

# **CHAPTER 1**

**Commerce and Economic Development Bureau  
Hong Kong Export Credit Insurance  
Corporation**

**Hong Kong Export Credit Insurance  
Corporation**

**Audit Commission  
Hong Kong  
10 June 2022**

*This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.*

Report No. 78 of the Director of Audit contains 4 Chapters which are available on our website at <https://www.aud.gov.hk>



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# HONG KONG EXPORT CREDIT INSURANCE CORPORATION

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# HONG KONG EXPORT CREDIT INSURANCE CORPORATION

## Executive Summary

1. The Hong Kong Export Credit Insurance Corporation (ECIC) is a statutory organisation 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. ECIC Ordinance provides that the Government shall guarantee the payment of all moneys due by ECIC, and that the contingent liability of ECIC under contracts of insurance shall not at any time exceed a specified amount determined by the Legislative Council. In 2020-21, ECIC's insured business and profit amounted to \$130,688 million and \$212.63 million respectively. An Advisory Board is established under ECIC Ordinance to advise ECIC in the conduct of its business. ECIC maintains regular two-way communication with the Commerce and Economic Development Bureau (CEDB). The Commissioner of ECIC is appointed by the Chief Executive of the Hong Kong Special Administrative Region. As at 31 December 2021, ECIC had 106 staff (including the Commissioner).

## Corporate governance and performance management

2. *Room for improvement in appointing Advisory Board members.* The Audit Commission (Audit) reviewed the appointments of Advisory Board members in the period from 2016-17 to 2021-22 (up to December 2021) and found that: (a) CEDB reappointed the Chairman of the Advisory Board for a term of two years in April 2017. At that time the Chairman had already been appointed to eight advisory and statutory bodies. The reappointment was contrary to the Government's principle that a person should not be appointed to serve as a non-official member on more than six advisory and statutory bodies at any one time (i.e. the "Six-board Rule"); and (b) the Government aimed to increase the overall ratio of young members (i.e. persons who are aged between 18 and 35) in Government boards and committees to 15%. In the period from October 2017 to December 2021, none of the 4 new non-official Board members appointed was aged between 18 and 35 when they were appointed. As at 31 December 2021, none of the 9 non-official members was aged between 18 and 35 (para. 2.4).

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3. ***Delays in taking oaths by Advisory Board members.*** Audit examined the 31 oaths taken by non-official members appointed (including 10 first appointments and 21 reappointments) in the period from 2015-16 to 2020-21 and found that: (a) 2 (20%) of the 10 oaths for first appointments were taken 2 and 6 days respectively after the commencement of their terms; and (b) 4 (19%) of the 21 oaths for reappointments were taken 4 to 62 days (averaging 20 days) after the commencement of their terms. In 1 of the 4 cases, Board papers had been circulated to the member concerned before the oath was taken (para. 2.6).

4. ***Room for improvement in appointing members of sub-committees.*** The Advisory Board is supported by two sub-committees, namely the Audit Committee and the Investment Committee. Audit noted that: (a) Investment Committee members were not always replaced by new ones in a timely manner upon their retirement; and (b) in January 2021, invitations were sent to Board members inviting them to express interest in filling an Audit Committee member position. However, there was no documentary evidence showing that ECIC had discussed as required with the Advisory Board Chairman and CEDB the overall knowledge and experience of the Audit Committee before sending the invitations (para. 2.11).

5. ***Late submission of draft corporate plans (DCPs) to the Advisory Board.*** Every year, ECIC prepares a DCP which includes ECIC's budget, and programmes and activities. ECIC's Finance and Accounting Manual stipulated that the budget should be submitted to the Advisory Board for consideration before the commencement of each financial year. Audit noted that in four of the five years from 2017-18 to 2021-22, DCPs were submitted to the Advisory Board for consideration 15 to 47 days (averaging 31 days) after the commencement of the ensuing financial years (paras. 2.13 to 2.15).

6. ***Late submission of DCPs and holding of housekeeping meetings.*** In four of the five years from 2017-18 to 2021-22, DCPs were submitted to CEDB for approval 22 to 153 days (averaging 67 days) after the commencement of the financial years. In the event, DCPs were approved 33 to 177 days (averaging 93 days) after the commencement of the financial years. Audit also noted that after the housekeeping meeting between CEDB and ECIC conducted in December 2019, ECIC had not submitted half-yearly reports to CEDB and no housekeeping meetings had been conducted. In June 2021 (i.e. 1.5 years after the previous meeting), ECIC submitted a report (covering the period from April 2020 to March 2021) to CEDB and conducted a housekeeping meeting with CEDB to discuss the report (para. 2.19).



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7. *Need to review scope of services periodically.* It is stipulated by section 9(3) of the ECIC Ordinance that ECIC shall not enter into contracts of insurance against risks that are normally insured with commercial insurers. Audit noted that in October 2013, ECIC submitted a paper to the Advisory Board regarding the export credit insurance market in Hong Kong. The paper included a comparison of ECIC's insurance products with those provided by other insurers. However, since 2013, ECIC had not conducted similar comparison of ECIC's insurance products with those provided by other insurers and reported the results to the Advisory Board. There is a need for ECIC to take measures to ensure that section 9(3) of the ECIC Ordinance is complied with (paras. 2.21, 2.25 and 2.26).

8. *Need to disclose the remuneration of senior executives.* ECIC has not disclosed the remuneration policies for its senior executives and their total remuneration in bands in its annual reports. To enhance transparency, ECIC needs to consider whether there are merits to disclose such information in the annual reports (para. 2.28).

9. *Need to conduct regular reviews on the governance structure of ECIC.* In 2011, CEDB conducted a review on ECIC's governance. CEDB informed the Legislative Council that CEDB would review the governance structure of ECIC from time to time. Audit noted that neither CEDB nor ECIC had conducted further reviews on ECIC's governance structure after the 2011 review. The business of ECIC has been expanded rapidly in the past 10 years and ECIC's existing governance structure is not commonly adopted by export credit agencies outside Hong Kong. CEDB needs to conduct a review on the governance structure of ECIC with a view to further improving the existing governance structure (paras. 2.29 to 2.31).

10. *Need to expedite revisions of key performance indicators (KPIs).* In February 2020, ECIC completed a consultancy review of its KPIs. In the Advisory Board meeting in April 2020, ECIC undertook, in consultation with CEDB, to formulate an implementation proposal regarding the review report's observations and recommendations for revisions of KPIs. However, the proposal was not submitted to the Advisory Board for endorsement until the meeting in November 2021 (i.e. 1.5 years after ECIC undertook to formulate the proposal) (paras. 2.37 and 2.38).

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### Provision of export credit insurance services

11. *Need to shorten elapsed time from receiving proposals to completion of processing them.* ECIC has set a performance pledge to complete the processing of proposals and issue quotations within two working days based on completed proposals and adequate information being available. The pledge was met in the period from 2016-17 to 2020-21. However, the time taken was much longer than two working days for ECIC to collect the information necessary for processing the proposals. In the period from April 2020 to September 2021, ECIC issued quotations for 753 proposals. The average elapsed time (in terms of calendar days) from receiving the proposals to issuing quotations was 20 days, ranging from 1 to 103 days. Audit examined five cases with elapsed time longer than 60 days and found that actions could have been taken in a more timely manner to avoid unnecessary delays (paras. 3.5 to 3.7).

12. *Need to improve handling of outstanding quotations pending acceptance.* In the period from April 2020 to September 2021, of the 753 quotations issued to applicants, 447 (59%) were accepted. There was room for improvement for ECIC in handling outstanding quotations pending acceptance by applicants. For example, in one case examined by Audit: (a) for all extensions of the validity period of the quotation, reasons had not been provided to justify allowing more time for the applicant to consider the quotation; (b) the applicant was informed that the quotation had lapsed but in fact the quotation had not lapsed yet; and (c) ECIC allowed the applicant to accept the quotation although it had already lapsed for 20 days (paras. 3.9 and 3.10).

13. *Need to expedite the issue of credit limits to policyholders.* ECIC has set a performance pledge of completing the processing of credit limit applications (CLAs) and issue credit limits for CLAs of above \$1 million within four working days based on adequate information being available, and within three working days for CLAs of \$1 million or below. The pledge was met in the period from 2016-17 to 2020-21. However, the time taken was much longer than three/four working days for ECIC to collect the necessary information for processing CLAs. In the period from April 2020 to September 2021, the average elapsed time from receiving CLAs to issuing credit limits or rejecting CLAs was 5.4 days (ranging from 0 to 86 days) for the 25,096 CLAs of \$1 million or below and 7.7 days (ranging from 0 to 90 days) for the 26,221 CLAs of above \$1 million. Audit examined 3 CLAs with the longest elapsed time and found that in 2 cases, there was room for improvement for ECIC to take more timely actions in obtaining the required information (paras. 3.15 to 3.17).

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14. ***Room for improvement in conducting reviews on buyers.*** ECIC conducts reviews on buyers. According to ECIC's guidelines, the reviews should be completed within five working days upon receipt of credit reports and adequate information. The pledge was met in the period from 2016-17 to 2020-21. However, for the 15,593 reviews conducted in the period from April 2020 to September 2021, the average elapsed time from receiving credit reports to completion of reviews was 6.2 days (ranging from 0 to 247 days). Audit examined five reviews with elapsed time of more than 90 days and found that there was room for improvement for ECIC in obtaining the required information for the reviews (paras. 3.18 to 3.20).

15. ***Late declarations of shipments by policyholders.*** In the period from April to September 2021, 4,608 (3%) of the 179,611 declarations of shipments were submitted late. The average period of delay was 27 days, ranging from 1 to 787 days. In the same period, ECIC identified 19 policyholders as "frequently late policyholders" for whom the responsible officers should submit assessment results and recommended actions. Audit noted that: (a) for 17 (89%) of the 19 policyholders, the recommended actions were to remind the policyholders on the requirements of timely declarations of shipments. However, for 3 (18%) of the 17 policyholders, no documentary evidence showed that ECIC had reminded them; and (b) for the remaining 2 (11%) policyholders, the responsible officers had not submitted the recommended actions (paras. 3.24 and 3.26).

16. ***Room for improvement in notifications of likely loss by policyholders.*** Under the policy terms, a policyholder has to inform ECIC of payment difficulty cases within five working days. In the period from April 2020 to September 2021, ECIC accepted two late reported payment difficulty cases in which the policyholders concerned had been late in the reporting of payment difficulty cases in their previous claims cases. However, no documentary evidence showed that ECIC had complied with its requirement to arrange follow-up meetings with the policyholders concerned to reinforce their understanding of the policy terms and conditions or issue written reminders to the policyholders concerned to that effect (paras. 3.35 to 3.38).

17. ***Room for improvement in debt recovery by policyholders.*** In the period from April 2020 to September 2021, ECIC made payments to policyholders in 119 claims cases. Audit found that: (a) the policyholder must obtain ECIC's prior written approval before proceeding with the appointment of a debt collector if the policyholder has to seek reimbursement of costs or charges subsequently incurred. The policyholder should require the debt collector to declare any actual, perceived or

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potential conflict of interest with the buyer on a prescribed form before appointment. Audit's examination on 5 of the 119 claims cases revealed that in 2 cases, the policyholders had appointed debt collectors before obtaining written approval from ECIC and completing the prescribed form; (b) ECIC's written approval must be obtained before a policyholder accepts any proposal in relation to the composition or rescheduling of debts. In 1 of the 5 claims cases examined, the policyholder did not obtain ECIC's written approval before accepting the buyer's offer of a reduced payment; and (c) according to ECIC's guidelines, cases should be written off as soon as practicable where the prospect of recovery or further recovery is non-existent or too remote. As at 31 January 2022, there were 59 outstanding recovery cases which had been identified as cases to be written off for more than four months. Audit examined 3 of the 59 cases and noted that these cases had been concluded as cases to be written off in the previous three/four reviews and identified as cases to be written off for about 1.3 years or more (paras. 3.39 to 3.41 and 3.43 to 3.45).

### Administrative issues

18. ***High staff turnover rates.*** Audit found that for the period from 2016-17 to 2020-21: (a) the overall staff turnover rates in each individual year were on the high side, ranging from 12.5% in 2017-18 to 22.6% in 2019-20, with the five-year average overall staff turnover rate being 17.1%; and (b) the average number of years of service of staff leaving ECIC in each individual year was more than 4 years, ranging from 4.8 years to 7.9 years (para. 4.3).

19. ***Need to conduct salary structure reviews in a timely manner.*** According to ECIC's Salary Administration Guide, the salary range of each salary band should be reviewed and adjusted from time to time by conducting a comprehensive pay level review every 3 to 5 years or when there are indications that the market has changed significantly. Audit found that: (a) the latest two comprehensive pay level reviews were completed in September 2013 and June 2020, almost 7 years apart; and (b) up to 31 December 2021, ECIC was still discussing the results of the review completed in June 2020 with CEDB and had yet to submit the results to the Advisory Board for endorsement (paras. 4.6 and 4.7).

20. ***Insufficient coverage in stocktaking of computer software and hardware.*** According to ECIC's requirements, the physical existence of fixed assets must be checked against the fixed asset register twice annually. Audit reviewed the records of 10 stocktaking exercises conducted in the period from 2016-17 to 2020-21 and

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found that: (a) the samples of computer software and hardware selected from the fixed asset register for checking did not include all of the 10 items with the highest net book value (NBV), contrary to ECIC's sampling instructions; and (b) NBV of computer software and hardware covered in the stocktaking exercises varied significantly. While the stocktaking exercise in 2016-17 covered 24% of the total NBV, all items selected for the 2017-18 stocktaking exercise had zero NBV (paras. 4.12 and 4.13).

21. ***Room for improvement in the procurement process.*** According to ECIC's requirements, tendering exercises should be conducted for purchases with value over \$500,000. Exemptions should only be granted under acceptable circumstances and should be approved by senior management, with justifications properly documented. In the period from 2016-17 to 2020-21, Audit noted that of the 33 purchases with value over \$500,000: (a) exemptions from tender exercises were approved for 26 (79%) purchases, which were conducted by written quotations instead of tenders as required. For an approval sought in August 2020, the approval was sought based on an estimated cost of \$1 million, which turned out to be much lower than the actual cost of \$2.6 million; and (b) since 2010, every year, approval had been granted to enter into a contract with the same vendor for a billboard advertising place through a single quotation instead of conducting restricted tenders as required. No documentary evidence showed that similar advertising places were not available and the reasons why ECIC could not obtain quotations or tenders from other vendors (paras. 4.17 to 4.19).

