

The Audit Commission (“Audit”) conducted a review of the Hong Kong Export Credit Insurance Corporation (“ECIC”).

2. ECIC is a statutory organization established in 1966 under ECIC Ordinance (Cap. 1115). It aims to encourage and support export trade by providing Hong Kong exporters with insurance protection against non-payment risks arising from commercial and political events. An Advisory Board¹ is established under ECIC Ordinance to advise ECIC in the conduct of its business. For 2020-2021, ECIC’s insured business and profit amounted to \$130,688 million and \$212.63 million respectively.

3. The Committee noted the following findings from the Director of Audit’s Report No. 78 (“the Audit Report”):

Corporate governance

- Audit’s examination of the appointments of Advisory Board members from 2015-2016 to 2020-2021 revealed that there were delays in taking oaths by non-official members as follows:
 - (a) 2 (20%) of the 10 oaths for first appointments were taken two and six days respectively after the commencement of terms; and
 - (b) 4 (19%) of the 21 oaths for reappointments were taken 4 to 62 days after the commencement of terms;²
- Audit’s examination of the three new appointments made from 23 August 2019 to 31 March 2021 noted that for two of the new members, they were being requested 5 days and 11 days respectively after the commencement of their terms to submit their registrations of personal

¹ The Advisory Board is not the governing body of ECIC. It is stipulated in ECIC Ordinance (Cap. 1115) that ECIC shall not be bound by the advice of the Advisory Board, and the powers, functions and duties of ECIC may be exercised or performed in its name and on its behalf by the Commissioner of ECIC.

² In one of the four cases, Board papers had been circulated to the member concerned before the oath was taken.

interest to the Secretary of the Advisory Board. Board papers had been circulated to one member before the submission of registration;³

- in four of the five years from 2017-2018 to 2021-2022, draft corporate plans prepared by ECIC were submitted to the Advisory Board for consideration 15 to 47 days after the commencement of the ensuing financial year;
- since 2013, comparison of ECIC's insurance products with those provided by other insurers had not been conducted;⁴
- although ECIC completed a consultancy review of its key performance indicators in February 2020, the implementation proposal for revisions was not submitted to the Advisory Board for endorsement until November 2021;

Provision of export credit insurance services

- ECIC completed processing 973 proposals from April 2020 to September 2021. 753 (77%) of the proposals were accepted by ECIC with quotations issued to applicants and Audit's analysis noted that:
 - (a) the average elapsed time (in terms of calendar days) from receiving the proposals to issuing quotations to the applicants was 20 days and the elapsed time of 14 (3%) proposals was longer than 60 days;⁵ and
 - (b) of the 447 (59%) proposals accepted by applicants, the average elapsed time between issue and acceptance of quotations was 21 days. 91 (20%) quotations were accepted by the applicants more than 28 days after issue;⁶

³ Please refer to paragraph 2.8 of the Audit Report for the two-tier reporting system adopted by ECIC to manage conflicts of interest of Advisory Board members since 23 August 2019. According to ECIC's records, no potential conflict of interest was declared by that member.

⁴ It is stipulated by section 9(3) of Cap. 1115 that ECIC shall not enter into contracts of insurance against risks that are normally insured with commercial insurers.

⁵ ECIC had set a performance pledge to complete the processing of proposals and issue quotations within two working days (not counting the day of receipt) based on completed proposals and adequate information being available.

⁶ According to ECIC, a quotation is valid for 14 calendar days after issue (with the possibility of extension).

- Audit's analysis of the elapsed time from the dates the credit limit applications ("CLAs") were received to the dates of completion of processing⁷ noted that of the 51 317 CLAs processed from April 2020 to September 2021:
 - (a) for the 25 096 (49%) CLAs of \$1 million or below, the average elapsed time was 5.4 days; and
 - (b) for the 26 221 (51%) CLAs above \$1 million, the average elapsed time was 7.7 days;
- Audit's analysis of the 15 593 reviews on buyers⁸ conducted from April 2020 to September 2021 noted that the average elapsed time from receiving credit reports to completion of reviews was 6.2 days;
- from April 2020 to September 2021, ECIC identified omissions of declarations⁹ of 386 shipments involving 18 policyholders. Among them, 208 (54%) shipments involving 13 (72%) policyholders were accepted by ECIC for retrospective declarations and according to ECIC:
 - (a) 87 (42%) were due to oversight by policyholders' staff; and
 - (b) 121 (58%) were due to misunderstanding of policy terms;

Other administrative issues

- the overall staff turnover rates in each individual year from 2016-2017 to 2020-2021 ranged from 12.5% to 22.6%, averaging 17.1%;
- the latest two comprehensive salary structure reviews were completed in September 2013 and June 2020, almost 7 years apart;¹⁰ and

⁷ Credit limit is the maximum amount of loss covered on a particular buyer for a policyholder. Policyholders are required to submit a CLA for each of their buyers. ECIC had set a performance pledge of completing the processing of CLAs and issuing credit limits.

⁸ ECIC conducts reviews on buyers with shipments declared in the preceding 12 months periodically according to a time schedule. According to ECIC's guidelines, the reviews should be completed within five working days upon receipt of credit reports and adequate information.

⁹ According to policy terms, a policyholder is required to declare its shipments of goods provided on credit terms to buyers outside Hong Kong within 21 days from the date of shipments.

¹⁰ ECIC's Salary Administration Guide stipulates that the salary ranges of each salary band should be reviewed and adjusted from time to time by conducting a comprehensive pay level review every three to five years or when there are indications that the market has changed significantly.

- Audit's review of the 33 purchases with value over \$500,000 from 2016-2017 to 2020-2021 noted that:
 - (a) exemptions from tender exercises were approved for 26 (79%) purchases;
 - (b) in one case, the approval was sought based on an estimated cost which turned out to be much lower than the actual cost; and
 - (c) in one case, justifications for single quotation were not adequately given.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the corporate governance and provision of export credit insurance services of ECIC. The consolidated replies from the **Secretary for Commerce and Economic Development** and the **Commissioner, ECIC** are in *Appendix 4*.

5. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.