

LCQ15: Credit risk ratings adopted by Hong Kong Export Credit Insurance Corporation

Following is a written reply by the Secretary for Commerce and Economic Development, Mrs Rita Lau, to a question by Dr Hon Lam Tai-fai in the Legislative Council today (January 7):

Question:

In reply to my question on December 3 last year, the Government said that the Hong Kong Export Credit Insurance Corporation (ECIC) had compiled a list of credit risk ratings on different countries or markets, of which they were classified into four grades from A to D (A being the highest rating), and the list was an internal document solely for use in the assessment of credit risks involved in insurance policies, and thus releasing such information to the public would have an impact on ECIC's competitiveness in the market, and as a general practice, other insurance companies would not make public their lists either. In this connection, will the Government inform this Council whether it knows:

(a) the number of countries or markets in each of the grades and the total insured business paid, set out in a table, for each of the grades last year;

(b) given that quite a number of small and medium enterprise (SME) operators have relayed to me that in the absence of information on credit risk ratings assigned to different countries or markets by ECIC, they are concerned about making wrong investment choices, whether ECIC will make public the above list to address the SMEs' concern; if it will not, the reasons for that; and

(c) as ECIC, being a public organisation wholly-owned by the Government, has all its contingent liability guaranteed and undertaken by the latter, why ECIC is concerned about its competitiveness in the market, who its competitors are, as well as the justifications for it to make reference to the practice of private insurance companies and not to make public the aforesaid list?

Reply:

President,

(a) Requested information on the credit risk ratings adopted by the Hong Kong Export Credit Insurance Corporation (ECIC) and the related insured business in 2008 is set out at Annex.

(b) ECIC is conscious of the risks faced by Hong Kong exporters when they are entering new markets and has been providing them with export credit insurance coverage and credit management services. For example, ECIC advises exporters on the extent of credit it considers prudent for them to grant their buyers.

Moreover, to assist exporters in assessing country/market risks, apart from providing necessary information to its policyholders and credit limit applicants, ECIC now offers each Hong Kong exporter three free advisory sessions to help them evaluate their overseas buyers' credit standing and the risks involved in extending trade credits to these buyers (additional services are available at below market prices). Exporters may also obtain relevant information about individual countries/markets and their credit ratings through other channels such as e-mail enquiries. ECIC would be ready to provide the information.

(c) ECIC's mission is to promote Hong Kong's export trade and to support exporters for such purpose, rather than to compete for profits with the private-sector insurance companies. In particular, under the current difficult economic conditions, ECIC has introduced a number of measures in the past few months to strengthen its support to Hong Kong exporters. For example, while credit risks in overseas markets have been increasing, ECIC has decided not to raise its insurance premium. For the period from January 1 to December 31, 2009, ECIC would also waive the annual policy fee for both existing and new policyholders for one year. In addition, ECIC's standard policies would continue to cover the risks associated with buyers' refusal to take delivery of goods and country risks. ECIC has also not set any minimum requirements for insured business despite the increasing risks. Such services are generally not available in the market. It could be seen from the above that maximisation of profits is not ECIC's objective.

Although ECIC's operation has a different objective from that of private-sector insurance companies, in order to ensure efficient and effective use of public resources and taking into account the fact that the Hong Kong Export Credit Insurance Corporation Ordinance requires ECIC to secure sufficient revenue for meeting its expenditure, ECIC's services and operations have to be generally self-sufficient and financially sustainable. ECIC therefore needs to maintain a basic level of market competitiveness to provide services to exporters in a cost-effective manner and, where necessary, to enhance existing measures or introduce services that are generally not provided by private-sector agencies.

Ends/Wednesday, January 7, 2009

Insured Business by Country/Market Rating

Country/Market Rating	Total number of Countries/ Markets	Insured Business in 2008 (\$ million)
A	39	44,321
B	50	1,802
C	67	287
D	58	0
Total:	214	46,410