CB(1) 1448/01-02(01)

For Information

Employees Compensation Insurance -
Reinsurance Coverage for Terrorism

Introduction

At the special meeting of the Legislative Council Panel on Financial Affairs held on 20 December 2001 to discuss the proposed $10 billion facility to cover terrorism risk in respect of employees compensation (EC) insurance, the Administration undertook to provide quarterly reports on –

(a) the facility;

(b) the up-to-date market situation regarding the availability of reinsurance coverage for terrorism in the EC insurance market; and

(c) the need to continue to provide the concerned facility.

The relevant information is set out in the following paragraphs.

The Facility

2. With the approval of the Finance Committee on 11 January 2002, we set up the $10 billion facility covering terrorism risks in respect of EC insurance business. With the cover provided by the facility, the protection rendered to employees under EC insurance policies has remained intact. Employers continue to enjoy insurance protection and insurers continue to provide cover for work-related death or injury caused by terrorist activities. Participation in the scheme is voluntary for insurers. However, for those insurers who do not participate in the scheme but wish to underwrite EC policies, they have to demonstrate to the Commissioner of Insurance that they are able to secure alternative cover. Those insurers participating in the scheme are required to pay to Government a charge of 3% of the gross premium of the EC policies they underwrite.

3. As at 25 March 2002, 57 out of 75 insurers carrying on EC insurance business in Hong Kong have entered into an agreement with the Government on the provision of the facility ("the Agreement"). Of those which have not done so, one overseas insurer, with close relationship with reinsurers, has been able to obtain the required cover through arrangements by its parent. This insurer is only running 16 EC policies in Hong Kong. Another insurer has ceased carrying on new EC business in Hong Kong since March this year and its few existing EC policies are covered by the run-off period under its reinsurance arrangements set up before the September 11 incident. The remaining insurers will consider entering into the Agreement upon expiry of their current reinsurance arrangements in the coming months.

Availability of Reinsurance Coverage

4. One of the provisions of the Agreement is that the participating insurers shall endeavour to obtain the relevant reinsurance cover from the market. According to the quarterly returns received by the Office of the Commissioner of Insurance ("OCI") up to 20 March 2002, all the participating insurers have confirmed that, after taking the necessary actions including approaching the reinsurers and reinsurance brokers, the relevant cover was not available in the market on a treaty arrangement[1] basis.

5. Separately OCI has approached the reinsurers in Hong Kong who have confirmed that they are not yet prepared to provide such cover in Hong Kong on a treaty arrangement basis.

6. In the light of the absence of reinsurance cover for terrorism risk in the market, it is necessary to maintain the facility. We intend to withdraw it once the relevant reinsurance cover has returned to the market and towards this end, OCI will continue to monitor the development in the reinsurance market (both locally and overseas) closely.

Financial Services Bureau / OCI
2 April 2002

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[1] Arrangement whereby a standing facility is provided by the reinsurers for reinsurance coverage on all businesses accepted by the direct insurer during the year without individual assessment of the risks by the reinsurers.