For information **FCRI(2012-13)10**

NOTE FOR FINANCE COMMITTEE

Contingent Liability of the Hong Kong Export Credit Insurance Corporation

PURPOSE

This note informs Members that the Secretary for Commerce and Economic Development intends to introduce a resolution for approval by the Legislative Council (LegCo) in December 2012 to raise the cap on the contingent liability of the Hong Kong Export Credit Insurance Corporation (ECIC) from $30 billion to $40 billion, with a view to strengthening the ECIC's underwriting capacity.

BACKGROUND

2. The ECIC was established in 1966 under the Hong Kong Export Credit Insurance Corporation Ordinance (Cap. 1115) to encourage and support export trade through the provision of insurance protection for Hong Kong exporters against non-payment risks arising from commercial and political events.

3. Section 18 of this Ordinance provides that the Government shall guarantee the payment of all moneys due by the ECIC, and section 23 stipulates that the contingent liability of the ECIC under contracts of insurance (i.e. the amount for which the ECIC is contractually liable to indemnify policyholders in respect of its insurance policies) shall not exceed a specified amount which may be determined by LegCo by resolution.

4. Over the years, the cap on the ECIC's contingency liability has been raised several times. For example, it was revised from $7.5 billion to $10 billion, $12.5 billion, $15 billion and $30 billion through resolutions approved by LegCo on 17 December 1997, 13 March 2002, 29 March 2006 and 11 February 2009 respectively.

/PROPOSED …..

PROPOSED INCREASE OF THE CAP ON ECIC'S CONTINGENT LIABILITY

5. Since 2011-12, the ECIC has introduced a number of enhanced measures to strengthen our support for small and medium enterprises in the light of the global economic downturn (details at Enclosure). As at 31 October 2012, the contingent liability stood at about $28.8 billion, or 96% of the cap. The ECIC forecasts that it will reach its existing cap on contingent liability by end March 2013. With the continuing uncertain global economic environment, we consider that the ECIC should have sufficient underwriting capacity so that it could continue to provide export credit insurance covers to our exporters. As such, we propose to raise the cap on the ECIC's contingent liability from $30 billion to $40 billion. The ECIC considers that the new cap should be sufficient to meet its business growth in the next four years.

Encl

6. We have consulted the LegCo Panel on Commerce and Industry on 29 October 2012. Members supported in principle the proposed increase of the contingent liability to $40 billion to strengthen the ECIC's underwriting capacity and to offer better credit risk protection for the export sector.

FINANCIAL IMPLICATIONS

7. It is a standing policy of the ECIC to maintain adequate reserves to meet its obligations, including the contingent liability. The proposal should not involve actual Government expenditure until the ECIC has exhausted all its reserves. In assessing its financial position, the ECIC has already taken into account the estimated underwriting business and loss ratio (i.e. claims as a proportion of premiums received) in the coming few years. With the introduction of the enhanced measures and in the face of a volatile global economic environment, the ECIC expects that its loss ratio[1] will increase from 23.8% to around 55% in 2012-13 and to around 65% in 2013-14. Notwithstanding this, the ECIC estimates that it will be able to achieve a balanced budget in the coming few years.

8. In view of the ECIC's prudent approach to business and its healthy financial condition[2], we do not expect that there will be a need for Government to provide funding to the ECIC to meet its liabilities in at least the short to medium term. The ECIC will continue to conduct its business within the bounds of prudent risk management and review its financial situation regularly.

Commerce and Economic Development Bureau
November 2012

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[1] The loss ratio of the ECIC was 78.2% during the financial crisis in 2008-09.

[2] Contingency reserve of the ECIC as at 31 March 2012 was $1,314 million, compared to $1,220 million and $1,039 million in 2011 and 2010 respectively.

Enhanced measures of the Hong Kong Export Credit Insurance Corporation

The Hong Kong Export Credit Insurance Corporation (ECIC) has launched the following enhanced measures since end 2011/early 2012.

(a) Annual fee waiver

At present, each policyholder is required to pay an annual policy fee of $1,500 to cover the administration cost of the policy. Under the new measure, all existing and new policyholders can benefit from waiver of annual policy fee with policy commencement date falling within December 2011 to November 2012. The ECIC has extended the annual policy fee waiver for a further year to November 2013.

(b) Free buyer credit check

The ECIC offers each Hong Kong exporter three free credit assessment service of buyers, whether or not it is an ECIC policyholder.

(c) Expediting processing of credit limit applications of $1 million or below

From 5 December 2011 onwards, the ECIC has shortened the processing time for credit limit applications for $1 million or less to three days upon receipt of adequate information.

(d) Small business endorsement

In order to assist Hong Kong small business exporters or policyholders who have an annual business turnover of less than $10 million during the economic downturn, the ECIC allows them to insure selective buyers or markets; to enjoy premium discount in traditional markets; and to enjoy double premium discount for the 37 emerging markets.

(e) Extension of the Sales-by policy

The ECIC has extended the policy cover to insure the contracts between Hong Kong exporters' Mainland or overseas non-wholly owned subsidiary companies (with ownership over 50%), and their buyers.
