

Market Overview - General Insurance

Market Performance of General Insurance Business in 2021¹

Hong Kong general insurance market closed with a modest growth in total gross written premiums (“GWP”) of 2.9% to HK\$61,611 million in 2021, in the light of the new challenge brought by the Omicron outbreak, which slowed down the pace of economic recovery during the year. Overall underwriting profit reduced to HK\$1,720 million in 2021 as compared with HK\$2,336 million in 2020.

The premium growth achieved by the market in 2021 was mainly attributable to Pecuniary Loss business and Property Damage business. Upward adjustment of the maximum property values for the Mortgage Insurance Programme continued to support the growth of mortgage insurance business, leading to an upsurge of 24.9% in Pecuniary Loss business. New business written and rates hardening continued to benefit Property Damage business, which expanded by 8.1%. In contrast, due to contraction in motor reinsurance market, Motor Vehicle business dropped by 11.4%. On the other hand, Accident & Health business continued to contract and dipped by 0.9% owing to the stagnant demand in travel insurance amidst COVID-19. The decreasing trend has bottomed out since this was the second consecutive year of decline.

The overall underwriting profit saw a significant shrinkage in 2021, mainly due to the resurgence of medical claims in Accident & Health business previously suppressed or deferred by the pandemic, which outweighed the increase in profit in Reinsurance Inward business. Direct Employees’ Compensation business recorded its second consecutive year of underwriting profit while direct Motor Vehicle business continued to report an underwriting loss this year.

The uncertainty regarding the duration and ongoing impact of COVID-19, as well as the deteriorating economic environment for the coming year caused by geopolitical tensions, inflationary dynamics and a looming recession will add pressure on the development of the general insurance market. Growth is expected to be softened and hinges on relaxations of both quarantine rules and travel restrictions as well as the pace of economic recovery. Underwriting performance remains uncertain especially due to the resurgence of medical claims back to pre-pandemic level. However, the market should be able to maintain its sustainability as long as it continues to abide by strict underwriting discipline and focuses on managing the impacts of the pandemic.

¹ The statistics cover those insurers whose financial year ended between 1 January 2021 and 31 December 2021. A total of 108 insurers reported to the Insurance Authority on their Hong Kong general insurance business for 2021.

Figure 1 Growth of Gross Written Premiums for General Insurance Business

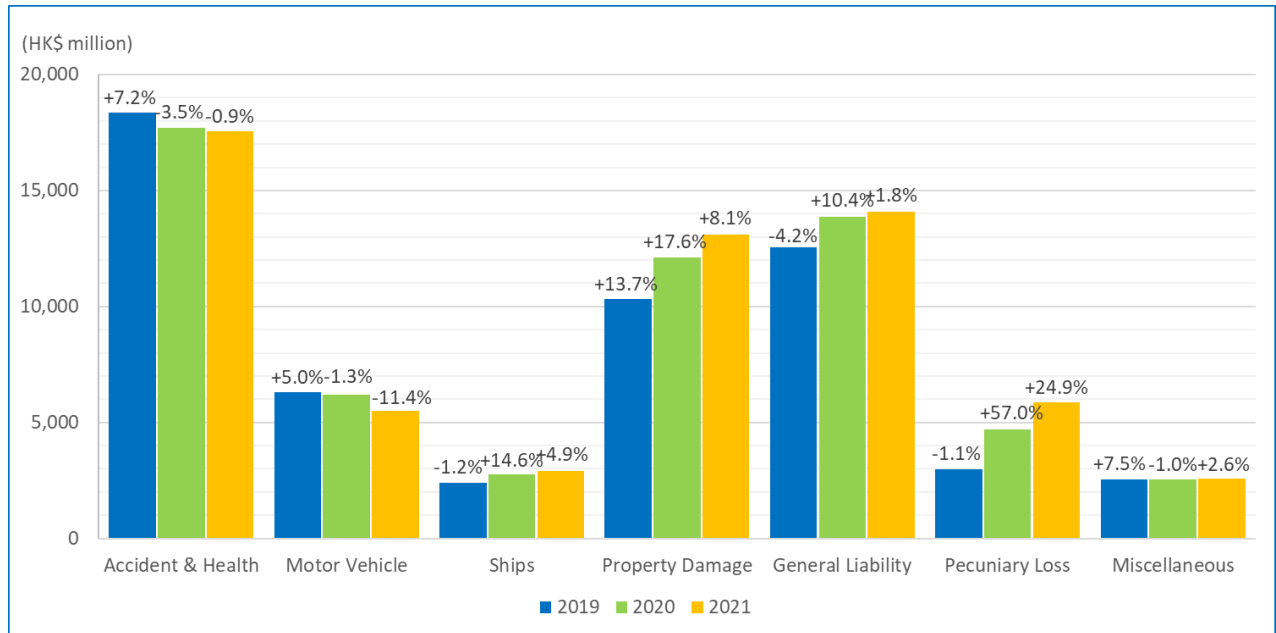
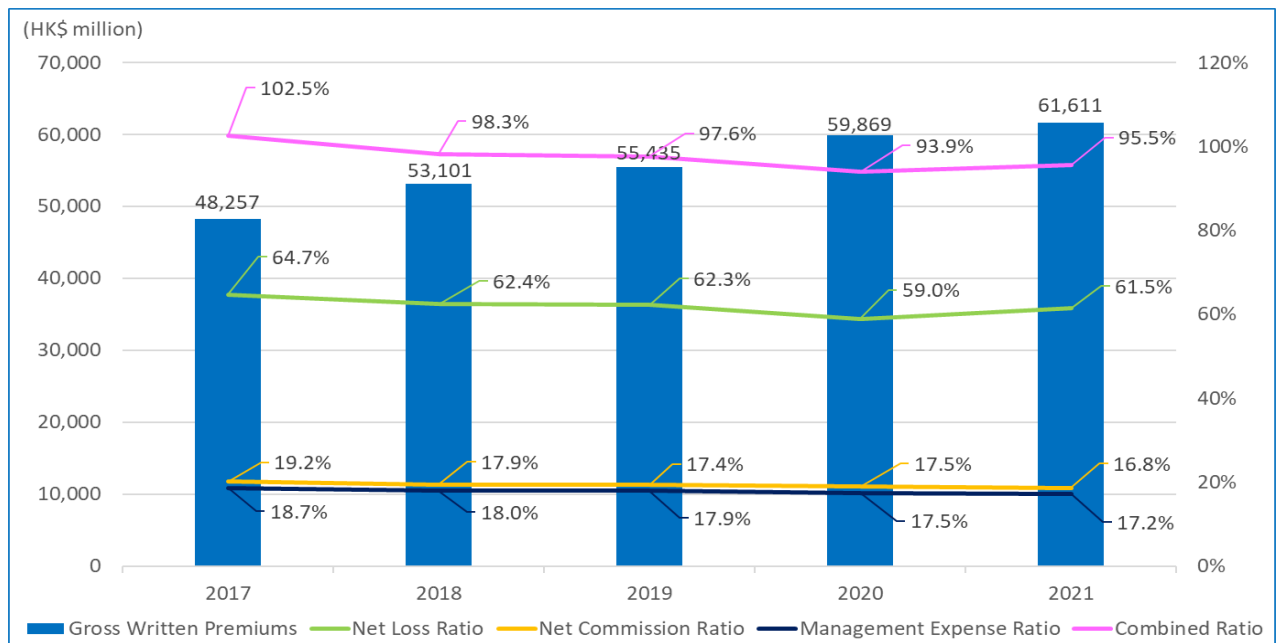


Figure 2 Overall Performance of General Insurance Business



Net Loss Ratio - Total of Net Claims Incurred and Unexpired Risks Adjustment expressed as a percentage of Net Earned Premiums

Net Commission Ratio - Net Commission Payable as a percentage of Net Earned Premiums

Management Expense Ratio - Management Expense as a percentage of Net Earned Premiums

Combined Ratio - Total of Net Loss Ratio, Net Commission Ratio and Management Expense Ratio

Industry Statistics Highlights – General Insurance Business

Premiums Composition and Distribution

Direct business and reinsurance inward (“RI”) business generated GWP of HK\$45,946 million and HK\$15,664 million in 2021 respectively, representing 74.6% and 25.4% of total GWP, as compared with 73.9% and 26.1% in 2020. The premiums composition was similar to last year, with Accident & Health business occupying the biggest share, followed by General Liability business and Property Damage business.

