	香港民安保險有限公司
35. Mitsui Sumitomo Insurance Company (Hong Kong) Limited	三井住友海上火災保險(香港)有限公司
36. MSIG Insurance (Hong Kong) Ltd.	/
37. National Union Fire Insurance Company of Pittsburgh, Pa	/
38. The New India Assurance Company Ltd.	新印度保險有限公司
39. Nipponkoa Insurance Company (Asia) Ltd.	日本興亞保險(亞洲)有限公司
40. The Pacific Insurance Company, Ltd.	太平洋保險有限公司
41. The People's Insurance Company of China (Hong Kong), Ltd.	中國人民保險(香港)有限公司
42. Pioneer Insurance & Surety Corporation	信孚保險有限公司
43. The Prudential Assurance Company Ltd.	英國保誠保險有限公司
44. QBE Hongkong & Shanghai Insurance Ltd.	昆士蘭聯保保險有限公司
45. Royal & Sun Alliance Insurance plc	皇家太陽聯合保險有限公司
46. Sompo Japan Insurance Inc.	
47. Sun Hung Kai Properties Insurance Ltd.	新鴻基地產保險有限公司
48. Symbol Underwriters Limited	先寶保險有限公司
49. The Tokio Marine & Fire Insurance Company (Hong Kong) Ltd.	東京海上火災保險(香港)有限公司
50. Tugu Insurance Company Ltd.	德高保險有限公司
51. UOB Insurance (Hong Kong) Limited	/
52. United Builders Insurance Company Limited	建安保險有限公司
53. Wing Hang Zurich Insurance Company Limited	永亨蘇黎世保險有限公司
54. Wing Lung Insurance Company Ltd.	永隆保險有限公司
55. Zurich Insurance Company	蘇黎世保險

RECORD OF APPLICATIONS RECEIVED BY ECIRSBL

	Nature of Business of the Applicants [belonging to High Risk Group (HRG)]	Number of Employees
1.	Labour Association	1
2.	Courier/ Express Service	8
3.	Scissor Lift Manufacturer	1
4.	Courier/ Express Service	58
5.	Jewelry Trade	2
6.	Crane Operation [HRG - Crane Operators]	6
7.	Scaffolding (Case closed as the company was no longer in operation)	4
8.	Consultant & Surveyors Company	8
9.	Travel Agency	33
10.	Food Stuff / Woof Arts Trading	2
11.	Campsites for Youth Training (Case closed as the applicant subsequently withdrew application)	20
12.	Dyeing Factory	16
13.	Software Licensing, Support & Consultancy	1
14.	Restaurant	9
15.	Freight and Cargo Forwarding	14
16.	Florist	4
17.	Toys Manufacturing	5
18.	Sanitation Cleaning & Waste Treatment	28
19.	Transportation Services [HRG – Stevedores]	10
20.	Dog Training	6
21.	General Trading	2
22.	Supplier of Diesel Engines [HRG – Ship Repairers]	63
23.	Metal Product	1
24.	Mobile Massage Therapist	2