

Chapter IV

Trade and Investment Insurance System of Hong Kong

Hong Kong Export Credit Insurance Corporation

History

- Founded 1966 by the government of Hong Kong
- To foster emergence of Hong Kong as a world trader and producer
- To facilitate small enterprises entering export trade and protect against:
 - buyer bankruptcy
 - payment default
 - rejection of goods
 - war- 'political' payment blockages

INSURANCE POLICIES

- No. 1 - Comprehensive Shipments Policy
 - covers exports and re-exports
from the date of shipment

Also-covers Services.

- Freight Forwarding
 - Advertising-
 - Testing and Inspection
- No. 2 - External Trade Shipments Policy
 - goods made outside, Hong Kong and delivered direct to buyers
- No. 3 -“Tailor-made” Facilities
 - sales to local buyer for export
 - country risk only

- capital goods on terms up to 5 years or more

Hong Kong Export Credit Insurance Corporation

- Wholly owned by the Government of Hong Kong
- Guarantees ECIC's contingent liabilities
 - current limit HK\$ 7,500 million
 - [US\$ 1 Billion]

ECIC'S MISSION

- To encourage and support export trade through professional, customer-oriented services
- To develop a positive corporate culture devoted to excellence and quality
- Prompt, effective and comprehensive services to meet exporters' aspirations.

FINANCIAL RESULTS

(HK\$ Million)

	1996/97	1995/96
Net Premium Income	81.3	74.66
Net Claims	42.65	29.94
Operating Expenses	54.43	51.48
Investment Income	29.42	33.95
Result for the Year	17.25	33.15

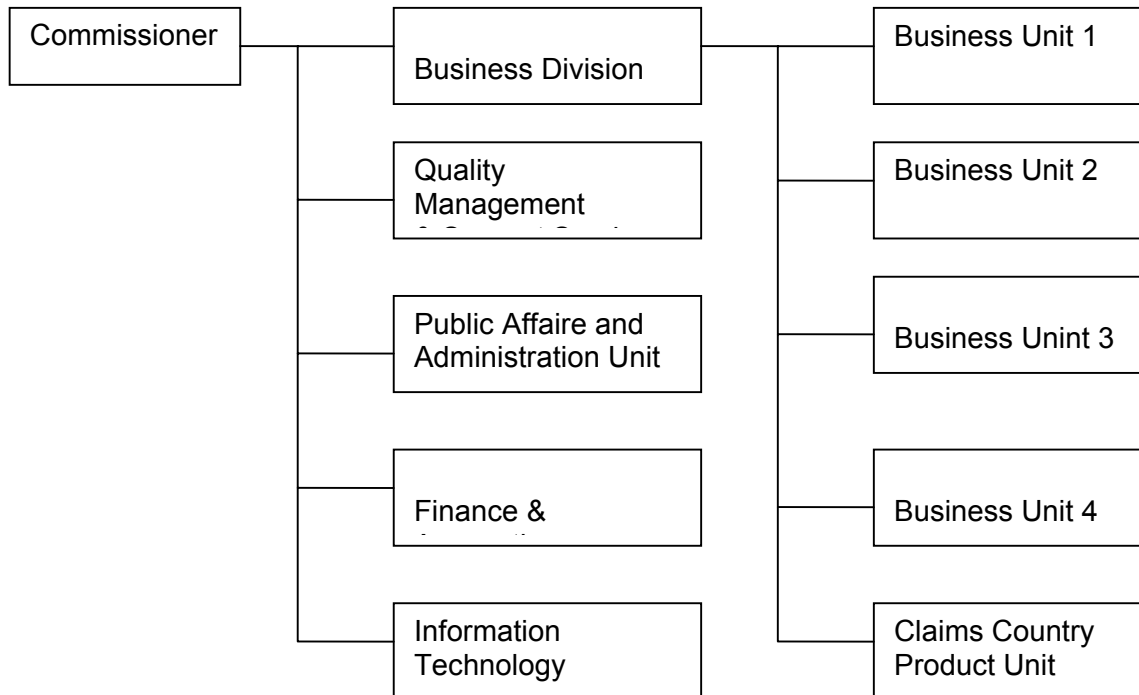
- 48% reduction in Annual surplus, due to
 - higher claims, especially in Germany and Australia
 - one large claim in China
- 14% increase in total business insured
 - HK\$ 20,11.3 million
 - result of targeted marketing