### Audit recommendations

22. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Commissioner, ECIC should:**

#### ***Corporate governance and performance management***

- (a) **ensure that Advisory Board members take oaths before the commencement of their terms (para. 2.33(a));**
- (b) **replace retiring sub-committee members as expeditiously as practicable (para. 2.33(d));**

## **Executive Summary**

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- (c) **discuss with the Advisory Board Chairman and CEDB the overall knowledge and experience of the Audit Committee before inviting Advisory Board members to join the Audit Committee (para. 2.33(e));**
- (d) **submit DCPs to the Advisory Board for endorsement before the commencement of the ensuing financial years (para. 2.33(f));**
- (e) **ensure that ECIC complies with section 9(3) of ECIC Ordinance (para. 2.33(h));**
- (f) **consider disclosing the remuneration policies for its senior executives and their total remuneration in bands in the annual reports (para. 2.33(i));**
- (g) **expedite the implementation of the consultant's recommendations on KPI revisions (para. 2.41(a));**

### ***Provision of export credit insurance services***

- (h) **take timely actions in collecting the required information and documents needed for processing proposals and CLAs and in conducting reviews on buyers (paras. 3.11(a), 3.21(a) and (b));**
- (i) **promulgate clear and detailed guidelines on the proper handling of outstanding quotations (para. 3.11(b));**
- (j) **remind those “frequently late policyholders” on the requirements of timely declarations of shipments (para. 3.32(a));**
- (k) **document the recommended actions taken for late declarations (para. 3.32(b));**
- (l) **ensure compliance of control measures on payment difficulty cases (para. 3.46(a));**
- (m) **address the issue of policyholders' non-compliance with the policy terms (para. 3.46(b));**

## **Executive Summary**

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- (n) **write off those cases identified to be written off as soon as practicable (para. 3.46(c));**

### ***Administrative issues***

- (o) **formulate measures to address the high staff turnover rates (para. 4.10(a));**
- (p) **promulgate clear guidelines on the frequency of comprehensive pay level reviews, and expedite the endorsement and implementation of the recommendations of the 2020 comprehensive pay level review (para. 4.10(b) and (c));**
- (q) **ensure that stocktaking exercises are conducted according to the requirements (para. 4.25(a)); and**
- (r) **stipulate guidelines on the handling of major discrepancies between initial cost estimates and actual procurement values, and the circumstances under which tender requirement for purchases can be exempted (para. 4.25(c) and (d)).**

**23. Audit has also *recommended* that the Secretary for Commerce and Economic Development should:**

### ***Corporate governance and performance management***

- (a) **ensure that the “Six-board Rule” is complied with and appoint more young people to the Advisory Board (para. 2.32(a) and (b));**
- (b) **ensure that DCPs and half-yearly reports on ECIC’s performance and operations are submitted, and conduct half-yearly housekeeping meetings in a timely manner (para. 2.32(c)(i) and (ii)); and**
- (c) **conduct a review on the governance structure of ECIC (para. 2.32(d)).**

## **Executive Summary**

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### **Response from the Government and the Hong Kong Export Credit Insurance Corporation**

24. The Secretary for Commerce and Economic Development and the Commissioner, ECIC generally agree with the audit recommendations.



## PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

### ***Background***

1.2 The Hong Kong Export Credit Insurance Corporation (ECIC) is a statutory organisation 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. ECIC's insurance business covers non-payment risks arising from:

- (a) ***Buyer risks.*** Buyer risks include:
  - (i) bankruptcy or insolvency;
  - (ii) payment default; and
  - (iii) failure or refusal to take delivery of goods; and
- (b) ***Country risks.*** Country risks include:
  - (i) blockage or delay in foreign exchange remittance;
  - (ii) import ban or cancellation of import licence;
  - (iii) payment moratorium; and
  - (iv) war, revolution, riot or natural disaster.

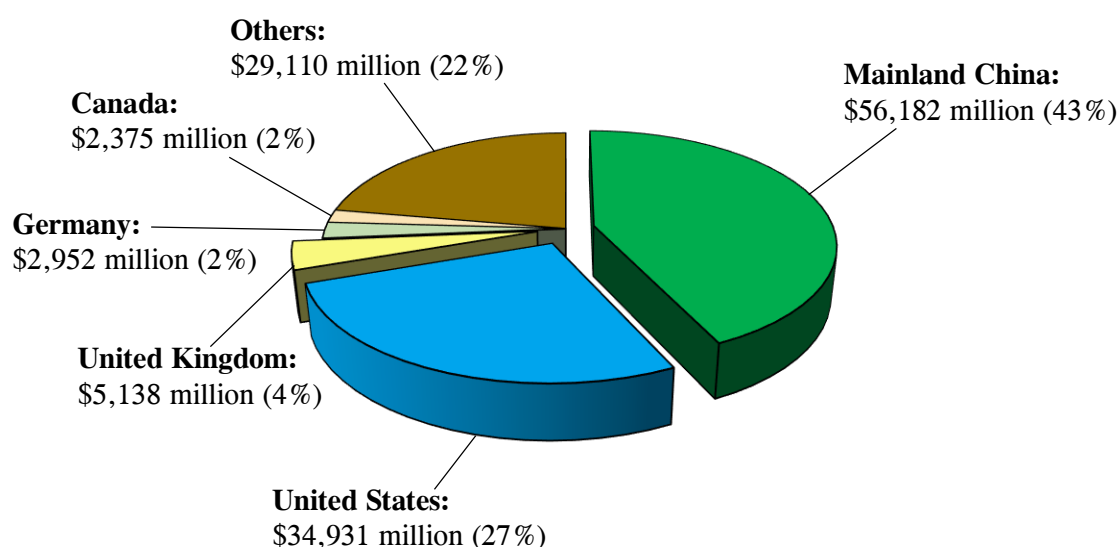
## Introduction

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1.3 In 2020-21, the amount of ECIC's insured business (Note 1) was \$130,688 million. The major markets of insured business were Mainland China (43%) and the United States (27%) (see Figure 1). The major products of insured business were electronics (37%), and textiles and clothing (14%) (see Figure 2).

**Figure 1**

**Insured business analysed by markets  
(2020-21)**



*Source: Audit analysis of ECIC records*

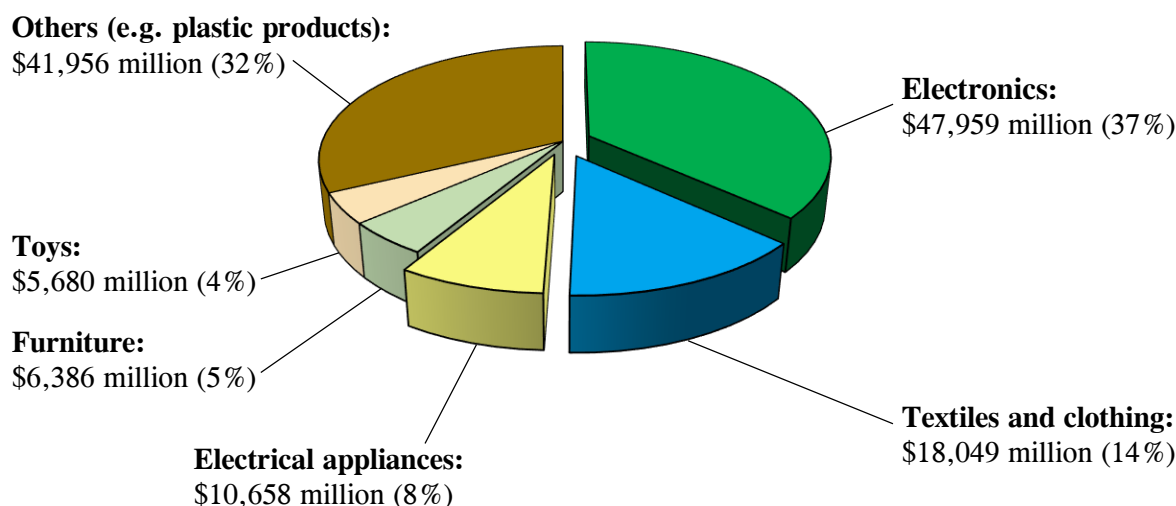
*Remarks: Total amount of ECIC's insured business was \$130,688 million.*

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**Note 1:** *According to ECIC, policyholders must declare shipment of goods/services provided on credit terms to buyers/clients outside Hong Kong and pay premium for the shipments declared. The term "insured business" refers to the amount of goods/services where shipment declaration has been made and premium has been invoiced.*

Figure 2

**Insured business analysed by products  
(2020-21)**



*Source: Audit analysis of ECIC records*

*Remarks: Total amount of ECIC's insured business was \$130,688 million.*

1.4 ECIC Ordinance provides that the Government shall guarantee the payment of all moneys due by ECIC. The Ordinance stipulates that the contingent liability of ECIC under contracts of insurance shall not at any time exceed a specified amount determined by the Legislative Council by resolution. As at 31 December 2021, the amount of ECIC's maximum contingent liability as approved by the Legislative Council was \$55 billion. The Government made two capital injections of \$10 million each to ECIC in 1966 and 1974 respectively. In 2012, ECIC refunded the \$20 million capital injections in full to the Government.

1.5 ECIC does not receive recurrent subvention from the Government. It is required under ECIC Ordinance to pursue a policy directed towards securing revenue sufficient to meet all expenditure properly chargeable to its revenue account. In 2020-21, ECIC made a profit of \$212.63 million. The income of ECIC comprised underwriting income of \$23.75 million and investment income of \$188.88 million. As at 31 March 2021, ECIC's capital and reserves amounted to \$2,614.88 million (see Table 1).

**Table 1**

**Financial information of ECIC  
(2016-17 to 2020-21)**

	<b>2016-17 (\$ million)</b>	<b>2017-18 (\$ million)</b>	<b>2018-19 (\$ million)</b>	<b>2019-20 (\$ million)</b>	<b>2020-21 (\$ million)</b>
Insured business	131,211	160,253	150,914	120,244	130,688
Underwriting income/(loss)	66.91	17.04	(64.29) (Note)	(110.70) (Note)	23.75
Investment income	52.06	107.33	50.17	6.12	188.88
Operating expenses	107.94	110.30	109.65	112.31	104.90
Profit/(loss)	118.97	124.37	(14.12)	(104.58)	212.63
Capital and reserves at year end	2,263.61	2,414.76	2,382.14	2,265.69	2,614.88

*Source:* Audit analysis of ECIC records

*Note:* According to ECIC, the underwriting losses in 2018-19 and 2019-20 were mainly due to the significant claims paid and claims provisions made for payment difficulty cases relating to one buyer in 2018-19 and another buyer in 2019-20.

### ***Governance and organisation structure***

1.6 ***Advisory Board.*** An Advisory Board is established under ECIC Ordinance to advise ECIC in the conduct of its business. The Advisory Board holds meeting three times a year to discuss matters including the annual budget, corporate and strategic plans, performance evaluations, remuneration adjustments, etc. The Advisory Board is not the governing body of ECIC. It is stipulated in ECIC Ordinance 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. As at 31 December 2021, the Advisory Board had 11 members, comprising the Chairman, an ex-officio member (Note 2), a Principal Assistant Secretary of the Commerce and Economic Development Bureau

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**Note 2:** According to ECIC Ordinance, the Executive Director, Hong Kong Trade Development Council (or his representative) shall be the ex-officio member of the Advisory Board.

(CEDB), and 8 members from various sectors including finance, insurance, and trade and services. According to the Terms of Reference of the Advisory Board:

- (a) the Advisory Board should have an appropriate balance of skills, knowledge, experience, independence and diversity. It shall provide advice on the following aspects of ECIC:
  - (i) business conduct;
  - (ii) market development;
  - (iii) performance; and
  - (iv) market direction;
- (b) the Chairman shall ensure that the Advisory Board effectively discharges its roles and responsibilities, lead discussions and make decisions on behalf of the Advisory Board as required;
- (c) members shall participate in discussions, offer advice from their respective expert areas and share market insights;
- (d) ECIC shall supply members with complete, timely and accurate information for the meetings, and provide additional information and feedback as requested; and
- (e) the Secretary (Note 3) shall effectively coordinate and prepare necessary materials for the meetings, and provide ancillary support to the Advisory Board.

1.7 ***Sub-committees.*** The Advisory Board has established the Audit Committee and the Investment Committee (Note 4) to support the Board's work:

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**Note 3:** *An Assistant General Manager of ECIC acts as the Secretary of the Advisory Board.*

**Note 4:** *According to ECIC, the Audit Committee and the Investment Committee are sub-committees set up under the Advisory Board.*

## Introduction

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- (a) ***Audit Committee.*** The Audit Committee advises ECIC on internal controls and corporate governance issues, and considers ECIC's auditing matters. It reports to the Advisory Board. The Committee meets three times a year. As at 31 December 2021, 4 of the 11 Advisory Board members were members of the Audit Committee; and
- (b) ***Investment Committee.*** The Investment Committee advises ECIC in the conduct of its investment matters and reports to the Advisory Board. The Committee meets four times a year. As at 31 December 2021, 5 of the 11 Advisory Board members were members of the Investment Committee.

1.8 ***Communication between CEDB and ECIC.*** As stated in CEDB's Controlling Officer's Report, CEDB works with ECIC to assist Hong Kong exporters. ECIC maintains regular two-way communication with CEDB. Apart from providing regular reports on financial and corporate matters, ECIC also consults CEDB from time to time on new measures and services related to the discharge of its public mission, and seeks approval for the annual budget and corporate plan. In addition, a Principal Assistant Secretary of CEDB is one of the Advisory Board members (see para. 1.6).

1.9 ***Organisation structure.*** According to ECIC Ordinance, the Commissioner of ECIC is appointed by the Chief Executive (CE) of the Hong Kong Special Administrative Region (Note 5). As at 31 December 2021, ECIC had 106 staff (including the Commissioner). An extract of the organisation chart of ECIC is at Appendix A.

### ***Measures to support exporters amid the coronavirus disease (COVID-19) epidemic***

1.10 In light of the COVID-19 epidemic, in April and June 2020, ECIC implemented various measures to provide support to Hong Kong exporters in regaining market share and exploring export trade markets:

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**Note 5:** *CE's authority to appoint the Commissioner of ECIC has been delegated to the Secretary for Commerce and Economic Development.*

- (a) ***For all policyholders.*** Major measures included:
- (i) expediting claims settlement process involving amounts up to \$1 million;
  - (ii) granting across-the-board premium payment terms of 120 days;
  - (iii) uplifting the credit limits of policyholders through the “100% Credit Limit Top-up Scheme” (Note 6);
  - (iv) providing policyholders with ten additional free credit check facilities; and
  - (v) waiving the annual policy fee and additional premium for extended or new payment term; and
- (b) ***For holders of Small Business Policy (SBP — Note 7).*** Major measures included:
- (i) extending premium due date for one month;
  - (ii) increasing the premium discount from 30% to 50%; and
  - (iii) providing pre-shipment cover for approved buyers. Claims payment would be made according to the terms and conditions of the policy if the insured buyer cancels the contract or becomes insolvent before shipment.

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**Note 6:** *In June 2020, the Government launched the “100% Credit Limit Top-up Scheme” through ECIC. The validity period of the Scheme is from June 2020 to June 2022. Under the Scheme, ECIC would uplift the credit limits of policyholders by 100%, or up to the amount applied for by the policyholders, whichever is the smaller, subject to a cap of \$100 million. The Government assumed the default risks of the additional credit limits.*

**Note 7:** *SBP is for Hong Kong companies with annual turnover less than \$50 million.*

### **Audit review**

1.11 In October 2021, the Audit Commission (Audit) commenced a review of ECIC. This audit has focused on the following areas:

- (a) corporate governance and performance management (PART 2);
- (b) provision of export credit insurance services (PART 3); and
- (c) administrative issues (PART 4).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

### **General response from the Hong Kong Export Credit Insurance Corporation**

1.12 The Commissioner, ECIC generally agrees with the audit recommendations. He has said that:

- (a) ECIC appreciates the review conducted by Audit. ECIC is fully committed to encouraging and supporting the export trade, while upholding high principles in corporate governance. An Internal Audit Unit and an Audit Committee under the Advisory Board were set up in February 2010 and February 2011 respectively. ECIC adopted a three lines of defence model after the Risk Management Division was set up in April 2017;
- (b) throughout the years, ECIC has taken different initiatives to facilitate smart management and compliance with established policies and procedures. ECIC strongly believes in continual improvement and focuses especially on bringing in more transparency and accountability to the organisation; and
- (c) after full consultation with CEDB and the Advisory Board, ECIC will develop new measures in response to those audit recommendations which cannot be implemented immediately. For improvements which can be made immediately, ECIC has already implemented the necessary measures.



ECIC will keep CEDB and the Advisory Board informed of the progress of implementation.

### **General response from the Government**

1.13 The Secretary for Commerce and Economic Development generally agrees with the audit recommendations. He has said that the value for money audit on the operation of ECIC helps further enhance its effective and efficient operations.

