For information

LEGISLATIVE COUNCIL
PANEL ON COMMERCE AND INDUSTRY

Contingent Liability of
the Hong Kong Export Credit Insurance Corporation

PURPOSE

This paper informs Members of the exercise to implement the proposal in the 2017-18 Budget to increase the cap on the contingent liability of the Hong Kong Export Credit Insurance Corporation ("ECIC") from $40 billion to $55 billion, with a view to strengthening ECIC's underwriting capacity. The Government will introduce a resolution into the Legislative Council ("LegCo") to implement the proposal.

BACKGROUND

2. ECIC was established in 1966 under the Hong Kong Export Credit Insurance Corporation Ordinance (Cap. 1115) ("the Ordinance") to promote and support the 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 the Ordinance provides that the Government shall guarantee the payment of all moneys due by ECIC, and section 23 stipulates that the contingent liability of ECIC under contracts of insurance shall not exceed a specified amount which may be determined by the LegCo by resolution. As of 31 January 2017, the contingent liability of all valid policies amounted to about $37.3 billion, representing 93.3% of the cap of $40 billion.

PROPOSED INCREASE OF THE CAP ON ECIC'S CONTINGENT LIABILITY

4. Over the years, the cap on ECIC's contingent liability has been raised several times to meet its business needs. The previous five increases of the cap on the contingent liability as approved by LegCo are as follows –

	Cap on Contingent Liability approved by LegCo resolution	Amount of Increase
December 1997	10 billion	2.5 billion
March 2002	12.5 billion	2.5 billion
March 2006	15 billion	2.5 billion
February 2009	30 billion	15 billion
December 2012	40 billion	10 billion

5. ECIC estimates that the contingent liability would reach $40 billion by mid-2017. To strengthen our support for Hong Kong exporters, particularly small and medium enterprises ("SMEs"), in light of the uncertainties in the global business environment, we need to provide our exporters with further support to enable them to sustain their business and open new markets. In view of the continuing volatility in the global markets, we consider that ECIC should be provided with sufficient underwriting capacity so that it can continue to provide export credit insurance covers to Hong Kong exporters. It is expected that the new cap should be sufficient to meet ECIC's business growth in the next five years.

6. Indeed, ECIC has implemented a number of measures in recent years to assist SMEs. These initiatives include the "Small Business Policy" (SBP) scheme[1], introduced in March 2013, which caters for exporting companies with an annual turnover of less than $50 million, and the permanent waiving of the annual policy fee of $1,000 and offering of 20% premium discount for all SBPs since 1 March 2016. As at 31 January 2017, SBP contributed 63% of 2 276 newly acquired policies and 37% of 3 149 valid policies of ECIC.

FINANCIAL IMPLICATION

7. The proposal should not involve actual Government expenditure until ECIC has exhausted all its capital and reserves which stood at $2,141 million[2] as at 31 March 2016.

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[1] The SBP scheme provides eligible exporters with a range of flexible arrangements, including selective cover for specific buyers or markets, flexible indemnity ratio and shortened waiting period for claim payment under $500,000 in buyer default cases. The maximum liability of the policy is up to $10 million, including $5 million for pre-shipment cover and $5 million for post-shipment cover.

[2] The amount includes contingency reserve of $1,552 million, non-insurance reserve of $101 million, fair value reserve of $42.18 million and retained earnings of $446 million.

8. It is a standing policy of ECIC to maintain adequate reserves to meet its obligations, including the contingent liability. In assessing its financial position, 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. As the global economic environment is expected to remain challenging, ECIC expects that its loss ratio will increase from 29.7% in 2015-16 and to about 50% in 2016-17. Notwithstanding this, ECIC estimates that it would be able to achieve a balanced budget in the coming few years.

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

IMPLEMENTATION TIMETABLE

10. Under the Ordinance, the cap on the contingent liability of ECIC is determined by LegCo resolutions. We plan to introduce the resolution within this legislative session after issuing an information note to the Finance Committee in accordance with the established practice.

ADVICE SOUGHT

11. Members are invited to note this paper.

Commerce and Economic Development Bureau
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