Increases to Asia, Latin America

North America, Latin America

- The Commissioner is appointed by the Government

The organization



Business Result

- Comprehensive Shipments Policy
 - provided 88% of total business
 - Increased by 13
- U. S. A. absorbed 33% - HK\$ 6,667 Million
 - increased 26%,
 - footwear, travel goods, electronics
 - Claims HK\$ 25,92 million [37%]

- U. K. took 17% - HK\$ 3,400 million
 - increased 11%
 - footwear, travel goods, appliances
 - Claims HK\$ 4.06 million [6%]
- Germany imported 11%, HK\$ 2,160 million
 - 3% Increase; cameras, optical, home appliances, travel goods
 - Claims HK\$ 6.15 million [9%]
- Australia took HK\$866 million - **4%** but created
 - Claims of HK\$ 5.76 million [8%]

Main Products Supported

Clothing and Textiles	29%
Toys	12%
Plastic, Metal and Leather Goods	11%
Electronics	9%
Office Machinery and Stationery	8%
Others	31%

- Premium income HK\$ 108.39 million
- Claims

Gross Claims (47% Increase)	81.44 million
Recoveries	5.7 million

Product Development, Promotion & Marketing

- First step has been to develop a responsive, focussed Organisation
- Four Business Units established, each with
 - marketing
 - underwriting
 - risk management functions

- Means that one staff member can handle all client inquiries
 - more efficient
 - quicker
 - better communication

- Flatter Organization results in
 - smoother workflow
 - clearer definition of responsibilities
 - more direct communication
 - more initiative

- Targeting Prospective Clients
 - identify products with growth potential
 - garments, consumer electronics, componentry, PC & peripherals, watches and clocks, toys, gifts

- Liaison with Industry Trade Associations
 - Seminars organized
 - Specialized Databases-expanded -

- Similar strategy for Service Industries
 - Liaison with trade associations
 - for Freight Forwarding, Advertising,
 - Printing, Testing & Inspection.
 - Product development
 - Seminars held and Databases formed.

- Telemarketing used on a quarterly basis
 - followed up by quarterly visits

- Introduced Export Finance Insurance Policy for Banks since July 1996.

- Developed software to enable exporters to declare by diskette - to make their task easier
- Acquired software package for underwriting straightforward applications - to speed processing and ensure consistency
- to maintain the highest quality standards sought ISO certification.
 - Certified to meet ISO9002 in 1994
 - First ECA in the world with this.

Future Market Development

- Develop China as an insured market
- Provide new Comprehensive Policy Cover Policy for
 - exports
 - re-exports
 - third country trade
- Develop new Small Medium Industry Policy for companies with less than HK\$50 million turnover.
- Simplify the Confirming House Cover Policy
- Intensify Staff Training
- Everything is directed at better client service, simplification, reduction of paperwork and the administrative burden on clients

INSURANCE TYPE AND FEATURES

COMPREHENSIVE SHIPMENTS POLICY

- Whole insurable Turnover
 - exporter must declare all exports & re-exports on DP, DA & OA terms
 - only exceptions are 'Ineligible buyers'

- Risks Covered
 - * "buyer" risks
 - insolvency or bankruptcy
 - failure to pay
 - failure or refusal to accept delivery of contracted exports

 - * "country" risks
 - foreign exchange blockage
 - import bans
 - canceled import licenses
 - payment moratorium
 - war, civil disturbance, natural disaster

POLICY FEATURES

- Timing
 - 12 months cover with automatic renewal
 - unless canceled with two months notice

- Credit Limits
 - each buyer is given a 'revolving' credit limit

- Obtaining Credit Limits
 - application timing very Important
 - must apply in good time
 - should supply as much buyer Information as possible