### **Acknowledgement**

1.14 During the audit review, in light of the outbreak of the fifth wave of the COVID-19 epidemic, the Government and ECIC had implemented various special work arrangements and targeted measures for their employees, including working from home. Audit would like to acknowledge with gratitude the full cooperation of the staff of CEDB and ECIC during the course of the audit review amid the COVID-19 epidemic.

## **PART 2: CORPORATE GOVERNANCE AND PERFORMANCE MANAGEMENT**

2.1 This PART examines corporate governance and performance management issues, focusing on the following areas:

- (a) corporate governance (paras. 2.2 to 2.35); and
- (b) performance management (paras. 2.36 to 2.42).

### **Corporate governance**

#### ***Governing structure of ECIC***

2.2 An Advisory Board was established under ECIC Ordinance to advise ECIC in the conduct of its business. According to the Ordinance, the Advisory Board shall consist of:

- (a) the Executive Director, Hong Kong Trade Development Council, or his representative; and
- (b) not more than 10 other members who shall be appointed by CE (Note 8) for a term not exceeding three years at a time.

2.3 The Advisory Board is not the governing board of ECIC. It is stipulated in ECIC Ordinance that ECIC shall not be bound by the advice of the Board. The Advisory Board holds meeting three times a year to discuss matters including the annual budget, corporate and strategic plans, performance evaluations, remuneration adjustments, etc. (see para. 1.6). The Advisory Board is supported by the Audit Committee and the Investment Committee (see para. 1.7).

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**Note 8:** *CE's authority to appoint members of the Advisory Board has been delegated to the Secretary for Commerce and Economic Development.*

***Room for improvement in appointing Advisory Board members***

2.4 Audit reviewed the appointments of Advisory Board members in the period from 2016-17 to 2021-22 (up to December 2021) and found that:

- (a) ***“Six-board Rule” not complied with.*** The Government has established a principle that a person should not be appointed to serve as a non-official member on more than six advisory and statutory bodies at any one time to ensure a reasonable distribution of workload (i.e. the “Six-board Rule”). Audit noted that in the reappointment of the Chairman of the Advisory Board in April 2017, despite the fact that the Chairman had already been appointed to eight advisory and statutory bodies at that time, CEDB reappointed him for a term of two years; and
- (b) ***Need to enhance youth participation.*** In her 2017 Policy Address, CE announced that the Government would appoint more young people to various Government boards and committees with the aim of increasing the overall ratio of young members (i.e. persons who are aged between 18 and 35) to 15% within the current-term Government. Audit noted that in the period from the announcement of the 2017 Policy Address in October 2017 to December 2021, there were 4 new non-official Board members appointed. However, none of them was aged between 18 and 35 at the time when they were appointed. As at 31 December 2021, none of the 9 non-official members was aged between 18 and 35.

2.5 Audit considers that CEDB needs to take measures to ensure that the “Six-board Rule” is complied with and appoint more young people to the Advisory Board as far as practicable.

***Delays in taking oaths by Advisory Board members***

2.6 According to ECIC Ordinance, members of the Advisory Board (excluding the Executive Director, Hong Kong Trade Development Council) shall upon appointment take an oath which requires members to undertake to keep information of ECIC confidential. Audit examined the 31 oaths taken by non-official members appointed (including 10 first appointments and 21 reappointments) in the period from 2015-16 to 2020-21 and found that:

## **Corporate governance and performance management**

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- (a) 2 (20%) of the 10 oaths for first appointments were taken by the members after the commencement of their terms. The oaths were taken 2 and 6 days (averaging 4 days) respectively after the commencement of their terms; and
- (b) 4 (19%) of the 21 oaths for reappointments were taken by the members after the commencement of their terms, ranging from 4 to 62 days (averaging 20 days) after the commencement of their terms. In 1 case, Board papers had been circulated to the member concerned before the oath was taken.

2.7 Audit considers that ECIC needs to take measures to ensure that Advisory Board members take oaths before the commencement of their terms and refrain from distributing Board papers to Board members until they have taken oaths.

### ***Registration of personal interest not submitted in a timely manner***

2.8 Since 23 August 2019, ECIC has adopted a two-tier reporting system to manage conflicts of interest of Advisory Board members. Under the system, members shall register in writing their personal interests, direct or indirect, pecuniary or otherwise, when they first join the Advisory Board, and annually thereafter, to the Secretary of the Advisory Board (see Note 3 to para. 1.6(e)). On request, the register should be accessed by the general public. When a known direct pecuniary interest exists, the Secretary may withhold circulation of Board papers to the member concerned.

2.9 Audit examined the three new appointments made in the period from 23 August 2019 to 31 March 2021. Audit noted that for two of the three new appointments, ECIC requested the members 5 days and 11 days respectively after the commencement of their terms to submit their registrations of personal interest to the Secretary of the Advisory Board. In the event, the two members submitted their registrations 7 days and 3 months respectively after the commencement of their terms. Board papers had been circulated to one of them before the member submitted the registration. According to ECIC's records, no potential conflict of interest was declared by that member.

2.10 Audit considers that ECIC needs to:

- (a) take measures to ensure that Advisory Board members submit their registrations of personal interest in a timely manner; and
- (b) refrain from distributing Board papers to newly appointed Advisory Board members until their registrations of personal interest have been submitted.

### ***Room for improvement in appointing members of sub-committees***

2.11 The Advisory Board is supported by two sub-committees, namely the Audit Committee and the Investment Committee (see Note 4 to para. 1.7). ECIC invites members of the Advisory Board to join the sub-committees as and when the need arises. Audit noted that there was room for improvement in the replacement of retiring members of the sub-committees:

- (a) ***Replacement of retiring Investment Committee members.*** Audit noted that Investment Committee members were not always replaced by new ones in a timely manner upon their retirement. For example, upon the retirement of an Investment Committee member in late December 2016, ECIC replaced the retired member three months later in early April 2017; and
- (b) ***Documentation on the selection of Audit Committee members.*** In October 2019, ECIC's Terms of Reference of the Audit Committee was revised by adding the following requirements:
  - (i) the composition of the Audit Committee should have an appropriate balance of skills, experience and independence to achieve sectoral competence, and where applicable, at least one member should have competence in finance, accounting and/or auditing; and
  - (ii) before sending invitations to members, ECIC should discuss with the Advisory Board Chairman and CEDB the overall knowledge and experience of the Audit Committee.

Audit examined the invitations sent to Board members in January 2021 inviting them to express interest in filling an Audit Committee member position. Audit noted that there was no documentary evidence showing that ECIC had, in accordance with the revised Terms of Reference of the Audit Committee, discussed with the Advisory Board Chairman and CEDB the

overall knowledge and experience of the Audit Committee before sending invitations to the members.

2.12 Audit considers that ECIC needs to:

- (a) take actions to replace retiring sub-committee members as expeditiously as practicable; and
- (b) in accordance with the Terms of Reference of the Audit Committee, discuss with the Advisory Board Chairman and CEDB the overall knowledge and experience of the Audit Committee before inviting Advisory Board members to join the Audit Committee.

### *Late submission of draft corporate plans to the Advisory Board*

2.13 Every year, ECIC prepares a draft corporate plan (DCP), which includes, among others, the following documents for the forthcoming year:

- (a) ECIC's budget; and
- (b) programmes and activities (including regular programmes and activities and new ones to be launched).

ECIC would discuss the DCP with CEDB and seek CEDB's clearance before submitting to the Advisory Board for discussion and endorsement.

2.14 In Audit's view, advice of the Advisory Board members should be sought before the commencement of the financial years (i.e. 1 April of each year) to ensure that their advice can be taken into account when implementing the programmes and activities. In addition, ECIC's Finance and Accounting Manual stipulated that:

- (a) the budget should be submitted to the Advisory Board for consideration before the commencement of each financial year; and
- (b) subject to the advice of the Advisory Board, the corporate plan and the budget would be adopted to take effect from the first day of the new

## Corporate governance and performance management

financial year as the basis for directing the activities of ECIC and monitoring the income and expenditure positions respectively.

2.15 Audit noted that in the period from 2017-18 to 2021-22, for four of the five years, DCPs were submitted to the Advisory Board for consideration 15 to 47 days (averaging 31 days) after the commencement of the ensuing financial years (see Table 2).

**Table 2**

**Submission of DCPs to the Advisory Board  
(2017-18 to 2021-22)**

<b>Financial year</b>	<b>Date of submission</b>	<b>No. of days after the commencement of financial year</b>
2017-18	22 March 2017	N.A. (Submitted before commencement of the financial year)
2018-19	16 April 2018	15
2019-20	10 May 2019	39
2020-21	24 April 2020	23
2021-22	18 May 2021	47

*Source: Audit analysis of ECIC records*

2.16 It is important for ECIC to submit DCPs to the Advisory Board in good time so that any views or advice of the Board can be taken into account in finalising the corporate plans before the commencement of the ensuing financial year. Audit

considers that ECIC needs to work closely with CEDB to submit DCPs to the Advisory Board for endorsement before the commencement of the ensuing financial years.

***DCPs not circulated to Advisory Board members in a timely manner***

2.17 Before Advisory Board meetings, DCPs are circulated to members as Board papers. According to ECIC's Rules and Procedures for Advisory Board Meetings, Board papers shall be delivered to members for circulation prior to the meeting, preferably at least seven calendar days before the meeting date. Audit noted that in the period from 2017-18 to 2021-22, four of the five DCPs were circulated to members less than seven calendar days before the meeting date. In particular, the DCP for 2017-18 was only circulated to members just one calendar day before the meeting (see Table 3).

**Table 3**

**Circulation of DCPs to Advisory Board members  
(2017-18 to 2021-22)**

<b>Financial year</b>	<b>Date of the Advisory Board meeting to consider DCP (a)</b>	<b>Date of circulating DCP (b)</b>	<b>No. of calendar days before the Advisory Board meeting (c) = (a) – (b)</b>
2017-18	22 March 2017	21 March 2017	1
2018-19	16 April 2018	12 April 2018	4
2019-20	10 May 2019	3 May 2019	7
2020-21	24 April 2020	21 April 2020	3
2021-22	18 May 2021	13 May 2021	5

*Source: Audit analysis of ECIC records*



2.18 Audit considers that ECIC needs to work closely with CEDB to ensure that DCPs are circulated to Advisory Board members prior to the Board meetings in a more timely manner, preferably at least seven calendar days before the meetings in accordance with ECIC's guidelines.

### ***Late submission of DCPs and holding of housekeeping meeting***

2.19 Every year, ECIC submits a DCP to CEDB for approval and conducts housekeeping meetings with CEDB. Audit has found room for improvement in the following areas:

- (a) ***Late submission of DCPs to CEDB for approval.*** Audit examined the submission and approval of DCPs in the five-year period from 2017-18 to 2021-22 and found that in the four-year period from 2018-19 to 2021-22, DCPs were submitted to CEDB for approval after the commencement of the financial years, ranging from 22 to 153 days (averaging 67 days) after the commencement of the financial years. In the event, DCPs were approved by CEDB 33 to 177 days (averaging 93 days) after the commencement of the financial years (see Table 4); and

Table 4

**Submission of DCPs to CEDB for approval  
(2017-18 to 2021-22)**

Financial year	Date of submission	No. of days after the commencement of financial year	Date of approval	No. of days after the commencement of financial year
2017-18	27 March 2017	N.A. (Submitted before commencement of the financial year)	30 March 2017	N.A. (Approved before commencement of the financial year)
2018-19	23 April 2018	22	4 May 2018	33
2019-20	14 May 2019	43	31 May 2019	60
2020-21	1 September 2020 (Note)	153	25 September 2020	177
2021-22	21 May 2021	50	13 July 2021	103

Source: Audit analysis of CEDB and ECIC records

Note: The DCP was submitted to the Advisory Board for discussion on 24 April 2020 (see Table 2 in para. 2.15). According to ECIC, in view of the volatility in the external environment and after discussion with CEDB, a revised DCP was submitted to the Advisory Board for further discussion at the meeting on 28 August 2020 to seek members' advice to prepare ECIC to address the challenges ahead.

- (b) **Delay in conducting housekeeping meeting between CEDB and ECIC.** In the half-yearly housekeeping meeting, CEDB and ECIC discuss the half-yearly report submitted by ECIC on ECIC's performance and operations. Audit noted that after the housekeeping meeting between CEDB and ECIC conducted in December 2019, ECIC had not submitted half-yearly reports to CEDB and no housekeeping meetings had been conducted. In June 2021 (i.e. 1.5 years after the previous meeting), ECIC submitted a report (covering the period from April 2020 to March 2021) to CEDB and conducted a housekeeping meeting with CEDB to discuss the report.

2.20 Audit considers that CEDB needs to, in collaboration with ECIC:

- (a) take measures to ensure that DCPs and half-yearly reports on ECIC's performance and operations are submitted for approval and discussion in a timely manner; and
- (b) conduct half-yearly housekeeping meetings with ECIC in a timely manner.

### *Need to review scope of services periodically*

2.21 The business of ECIC is governed by section 9 of ECIC Ordinance. It is stipulated by section 9(3) of the Ordinance that ECIC shall not enter into contracts of insurance against risks that are normally insured with commercial insurers.

2.22 Regarding the issue on whether the services provided by ECIC were available commercially, the then Office of the Commissioner of Insurance (OCI — Note 9) advised CEDB in 2007 and 2010 that:

- (a) non-payment risk arising from the buyer's refusal to take delivery of goods (i.e. repudiation risk) was not normally included in the standard cover provided by commercial insurers, but might be provided on a case-by-case basis;
- (b) credit insurance was a highly volatile business. The appetite and capacity for risk taking of commercial insurers, as well as the demand of exporters were very much influenced by market sentiment and economic outlook. The availability of a particular insurance product in the market would therefore vary from time to time; and
- (c) other government or quasi-government agencies akin to ECIC were set up with the purposes of supporting export trade and filling the gap of supply

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**Note 9:** *The then OCI was a government department responsible for regulating insurance companies. On 26 June 2017, the regulatory functions of OCI were taken over by the Insurance Authority (a statutory organisation established under the Insurance Companies (Amendment) Ordinance 2015) and OCI was disbanded on the same day.*

in the commercial markets. Examples included the export credit agencies (ECAs) in Australia and Italy.

2.23 In 2011, making reference to the advice of the then OCI given in 2007 and 2010 (see para. 2.22), CEDB sought the legal opinion of the Department of Justice on the issue. CEDB advised the Department of Justice that:

- (a) other government or quasi-government agencies akin to ECIC were set up with the purpose of supporting export trade and filling the gap of supply in the commercial market. ECIC did not aim to compete with the private market, but to fill the market gap;
- (b) the concept of a market gap was dynamic, ECIC had in the past collected and reviewed market information and information of commercial insurers, including their products on a monthly basis, and would continue to do so; and
- (c) ECIC would, as far as possible, only provide services which were not commonly available in the market.

The legal advice of the Department of Justice confirmed that the services provided by ECIC were consistent with the true intent, meaning and spirit of section 9(3) of ECIC Ordinance.

2.24 In December 2021, Audit sought ECIC's views on whether ECIC had entered into contracts of insurance against risks that were normally insured with commercial insurers and the latest position of the issue since the early 2010s. In response, ECIC informed Audit that:

- (a) while there were five commercial insurers providing export credit insurance in Hong Kong, the capacity of the private sector was insufficient to support Hong Kong exporters, especially small and medium enterprises (SMEs) because commercial insurers had little appetite for SME insurance business. The Government's support, through ECIC, was particularly crucial during economic turmoil. For example, under the COVID-19 epidemic, ECIC launched the "100% Credit Limit Top-up Scheme" (see para. 1.10(a)(iii)) to strengthen support to local exporters. In addition, in response to the

challenges brought by the China-United States trade conflict and the COVID-19 epidemic, ECIC implemented a series of enhanced measures to support Hong Kong exporters. The situation was unprecedentedly severe for Hong Kong exporters amid the COVID-19 epidemic as commercial insurers scaled back or cancelled coverage across-the-board; and

- (b) from time to time, ECIC reported to the Advisory Board regarding the export credit insurance market in Hong Kong.

