LC Paper No. CB(1)57/12-13(02)(Revised)

For discussion on
29 October 2012

LEGISLATIVE COUNCIL
PANEL ON COMMERCE AND INDUSTRY

Contingent Liability of the Hong Kong Export Credit Insurance Corporation (ECIC)

PURPOSE

This paper aims to brief Members on the proposal to increase 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 the Legislative Council (LegCo) by resolution.

PROPOSED INCREASE OF THE CAP OF THE ECIC'S CONTINGENT LIABILITY

4. The cap of the ECIC's contingent liability has been raised several times over the years to meet its business needs. For example, it was revised from $7.5 billion to $10 billion, $12.5 billion and $15 billion through resolutions approved by LegCo on 17 December 1997, 13 March 2002 and 29 March 2006 respectively. The current level of $30 billion was approved by LegCo on 11 February 2009. As at 30 June 2012, the contingent liability of all ECIC's valid policies amounted to about $28.3 billion, representing 94.3% of the current ceiling. It is likely that the ECIC's contingent liability will reach $30 billion by end March 2013.

Annex

5. To strengthen our support for SMEs in the light of the global economic downturn, the ECIC has introduced a number of enhanced measures (details at **Annex**). 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 of the ECIC's contingent liability from $30 billion to $40 billion having regard to the forecast growth of ECIC's insured business. The ECIC considers that the new cap should be sufficient to meet its business growth in the next four years.

FINANCIAL IMPLICATION

6. The Government is committed to guaranteeing the ECIC's contingent liabilities arising from its insurance business. The proposal should not involve actual Government expenditure until the ECIC has exhausted all its reserves.

7. It is a standing policy of the ECIC to maintain adequate reserves to meet its obligations, including the contingent liability. 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 the 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 65% in 2013/14. Notwithstanding this, the ECIC estimates that it will be able to achieve a balanced budget in the coming few years.

---

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

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 the 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.

IMPLEMENTATION TIMETABLE

9. Under the ECIC Ordinance, the proposal to raise the ECIC's cap on the contingent liability requires a positive resolution by LegCo. We plan to introduce the resolution into LegCo by end 2012 after issuing an information note to the Finance Committee in accordance with the established practice.

ADVICE

10. We welcome Members' views on the proposal.

Commerce and Economic Development Bureau
October 2012

[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.

Annex

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.

(b) *Free buyer credit check*

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

(c) *Expediting processing of credit limit application 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.