Market share of GWP for the top 10 and top 20 insurers was 41.4% and 61.9% in 2021 respectively.

Figure 3 Gross Written Premiums for Hong Kong Direct and Reinsurance Inward Business

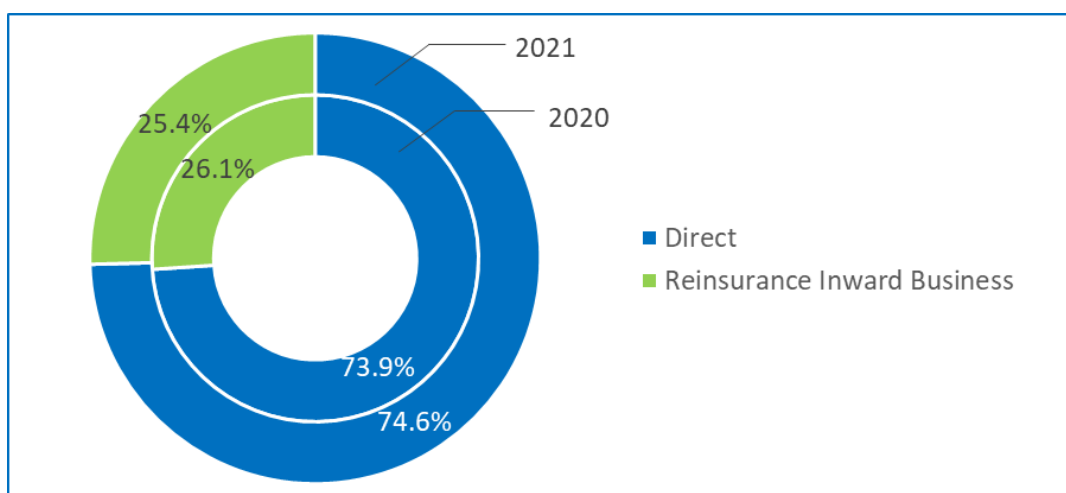
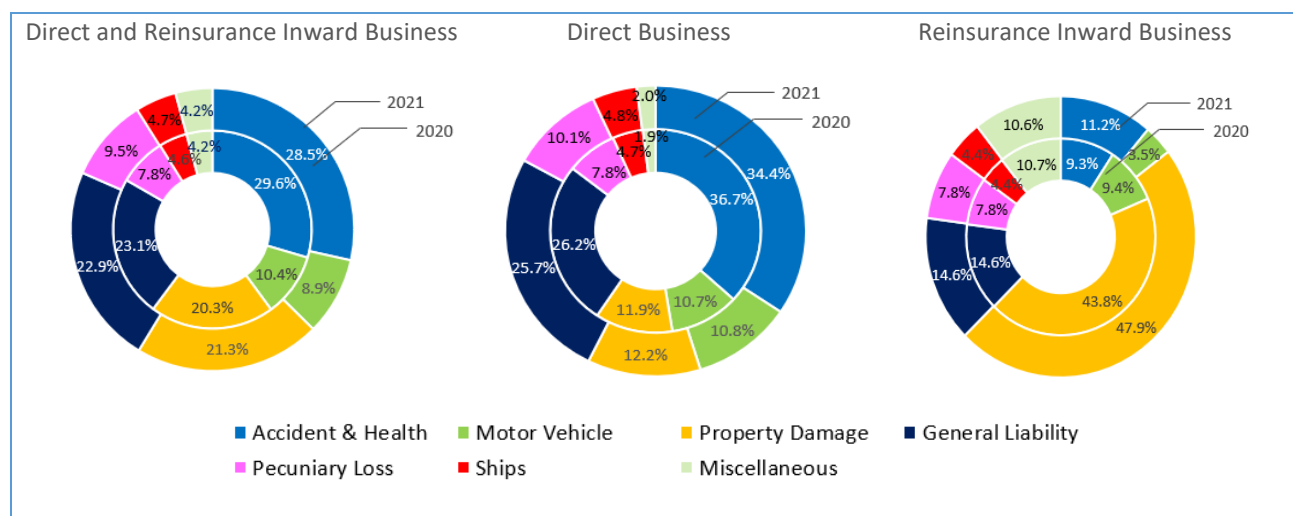
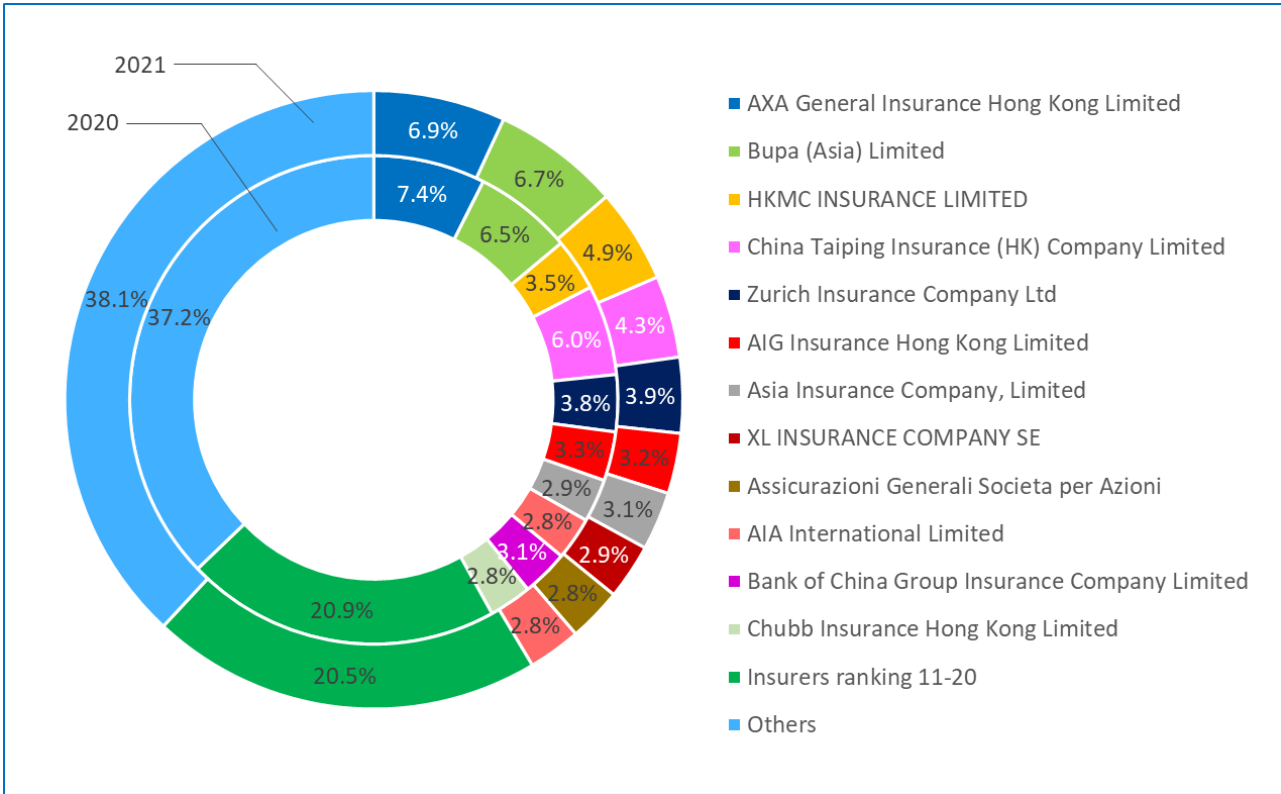