- priority service is available at a cost
- ECIC does not reveal reasons for credit refusals -
 - observes strict confidentiality on all clients' business.
- Declarations
 - must declare all exports and re-exports with payment terms
 - cash against documents or documents against payment [DP]
 - documents against acceptance [DA]
 - open account [OA]
 - * must declare within 14 days of shipment date
 - or risk "no cover"
 - * details required
 - buyer name; country & code no.
 - payment terms
 - gross value in currency of invoice shipment date
 - country of origin
 - brief description of goods/services
- Omission of shipments will mean 'no cover' on the entire policy

Shipments must all be declared, but "over-limit" shipments only covered as earlier shipment payments received.

PREMIUM RATES

- Paid monthly based on shipments
- Level depends on countries, terms, goods, business volume, spread of risks, claims experience
- A Premium Deposit is held for the life of the Policy

PLUS - an Annual Policy fee for policy servicing costs

- based on usage

- Paying Claims
 - “event of loss” must be covered by the Policy
 - exporter has complied with policy terms and conditions
 - contract of sale has been properly executed

- Waiting Period
 - Insolvency / bankruptcy paid as soon as possible
 - protracted default 4 months after due date
 - repudiation: 1 month after re-sale
 - Transfer delays: 4 months after due date or of payment in buyer's own currency
 - all others; 4 months after the “event”

RECOVERY ACTION

- joint responsibility but ECIC can take full charge

- Comprehensive Contracts Policy
 - For general consumer merchandise, but effective from the date of contract
 - Covers pre and post shipment risk

- External Trade Shipments Policy
 - For exports and re-exports of consumer merchandise mainly from China, Macau to Western Europe, United States and the developed markets
 - Exports of non-Hong Kong origin goods from outside to a foreign buyer where the trader / policy holder is in Hong Kong

OTHER POLICY

Confirming House Policy

Confirming house pays the exporter on shipment and grants credit terms to the overseas buyer

- Comprehensive Services Policy
 - covers services rendered to overseas clients
 - ship repairs, conversions, aircraft maintenance,
 - engineering, architecture, consultancy, advertising, etc,

- Extended Term Policy –for consumer durable and light machinery, agricultural machinery, yachts, truck, etc.
 - effective from date of shipment
 - credit from 181 days to 2 years
- Specific Shipments Policy - capital goods and production equipment, ships,
 - oil rigs heavy equipment and machinery, cranes, etc.
 - effective for a specific shipment from date of shipment
- Specific Contracts Policy
 - As above but with risk commencing
 - At date of contract
 - as above but effective from date of contract
- Specific Services Policy
 - covers exports of services which involve medium/long term credit
 - effective for a specific contract

POLICY UNDERWRITING

- Task to determine whether the export transaction is acceptable.
- If it is, determine the basic terms and conditions
 1. The Proposal - supported by sufficient information to make a judgment on its acceptability
 2. The Proposer - must be in business in Hong Kong
 - bona fides very important
 - is his outlook long term?
 3. What volume and spread of business is expected?
 - certain products are more risky - staples are safest
 4. Exporter's experience and financial situation
 - strong, stable businesses attract better buyers, lower costs, less disputes.
 - In all cases exporter experience and business connections are important
 5. Financial Statements seriously needed
 - but often hard to get
 - his bank's attitude is the best indicator - try to establish the details
 - credit control system - as shown by overdues and bad debts a key signal
- Within a reasonable time the Underwriter must issue a quote or decline business - as politely as possible - with suggestions to make the business acceptable
- On accepting the quote the exporter must nominate the 'policy holder' and pay the fees.
 - copies of the Policies and the Policyholders Manual are then issued

POLICY RENEWAL

- Policies are normally allowed to automatically renew after twelve months unless
 - exporter is careless or dishonest

- falls to declare shipments, report recoveries
- has poor claims experience
- makes no declaration for two years

- To terminate ECIC must give two months notice
 - but only in case of serious problems
- Maximum Cover Liability
 - normally 1/3rd of estimated turnover
 - but not less than biggest shipment or \$500,000