2.25 Audit noted that in October 2013, ECIC submitted a paper to the Advisory Board regarding the export credit insurance market in Hong Kong (see para. 2.24(b)). The paper included:

- (a) information on private insurance companies and ECAs outside Hong Kong providing export credit insurance to exporters in Hong Kong; and
- (b) a comparison of ECIC's insurance products with those provided by other insurers.

However, since 2013, ECIC had not conducted similar comparison of ECIC's insurance products with those provided by other insurers and reported the results to the Advisory Board.

2.26 Audit considers that ECIC needs to take measures to ensure that ECIC complies with section 9(3) of ECIC Ordinance, for example, by regularly comparing ECIC's insurance products with those provided by commercial insurers and seeking the views of the Advisory Board and CEDB, with a view to providing insurance services to fill the market gap, and seeking legal advice where necessary.

### *Need to disclose the remuneration of senior executives*

2.27 According to the Guide to Corporate Governance for Subvented Organisations issued by the then Efficiency Unit (Note 10) in June 2015, a good annual report would disclose:

- (a) remuneration policies for senior executives; and
- (b) total remuneration of senior executives, including the number of senior executives for each level whose remuneration exceeded a defined sum, expressed in bands.

2.28 Audit noted that while some other statutory bodies in Hong Kong had disclosed in their annual reports the remuneration policies for their senior executives and their total remuneration in bands, ECIC has not made similar disclosures in its annual reports. Although ECIC is not a subvented organisation, to enhance transparency, Audit considers that ECIC needs to consider whether there are merits to follow the good practice set out in the Guide to Corporate Governance for Subvented Organisations to disclose the remuneration policies for its senior executives and their total remuneration in bands in the annual reports.

### *Need to conduct regular reviews on the governance structure of ECIC*

2.29 In Chapter 6 of the Director of Audit's Report No. 56 of March 2011 entitled "Hong Kong Export Credit Insurance Corporation", Audit recommended that CEDB should, in collaboration with the Commissioner of ECIC, regularly review the governance of ECIC. CEDB agreed with the recommendation and conducted a review in 2011. CEDB informed the Panel on Commerce and Industry of the Legislative Council in December 2011 that:

- (a) despite four of the six overseas ECAs covered by the review were governed by their board of directors, CEDB considered that the existing governance structure (i.e. Advisory Board) provided adequate support to ECIC's business and required no major change, as ECIC offered a considerably

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**Note 10:** *The Efficiency Unit has been transferred from the Chief Secretary for Administration's Office to the Innovation and Technology Bureau and renamed as the Efficiency Office with effect from 1 April 2018.*

narrower range of services and was exposed to a much lower level of risks comparing to these overseas ECAs; and

- (b) CEDB would review the governance structure of ECIC from time to time taking into account the experience of other ECAs as well as any change to the scope of products and services provided by ECIC.

2.30 In Audit's view, there is a need for CEDB to conduct another review on ECIC's governance structure because:

- (a) ***No review had been conducted for more than 10 years.*** While CEDB had undertaken to review the governance structure of ECIC from time to time (see para. 2.29(b)), neither CEDB nor ECIC had conducted further reviews on ECIC's governance structure after the 2011 review;
- (b) ***Rapid business expansion.*** In the past 10 years, the amount of insured business of ECIC had increased significantly by 60% from \$82 billion in 2010-11 to \$131 billion in 2020-21, and the amount of ECIC's maximum contingent liability had increased by 83% from \$30 billion as at 31 March 2011 to \$55 billion as at 31 March 2021;
- (c) ***Governance structure of ECAs outside Hong Kong.*** A number of ECAs outside Hong Kong have adopted a board of directors as the governing body. ECIC's existing governance structure is not commonly adopted by ECAs outside Hong Kong (see Table 5); and

Table 5

**ECAs outside Hong Kong having board of directors as the governing body  
(31 December 2021)**

<b>ECA outside Hong Kong</b>	<b>Status</b>
Australia	Public corporation
Canada	Public corporation
Japan	Public corporation
Korea	Public corporation
Mainland China	State-funded and policy-oriented company

*Source: Audit's research*

- (d) ***Communication between CEDB and ECIC not always timely.*** From time to time, CEDB provides inputs to ECIC pertinent to its corporate governance through the approval of ECIC's corporate plan and holding half-yearly housekeeping meetings with ECIC. However, Audit noted that on some occasions, there were delays in CEDB's approval of ECIC's corporate plans and conducting housekeeping meetings with ECIC (see para. 2.19).

2.31 Audit considers that CEDB needs to conduct a review on the governance structure of ECIC with a view to further improving the existing governance structure.

### **Audit recommendations**

2.32 Audit has *recommended* that the Secretary for Commerce and Economic Development should:

- (a) take measures to ensure that the "Six-board Rule" is complied with;



- (b) **appoint more young people to the Advisory Board as far as practicable;**
  - (c) **in collaboration with ECIC:**
    - (i) **take measures to ensure that DCPs and half-yearly reports on ECIC's performance and operations are submitted for approval and discussion in a timely manner; and**
    - (ii) **conduct half-yearly housekeeping meetings with ECIC in a timely manner; and**
  - (d) **conduct a review on the governance structure of ECIC with a view to further improving the existing governance structure.**
- 2.33 **Audit has also *recommended* that the Commissioner, ECIC should:**
- (a) **take measures to ensure that Advisory Board members take oaths before the commencement of their terms and refrain from distributing Board papers to Board members until they have taken oaths;**
  - (b) **take measures to ensure that Advisory Board members submit their registrations of personal interest in a timely manner;**
  - (c) **refrain from distributing Board papers to newly appointed Advisory Board members until their registrations of personal interest have been submitted;**
  - (d) **take actions to replace retiring sub-committee members as expeditiously as practicable;**
  - (e) **in accordance with the Terms of Reference of the Audit Committee, discuss with the Advisory Board Chairman and CEDB the overall knowledge and experience of the Audit Committee before inviting Advisory Board members to join the Audit Committee;**
  - (f) **work closely with CEDB to submit DCPs to the Advisory Board for endorsement before the commencement of the ensuing financial years;**

- (g) **work closely with CEDB to ensure that DCPs are circulated to Advisory Board members prior to the Board meetings in a more timely manner, preferably at least seven calendar days before the meetings in accordance with ECIC’s guidelines;**
- (h) **take measures to ensure that ECIC complies with section 9(3) of ECIC Ordinance, for example, by regularly comparing ECIC’s insurance products with those provided by commercial insurers and seeking the views of the Advisory Board and CEDB, with a view to providing insurance services to fill the market gap, and seeking legal advice where necessary; and**
- (i) **consider whether there are merits to follow the good practice set out in the Guide to Corporate Governance for Subvented Organisations issued by the Efficiency Office to disclose the remuneration policies for its senior executives and their total remuneration in bands in the annual reports.**

## **Response from the Government**

2.34 The Secretary for Commerce and Economic Development agrees with the audit recommendations. He has said that:

- (a) in appointing members to ECIC Advisory Board, CEDB takes into account the candidate’s ability, expertise, experience, integrity and commitment to public service, with due regard to the functions and nature of business of ECIC as well as its statutory requirements. As a general rule, the “Six-year Rule” and the “Six-board Rule” are strictly observed in the appointment exercises to ensure a proper turnover of board members and the availability of more opportunities for members of the public to participate in public affairs through serving on these bodies;
- (b) compliance with the “Six-board Rule” and the “Six-year Rule” is a standard requirement in CEDB’s recommendations for appointment. CEDB will continue to be vigilant and, unless there are overriding justifications, strictly observe the “Six-board Rule” in future appointment exercises;

- (c) ECIC Advisory Board is set up under ECIC Ordinance to advise ECIC in the conduct of its business. To this end, business leaders and senior executives with in-depth knowledge and extensive experience in relevant sectors are appointed to the Board to provide their insights and comprehensive advice to ECIC on market practices and market needs. CEDB has been mindful to identify suitable young professionals with relevant experience and knowledge for appointment to ECIC Advisory Board and will endeavour to continue with CEDB's efforts to identify suitable young candidates in future appointment exercises;
- (d) CEDB maintains close and regular liaison with ECIC in discussions of its strategy and plans to ensure its effective operation. With the unprecedented turbulence brought by the China-United States trade conflict and the COVID-19 epidemic, CEDB and ECIC had handled DCPs in a critical and prudent manner to ensure their viability. CEDB has taken note of Audit's recommendations and has worked with ECIC to review the workflow to shorten the lead time for seeking endorsement from the Advisory Board and approval from the Secretary for Commerce and Economic Development. For the 2022-23 DCP, ECIC consulted the Advisory Board and obtained its endorsement on 30 March 2022. The Secretary for Commerce and Economic Development's approval was granted in April 2022. The half-yearly report on ECIC's performance is included as a regular agenda item at CEDB's housekeeping meeting with ECIC;
- (e) CEDB conducts half-yearly housekeeping meetings with ECIC to review progress of work and to discuss issues of interest. While two scheduled meetings were cancelled in 2020 due to the epidemic situation and unforeseen circumstances, CEDB maintained close and regular liaison with ECIC during the period, and monitored the work and performance of ECIC through various channels with reports on key areas and meetings on new initiatives and projects, in place of the housekeeping meetings. ECIC regularly reported to CEDB on a host of management and operational issues including internal audit, human resource management, reinsurance arrangement and development plans for new services as appropriate. Special or ad hoc meetings were also conducted as and when required. CEDB will ensure that housekeeping meetings with ECIC are conducted every six months in a timely manner;

- (f) pursuant to the audit recommendations in 2011 (see para. 2.29), ECIC has put in place measures to strengthen its governance, including, among others, the drawing up of a rolling three-year strategic plan for annual updating, reviewing its performance indicators and establishing guidelines on issues to be submitted to the Advisory Board and sub-committees. From 2011-12 onwards, CEDB has also stepped up monitoring in requiring ECIC to submit its annual corporate plan/budget to the Secretary for Commerce and Economic Development for formal approval after seeking the support of the Advisory Board; and
- (g) in 2011, CEDB conducted a study on the governance structure of various overseas ECAs and submitted the outcome and conclusion to the Legislative Council's Panel on Commerce and Industry, to the effect that the existing governance structure suited ECIC's operations, taking into account the experience of other ECAs and any change to the scope of products and services provided by ECIC. CEDB has since then been working closely with ECIC and the Advisory Board to maintain effective and efficient operation of ECIC. While CEDB considers that the existing governance structure suits the operational effectiveness of ECIC, CEDB will conduct a review of ECIC's governance structure in due course with a view to affirming its continued effectiveness, and where appropriate, consider room for updates and improvements.

### **Response from the Hong Kong Export Credit Insurance Corporation**

2.35 The Commissioner, ECIC agrees with the audit recommendations in paragraph 2.33(a), (b), (c), (e), (f), (g) and (h), and generally agrees with the audit recommendations in paragraph 2.33(d) and (i). He has said that:

- (a) ECIC will send out the oaths taking document to Advisory Board members soon after it receives notification from CEDB the appointment and reappointment of Advisory Board members. ECIC will amend its Advisory Board Terms of Reference to specify the timelines for members to return their oaths taking records before the appointment and reappointment effective dates, and will not circulate Board papers until the records are received;

- (b) ECIC follows the relevant requirements of the Sample Code of Conduct for Members of Public Bodies published by the Independent Commission Against Corruption. ECIC will amend its Advisory Board Terms of Reference to specify the timelines for members to return their registration of personal interest in a timely manner, and refrain from distributing Board papers to newly appointed members until registrations are received;
- (c) ECIC has in place an established practice to initiate action to replace retired sub-committee members as expeditiously as practicable. In ECIC's experience, members would need some time to consider the invitation and request additional information as necessary from time to time. There could be some lapse of time between ECIC's invitation and the successful replacement. ECIC will monitor the progress of the replacement exercise and liaise with the new members as necessary;
- (d) ECIC will document the discussion with the Advisory Board Chairman and CEDB before inviting Advisory Board members to join the Audit Committee;
- (e) ECIC will coordinate more closely with CEDB with a view to expediting the clearance of DCPs and their circulation to the Advisory Board in a more timely manner in future. DCP for 2022-23 was circulated to the Advisory Board on 23 March 2022 for discussion at the Advisory Board meeting on 30 March 2022. It was subsequently endorsed by the Advisory Board on 30 March 2022 and approved by the Secretary for Commerce and Economic Development in April 2022;
- (f) in connection with section 9(3) of ECIC Ordinance:
  - (i) in July 2011, CEDB sought legal advice which reconfirmed that the services provided by ECIC were consistent with the true intent, meaning and spirit of section 9(3);
  - (ii) one of the objectives of ECIC is to address the needs of the segment of export credit insurance market where the capacity of the private commercial sector is limited or insufficient to support Hong Kong exporters, especially SMEs. Governments or quasi-government agencies in other economies have similar setup as ECIC with the

purposes of supporting export trade and filling the gap of supply in the commercial market;

- (iii) the appetite and capacity of commercial insurers for risk-taking are very much influenced by market sentiment and economic outlook. The availability of a particular insurance product in the market would vary from time to time and subject to business considerations. While ECIC may offer similar products with private insurers, the details and terms could differ. Unlike private insurers, ECIC has no minimum requirement on premium and offers a wider insurance cover, including insurance against repudiation risk, pre-shipment cover, medium and long-term cover to Hong Kong exporters, which normally may not be offered by private insurers, or is offered in the market at a premium. ECIC has also launched various SME-focused initiatives which are not available in the private market;
- (iv) the Government's support, through ECIC, is particularly crucial to Hong Kong exporters during economic turmoil when commercial insurers reduce their coverage, for instance, during the financial crisis in 2008-09 and more recently, the China-United States trade conflict and the COVID-19 pandemic; and
- (v) the concept of a market gap is dynamic. ECIC has all along collected and reviewed market information and maintained regular liaison with the business sector to assess the market needs and gaps. In view of the audit recommendations, ECIC will regularly collect market information and products available in the credit insurance market in Hong Kong and report the findings to the Advisory Board and CEDB, and in consultation with CEDB, seek legal advice where necessary; and
- (g) ECIC has already in place a disclosure note on the key management personnel remuneration in the audited financial statements which are published as part of the Annual Report. Aggregate remuneration of Deputy General Manager (Band 3) and above are disclosed, covering their salaries, mandatory provident fund contribution, incentive payment and leave pay as applicable. ECIC will review and consider how to more closely align the current disclosure with the general practice adopted by other public

organisations that have made such disclosure in their annual reports or audited financial statements.

### **Performance management**

2.36 ECIC has set two key performance indicators (KPIs), namely:

- (a) growth of insured business; and
- (b) operating expenses as a percentage of insured business.

ECIC reports the achievement of the target on KPIs to CEDB and the Advisory Board annually. The achievement of the targets is taken into account when assessing the Commissioner's annual performance and determining the incentive pay of ECIC's staff.

