

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).

Executive Summary

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).

Executive Summary

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).

Executive Summary

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).

Executive Summary

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

Executive Summary

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

Executive Summary

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

- (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

- (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

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.