Figure 4 Composition of Gross Written Premiums by Lines of Business



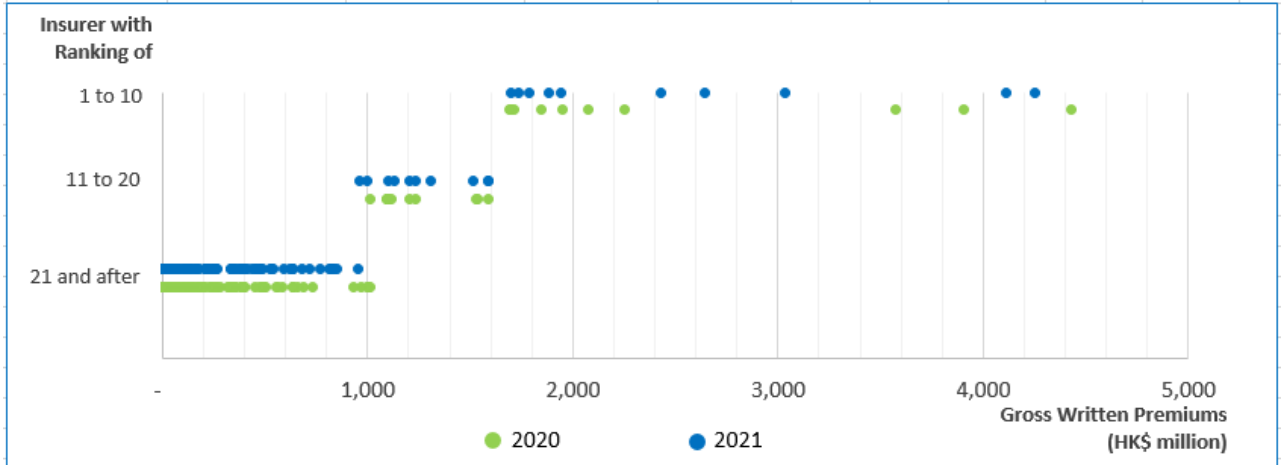
Percentages shown above may not add up to 100% due to rounding.

Figure 5 Market Share by Gross Written Premiums



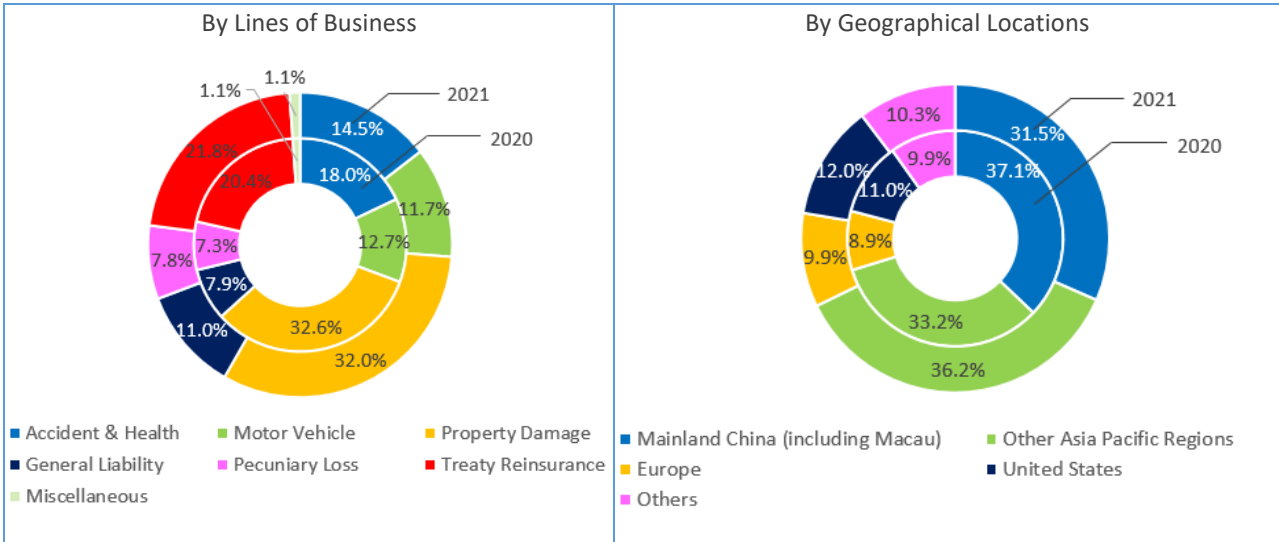
Percentages shown above may not add up to 100% due to rounding.

Figure 6 Distribution of Gross Written Premiums by Insurers' Ranking



The IA also collects data on non-Hong Kong general insurance business written by authorized insurers. According to this information, GWP for non-Hong Kong RI business dipped by 2.7% from HK\$29,124 million in 2020 to HK\$28,340 million in 2021. Property Damage business, Treaty Reinsurance business and Accident & Health business continued to be the major lines of business, representing about 68.3% of premiums. By geographical locations, RI business originated from Mainland China and other Asia Pacific Regions accounted for 67.7% of premiums.

Figure 7 Composition of Gross Written Premiums for non-Hong Kong Reinsurance Inward Business



Percentages shown above may not add up to 100% due to rounding.

Direct Hong Kong Business

GWP for direct business totalled HK\$45,946 million in 2021, recording a growth of 3.8%, as compared with 5.3% last year.

Growth was observed in various lines of business in the direct market. Among them, Pecuniary Loss business continued to report significant growth of 33.7%, riding on the increase in the maximum property values of the Mortgage Insurance Programme. However, it was offset by the decline in Accident & Health business, with GWP dropping by 2.8% attributable to the stagnant demand on travel insurance amid the ongoing pandemic.

Underwriting profit for direct business shrank from HK\$1,856 million in 2020 to HK\$1,058 million in 2021, with the overall combined ratio increasing from 93.7% to 96.5%. The drop in underwriting profit was mainly attributable to Accident & Health business, which reported a reversal from a profit of HK\$1,053 million in 2020 to a loss of HK\$37 million in 2021, resulting from resumption of medical claims to pre-pandemic level.

