

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 \$10 billion facility to cover terrorism risks in respect of employees compensation (“EC”) insurance, the Administration undertook to provide quarterly reports on –

- (a) operation of the facility;
- (b) updated market situation on availability of reinsurance coverage for terrorism in the EC insurance market; and
- (c) the need to maintain the facility.

The proposed facility was subsequently approved by the Financial Committee on 11 January 2002.

Update

2. The report for the third quarter of 2010 is set out in the following paragraphs.
3. During this quarter, one insurer was placed in liquidation and its participation in the facility has accordingly been terminated, thus reducing the number of participating EC insurers from 63 to 62.
4. Up to end September 2010, the Government has received around \$835 million from the charge imposed on the participating insurers. The facility has not been invoked since its establishment in January 2002.
5. The Office of the Commissioner of Insurance (“OCI”) has obtained confirmation from the insurance industry that reinsurance cover is not available in the market on a treaty arrangement¹ basis, and the reinsurers operating in Hong Kong are not yet prepared to provide terrorism reinsurance cover for EC business in Hong Kong on a treaty arrangement basis.

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.

6. Given the absence of reinsurance cover for terrorism risks in the local EC insurance market, it is necessary to maintain the facility. We will continue to monitor developments closely and will withdraw this facility once reinsurance capacity has returned to the market.

Background

7. The facility was set up to cater for terrorism risks in respect of EC insurance, thereby ensuring that protection is rendered to employees, that employers may continue to enjoy insurance coverage, and that insurers could underwrite work-related death or injury caused by terrorist activities. Participation in the facility is voluntary. Insurers who decide not to participate in the facility but nonetheless wish to underwrite EC policies have to demonstrate to the OCI that they are able to secure alternative cover, while those participating in the facility are required to pay to the Government a charge pitched at 3% of the gross premium of EC policies they underwrite in Hong Kong.

**Financial Services and the Treasury Bureau/
Office of the Commissioner of Insurance
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