- Discretionary Credit Limit
 - allows exporter discretion
 - permitted when exporter understands proper use of facility
 - up to a limit for each buyer

- Premium Deposit
 - approximately 1/12th of annual premium
 - with upper and lower limits

- Policy Fee
 - initially depends on the no. of-buyers
 - on **renewal** the no. of credit applications

PREMIUM RATES

- Matrix of factors
 - country grading
 - payments: DP; [DA - OA]
 - term - 60, 1 2-0, 1 80 days

- Adjusted initially for
 - spread of business [how many "A" markets]
 - type of goods, volume of exports
 - 'client experience and competence
- Re-adjusted after one year's experience
 - good performers receive rebates
 - poor performance can lead to reduced cover, higher premiums, or cancellation

BUYER UNDERWRITING

- Underwriter operates under constraints
 - time pressure
 - available information may be limited
 - even good information may be out of date

- Underwriting is a mixture of science and art
 - depends on feelings, educated by information and experience

- The Underwriter must decide!

- The approach must be as systematic as possible
 1. Is the product viable in the intended market?
 - what are market trends?
 - is obsolescence a problem?
 - is the exporter experienced?
 2. Seek very specific details on the exporter
 - request exact details needed, especially
 - creditworthiness - with history

- Enterprises and markets have many variations

- underwriter must assess them all
- and make a decision on time!

COUNTRY UNDERWRITING

- Exclusive responsibility of the ECIC Commissioner
 - advised by senior group
- Basis is annual review of country economic and financial status
 - supplemented by Berne Union
 - on payments experience twice yearly
- Sudden events and disasters require immediate reactions and adjustments of cover for future shipments
- Country gradings are A,B, C, D and "off-cover"
- Country limits can also be imposed in response to circumstances, either singly or for groups.
- Three broad categories of country limit
 - continuing growth
 - existing levels maintained but *no growth*
 - reducing levels of commitments

CLAIMS AND RECOVERIES

- When Payment Difficulties appear
 - minimize loss as quickly as possible

- protect the validity of the unpaid debt
- clarify the situation with the exporter
- if a breach of policy detected client must be informed

- Policy obliges the policy holder to minimize loss
 - must take all practical steps
 - notify ECIC Immediately when appropriate
 - after a delay of two months notify ECIC within 3 days

- ECIC cannot force the client to -act but may decline to pay a claim if his action - or inaction –has jeopardized ECIC's position

- ECIC must carry out a *MOST CAREFUL*- fact-finding
 - reasons for the claim
 - exact details of the non-payment
 - whether the policy covers the shipment
 - whether new orders are in hand
 - whether the goods are perishable or fashion change prone.
 - what is the country situation
 - is the client's bank involved
 - is that buyer status report up to date
 - what action has the client taken
 - what have others experienced with buyer

- After weighing this evidence ECIC must opt to seek more information, or urge exporter to follow the appropriate procedures for
 - insolvency
 - default
 - repudiation
 - transfer delay
 - import restrictions, cancelled import licenses , war,

- Insolvency
 - Is buyer clearly insolvent? Who is the receiver or liquidator?
 - register the debts with him

- ask the clients to protest bills for nonpayment/non-acceptance
 - recover the goods not accepted or delivered
 - consider local action/presence, by appointing
 - representative/staff visit as appropriate
- Default
 - protest bills as above
 - seek rescheduled payments
 - enlist debt collectors
 - if necessary ask local legal advice
 - have client complain to Chamber of Commerce
 - enlist agent and bank to exert pressure
 - if necessary ask for-legal action
- Contractual Disputes
 - alleged that goods not up to specification
 - alleged arrived too late, too soon
- ECIC will not pay claim until dispute procedures exhausted
 - but pressure to pay likely from client and his bank
 - ECICs Role - seek negotiation by the client
 - press for arbitration if available
 - If not, proceed to litigation [costs to client unless ECIC requested - then shared)
 - Meanwhile form opinion on whether buyer is at fault – evaluate whether it would be best to pay claim