Figure 8 Growth of Written Premium Income for Direct Business

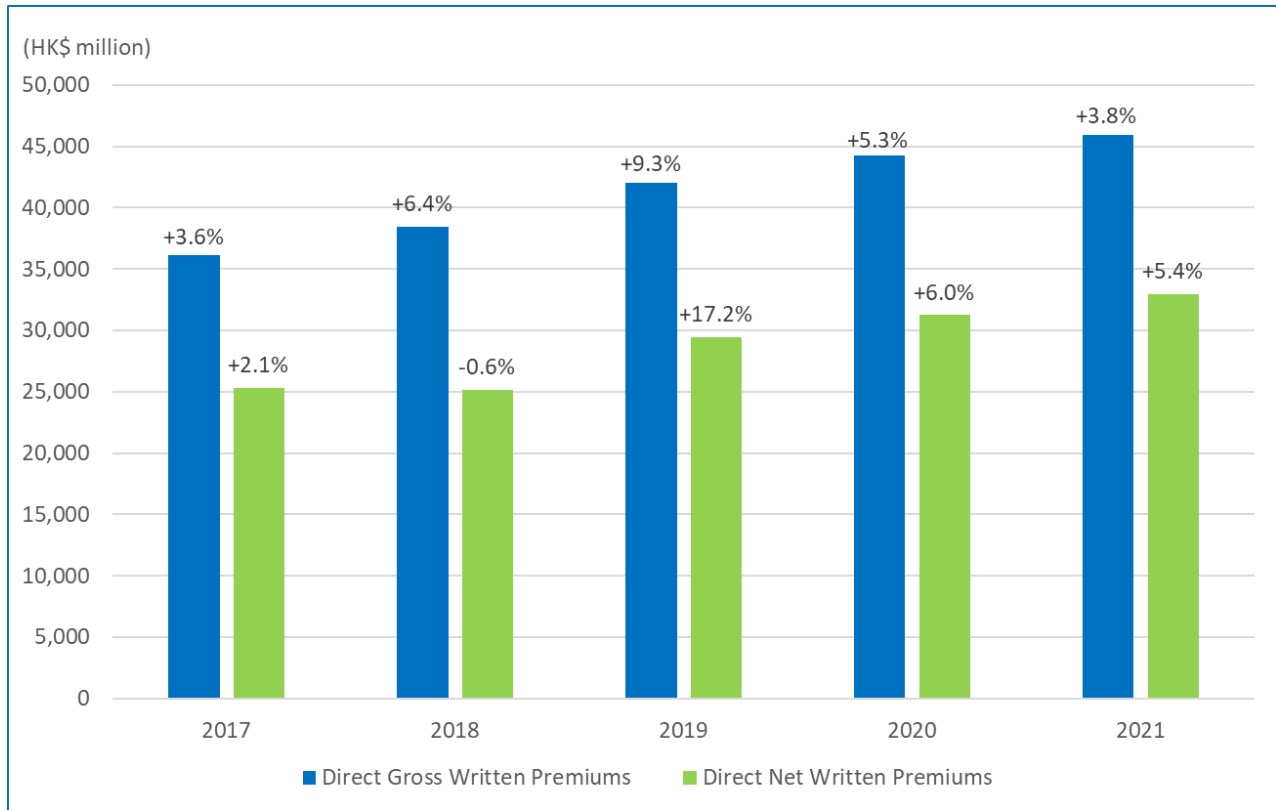


Figure 9 Growth of Direct Gross Written Premiums for Major Lines of Business

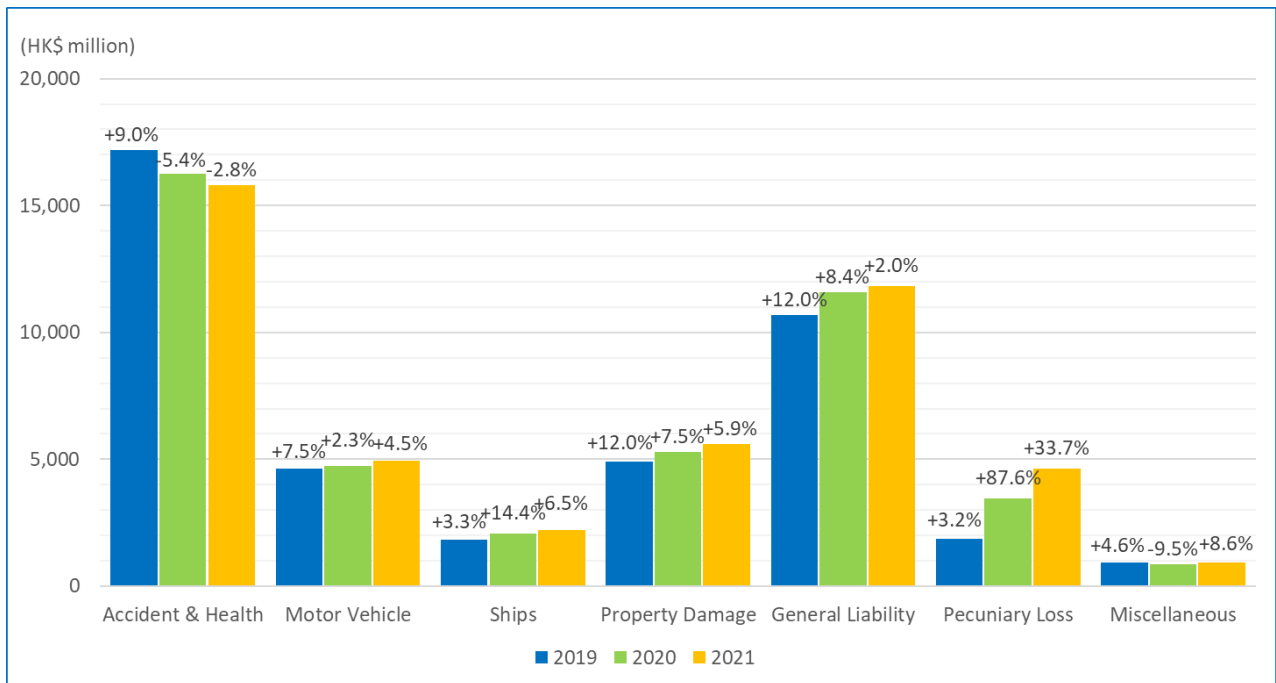
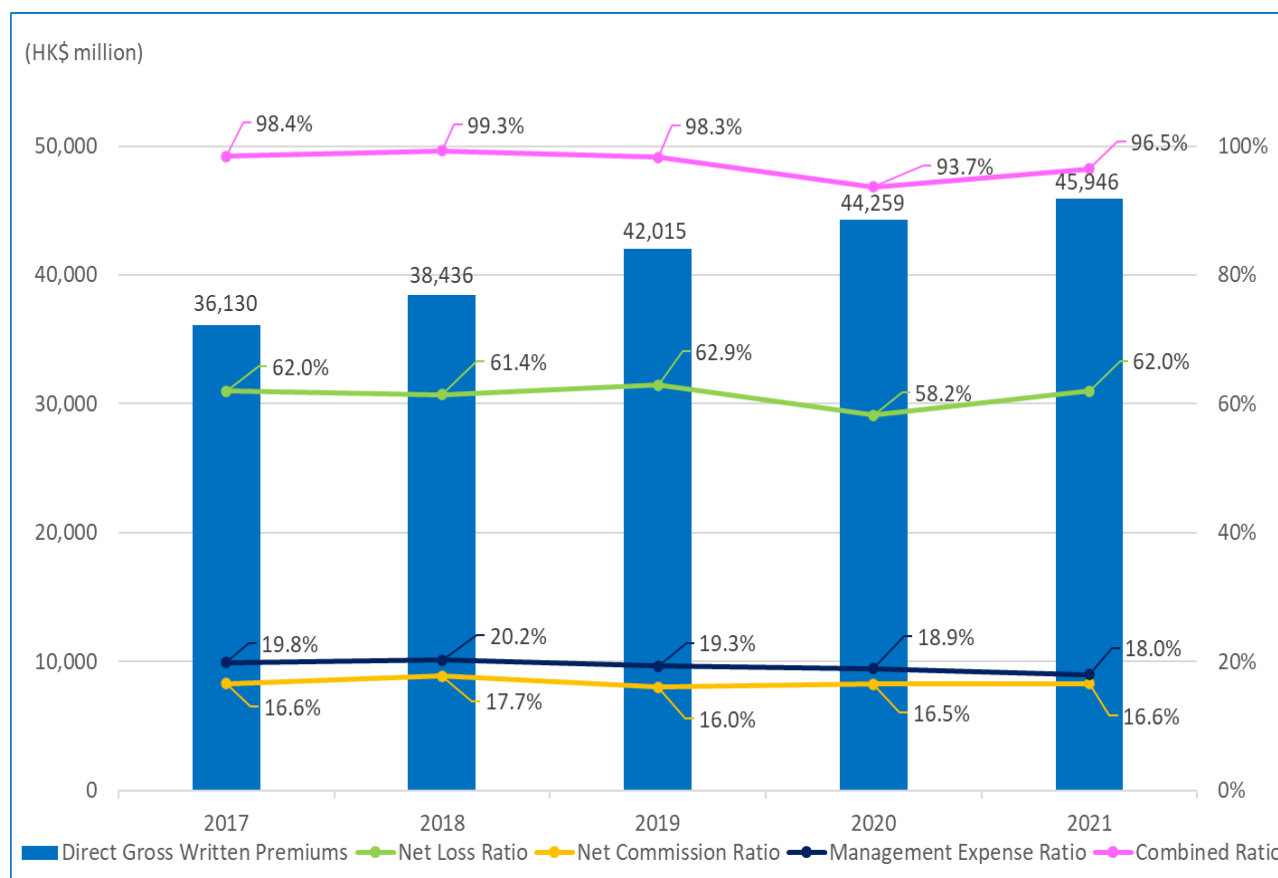