### ***Need to expedite revisions of KPIs***

2.37 In August 2018, ECIC commissioned a consultancy review of its KPIs. The review was completed in February 2020 and the review report was submitted to the Advisory Board for discussion in April 2020. The review report stated that:

- (a) the two KPIs took into account the financial performance of ECIC, which might not be comprehensive enough for ECIC as it was also ECIC's mandate to encourage and support export trade in Hong Kong;
- (b) export trade was heavily influenced by the external market environment. Therefore, the growth in insured business might not directly reflect the performance and effort of ECIC's staff;
- (c) the two KPIs were closely related to each other as both involved the amount of insured business, which did not fully represent ECIC's whole range of work. Any change in the amount of insured business would impact the KPIs and might not be an objective and balanced depiction of the performance of ECIC; and

## Corporate governance and performance management

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- (d) while retaining the KPI “growth of insured business”, ECIC was recommended to adopt five new KPIs:
  - (i) operating expenses as a percentage of business revenue;
  - (ii) growth in number of valid SME policies;
  - (iii) quality management compliance;
  - (iv) whether or not there were major risk events; and
  - (v) achievement of capital requirement.

2.38 In the Advisory Board meeting in April 2020, ECIC undertook, in consultation with CEDB, to formulate an implementation proposal regarding the review report’s observations and recommendations. However, the proposal was not submitted to the Advisory Board for endorsement until the meeting in November 2021 (i.e. 1.5 years after ECIC undertook to formulate the proposal). The proposal was endorsed by the Advisory Board at the meeting. According to ECIC, after obtaining the Advisory Board’s endorsement, ECIC submitted in the same month a letter seeking CEDB’s approval for implementing the recommendations. Audit considers that ECIC needs to, in collaboration with CEDB, expedite the implementation of the consultant’s recommendations made in 2020 on KPI revisions.

### ***Need to improve the transparency and accountability of reporting performance***

2.39 Every year, ECIC sets a target for each of its two KPIs, namely “growth of insured business” and “operating expenses as a percentage of insured business” (see para. 2.36). The achievement of the targets was reported to the Advisory Board and CEDB. In addition to the two KPIs, ECIC has set 29 performance indicators (see Appendix B) to supplement KPIs in the evaluation of ECIC’s performance. Audit noted that:

- (a) ***Need to enhance disclosures in the annual report.*** ECIC disclosed the actual result of KPI “growth of insured business” in its annual report, but the actual result of KPI “operating expenses as a percentage of insured



business” was not disclosed. Moreover, relevant targets and the achievement of the targets of the two KPIs were not disclosed; and

- (b) ***Performance measurement under some performance indicators not reported to CEDB and the Advisory Board.*** Of the 29 performance indicators, performance measurement under 7 (24%) had neither been reported to CEDB nor reported to the Advisory Board, 3 (10%) had not been reported to CEDB and another 3 (10%) had not been reported to the Advisory Board (see Appendix B).

2.40 Audit considers that to enhance transparency and accountability, ECIC needs to consider disclosing the targets on its two KPIs and achievement of the targets in its annual report, so as to facilitate stakeholders to understand ECIC’s performance. Audit also considers that ECIC needs to consider the merits of using more performance indicators to report ECIC’s performance to CEDB and the Advisory Board with a view to enhancing transparency on ECIC’s operations.

### **Audit recommendations**

2.41 **Audit has recommended that the Commissioner, ECIC should:**

- (a) **in collaboration with CEDB, expedite the implementation of the consultant’s recommendations made in 2020 on KPI revisions;**
- (b) **consider disclosing the targets on its two KPIs and achievement of the targets in the annual report to enhance transparency and accountability, so as to facilitate stakeholders to understand ECIC’s performance; and**
- (c) **consider the merits of using more performance indicators to report ECIC’s performance to CEDB and the Advisory Board with a view to enhancing transparency on ECIC’s operations.**

## **Response from the Hong Kong Export Credit Insurance Corporation**

2.42 The Commissioner, ECIC agrees with the audit recommendations. He has said that:

- (a) the Secretary for Commerce and Economic Development's approval was granted in April 2022 for the implementation of the consultant's recommendations on KPI revisions;
- (b) ECIC will take action to implement the audit recommendation on disclosing the targets on its two KPIs and achievement of the targets starting from the 2021-22 Annual Report; and
- (c) ECIC will review and devise an implementation plan for the audit recommendation on using more performance indicators to report ECIC's performance to CEDB and the Advisory Board.

## **PART 3: PROVISION OF EXPORT CREDIT INSURANCE SERVICES**

3.1 This PART examines ECIC's provision of export credit insurance services, focusing on the following areas:

- (a) proposal processing (paras. 3.4 to 3.12);
- (b) credit limit management (paras. 3.13 to 3.22);
- (c) declaration of shipments (paras. 3.23 to 3.33); and
- (d) claims and recoveries (paras. 3.34 to 3.47).

### ***Background***

3.2 ECIC provides export credit insurance of both goods and services to Hong Kong exporters who trade with buyers outside Hong Kong on credit terms. The Hong Kong exporter must be legitimately carrying on a business in Hong Kong (i.e. it has been registered with the Inland Revenue Department under the Business Registration Ordinance — Cap. 310) or controlled by a local company and the insurance contract is entered into for the benefit of the local company. The facilities cover not only exports shipped and re-exported from Hong Kong, but also those transported directly from suppliers' countries to their destinations without passing through Hong Kong. The indemnity provided is normally 90% of the loss incurred. Other than the Specific Medium and Long Term Shipments Policy, which covers export business on credit terms for more than one year, ECIC provides a wide range of insurance facilities on credit periods of up to 180 days (see Table 6).

## Provision of export credit insurance services

**Table 6**

**Policies provided by ECIC on credit periods of up to 180 days  
(31 December 2021)**

<b>Policy</b>	<b>Target policyholder</b>
<b><i>Cover on export of goods</i></b>	
Comprehensive Cover Policy	- Hong Kong exporters and manufacturers
SBP	- exporting companies with an annual turnover of less than \$50 million
Self-Underwritten Policy	- exporting companies with an annual turnover of less than \$50 million
Online Micro-Business Policy	- Hong Kong exporters with an annual turnover of less than \$20 million
Contract Cover Policy	- Hong Kong exporters and manufacturers
Bank Policies	- Hong Kong financial institutions
<b><i>Cover on export of services</i></b>	
Comprehensive Services Policy	- Hong Kong companies providing services to overseas clients
Freight Forwarding Services Policy	- Hong Kong freight forwarding companies
Hotel Services Policy	- Hong Kong hotel operators
Testing and Inspection Services Policy	- Hong Kong testing and inspection companies
Construction Professional Services Policy	- Hong Kong construction professional service providers
Travel Agent Services Policy	- Hong Kong travel agents
Aircraft Services Policy	- Hong Kong aircraft engine overhauling providers
Advertising Services Policy	- Hong Kong advertising companies
Specific Management Services Policy	- Hong Kong management companies

*Source: Audit analysis of ECIC records*

3.3 In the period from 2016-17 to 2020-21, the number of policies issued by ECIC ranged from 2,547 to 3,083 (see Table 7).

**Table 7****Number of policies issued  
(2016-17 to 2020-21)**

<b>Policy</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
Comprehensive Cover Policy	1,816	1,309	1,187	1,118	1,128
SBP	1,185	1,223	1,258	1,248	1,333
Others	82	67	102	236	303
Total	3,083	2,599	2,547	2,602	2,764

*Source: Audit analysis of ECIC records*

## **Proposal processing**

3.4 To apply for an insurance cover, the exporter is required to submit a proposal to ECIC. Three Business Divisions of ECIC (see Appendix A), each headed by an Assistant General Manager, are responsible for processing proposals submitted by exporters. Based on the information included in the proposal (such as nature of business, and turnover for the previous and next twelve months), ECIC determines whether to accept or reject the proposal, and the terms and conditions of the insurance cover. For accepted proposals, ECIC issues quotations to the applicants. In the quotation, the following details of the policy terms will be included:

- (a) **Maximum liability.** Maximum liability under a policy is the maximum amount of indemnity payable to the policyholders in the event of default of payments from the buyers (Note 11);
- (b) **Policy deposit.** The purpose of a policy deposit is to protect ECIC against default by the policyholder in the payment of premium. The deposit is refundable upon termination of the policy;

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**Note 11:** *The aggregate maximum liability under all current policies of ECIC is subject to a ceiling determined from time to time by Resolution of the Legislative Council (see para. 1.4).*

## Provision of export credit insurance services

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- (c) **Policy fee.** Policy fee is a non-refundable fee payable to cover part of the costs of acquiring the necessary status information on the policyholder's buyers; and
- (d) **Premium rate.** ECIC receives premium for the risks it assumes. The premium rate varies according to the duration of the credit period and the grading of the overseas markets.

After the applicant had accepted the quotation, and paid the policy deposit and the policy fee, ECIC will issue the policy to the applicant.

### ***Need to shorten elapsed time from receiving proposals to completion of processing them***

3.5 ECIC has 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. The pledge was met in the period from 2016-17 to 2020-21. However, Audit noted that the time taken was much longer than two working days for ECIC to collect the information necessary for processing the proposals received. According to ECIC's guidelines, if a proposal has remained outstanding for more than three months, ECIC will cease further action. The responsible officer may consult his/her Division Head for other alternative course of action where necessary.

3.6 In the period from April 2020 to September 2021, ECIC completed the processing of 973 proposals. Of the 973 proposals, 753 (77%) were accepted by ECIC and quotations were issued. Audit analysed the elapsed time (in terms of calendar days) from the dates the proposals were received to the dates of issuing quotations. Audit noted that the average elapsed time from receiving the proposals to issuing quotations to the applicants was 20 days, ranging from 1 to 103 days (see Table 8).

**Table 8**

**Elapsed time from receiving proposals to issuing quotations  
(April 2020 to September 2021)**

Elapsed time (Day)	Number of proposals
1 to 14	330 (43 %)
15 to 30	310 (41 %)
31 to 60	99 (13 %)
61 to 90	13 } 14 (2 %)
Over 90 (i.e. 103)	1 } (1 %)
Total	753 (100 %)

*Source: Audit analysis of ECIC records*

3.7 Audit examined 5 (36 %) of the 14 proposals with time elapsed longer than 60 days and found that there was room for improvement in the processing of proposals received. In these 5 cases, actions could have been taken in a more timely manner to avoid unnecessary delays. The following are examples:

- (a) in one case, the responsible officer did not contact the applicant concerned to chase up the missing documents until 37 days after the request was sent to the applicant; and
- (b) in another case, there was no documentary evidence showing the dates the responsible officer contacted the applicant to ask for the outstanding information and the dates of chasing up the outstanding information. The case record showed that the applicant submitted the missing information 82 days after submitting the proposal.

Audit considers that ECIC needs to take actions in a more timely manner in collecting from the applicants the required information and documents needed for processing the proposals received.

### *Need to improve handling of outstanding quotations pending acceptance*

3.8 According to ECIC:

- (a) a quotation is valid for 14 days (calendar days) after issue;
- (b) a responsible officer may extend the validity period of the quotation after expiry of the 14-day validity period, and in every 14 days thereafter until the 84th day (i.e. the responsible officer may grant extension up to five times for a total of 70 days);
- (c) if a quotation was not accepted by the applicant within three months and there is no response from the applicant, ECIC will cease further action; and
- (d) if an extension of the validity period of the quotation beyond three months is required, the responsible officer needs to seek the Division Head's endorsement.

3.9 Audit examined the 753 quotations ECIC issued to applicants in the period from April 2020 to September 2021 (see para. 3.6) and noted that:

- (a) 447 (59%) quotations were accepted. The average elapsed time between issue and acceptance of quotations was 21 days, ranging from 0 day (i.e. accepted on the same day after issue) to 112 days (see Table 9). Of the 447 quotations, 91 (20%) were accepted by the applicants more than 28 days after issue and involved two or more extensions of validity period. In particular, 3 (1%) quotations were accepted by the applicants (with the Division Head's endorsement) more than 90 days (i.e. more than three months) after the quotations were issued; and



**Table 9**

**Elapsed time between issue of quotations and acceptance  
(April 2020 to September 2021)**

Elapsed time (Day)	Number of quotations
0 to 14 (Note 1)	193 (43%)
15 to 28	163 (37%)
29 to 60	78 (17%)
61 to 90	10 (2%)
Over 90 (Note 2)	3 (1%)
Total	447 (100%)

*Source: Audit analysis of ECIC records*

*Note 1: Elapsed time of 0 day referred to acceptance on the same day after issue.*

*Note 2: The longest elapsed time was 112 days.*

- (b) 306 (41%) quotations were not accepted by the applicants.

3.10 Audit examined the five cases with the longest time elapsed between issue of quotations and acceptance by the applicants and found that in these five cases there was room for improvement for ECIC in handling outstanding quotations pending acceptance by applicants (see Case 1 for an example).

### Case 1

#### **Room for improvement in handling outstanding quotations pending acceptance (February to May 2021)**

1. In February 2021, ECIC issued a quotation to an applicant. Since then, the responsible officer extended the validity period of the quotation four times every 14 days (i.e. the validity period was extended from 14 days to 70 days). For every extension, the responsible officer recorded “need more time to consider” in the case record. There was no documentary evidence showing the justifications for extending the validity period to allow more time for the applicant to consider the quotation. Neither was there documentary evidence showing that the officer had reviewed whether the quotation needed to be revised before extension.

2. In April 2021 (63 days after the quotation was issued), the responsible officer informed the applicant by email that the quotation had lapsed. Later in the same month (70 days after the quotation was issued), the responsible officer extended the validity period of the quotation for the fifth time (i.e. validity period extended to 84 days) without documenting justifications for allowing more time for the applicant to consider the quotation and whether the quotation needed to be revised.

3. In May 2021, the applicant accepted the quotation (104 days after the quotation was issued) after the quotation had lapsed on the 84th day. After the acceptance of the quotation by the applicant, the responsible officer sought endorsement from the Division Head to extend the validity period of the quotation on the same day. The Division Head endorsed the extension on the same day.

#### ***Audit comments***

4. In Audit’s view, there was room for improvement in handling of the outstanding quotation, as evidenced by the following:

- (a) for all of the extensions, reasons had not been provided to justify allowing more time for the applicant to consider the quotation. Moreover, there was no documentary evidence showing that the officer had considered whether or not the circumstances had changed and whether or not the quotation was suitable for extension without revision;
- (b) the applicant was informed in April 2021 that the quotation had lapsed but in fact the quotation had not lapsed yet; and

**Case 1 (Cont'd)**

- (c) ECIC allowed the applicant to accept the quotation although it had already lapsed for 20 days. The revival of validity period of the lapsed quotation was endorsed by the Division Head without documenting the justifications. ECIC's guidelines have not prescribed the circumstances under which a lapsed quotation can be revived.

*Source: Audit analysis of ECIC records*

Audit considers that ECIC needs to promulgate clear and detailed guidelines on the proper handling of outstanding quotations pending acceptance by applicants. For instance, guidelines need to be promulgated on the considerations that the officer should take into account when extending the validity period of outstanding quotations.

## **Audit recommendations**

**3.11 Audit has recommended that the Commissioner, ECIC should:**

- (a) **take actions in a more timely manner in collecting from the applicants the required information and documents needed for processing the proposals received; and**
- (b) **promulgate clear and detailed guidelines on the proper handling of outstanding quotations pending acceptance by applicants.**

## **Response from the Hong Kong Export Credit Insurance Corporation**

**3.12** The Commissioner, ECIC agrees with the audit recommendations. He has said that:

- (a) the business staff have been reminded to take timely actions to follow up with applicants and to ensure that proper documentation is kept in the system; and

## **Provision of export credit insurance services**

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- (b) the relevant business work manual will be revised to lay down clear guidelines for handling long outstanding quotations pending acceptance including justifications for extending the validity periods of outstanding quotations.

### **Credit limit management**

3.13 ***Credit limit.*** Credit limit is the maximum amount of loss covered on a particular buyer for a policyholder. Policyholders must have a credit limit approved by ECIC for each of their buyers. An approved credit limit on a buyer is revolving in nature, i.e. the amount under the credit limit will be available again when the related payment has been settled.

