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ATTACHME

LCQ13: Risk ratings assigned to emerging markets by ECIC

■ Annex

Following is a written reply by the Secretary for Commerce and Economic Development, Mrs Rita Lau, to a question by the Hon Lam Tai-fai in the Legislative Council today (December 3):

Question:

To enhance support and services for exporters, in particular, small and medium enterprises, the Hong Kong Export Credit Insurance Corporation ("ECIC") has recently reviewed the situation of 15 emerging markets and lifted the ratings for six of them. In this connection, will the Government inform this Council whether it knows:

- (a) the current ratings and contents of the ratings of all markets, including the 15 emerging markets mentioned above;
- (b) the total value of goods exported, the total value of the policies approved by ECIC and the gross claims concerned in respect of each emerging market in each of the past three years;
- (c) the respective reasons for ECIC not lifting the ratings of nine emerging markets after the review;
- (d) ECIC's current factors for consideration in determining the ratings of emerging markets and the weightings of such factors;
- (e) the respective services provided by ECIC to markets with different ratings; and
- (f) if ECIC has conducted regular reviews on the ratings of emerging markets; if so, of the review timetable; if not, the reasons for that?

Reply:

President,

(a) The credit risk ratings assigned to different countries/markets by ECIC are classified into four grades from A to D (A being the highest rating). The list of ratings is an internal document that ECIC uses in its credit risk assessment for insurance policies. Releasing such information to the public will have an impact on ECIC's competitiveness in the market and may cause some countries to feel unhappy. Moreover, as a general practice, other insurance companies also will not make public their lists.

(b) The value of Hong Kong goods exported to the 15 emerging markets in the past three years, ECIC's insured business and claims paid related to these markets are set out at Annex.

(c) & (d) Following industry practice, ECIC adopts a rating mechanism with objective criteria to assess credit risks of different markets. The mechanism is mainly based on economic factors, including domestic economic situation (e.g. economic growth and inflation rate) and external economic situation

(e.g. international balance of payment and debt ratios). Under the rating mechanism, domestic political situation will also be taken into account. In addition, ECIC will benchmark these ratings against its underwriting experience in respect of the relevant country/market and the ratings given by other international rating agencies.

On the basis of the above criteria, ECIC reviewed in November the ratings of the 15 emerging markets referred to in Annex and upgraded six of them (including those of the United Arab Emirates, Kuwait, Chile, Brazil, the Czech Republic and Malaysia). The ratings of the other nine emerging markets remain unchanged. ECIC will continue to monitor developments in these countries/markets closely and conduct regular reviews. Their ratings will be adjusted whenever appropriate.


(e) While there are no overall underwriting limits on grade A countries/markets, ECIC has introduced different overall underwriting limits for grade B, C and D countries/markets (the limit for B grade being the highest; and that for D grade being the lowest). As regards the premium rates, exporters will pay lower rates for markets with higher ratings. Moreover, for grade A, B and C countries/markets, ECIC will underwrite general credit risks (including risks in relation to bankruptcy, repudiation and payment default). For certain relatively high-risk grade C countries/markets, ECIC will extend the claim periods from the normal four months to a period ranging from six to twelve months, or will only underwrite the country/market risks (e.g. risks in relation to wars, natural disasters and blockages or delays in foreign exchange remittance) or risks in relation to certain payment methods. As regards grade D countries/markets, ECIC will only consider underwriting the country/market risks depending on individual merits of the case, and the claim period will also be extended from the normal four months to a period ranging from six to twelve months.

Nevertheless, as we announced earlier, to offer better protection for exporters and to help them acquire bank financing during the current credit crisis, ECIC has agreed to be as accommodative and flexible as possible to SMEs' requests for export credit insurance and increase the covers within the bounds of prudent credit assessment and risk management. ECIC has also introduced a mechanism under which deductibles for claims and lower-than-usual indemnity ratios for the insurable exports (the usual indemnity ratio being 90%) will apply, if necessary, for sharing out the risks.

(f) ECIC conducts regular assessments for all countries/markets on an annual basis. If there are unforeseen events, or when ECIC considers necessary, reassessment of a particular country/market, and corresponding adjustments to its rating if appropriate, could be made at anytime.

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Hong Kong Exports to the relevant 15 Emerging Markets

(HK\$ million)

Country	Jan – Sep 2008	Jan – Dec 2007	Jan – Dec 2006
India	40,632	34,810	23,019
Thailand	23,666	28,806	24,863
Malaysia	21,128	25,255	21,956
Vietnam	15,733	18,019	11,724
United Arab Emirates	15,034	20,212	16,047
Israel	10,669	11,610	10,277
Brazil	10,071	10,380	9,126
Hungary	7,020	8,985	7,644
Russia	6,404	6,993	4,510
Poland	4,344	4,770	3,603
Czech Republic	4,081	4,541	4,682
Saudi Arabia	3,078	3,183	2,853
Chile	2,216	3,122	3,069
Argentina	2,071	2,736	2,002
Kuwait	715	450	434
Total	166,860	183,875	145,810

Source : Hong Kong Trade Development Council

ECIC's insured business and claims paid in relation to the 15 Emerging Markets

	Jan – Sep 2008 (HK\$ million)	2007 (HK\$ million)	2006 (HK\$ million)
Insured Business	1,040	1,221	1,033
Cash Claims	2.5	3.3	0.8