Figure 10 Overall Performance of Direct Business



Reinsurance Inward Business

Total GWP for RI business rose slightly by 0.3% to HK\$15,664 million in 2021, mainly contributed by Property Damage business and Accident & Health business. These two lines of business went up by 9.7% and 21.0% respectively, building on market hardening as well as new business being brought into Hong Kong. The growth was offset by contraction in the motor reinsurance market with Motor Vehicle business fallen by 62.8%.

RI business registered an underwriting profit of HK\$662 million in 2021, which showed a notable growth from HK\$480 million in 2020, with the overall combined ratio reduced to 91.9%. The increase in profitability in 2021 mainly came from the turnaround of Proportional Treaty business and Pecuniary Loss business from underwriting losses to profits which was partially offset by reduction in underwriting profit of Property Damage business. Except for Goods in Transit business, all other business lines reported underwriting profits in 2021.

Figure 11 Growth of Written Premium Income for Reinsurance Inward Business

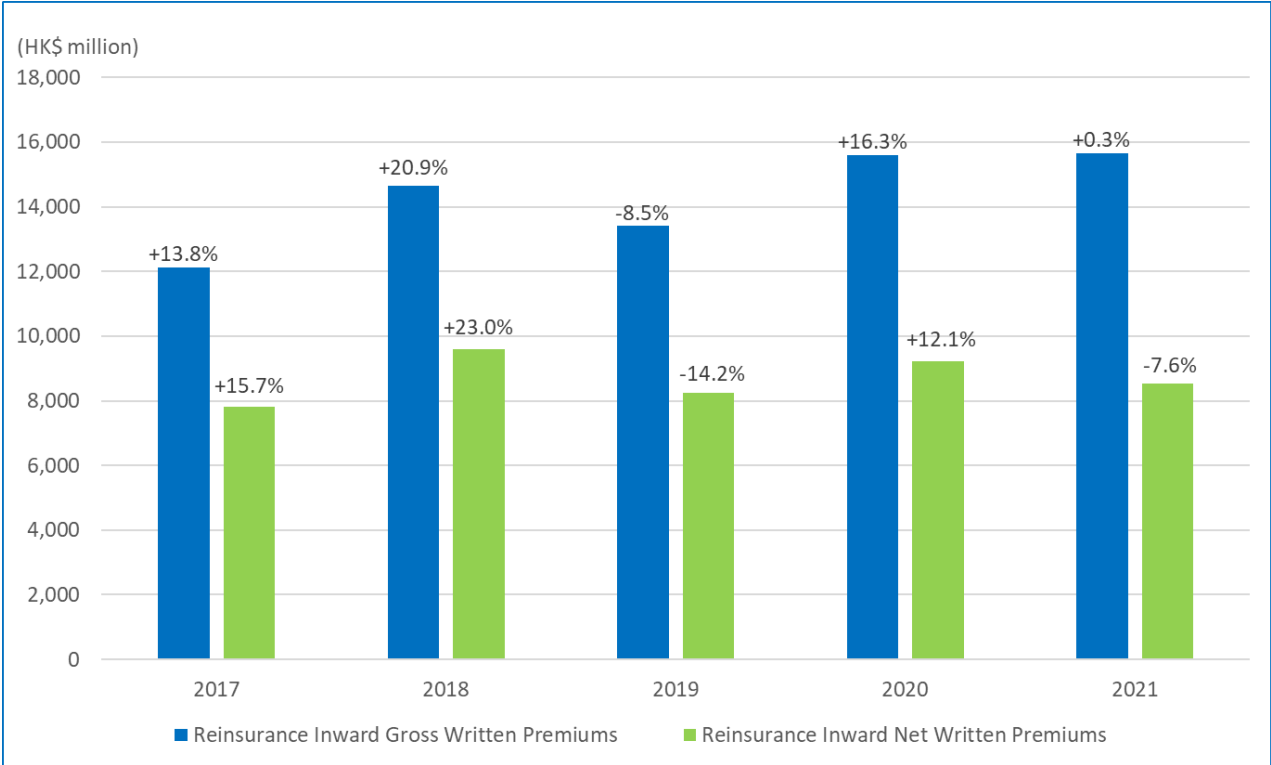


Figure 12 Growth of Reinsurance Inward Gross Written Premiums for Major Lines of Business