3.14 ***Credit limit application (CLA).*** Policyholders are required to submit to ECIC a CLA for each of their buyers. Each headed by an Assistant General Manager, two Underwriting Divisions (see Appendix A) are responsible for processing CLAs. Upon receipt of CLAs, ECIC will process them by acquiring credit information i.e. obtaining a valid credit report (report updated within nine months) on the buyer and making credit assessment. In approving the credit limit, ECIC takes into account the credit information on the buyer (such as comments made in the credit report), the buyer's country risk, payment terms, outstanding payment records of the buyer, and the export products concerned.

### ***Need to expedite the issue of credit limits to policyholders***

3.15 ECIC has set a performance pledge of completing the processing of CLAs and issue credit limits for CLAs of above \$1 million within four working days (not counting the day of receipt) based on adequate information being available, and within three working days for CLAs of \$1 million or below. The pledge was met in the period from 2016-17 to 2020-21. However, Audit noted that the time taken was much longer than three/four working days for ECIC to collect the necessary information for processing CLAs. For CLAs outstanding for more than three months, the officers concerned should make decisions based on the information available either to issue the credit limits or reject the CLAs and inform the policyholders accordingly.

## Provision of export credit insurance services

3.16 In the period from April 2020 to September 2021, ECIC processed 51,317 CLAs comprising 25,096 (49%) of \$1 million or below and 26,221 (51%) of above \$1 million. Audit analysed the elapsed time from the dates the CLAs were received to the dates of completion of processing them i.e. issuing credit limits or rejecting CLAs (see Table 10). The average elapsed time from receiving CLAs to issuing credit limits or rejecting CLAs was 5.4 days (ranging from 0 to 86 days) for CLAs of \$1 million or below and 7.7 days (ranging from 0 to 90 days) for CLAs of above \$1 million.

**Table 10**

**Elapsed time from receiving CLAs to issuing credit limits or rejecting CLAs  
(April 2020 to September 2021)**

CLAs of \$1 million or below		CLAs of above \$1 million	
Elapsed time (Day)	Number of CLAs	Elapsed time (Day)	Number of CLAs
0 to 3	16,102 (64.2%)	0 to 4	13,414 (51.2%)
4 to 10	3,743 (14.9%)	5 to 10	5,328 (20.3%)
11 to 20	3,678 (14.6%)	11 to 20	5,108 (19.5%)
21 to 30	910 (3.6%)	21 to 30	1,403 (5.3%)
31 to 40	325 (1.3%)	31 to 40	430 (1.6%)
41 to 50	155 (0.6%)	41 to 50	248 (0.9%)
51 to 60	117 (0.5%)	51 to 60	140 (0.5%)
61 to 70	30 (0.1%)	61 to 70	96 (0.4%)
71 to 80	24 (0.1%)	71 to 80	42 (0.2%)
Over 80 (Note 1)	12 (0.1%)	Over 80 (Note 2)	12 (0.1%)
Total	25,096 (100.0%)	Total	26,221 (100.0%)

*Source: Audit analysis of ECIC records*

*Note 1: The longest elapsed time was 86 days.*

*Note 2: The longest elapsed time was 90 days.*

## **Provision of export credit insurance services**

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3.17 Audit examined the 3 CLAs with the longest time elapsed from receiving CLAs to issuing credit limits/rejecting CLAs and found that in 2 cases, there was room for improvement for ECIC to take more timely actions in obtaining the required information from the policyholder (see Case 2 for an example).

### **Case 2**

#### **Room for taking more timely actions in obtaining required information from policyholder (August to November 2021)**

1. In August 2021, ECIC received from a policyholder a CLA for \$8 million on a buyer.
2. In October 2021 (51 days after receiving CLA), ECIC requested clarification and additional documents from the policyholder. Eight days later, ECIC sent a reminder to the policyholder to follow up the request.
3. In November 2021 (3 days after the reminder), the policyholder provided the required information and documents to ECIC.

#### ***Audit comments***

4. In Audit's view, the elapsed time of CLA processing could have been shortened if actions had been taken in a more timely manner.

*Source: Audit analysis of ECIC records*

Audit considers that ECIC needs to take actions in a more timely manner to obtain the necessary information and documents for processing CLAs with a view to shortening the elapsed time from the receipt of CLAs to issuing credit limits to policyholders or rejecting CLAs.

#### ***Room for improvement in conducting reviews on buyers***

3.18 According to ECIC, regular and close monitoring of buyer's commitments help avoid over-exposure and ensure a good portfolio of credit risks. ECIC conducts reviews on buyers with shipments declared in the preceding 12 months periodically

## Provision of export credit insurance services

according to a time schedule. ECIC will obtain credit reports from credit agencies and relevant information for the reviews. According to ECIC's guidelines, the reviews should be completed within five working days upon receipt of credit reports and adequate information. According to ECIC, the pledge was met in the period from 2016-17 to 2020-21.

3.19 Audit analysed the 15,593 reviews conducted in the period from April 2020 to September 2021 and noted that the average elapsed time from receiving credit reports to completion of reviews was 6.2 days (ranging from 0 to 247 days). Of the 15,593 reviews, 789 (5%) had elapsed time of more than 10 days from receiving credit reports to completion of reviews (see Table 11).

**Table 11**

**Elapsed time from receiving credit reports to completion of reviews on buyers  
(April 2020 to September 2021)**

Elapsed time (Day)	Number of reviews
0 to 10	14,804 (95%)
11 to 20	476
21 to 30	139
31 to 60	142
61 to 90	24
Over 90 (Note)	8
Total	15,593 (100%)

*Source: Audit analysis of ECIC records*

*Note: The longest elapsed time was 247 days.*

3.20 Audit examined five reviews on buyers with elapsed time of more than 90 days and found that in these five reviews, there was room for improvement for ECIC in obtaining the required information for the reviews in order to shorten the elapsed time from receiving the credit reports to completing the reviews (see Case 3 for an example).

### Case 3

#### **Room for expediting collection of necessary information to complete review on a buyer (February to May 2021)**

1. In February 2021, ECIC received the credit report on a buyer scheduled for review.
2. In March 2021 (13 days later), ECIC sent an email to the policyholder concerned asking for information relating to the buyer.
3. In May 2021 (69 days later), ECIC sent a reminder to the policyholder. On the same day, the policyholder replied that the previous email had been overlooked and would provide the required information after checking.
4. Seven days later, ECIC sent an email to the policyholder to chase up the required information. Another three days later, ECIC sent a reminder to the policyholder. On the same day, the policyholder provided the required information and ECIC completed the review.

#### ***Audit comments***

5. In Audit's view, the review on the buyer could have been completed in a more timely manner if actions had been taken promptly and proactively to collect the necessary information for the review.

*Source: Audit analysis of ECIC records*

Audit considers that in conducting reviews on buyers, ECIC needs to take actions in a more timely manner to obtain the necessary information with a view to shortening the elapsed time from receipt of credit reports to completing the reviews.

## **Audit recommendations**

**3.21 Audit has *recommended* that the Commissioner, ECIC should take more timely actions:**



- (a) to obtain the necessary information and documents for processing CLAs with a view to shortening the elapsed time from the receipt of CLAs to issuing credit limits to policyholders or rejecting CLAs; and
- (b) in conducting reviews on buyers to obtain the necessary information with a view to shortening the elapsed time from receipt of credit reports to completing the reviews.

## **Response from the Hong Kong Export Credit Insurance Corporation**

3.22 The Commissioner, ECIC generally agrees with the audit recommendations. He has said that:

- (a) ECIC has put in place monitoring mechanisms to regularly review the status of pending CLAs and buyer reviews through email alerts, management reports and quality assurance checks. Some cases require a longer processing time because it takes time for the policyholders and credit agencies to provide the information needed before a decision can be made; and
- (b) ECIC will continue its efforts to expedite the handling of cases and strengthen the monitoring of cases pending clarification.

## **Declaration of shipments**

3.23 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. The policyholder pays premium for the shipments declared in accordance with the policy terms. Every month, ECIC issues invoices on the declarations received to the policyholder for settlement. According to ECIC, declaration is very important as it records what ECIC insures. ECIC assumes liability once declarations are received from policyholders, subject to the compliance with other policy terms and conditions.

***Late declarations of shipments by policyholders***

3.24 In the period from April to September 2021, 179,611 declarations of shipments were received. Of these declarations, 4,608 (3%) with total value of shipments amounting to \$1 billion were submitted late. The average period of delay was 27 days, ranging from 1 to 787 days (see Table 12).

**Table 12****Late declarations of shipments  
(April to September 2021)**

<b>Period of delay (Day)</b>	<b>Number of declarations</b>
1 to 30	3,836 (84%)
31 to 60	415 (9%)
61 to 90	103 (2%)
91 to 180	99 (2%)
181 to 365	104 (2%)
Over 365 (Note)	51 (1%)
Total	4,608 (100%)

*Source:* Audit analysis of ECIC records

*Note:* The longest period of delay was 787 days.

3.25 Audit analysed the reasons for delay in 20 late declarations. For 3 declarations, there was no documentary evidence showing the reasons. For the remaining 17 declarations, there were four different reasons (see Table 13).

**Table 13**

**Reasons for delay in 20 late declarations of shipments  
(April to September 2021)**

<b>Reason for delay</b>	<b>Number of cases</b>
Forgotten by policyholders	5
Misunderstood policy terms	4
Overlooked by policyholders	4
Busy workload of policyholders	4
Reasons not documented	3
Total	20

*Source: Audit analysis of ECIC records*

3.26 Audit noted that in the period from April to September 2021, ECIC identified 19 policyholders as “frequently late policyholders” (i.e. policyholders had late declarations in 50% or more of their total number of declarations in three months or more in the past 12 months). According to ECIC’s guidelines, if a policyholder has frequent late declaration records, the responsible officer should submit the assessment results and recommended actions to the Assistant General Manager or above for approval. Audit reviewed the actions taken on the 19 “frequently late policyholders” and noted that:

- (a) for 17 (89%) of the 19 policyholders, the recommended actions were to remind the policyholders on the requirements of timely declarations of shipments. However, for 3 (18%) of these 17 policyholders, there was no documentary evidence showing that ECIC had reminded them of such requirements; and
- (b) for the remaining 2 (11%) policyholders, the responsible officers only stated the reasons for late declarations without providing the recommended actions when seeking approval from the Assistant General Manager. According to ECIC, the responsible officers had addressed the issues by asking the policyholders to declare shipments as required in future.

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However, there was no documentary evidence showing that actions had been taken.

3.27 Audit considers that ECIC needs to:

- (a) remind those “frequently late policyholders” on the requirements of timely declarations of shipments;
- (b) document the recommended actions taken by the responsible officers; and
- (c) take effective measures to address the issue of late declarations of shipments by policyholders taking into account the reasons for the delays.

### ***Omissions of declarations by policyholders***

3.28 Omission of declarations (i.e. failure of a policyholder to declare insurable transactions) will result in loss of premium income of ECIC. According to ECIC’s guidelines:

- (a) omission of declaration can be accepted under certain specified circumstances;
- (b) for other circumstances, the responsible officers need to evaluate the implications of potential claims before accepting the omissions; and
- (c) once omission is accepted, the responsible officer should inform the policyholder in writing to remind the policyholder of the requirement of following the policy terms in making declaration and to demand retrospective declaration from the policyholder.

3.29 In the period from April 2020 to September 2021, ECIC identified omissions of declarations of 386 shipments involving 18 policyholders. Of the 386 shipments, 208 (54%) involving 13 (72%) of the 18 policyholders were accepted by ECIC for retrospective declarations.

3.30 Audit examined the 208 omissions of declarations of shipments subsequently declared by the 13 policyholders and noted that according to ECIC, the reasons for the omissions were as follows:

- (a) 87 (42%) shipments involving 11 policyholders were due to oversight by policyholders' staff; and
- (b) 121 (58%) shipments involving 2 policyholders were due to misunderstanding of policy terms.

3.31 Audit considers that ECIC needs to take effective measures to address the issue of omissions of declarations of shipments.

### **Audit recommendations**

3.32 **Audit has *recommended* that the Commissioner, ECIC should:**

- (a) **remind those “frequently late policyholders” on the requirements of timely declarations of shipments;**
- (b) **document the recommended actions taken by the responsible officers for late declarations;**
- (c) **take effective measures to address the issue of late declarations of shipments by policyholders taking into account the reasons for the delays; and**
- (d) **take effective measures to address the issue of omissions of declarations of shipments.**

### **Response from the Hong Kong Export Credit Insurance Corporation**

3.33 The Commissioner, ECIC agrees with the audit recommendations. He has said that:

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- (a) ECIC will keep reminding policyholders of the declaration requirement on various occasions including periodic seminars, policy inception and renewals;
- (b) ECIC will revise the business work manual of declaration processing and require its business staff to document actions taken in processing the late declarations in the system; and
- (c) ECIC will identify possible measures to facilitate the policyholders to submit declarations in the manner required under the insurance policy.

## **Claims and recoveries**

3.34 In the event of default of payments from the buyers, ECIC pays claims to the policyholders in accordance with the policy terms. Headed by an Assistant General Manager, the Claims and Recoveries Division (see Appendix A) is responsible for processing claims and recoveries cases. In 2020-21, ECIC made claims payments for 109 cases, totalling \$664.7 million.

### ***Room for improvement in notifications of likely loss by policyholders***

3.35 Late reporting of overdue payments will affect the chance of success of the recovery actions against the buyers. Under the policy terms, a policyholder has to inform ECIC promptly, and in any event within five working days, of the following events/information as payment difficulty cases:

- (a) when the policyholder becomes aware of the occurrence of any event of loss, or any event likely to cause loss, or that the buyer is or appears to be unable to pay debts incurred in the ordinary course of business as and when they fall due;
- (b) all amounts from the buyer that have been overdue for more than two months; and
- (c) all amounts which are unpaid if the buyer failed to take delivery of goods.

According to ECIC's guidelines, the responsible officer should consider rejecting liability if serious discrepancies are found and/or ECIC's position has been jeopardised, for example, the policyholder has failed to inform ECIC fully and promptly of the adverse information.

3.36 According to ECIC, to deter repeated late reporting of payment difficulty cases by policyholders who had committed the similar breach in over 60% in their past claims cases, it has implemented the following measures with effect from July 2017:

- (a) Division Head's approval is required if the responsible officer considered that there are grounds to tolerate a serious breach or repeated breaches of the reporting requirements;
- (b) strong-wording warning that "we would like to draw your attention that your future claims application may not be considered if you fail to comply with the reporting requirements of the policy again" is to be added to the claims settlement letter sent to the policyholder concerned; and
- (c) after claims payment is made, the responsible officer of the Business Division should, as far as feasible, arrange a follow-up meeting with the policyholder concerned to reinforce the policyholder's understanding of the policy terms and conditions including the rights and obligations. If a meeting could not be arranged, a written reminder to that effect should be issued to the policyholder concerned.

3.37 In the period from April 2020 to September 2021, ECIC were informed of 142 payment difficulty cases. In 12 (8%) of the 142 cases, the policyholders concerned were late in notifying ECIC. Of the 12 late reported cases, 8 (67%) were accepted by ECIC. The buyers concerned subsequently failed to make payments to the policyholders concerned. ECIC made claims payments on discretionary grounds in all the 8 cases.

3.38 Audit's examination on the 8 late reported cases accepted by ECIC found that in 2 cases, the policyholders concerned had been late in the reporting of payment difficulty cases in their previous claims cases:

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- (a) in one case, the policyholder had been late in the reporting of payment difficulty cases in four previous claims cases; and
- (b) in another case, the policyholder had been late in the reporting of payment difficulty cases in three previous claims cases.

