

For discussion on
20 December 2011

**LEGISLATIVE COUNCIL
PANEL ON COMMERCE AND INDUSTRY**

**Governance of the Hong Kong Export Credit Insurance Corporation
(ECIC)**

PURPOSE

This paper reports to Members the outcome of the review conducted by the Commerce and Economic Development Bureau (CEDB) on the governance of the ECIC.

BACKGROUND

2. In Chapter 6 of the Report No. 56 of the Director of Audit (Audit Report) tabled at the Legislative Council on 13 April 2011, one of the recommendations as stated in para 2.7(a) of the Audit Report was that the Secretary for Commerce and Economic Development (SCED) should, in collaboration with the Commissioner of the ECIC, regularly review the ECIC's governance and CEDB's monitoring mechanism over the ECIC's work and performance.

3. In response to the Audit Report, we explained to the Public Accounts Committee (PAC) on 23 and 26 May 2011 the actions that had been taken or measures that would be implemented to address the findings and recommendations of the Audit Report. We also undertook to report to the Panel on Commerce and Industry of the Legislative Council the outcome of the review of the governance of the ECIC before end 2011.

OUTCOME OF THE REVIEW

Governance of Overseas ECAs

4. We have undertaken research on the governance structures and functions of six export credit agencies (ECAs) in the Asia-Pacific, Europe and North America. These ECAs are chosen either because they are considered among the most experienced in the industry or they have a similar background to the ECIC. All of them are either members of the Berne Union or the Berne Union Prague Club, which is an international organization of public and private sector providers of export credit and investment insurance. A summary of our findings is set out at **Annex**.

5. Similar to the ECIC, most of the ECAs under study have a history of over 40 years. Many of them have over time expanded their mandates and the product offerings to meet their market needs. Most of these overseas ECAs operate or has operated as public bodies under the relevant ministries or departments of the respective government. Only the Export Credits Guarantee Department of the United Kingdom (since November 2011, the new operating name is United Kingdom Export Finance) and the New Zealand Export Credit Office (NZECO) operate as government departments.

Annex

6. The ECAs in the United Kingdom and New Zealand are overseen by a Management Board and a Technical Advisory Committee (previously known as Advisory Board) respectively which advise their governments on the operation, risk management strategies and auditing requirements of the organisations. Of the other four ECAs, three are public bodies (except ECICS in Singapore which was converted to a wholly-owned subsidiary of a publicly listed company a few years ago). All of them are governed by their Board of Directors (BoD). The authority of these boards is vested by law, and the decisions made by the BoDs are legally binding. The major powers delegated to the BoD mainly include reviewing budget, overseeing operations and strategies, and making decisions on certain large transactions.

7. In response to our enquiries, some ECAs pointed out that the nature of their governing bodies has evolved to become what it is today due to reasons such as changes in operational needs and market demands on their products and services. For example, in Australia, when its ECA was established by statute in 1957, it provided credit insurance to exporters that the private sector would not normally insure. At that time, its operations were overseen by a commissioner. In 1974, in order to expand the range of the ECA's finance and insurance services, it changed its name from Export Payments and Insurance Corporation to Export Finance and Insurance Corporation (EFIC). The EFIC was then overseen by a BoD, which has the power to appoint the Corporation's managing director following consultation with the Australian Minister for Trade. In Japan, a trade and investment insurance programme was first established in 1950 as part of the Japanese Government's export promotion policy. In 2001, Nippon Export and Investment Insurance, an incorporated administrative agency, was established as a 100% state owned agency to provide export credit and investment insurance

as well as project finance guarantee. The new organisation was governed by a BoD consisting of a Chairman/Chief Executive Officer (CEO), two Vice-Chairmen and a Corporate Auditor. The Chairman/CEO is appointed by the Ministry of Economy, Trade and Industry.

8. None of the ECAs have scope of services identical to the ECIC. Unlike the ECIC which focuses on short-term credit insurance and guarantees, most ECAs, except the NZECO, offer multiple products, such as credit insurance (short-term, medium-term and long-term), bonds and guarantees, political risk insurance, investment insurance as well as direct loans and financing. The scope of products and services offered by these ECAs are therefore much wider than the ECIC.

Governance of the ECIC

9. The ECIC was established in 1966 under the Hong Kong Export Credit Insurance Corporation Ordinance (Chapter 1115) (the Ordinance) with the aim of encouraging and supporting the export trade by providing Hong Kong exporters with insurance protection against non-payment risks arising from commercial and political events. The ECIC is required to operate in accordance with the requirements laid down in the Ordinance. The Commissioner of the ECIC is appointed by SCED under delegated authority in accordance with the Ordinance.

10. Under section 10(1) of the Ordinance, an Advisory Board was established to advise the ECIC in the conduct of its business. At present, the Advisory Board consists of the Commissioner of Insurance or his representative, the Executive Director of the Hong Kong Trade Development Council or his representative, a representative of CEDB, and nine other members who are

drawn from the banking, accountancy, services, manufacturing, insurance, trade and industry sectors and appointed by SCED under delegated authority. While there is no specific provision in the Ordinance for the establishment of committees under the Advisory Board, two sub-committees, namely the Investment Committee and Audit Committee, consisting members from the Advisory Board, have been set up to advise on matters relating to investments and internal audit.