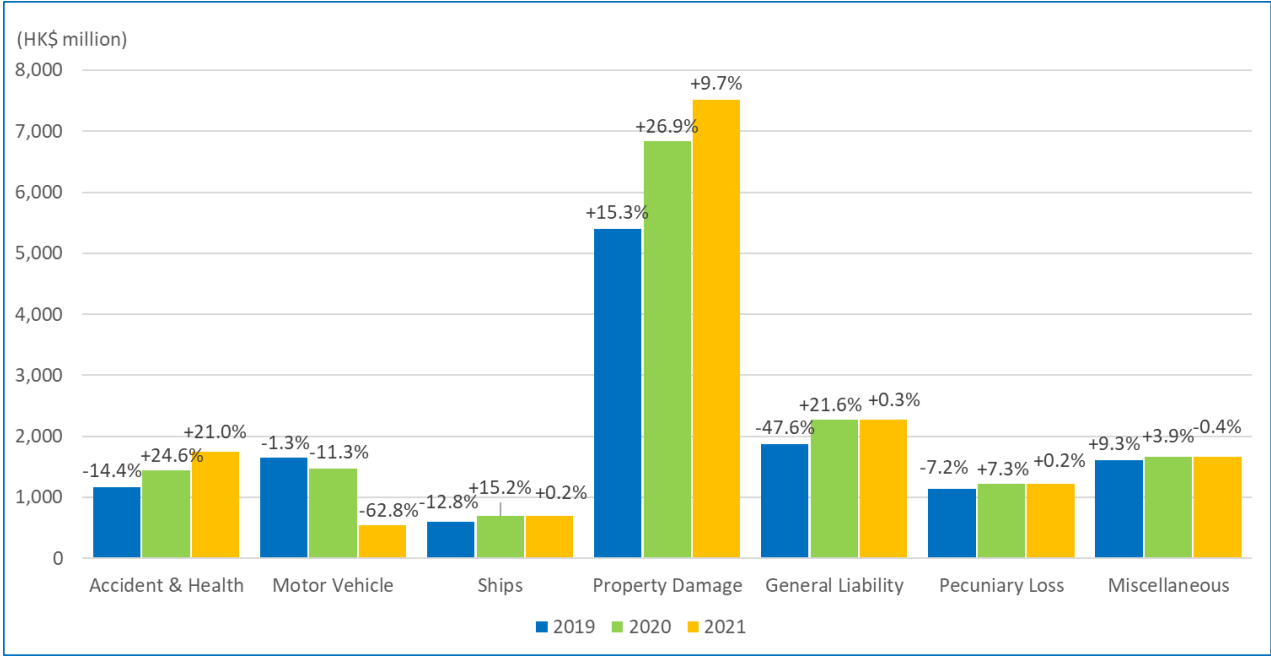
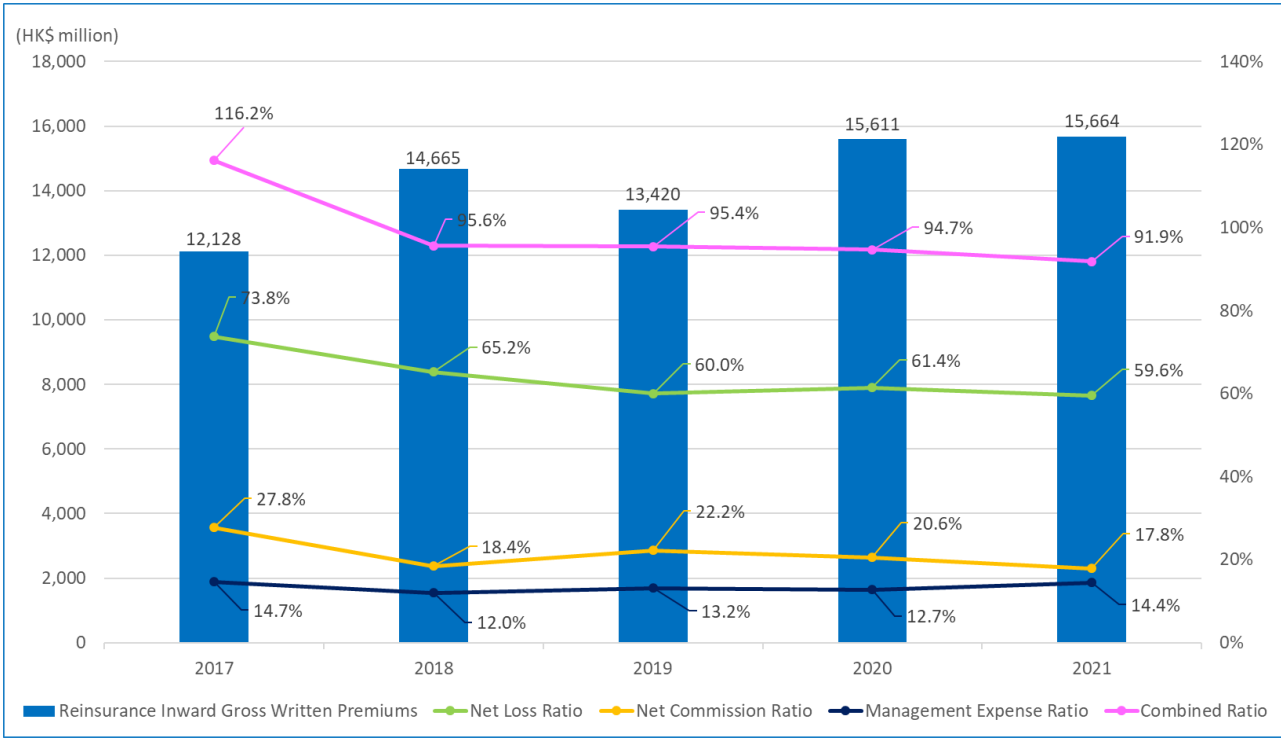


Figure 13 Overall Performance of Reinsurance Inward Business

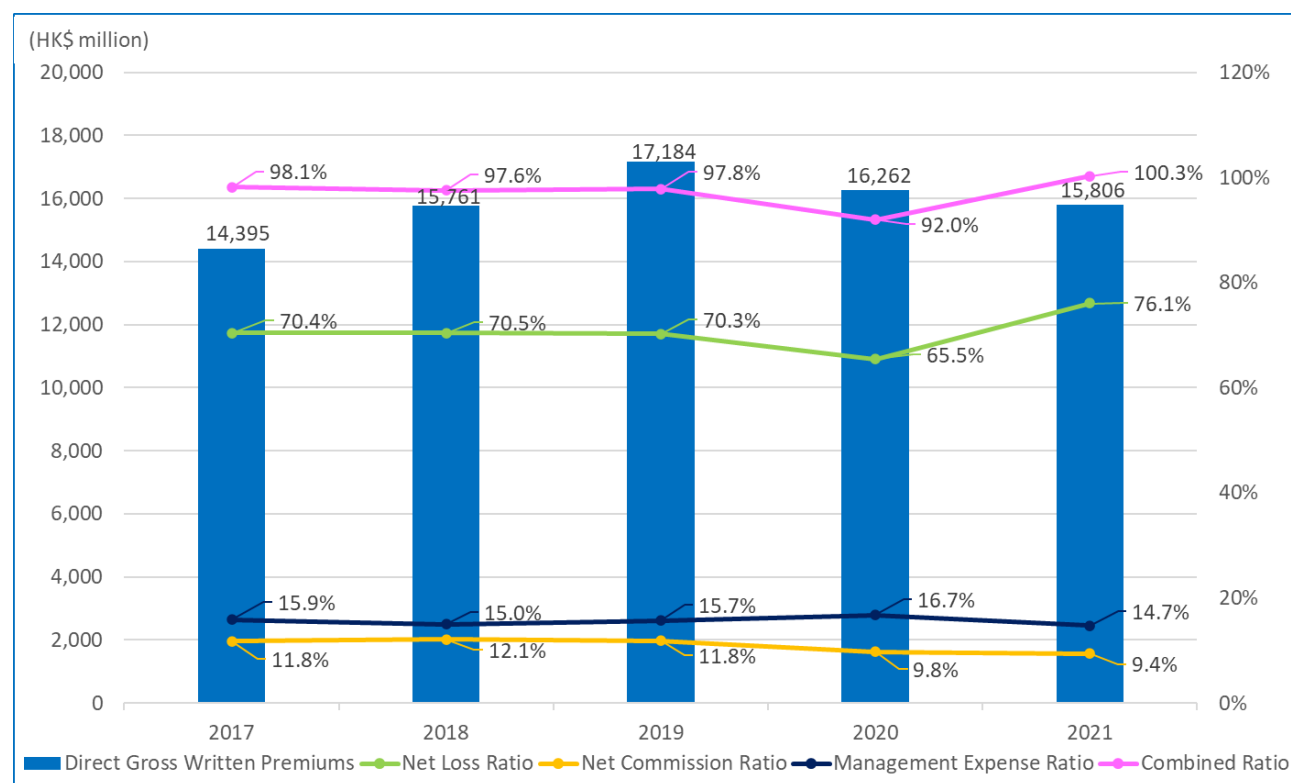


Direct Accident & Health Business

Accident & Health (“A&H”) business was the largest line of business in terms of GWP and accounted for 34.4% of direct business GWP in 2021. It had been the largest driving force for market growth in prior years although the GWP dropped since 2020 after the outbreak of COVID-19 as a result of the inhibited outbound travel and the slowdown in the growth of medical business. The reduction in GWP peaked out in 2020 with a drop of 5.4% and it narrowed down to 2.8% with GWP at HK\$15,806 million in 2021.