Audit noted that in the above 2 cases, there was no documentary evidence showing that ECIC had arranged follow-up meetings with the policyholders concerned to reinforce the understanding of the policy terms and conditions or had ECIC issued written reminders to the policyholders concerned to that effect (see para. 3.36(c)). Audit considers that ECIC needs to ensure compliance of ECIC's control measures on payment difficulty cases by ECIC's staff. ECIC also needs to take measures to address the issue of policyholders' non-compliance with the policy terms on reporting payment difficulty cases.

### ***Room for improvement in debt recovery by policyholders***

3.39 ECIC will advise the policyholders on appropriate loss minimisation actions upon receipt of adequate information. After receipt of a Claims Application Form and the claims supporting documents, the responsible officer will perform claims examination and decide whether to accept or reject the claims. For accepted claims, a claims settlement letter will be prepared and sent to the policyholder concerned together with the claims payment. In the period from April 2020 to September 2021, ECIC made payments to policyholders in 119 claims cases.

3.40 ***Need to ensure that prior written approval was obtained before appointment of a debt collector.*** According to ECIC's guidelines, if the appointment of a debt collector is considered necessary:

- (a) ECIC would recommend debt collectors to the policyholder from an approved list on a rotation basis;
- (b) in case the policyholder prefers to appoint its own debt collector, the Division Head's approval is required;



- (c) the policyholder must obtain ECIC's prior written approval before proceeding with the appointment of a debt collector if the policyholder has to seek reimbursement of costs or charges subsequently incurred; and
- (d) the policyholder should require the debt collector to:
  - (i) declare any actual, perceived or potential conflict of interest with the buyer on a prescribed Declaration of Absence of Conflict of Interest Form provided by ECIC before appointment; and
  - (ii) complete the Declaration on Compliance with Ethical Commitments Requirements Form upon appointment.

3.41 Audit's examination on 5 of the 119 claims cases found that in 2 cases where the policyholders had appointed debt collectors before obtaining written approval from ECIC and completing the Declaration of Absence of Conflict of Interest Form:

- (a) in one case in which debt collection commission was subsequently incurred on amount successfully collected from the buyer, the debt collector was appointed 29 days before obtaining written approval from ECIC and 8 days before completing the Declaration of Absence of Conflict of Interest Form; and
- (b) in another case in which it turned out that no debt collection commission or other cost was incurred, the debt collector was appointed three days before obtaining written approval from ECIC and completing the Declaration of Absence of Conflict of Interest Form.

3.42 Audit considers that ECIC needs to take measures to address the issue of policyholders not complying with ECIC's requirements of:

- (a) obtaining ECIC's prior written approval before proceeding with the appointment of debt collectors if the policyholders have to seek reimbursement of any costs or charges subsequently incurred; and

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- (b) completing the Declaration of Absence of Conflict of Interest Form by the debt collectors before appointment.

3.43 *Need to ensure that written approval was obtained before accepting proposals relating to composition or rescheduling of debts.* According to policy terms, ECIC's written approval must be obtained before a policyholder accepts any proposal in relation to the composition or rescheduling of debts. In 1 of the 5 cases examined (see para. 3.41), Audit noted that the policyholder did not obtain ECIC's written approval before accepting the buyer's offer of a reduced payment, as follows:

- (a) in October 2018, a policyholder reported that there was a non-payment from a buyer amounting to some United States Dollars (USD) 20,000. ECIC sent an email to remind the policyholder that ECIC should not be liable for any reduction of payment mutually agreed between the policyholder and the buyer;
- (b) ECIC found in January 2020 that the policyholder accepted in September 2019 the buyer's offer of reduced payment to some USD10,000 without obtaining ECIC's written approval. ECIC then sent an email to remind the policyholder that ECIC should not be liable for any reduction of payment mutually agreed between the policyholder and the buyer; and
- (c) in July 2020, the responsible officer sought approval from the Deputy General Manager to tolerate the breach and accept the policyholder's claims on the outstanding payment of USD10,000 on the ground that there was no better alternative. According to ECIC, had the policyholder sought ECIC's prior approval, ECIC would have accepted the same given that it was not cost-effective to take legal action against the buyer, considering the relatively small outstanding debt and that the appointed debt collector was unable to negotiate for a better offer.

Audit also noted that ECIC had not taken follow-up actions with the policyholder on this matter, e.g. reprimanding/warning the policyholder for seriously breaching the policy terms and conditions. Audit considers that ECIC needs to take measures to address the issue of policyholders' not obtaining written approval from ECIC before accepting proposals in relation to the composition or rescheduling of debts.

***Prompt actions needed to write off outstanding recovery cases***

3.44 According to ECIC's guidelines:

- (a) responsible officers should ensure prompt and cost-effective actions are taken on cases with clear prospect of recovery and make write-off decisions correctly and promptly;
- (b) responsible officers should review all outstanding recovery cases every six months to update the case progress and ascertain recovery prospect, as appropriate; and
- (c) cases should be written off as soon as practicable where the prospect of recovery or further recovery is non-existent or too remote.

3.45 As at 31 January 2022, there were 59 outstanding recovery cases which had been identified as cases to be written off for more than four months. Audit examined 3 of the 59 cases and noted that:

- (a) in one case, the case was identified in August 2020 as a case to be written off (involving some \$166,000) as the policyholder had reached a final settlement agreement and received the agreed amount. The case was reviewed in September 2020, October 2020, April 2021 and September 2021. All reviews concluded that the case was to be written off. Up to 31 January 2022, it had been about 1.5 years since the case was identified as a case to be written off;
- (b) in another case, the case was identified in August 2020 as a case to be written off (involving some \$36,000) because the last instalment in the repayment plan was received. The case was reviewed in September 2020, November 2020, May 2021 and October 2021. All reviews concluded that the case was to be written off. Up to 31 January 2022, it had been about 1.4 years since the case was identified as a case to be written off; and
- (c) in the third case, the case was identified in October 2020 as a case to be written off (involving some \$1,115,000) because the final dividend had been declared and shared. The case was reviewed in January 2021, July 2021 and December 2021. All reviews concluded that the case was to

be written off. Up to 31 January 2022, it had been about 1.3 years since the case was identified as a case to be written off.

Audit considers that ECIC needs to take prompt action to write off those cases identified to be written off as soon as practicable as stipulated in ECIC's guidelines.

### **Audit recommendations**

3.46 **Audit has *recommended* that the Commissioner, ECIC should:**

- (a) **ensure compliance of ECIC's control measures on payment difficulty cases by ECIC's staff;**
- (b) **take measures to address the issue of policyholders' non-compliance:**
  - (i) **with the policy terms on reporting payment difficulty cases;**
  - (ii) **of obtaining ECIC's prior written approval before proceeding with the appointment of debt collectors if the policyholders have to seek reimbursement of any costs or charges subsequently incurred;**
  - (iii) **of completing the Declaration of Absence of Conflict of Interest Form by the debt collectors before appointment; and**
  - (iv) **of obtaining written approval from ECIC before accepting proposals in relation to the composition or rescheduling of debts; and**
- (c) **take prompt action to write off those cases identified to be written off as soon as practicable as stipulated in ECIC's guidelines.**

## **Response from the Hong Kong Export Credit Insurance Corporation**

3.47 The Commissioner, ECIC agrees with the audit recommendations in paragraph 3.46(a) and (c), and generally agrees with the audit recommendations in paragraph 3.46(b). He has said that:

- (a) ECIC will enhance the system to issue a reminder to claims officer for taking the necessary action upon approval of claims payment if the policyholder concerned has record of repeated late reporting of payment difficulty cases;
- (b) ECIC has currently through various channels including seminars, webinars, online platforms and social media, disseminated information about the insurance policy and its operations to exporters and policyholders;
- (c) ECIC will step up education to reinforce policyholders' understanding and awareness of the policy terms and conditions via different channels and issue more reminders as appropriate during the claims handling process;
- (d) ECIC has stepped up effort in writing off cases with no or remote recovery prospect. By 31 March 2022, 127 cases which were identified to be written off before 31 March 2021 were written off, and the number of outstanding recovery cases pending write-off was reduced to 43, which were identified as cases to be written off during 2021-22 and are targeted to be written off by the first half of 2022-23; and
- (e) ECIC will lay down in its internal guidelines the requirement that recovery cases which are identified as having remote or no recovery prospect should be written off within the next six months.

## **PART 4: ADMINISTRATIVE ISSUES**

4.1 This PART examines administrative issues of ECIC, focusing on the following areas:

- (a) human resources management (paras. 4.2 to 4.11); and
- (b) other administrative issues (paras. 4.12 to 4.26).

### **Human resources management**

4.2 As at 31 December 2021, ECIC had 106 staff, comprising 101 permanent staff, 2 contract staff and 3 temporary staff. The staff were classified under eight salary bands (see Table 14).

**Table 14**

**Salary bands of ECIC staff  
(31 December 2021)**

<b>Band</b>	<b>Post</b>
1	Commissioner
2	General Manager
3	Deputy General Manager
4	Assistant General Manager
5	Senior Manager, Manager (Note)
6	Manager (Note), Assistant Manager, Executive Assistant, Senior Clerical Officer
7	Clerical Officer, Driver, Officer
8	Office Management Assistant, Clerical Assistant

*Source: Audit analysis of ECIC records*

*Note: Some managers are classified under Band 5 while some others under Band 6.*

### ***High staff turnover rates***

4.3 From time to time, ECIC reports its staff turnover rates (Note 12) to the Advisory Board and CEDB. Audit examination of ECIC's staff turnover rates for the period from 2016-17 to 2020-21 revealed that:

- (a) the overall staff turnover rates in each individual year were on the high side, ranging from 12.5% in 2017-18 to 22.6% in 2019-20. The five-year average overall staff turnover rate for the years was 17.1% (see Table 15); and

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**Note 12:** *ECIC defined the staff turnover rate as the number of staff who resigned/retired/terminated in a financial year divided by the number of staff at the end of the financial year. Contract staff were excluded.*

**Table 15****Staff turnover rate  
(2016-17 to 2020-21)**

	2016-17	2017-18	2018-19	2019-20	2020-21	Average
No. of staff as at year-end date (i.e. 31 March) (a)	114	120	116	106	102	111
No. of staff who left ECIC during the year (b)	16	15	23	24	17	19
Overall staff turnover rate (c)=(b)÷(a)×100%	14.0%	12.5%	19.8%	22.6%	16.6%	17.1%

*Source: Audit analysis of ECIC records*

*Remarks: Contract staff were excluded.*

- (b) the average number of years of service of staff leaving ECIC in each individual year was more than 4 years, ranging from 4.8 years to 7.9 years.

4.4 ECIC conducted exit interviews with staff leaving ECIC, during which staff were invited to complete an Exit Interview Form by giving a grade on 13 aspects of ECIC (Note 13) and provide the reasons for leaving. While ECIC had reported the high staff turnover rates in the monthly senior management meetings, Advisory Board meetings, Audit Committee meetings and half-yearly housekeeping meetings with CEDB, it had not from time to time used the information collected from the Exit Interview Forms to compile statistics on the reasons for high staff turnover rates and reported the results in the meetings.

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**Note 13:** *The 13 aspects were: (a) adequacy of job orientation and training; (b) annual leave; (c) career development; (d) co-operation with co-workers; (e) education assistance; (f) incentive pay; (g) medical plan; (h) other benefits; (i) performance review system; (j) physical working environment; (k) salary; (l) working relationship with supervisors; and (m) workload and working arrangement. Each aspect was rated as “excellent”, “good”, “fair” or “poor”.*



4.5 Audit considers that ECIC needs to formulate measures to address the high staff turnover rates taking into account the information collected from the exit interviews.

***Need to conduct salary structure reviews in a timely manner***

4.6 ECIC adopts a market driven salary structure which consists of eight salary bands (see Table 14 in para. 4.2). Each salary band has three sub-bands to reflect the level of competency, experience and performance of individual staff and there is a salary range for each sub-band. According to ECIC's Salary Administration Guide, the salary ranges of each salary band should be reviewed and adjusted from time to time by:

- (a) collecting the pay trend information in each calendar year from human resources consultancy firms in the market, or gathering the data itself by making reference to external sources to determine the amount of annual salary adjustment for each band of the salary structure; and
- (b) conducting a comprehensive pay level review every 3 to 5 years or when there are indications that the market has changed significantly.

4.7 Audit examined the comprehensive pay level reviews conducted by ECIC in the period from 2013 to 2021 and found that:

- (a) ***Comprehensive pay level reviews conducted less frequently than required.*** The latest two comprehensive pay level reviews were completed in September 2013 and June 2020, almost 7 years apart (i.e. less frequent than every 3 to 5 years as stipulated in the Salary Administration Guide); and
- (b) ***Long time taken to follow up the results of 2020 review.*** In June 2020, ECIC completed a comprehensive pay level review. However, up to 31 December 2021, ECIC was still discussing the results of the review with CEDB and had yet to submit the results to the Advisory Board for endorsement.

4.8 Upon enquiry, ECIC informed Audit in March 2022 that:

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- (a) “every 3 to 5 years” in the Salary Administration Guide actually meant “every 3 to 5 years after implementation of the recommendations of the previous review”; and
- (b) recommendations of the comprehensive pay level review conducted in 2012-13 was approved by the Government for implementation in 2014-15. Accordingly, the following review was completed in June 2020 (about 5 years after the recommendations of the 2012-13 review were implemented).

4.9 In Audit’s view, the long time period between comprehensive pay level reviews (i.e. 7 years — see para. 4.7(a)) may not be conducive to ensuring that the remuneration of ECIC staff is adjusted making reference to market data, and there are merits in determining the frequency of comprehensive pay level review according to the time interval between reviews rather than between implementation of review results and commencement of review. Audit considers that ECIC needs to:

- (a) promulgate clear guidelines on the frequency of comprehensive pay level reviews, preferably by making reference to the time interval between reviews; and
- (b) in collaboration with CEDB, expedite the endorsement and implementation of the recommendations of the 2020 comprehensive pay level review.

## Audit recommendations

4.10 **Audit has *recommended* that the Commissioner, ECIC should:**

- (a) **formulate measures to address the high staff turnover rates taking into account the information collected from the exit interviews;**
- (b) **promulgate clear guidelines on the frequency of comprehensive pay level reviews, preferably by making reference to the time interval between reviews; and**

- (c) in collaboration with CEDB expedite the endorsement and implementation of the recommendations of the 2020 comprehensive pay level review.

## **Response from the Hong Kong Export Credit Insurance Corporation**

4.11 The Commissioner, ECIC agrees with the audit recommendations. He has said that:

- (a) ECIC has submitted the proposed implementation of the recommendations arising from the staff remuneration system review conducted in 2019-20 and the consultancy review on the corporate KPIs conducted in 2018-19 to the Government for approval after obtaining the Advisory Board's endorsement in March 2022 and November 2021 respectively. Such implementation is expected to enhance the overall remuneration package, which was commonly quoted as a reason for staff departure in the past;
- (b) ECIC has taken or is in the process of taking actions to address the comments made by staff during the exchange meetings that the Commissioner held with them in 2021, with a view to enhancing the overall work environment and well-being for staff as part of the effort aiming to reduce attrition and improve talent retention;
- (c) ECIC has planned to step up working towards enhancing staff engagement in 2022-23, a further effort aiming to tackle the high staff turnover, among the activities laid down in the Corporate Plan for 2022-23. ECIC will continue to keep in view the staff turnover issues going forward;
- (d) ECIC will review the time interval between two comprehensive pay level reviews and look into the feasibility of shortening the review cycle in consultation with CEDB; and
- (e) the Secretary for Commerce and Economic Development's approval was granted in April 2022 for the implementation of the consultant's recommendations of the comprehensive pay level review.

