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**Press Release**

**(To be issued on 19 December 2001 (pm))**

$10 bn facility to ensure employers and employees can continue to enjoy employee compensation insurance protection

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The Government announced today (December 19) that it would seek the approval of Finance Committee to provide a facility of up to $10 billion in aggregate to ensure that employees and employers can continue to enjoy the existing level of employee compensation insurance protection.

"Re-insurers have decided to discontinue from 1 January next year onwards re-insurance coverage on terrorist activities on treaty arrangements. The facility will ensure direct insurers' can continue to cover, in their employee compensation (EC) policies, damages caused by terrorist activities. A charge of 3% on the relevant insurers' annual EC premium will be levied for the provision of such facility," a Government spokesman said today.

Under the EC Ordinance, an employer is liable to pay compensation to his employees who suffered personal injury in an accident arising out of and in the course of employment. To ensure employees will be able to receive adequate compensation and to protect employers when they become so liable, the EC Ordinance also requires employers to purchase EC insurance and direct insurers to pay for compensation irrespective of policy exclusions. This had not been a problem because direct insurers in the past were able to arrange reinsurance cover to limit their financial exposure.

“However, with the 911 incident, the insurance industry worldwide has become alerted of the severe damages that terrorist activities may potentially cause. Reinsurers (local and overseas) have decided that they would discontinue from 1 January 2002 onwards reinsurance coverage for terrorist activities on treaty arrangement (i.e. providing reinsurance coverage on all business accepted within a specified period by the direct insurers), when the present reinsurance contracts expire,” the spokesman explained.

“The lack of reinsurance coverage for terrorist activities would expose direct insurers to insolvency risks. It would also render direct insurers unable to comply with the provisions of the Insurance Companies Ordinance in respect of securing reinsurance arrangement to spread the risks and to minimise financial exposure. Insurers would have no choice but to stop underwriting EC insurance policies,” the spokesman said.

“The situation is undesirable. We fully recognize the need to safeguard the protection rendered to employers and employees.”

“To address this imminent problem, Government would seek Finance Committee’s approval to provide a facility of up to $10 billion in aggregate to cover the EC liabilities of direct insurers caused by terrorist activities,” the spokesman said.

“Provision of the facility would ensure that in the event of injury or death of employees caused by terrorist activities, direct insurers would pay compensation to the relevant employees or eligible claimants in accordance with the EC Ordinance, and would resort to the facility provided by Government for funding such payment.

“The facility will ensure that the protection presently rendered to our 3 million employees would not be eroded as a result of the lack of reinsurance cover. Employers would be able to continue to obtain insurance policies to cover their EC liabilities under the law. Insurers can also continue to write EC insurance policies which cover injuries caused by terrorist activities.”

Provision of the facility involves the deployment of public fund. A charge of 3% on the relevant insurers’ annual EC premium would be levied for providing such a facility.

With a clear indication from Government on the way forward, direct insurers would be in a position to make the necessary preparations for renewing the relevant employee compensation insurance policies upon their expiry in the course of next year.

“We would seek the approval of Finance Committee on 11 January 2002,” the spokesman added.

Members of the Administration would brief the Legislative Council Financial Affairs Panel tomorrow (20 December 2001). A Legislative Council Brief on the subject has also been issued today.

**Financial Services Bureau**

**19 December 2001**