

## **LEGCO QUESTION NO. 10**

(Written Reply)

Asked by: Hon Fred LI

Date of meeting: 14 March 2007

Replied by: Secretary for Economic  
Development and Labour

### Question

Will the Government inform this Council:

- (a) how it monitors the utilization of the Travel Industry Compensation Fund ("TICF"), and whether it will put TICF under the direct management of the Tourism Commission;
- (b) given that TICF is made up of collection of levy at a rate of 0.15% from the outbound tour fees received, whether it will consider suspending or reducing the levy when the surplus of TICF has accumulated to a certain level; and
- (c) whether it will discuss with the Travel Industry Council of Hong Kong utilizing TICF to take out indemnity insurance collectively on behalf of travel agents, so as to enhance the protection for outbound tour group members?

### Reply

Madam President,

- (a) The Travel Industry Compensation Fund (TICF) was set up under section 32C of the Travel Agents Ordinance (the Ordinance) in 1993 to provide ex gratia payments for travellers, who have procured outbound tour services arranged by travel agents, under the following two scenarios:
  - (i) where outbound travellers suffer a loss in the outbound tour fare, including losses caused by default of travel agents; and

- (ii) where expenses are incurred by outbound travellers arising from death or injury sustained in activities provided or organised by travel agents whilst travelling abroad, including medical expenses and expenses for paying visits to the place of accidents by their family members.

Under sections 32H and 32I of the Ordinance, a travel agent is required to pay a levy at a rate of 0.3% of every outbound fare received, half of which (i.e. 0.15%) shall be payable to the TICF.

The TICF is held, managed and applied by the Travel Industry Compensation Fund Management Board (the Board) set up under Section 32B of the Ordinance. The Board regularly reviews the reserve level of the TICF and the levy rate to ensure that the TICF is able to meet the ex gratia payments payable to outbound travellers affected in case of default of travel agents or tour accidents during their outbound tours. The Board consists of a chairman and eight members who are drawn from different sectors of the community, including the banking, legal and accountancy sectors, as well as the Consumer Council (CC) and the travel trade. The Registrar of Travel Agents is an ex officio member and the secretary. Under the TICF, the Investment Committee is responsible for providing professional advice on the investment of the TICF. The TICF is transparent in its operation and takes into account protection for consumers. Since its establishment in 1993, the TICF has been running smoothly.

- (b) Although the Ordinance does not specify an upper limit in respect of the reserve level of the TICF, the Board commissioned a professional actuarial consultant to conduct a study in 2002-03 to review the reserve level of the TICF and the levy rate. In light of the consultant's review report and recommendations, the Board noted that the reserve of the TICF should be maintained at a healthy level so as to meet any liability arising from unexpected claims. The Board considered it inappropriate to adjust the levy rate, and decided to conduct a professional assessment on the reserve level of the TICF and the levy rate every five years.

The Board has commissioned a professional actuarial consultant this year to conduct another professional assessment and provide expert advice on the TICF reserve, risk level as well as the levy rate. The consultancy study is expected to complete in the coming months, and the Board will carefully consider the study findings.

- (c) Under the existing Ordinance, the TICF aims to protect travellers who have used the outbound tour services arranged by travel agents. To change the TICF's intended use to take out collective indemnity insurance on behalf of travel agents, we have to consider various issues, including the impact of the proposal on the risks to the TICF, current levy rate and consumers.

Like all other commercial operations, travel agents have the responsibility to adopt effective risk management measures based on their operational needs, including taking out indemnity insurance to reduce the financial risks in the event of liability claims. To address the travel trade's concern over risk management, the Travel Industry Council of Hong Kong (TIC) has commissioned a consultancy study on the trade's operational risks and related management. The study will be completed in the next few months. The Government and the Board will carefully consider the findings of the study and the proposals to be put forward by the TIC, including whether it is necessary to use the TICF; to improve the risk management of the trade and to enhance the protection for outbound travellers who join group tours.

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