As a result of the resurgence of medical claims back to pre-pandemic level, the underwriting performance of direct A&H business deteriorated in 2021, with a combined ratio of 100.3% in 2021 as compared with 92.0% in 2020. Although this was foreshadowed in 2020, the market needs to continue its vigilance in the determination of sustainable pricing and reserving.

Figure 14 Overall Performance of Direct Accident & Health Business



Direct Employees' Compensation Business

Employees' Compensation ("EC") business, as a major part of General Liability business, contributed 16.3% of direct business GWP in 2021. Direct EC business had experienced positive growth since 2017, but the momentum softened in 2021 with GWP slipped by 1.3% to HK\$7,512 million in 2021. Although fewer large construction projects were commenced during the year, the EC Construction (on contract value basis) sub-class remained to be the key contributor and accounted for around 30% of total GWP for direct EC business. No EC sub-class contributed more than 15% of total GWP other than the EC Construction (on contract value basis) sub-class.

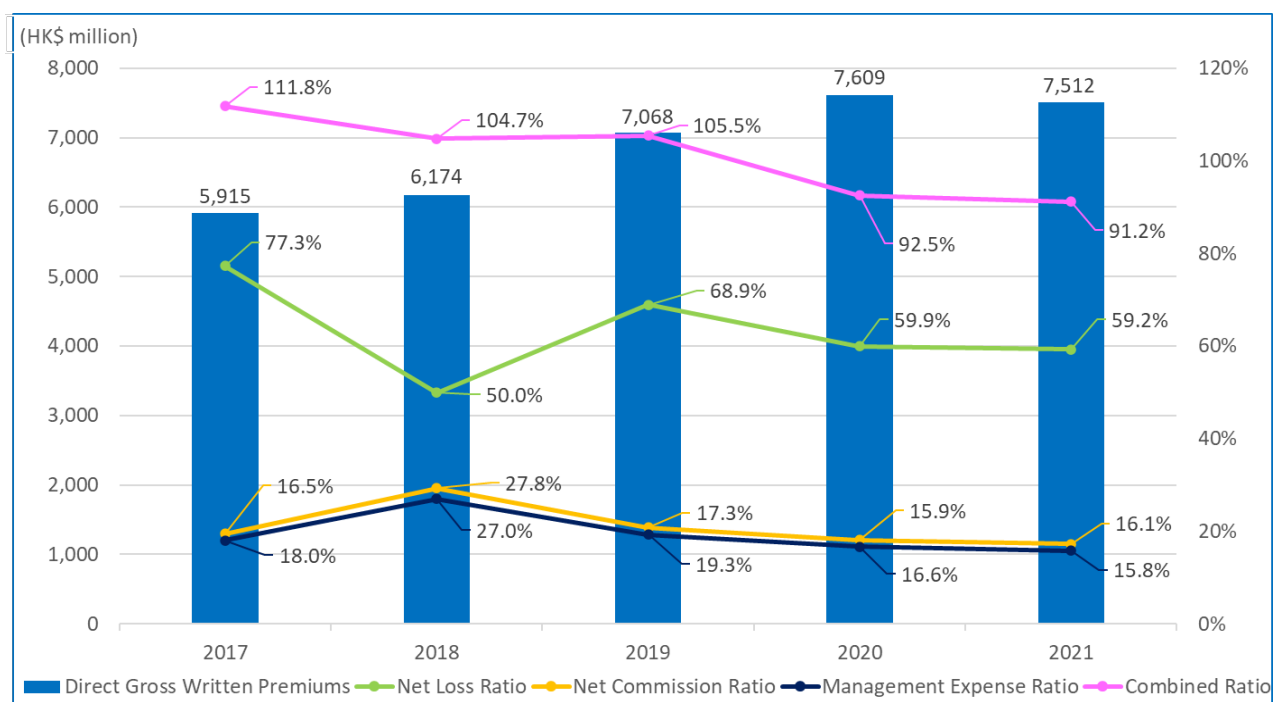
Lower reported claims were evident across the direct EC market as a result of subdued economic activities during COVID-19 pandemic. This led to a more favourable underwriting performance in direct EC business, with a combined ratio of 91.2% in 2021 as compared with 92.5% in 2020, sustaining a profit of \$501 million in 2021.

Apart from the impact of COVID-19, the market needs to continue its rigor in maintaining the sustainability of the direct EC insurance market, in particular the business sub-class of EC Construction (on contract value basis).

Figure 15 Direct Employees' Compensation Business Key Statistics

	2017	2018	2019	2020	2021
Direct Gross Written Premiums (HK\$ million)	5,915	6,174	7,068	7,609	7,512
Underwriting Profit/(Loss) (HK\$ million)	(584)	(150)	(260)	409	501
Number of Policies in Force	399,614	390,259	390,265	378,726	377,588