### Other administrative issues

#### *Insufficient coverage in stocktaking of computer software and hardware*

4.12 According to ECIC's Finance and Accounting Manual, the physical existence of fixed assets must be checked against the fixed asset register twice annually, and any variances should be investigated. The Finance and Account Unit (FAU) is responsible for conducting the stocktaking exercises. Every year, FAU conducts two stocktaking exercises (one in June and another in December). According to the sampling instructions for stocktaking issued by FAU, for each stocktaking exercise of computer software and hardware, 23 samples should be selected for checking, comprising:

- (a) 13 samples selected from the fixed asset register (including 10 samples with the highest net book value (NBV) and 3 samples with the highest acquisition costs). These samples should be checked against their physical existence; and
- (b) 10 samples randomly selected from the office, which should be checked against the fixed asset register.

4.13 Audit reviewed the records of the 10 stocktaking exercises conducted in the period from 2016-17 to 2020-21 and found that there was room for improvement in the stocking exercises for computer software and hardware:

- (a) in all the 10 stocktaking exercises for computer software and hardware, the samples selected from the fixed asset register for checking did not include all of the 10 items with the highest NBV, contrary to the requirement of FAU's sampling instructions (see para. 4.12(a)); and
- (b) NBV of computer software and hardware covered in the stocktaking exercises varied significantly among the 10 stocking exercises. While the stocktaking exercise in 2016-17 covered 24% of the total NBV of computer software and hardware, all items selected for the 2017-18 stocktaking exercise were fully depreciated (i.e. with zero NBV). The stocktaking exercises in 2019-20 and 2020-21 covered only 4% and 6% of the total NBV respectively (see Table 16).

Table 16

**NBV of computer software and hardware covered in stocktaking exercises  
(2016-17 to 2020-21)**

	2016-17	2017-18	2018-19	2019-20	2020-21
Total NBV at year-end (\$'000) (a)	1,802	2,911	3,606	3,079	2,674
Total NBV of items checked (\$'000) (b)	432	0	721	131	171
Coverage (c) = (b) ÷ (a) × 100%	24%	0%	20%	4%	6%

*Source: Audit analysis of ECIC records*

4.14 Audit considers that ECIC needs to take measures to ensure that stocktaking exercises are conducted according to the requirements stipulated in ECIC's guidelines.

***Need to conduct checks on mobile devices regularly***

4.15 According to ECIC's Clear Screen Policy:

- (a) all information systems should be attended by staff to prevent unauthorised access; and
- (b) staff in possession of mobile devices (e.g. phones, electronic tablets) for business purposes should ensure that the mobile device is locked by password-protected screensaver or screen lock when the device is left unattended.

4.16 It is stipulated in ECIC's Mobile Device and Teleworking Policy that Information Technology Divisions (ITDs — see Appendix A) should conduct checks on all mobile devices annually to ensure that the lock-screen setting has been enabled. Audit examined the checking records for the period from 2017 to 2021 and found that no checking exercises had been conducted in 2018 and 2019. Audit considers that

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ECIC needs to take measures to ensure that mobile devices are checked every year according to the requirement stipulated in ECIC's Mobile Device and Teleworking Policy.

### ***Room for improvement in the procurement process***

4.17 According to ECIC's Procurement and Contract Management Procedure (PCMP):

- (a) tendering exercises should be conducted for purchases with value over \$500,000 (single and restricted tendering for value up to \$1,000,000 and open tendering for value over \$1,000,000); and
- (b) exemptions from PCMP should only be granted under acceptable circumstances and should be approved by senior management, with justifications properly documented.

PCMP does not provide specific guidelines on what constitutes "acceptable circumstances".

4.18 In the period from 2016-17 to 2020-21, there were 33 purchases with value over \$500,000. Audit reviewed the 33 purchases and noted that:

- (a) exemptions from tender exercises were approved for 26 (79%) of the 33 purchases. These 26 purchases were conducted by written quotations instead of tenders as required; and
- (b) in 23 (88%) of the 26 purchases conducted by written quotations, ECIC only obtained written quotation from one vendor.

For all the 26 cases, justifications were provided for the exemption from tender exercises.

4.19 Audit found room for improvement in seeking approvals for exemption from tender exercises:

- (a) ***Exemption sought was based on an estimated cost which turned out to be much lower than the actual cost.*** In August 2020, ITD sought approval for exemption from restricted tendering exercise for an information technology project based on an estimated cost of \$1 million. Upon obtaining the exemption, ITD proceeded to seek proposals and quotations from two prospective vendors. After proposal evaluation collectively carried out by ITD and an independent consultant, ECIC appointed a vendor for the implementation of the project with a contract sum of \$2.6 million (i.e. 2.6 times of the estimated cost of \$1 million when seeking for exemption approval). The substantial difference between the estimated cost and the actual cost may have undermined the justifications of the exemption approval. If the cost had been accurately estimated as \$2.6 million, approval to waive the requirement for open tendering instead of restricted tendering should have been sought; and
  
- (b) ***Justifications for single quotation not adequately given.*** Since 2010, ECIC has placed a billboard advertisement on the outside wall of a building. In the period from 2016-17 to 2020-21, the annual fee for the billboard advertisement was around \$0.7 million. Every year, approval had been granted to enter into a contract with the same vendor through a single quotation instead of conducting restricted tenders as required by PCMP (see para. 4.17(a)). There was no documentary evidence showing that similar advertising places were not available at other buildings in the same area and the reasons why ECIC did not obtain quotations or tenders from other vendors for the advertising service.

4.20 Audit also compared the procurement practice of the Government and ECIC and noted that for the procurement of goods and services by Government bureaux/departments, the threshold for conducting tender exercises was \$1.4 million. The threshold of \$500,000 adopted by ECIC (see para. 4.17(a)) was much lower than that of the Government by 64%. In Audit's view, setting a threshold for tender exercise too low might be a reason for the high percentage of cases seeking exemption approvals for procurement (see para. 4.18(a)).

4.21 Audit considers that ECIC needs to:

- (a) stipulate guidelines on the handling of major discrepancies between initial cost estimates and actual procurement values with a view to ensuring that

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approval of exemptions from purchase requirements granted based on initial cost estimates are still well justified having regard to the actual procurement values;

- (b) promulgate clear guidelines on the circumstances under which tender requirement for purchases can be exempted; and
- (c) consider the merits of raising the threshold on procurement value for conducting tender exercises with a view to streamlining the procurement procedures.

### ***Need to provide publicity videos in multiple languages***

4.22 ECIC has produced videos to promote its services to the public and has uploaded the videos onto its official website and on a social media platform (see Photograph 1 for an example).



Photograph 1

A publicity video produced by ECIC on a social media platform



Source: *ECIC's publicity video on a social media platform*

- 4.23 In December 2021, Audit examined 110 ECIC videos and noted that:
- (a) 96 (87%) videos had Chinese (i.e. Cantonese/Putonghua) dubbing only. While 1 (1%) of these 96 videos had both Chinese and English subtitles, 90 (94%) had Chinese subtitles only and the remaining 5 (5%) had no subtitles;
  - (b) 13 (12%) videos had both Chinese and English dubbing. While 11 (85%) of these 13 videos had both Chinese and English subtitles, the remaining 2 (15%) had no subtitles; and
  - (c) 1 (1%) video had English dubbing only. It had both Chinese and English subtitles available (see Table 17).

Table 17

**Language support for ECIC's publicity videos  
(31 December 2021)**

Subtitle	Dubbing			
	Chinese only	Chinese and English	English only	Total
Chinese only	90	—	—	90
English only	—	—	—	—
Both Chinese and English	1	11	1	13
None	5	2	—	7
Total	96	13	1	110

Source: Audit analysis of ECIC records

4.24 Audit considers that ECIC needs to provide multi-language support for its publicity videos as far as practicable (e.g. providing both Chinese and English subtitles for all videos with dubbing).

## Audit recommendations

4.25 Audit has recommended that the Commissioner, ECIC should:

- (a) take measures to ensure that stocktaking exercises are conducted according to the requirements stipulated in ECIC's guidelines;
- (b) take measures to ensure that mobile devices are checked every year according to the requirement stipulated in ECIC's Mobile Device and Teleworking Policy;

- (c) stipulate guidelines on the handling of major discrepancies between initial cost estimates and actual procurement values with a view to ensuring that approval of exemptions from purchase requirements granted based on initial cost estimates are still well justified having regard to the actual procurement values;
- (d) promulgate clear guidelines on the circumstances under which tender requirement for purchases can be exempted;
- (e) consider the merits of raising the threshold on procurement value for conducting tender exercises with a view to streamlining the procurement procedures; and
- (f) provide multi-language support for its publicity videos as far as practicable (e.g. providing both Chinese and English subtitles for all videos with dubbing).

## **Response from the Hong Kong Export Credit Insurance Corporation**

4.26 The Commissioner, ECIC agrees with the audit recommendations. He has said that:

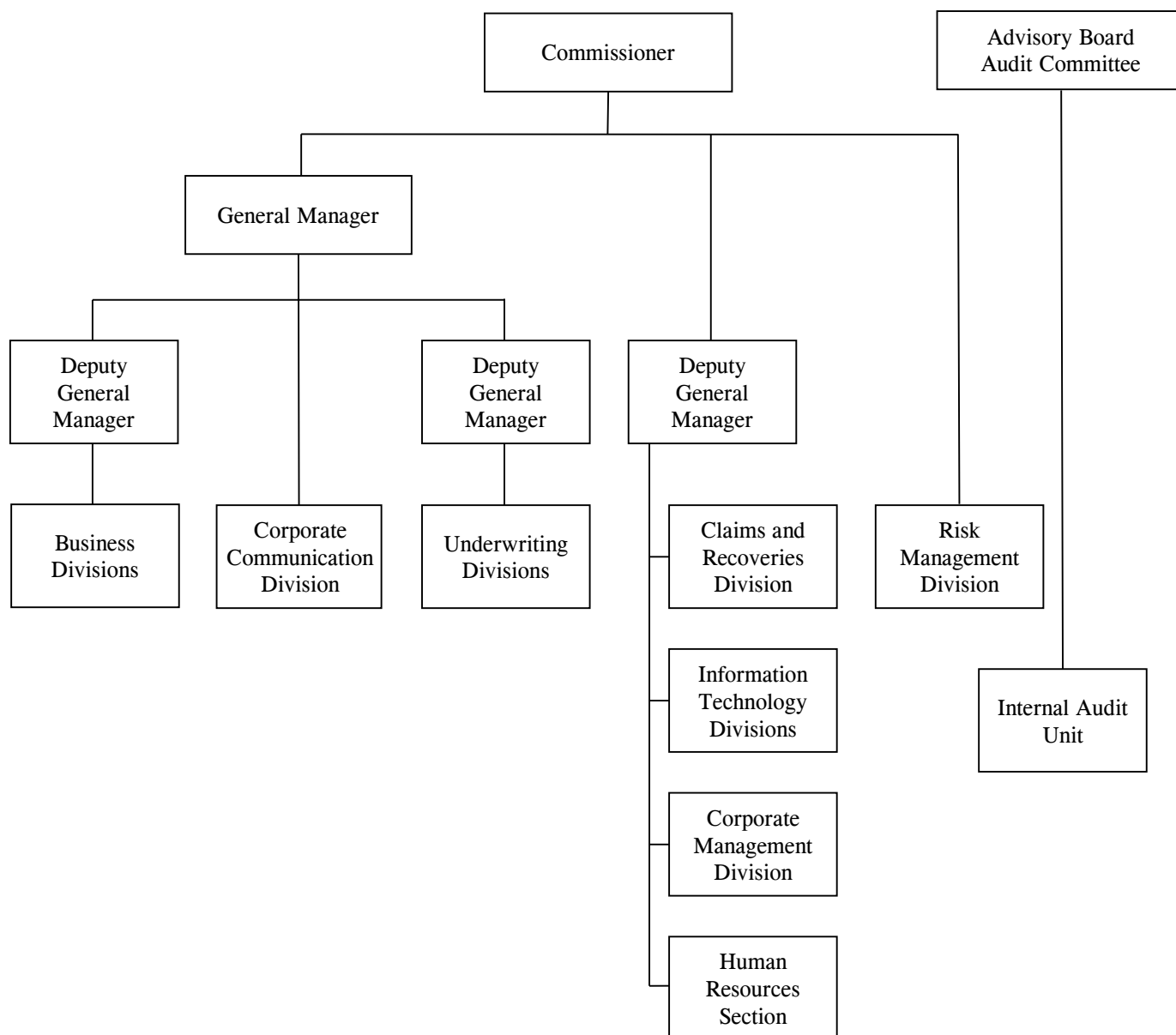
- (a) ECIC will devise measures with a view to ensuring that the stocktaking exercise is conducted according to the guidelines;
- (b) ECIC has taken measures to ensure compliance with the Mobile Device and Teleworking Policy;
- (c) ECIC will review and lay down guidelines in PCMP on the handling of major discrepancies between initial cost estimates and actual procurement values, and on the circumstances under which tender requirement for purchases can be exempted;
- (d) ECIC will review the tender threshold on procurement value and revise the guidelines in PCMP as appropriate; and

## **Administrative issues**

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- (e) ECIC will provide both Chinese and English subtitles for all promotional videos starting from 2022-23. For other videos such as replaying seminar and event highlight, Chinese and English subtitles will be provided after considering the purpose, importance of the content and the need.

**Hong Kong Export Credit Insurance Corporation: Organisation chart (extract)**  
**(31 December 2021)**



Source: *Audit analysis of ECIC records*

**Performance indicators used by the  
Hong Kong Export Credit Insurance Corporation  
to supplement key performance indicators**

Performance indicator	Reported to	
	CEDB	Advisory Board
1. Aggregate maximum liability	✓	✓
2. Amount of new business	✓	✓
3. Average premium rate	✓	✓
4. Bank policyholders' share of insured business amount	✓	×
5. Brokerage expenses	✓	✓
6. Capital surplus	×	✓
7. Funds managed by ECIC	✓	✓
8. Funds managed by fund managers	✓	✓
9. Investment income	✓	✓
10. Net assets	✓	✓
11. Net premium	✓	✓
12. Non-bank policyholders' share of insured business amount	✓	×
13. Number of active policies	×	×
14. Number of new policies	✓	✓
15. Number of outstanding payment difficulty cases	×	✓
16. Number of outstanding proposals	×	×
17. Number of outstanding risk management cases (status precedent to payment difficulty cases)	×	×
18. Number of policy termination	×	✓
19. Number of valid policies	✓	✓

**Appendix B**  
(Cont'd)  
(para. 2.39 refers)

Performance indicator	Reported to	
	CEDB	Advisory Board
20. Operating expenses	✓	✓
21. Premium per staff	×	×
22. Ratio of operating expenses to gross premium	✓	✓
23. Ratio of outstanding shipment to commitment	×	×
24. Ratio of staff cost to operating expenses	✓	✓
25. Top 10 buyers' share of insured business amount	×	×
26. Top 10 policyholders' share of insured business amount	×	×
27. Total commitment	✓	×
28. Year-to-date claims paid	✓	✓
29. Year-to-date new payment difficulty cases	✓	✓

Legend:    ✓    Performance indicator reported  
                   ×    Performance indicator not reported

*Source:    Audit analysis of ECIC records*

## Acronyms and abbreviations

Audit	Audit Commission
CE	Chief Executive
CEDB	Commerce and Economic Development Bureau
CLA	Credit limit application
DCP	Draft corporate plan
ECAs	Export credit agencies
ECIC	Hong Kong Export Credit Insurance Corporation
FAU	Finance and Account Unit
ITDs	Information Technology Divisions
KPIs	Key performance indicators
NBV	Net book value
OCI	Office of the Commissioner of Insurance
PCMP	Procurement and Contract Management Procedure
SBP	Small Business Policy
SMEs	Small and medium enterprises
USD	United States Dollars