11. While CEDB does not supervise the ECIC's day to day operation, there is regular communication between the ECIC and CEDB. CEDB meets with the ECIC on a half-yearly basis to review its performance as well as other management and operational matters including internal audit, human resource planning, reinsurance arrangement and plans for new services.

12. Compared to the overseas ECAs we have studied, the ECIC offers a considerably narrower range of services. As the ECIC's services only cover export credit insurance and guarantees, it is exposed to a much lower level of risks. We therefore consider that the existing governance structure provides adequate support to the Corporation's business and requires no major change. However, to enhance the role of the Advisory Board, the ECIC has since August 2011 established guidelines for determining the types of issues (and the time frame) which should be submitted to the Advisory Board and its sub-committees for information or advice. The guidelines have been promulgated after discussion and endorsement by the Advisory Board. In addition, since March 2011, the ECIC also submits on an annual basis, a rolling three-year plan on its mission, vision, strategic objectives and key result areas to be achieved to the Advisory Board for its endorsement.

13. It has been the Government's policy that the ECIC shall not

provide services that are normally available in the private sector. The role of the ECIC has always been to support our exporters by undertaking export credit risks and to do so by filling gaps in our insurance services sector. As regards the other services provided by the overseas ECAs such as bonds, bank guarantees and direct loans, they are normally provided by commercial insurers and banks in Hong Kong.

CONCLUSION

14. In view of the above findings, we consider the existing governance structure of the ECIC is appropriate taking into account the nature of its business. Having said that, we will review the situation from time to time taking into account the experience of other ECAs as well as any change to the scope of products and services provided by the ECIC.

15. Members are invited to note the outcome of the review.

Commerce and Economic Development Bureau
December 2011

**Governance Structures and Functions of
Overseas Export Credit Agencies**

Export Credit Agencies	Status	Governing Body	Products Offered
New Zealand Export Credit Office (NZECO) New Zealand	Government Department	Secretary to the Treasury#	<ul style="list-style-type: none">● Export Credit Insurance¹● Guarantees²● Bond Insurance³
Export Credits Guarantee Department (ECGD) United Kingdom	Government Department	Management* Board	<ul style="list-style-type: none">● Export Credit Insurance¹● Guarantees²● Bond Insurance³● Investment Insurance⁴● Project Finance Insurance⁵
Export Development Canada (EDC) Canada	Public Corporation	Board of Directors	<ul style="list-style-type: none">● Export Credit Insurance¹● Guarantees²● Bond Insurance³● Investment Insurance⁴● Project Finance⁷● Financing Services⁹

The Technical Advisory Committee (previously known as Advisory Board) will advise the Secretary to the Treasury on the operation of NZECO.

* Subject to certain decisions to be made by the relevant Government authorities.

<p>Export Finance and Insurance Corporation</p> <p>(EFIC)</p> <p>Australia</p>	<p>Public Corporation</p>	<p>Board of Directors</p>	<ul style="list-style-type: none"> ● Export Credit Insurance¹ ● Guarantees² ● Bond Insurance³ ● Investment Insurance⁴ ● Bonds⁶ ● Project Finance⁷ ● Financing Services⁹
<p>ECICS Limited</p> <p>(ECICS)</p> <p>Singapore</p>	<p>Wholly-owned subsidiary of a Publicly Listed Company</p>	<p>Board of Directors</p>	<ul style="list-style-type: none"> ● Export Credit Insurance¹ ● Guarantees² ● Bond Insurance³ ● Bonds⁶ ● Domestic Credit Insurance⁸
<p>Nippon Export and Investment Insurance</p> <p>(NEXI)</p> <p>Japan</p>	<p>Public Corporation</p>	<p>Board of Directors</p>	<ul style="list-style-type: none"> ● Export Credit Insurance¹ ● Guarantees² ● Bond Insurance³ ● Investment Insurance⁴ ● Project Finance Insurance⁵

Note

1. Export Credit Insurance protects exporters against risks of nonpayment for or refusal of shipments by customers overseas due to commercial or political events.
2. Guarantees provide payment of a debt or performance of some obligations if the performer primarily liable fails to perform.
3. Bond Insurance protects the exporter against the risk of unfair calling under a contract guarantee issued in favor of the buyer. The unfair calling cover under the insurance protects the exporter should the buyer's demand in itself be unfair due to political events in that country.
4. Investment Insurance covers a number of long-term political risks, potentially affecting the value or performance of an overseas investment. The insurance programmes may differ in different countries but are generally based on the same principle to cover the investor against the political risks in connection with their overseas investment.
5. Project Finance Insurance is a guarantee solution, which may be offered to project suppliers and their international customers, covering limited recourse lending.
6. Bonds are similar to a bank guarantee.
7. Project Finance is in a form of loan disbursements, which is generally made directly to suppliers and contractors, to support investors and contractors undertaking usually overseas projects in areas such as infrastructure, manufacturing and other developmental projects.
8. Domestic Credit Insurance covers a wide range of commercial risks such as refusal of a customer to pay or accept goods, bankruptcy, insolvency and contract cancellation.
9. Financing Services include direct loans and financing for projects.