Figure 16 Overall Performance of Direct Employees' Compensation Business

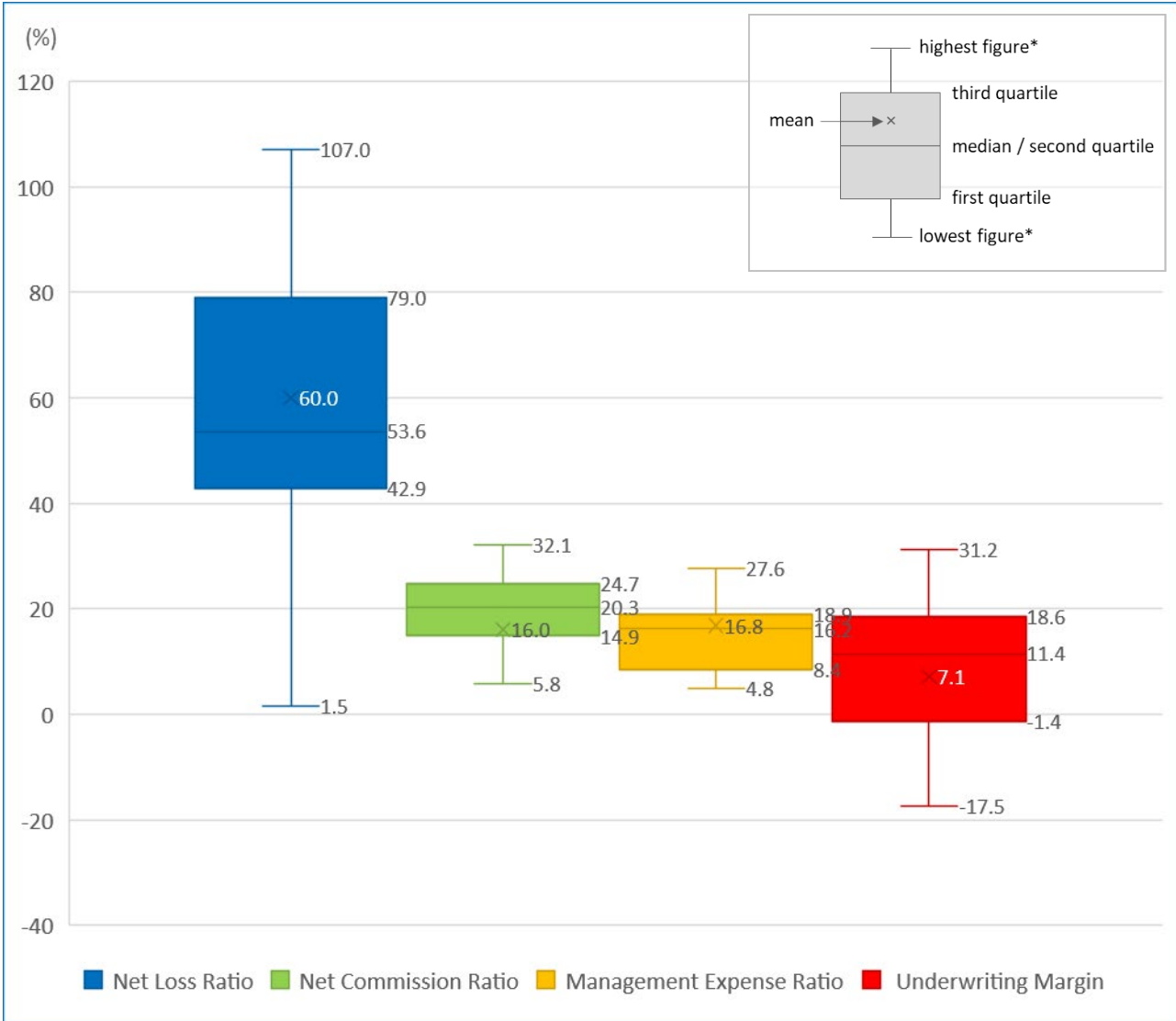


The top 25 direct EC business insurers held 92.2% of the total market share in terms of net earned premiums in 2021. Both the median and the mean of the underwriting margin were positive in 2021, indicating that more than half of these top 25 direct EC insurers had a positive underwriting performance.

While the average management expense ratio reduced from 18.1% in 2020 to 16.8% in 2021, the average net loss ratio went up from 58.8% in 2020 to 60.0% in 2021. The net loss ratio was slightly more dispersed in 2021, with the third quartile being 79.0%, higher than 74.3% in 2020.

The IA will continue to pay close attention to insurers exhibiting high loss ratios that are not sustainable in the long term and to collaborate with the industry to facilitate healthy development of the direct EC insurance market.

Figure 17 Key Indicators — Top 25 Direct Employees’ Compensation Insurers in 2021



* Figures of outliers are excluded.

Direct Motor Vehicle Business

Motor Vehicle (“MV”) business generated GWP of HK\$4,953 million, representing 10.8% of direct business GWP in 2021. GWP increased by 4.5%, mainly attributable to the modest growth of 4.5% in the number of vehicles covered, while the average premium showed no significant change at HK\$5,057 per vehicle. The business mix of the top three sub-classes, namely Private Cars, Goods Carrying Vehicles and Taxis was stable over the past 5 years.

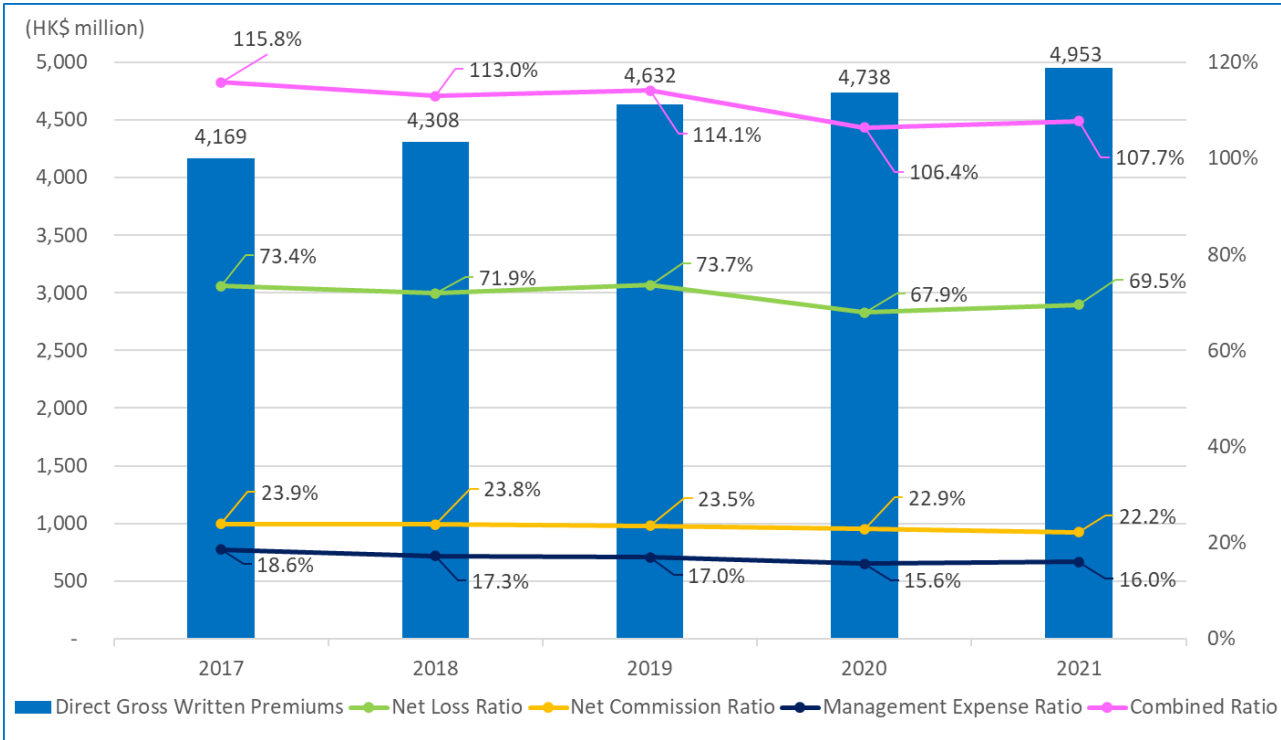
Persistent underwriting losses have been reported for direct MV business since 2015. Despite the slight increase in combined ratio from 106.4% in 2020 to 107.7% in 2021, an overall emerging trend of improvement in underwriting performance as a result of favourable claims experience was noted during COVID-19 pandemic. Whether this improvement trend is sustainable will need to be tested against the resumption of pre-pandemic claims pattern upon normalisation of commercial activities.

Private Cars, Goods Carrying Vehicles and Taxis accounted for 56.4%, 19.6% and 11.6% of total GWP of direct MV business in 2021 respectively. Reserves strengthening on these sub-classes has been observed in various major players, which led to the worsening of the underwriting performance in 2021.

Figure 18 Direct Motor Vehicle Business Key Statistics

	2017	2018	2019	2020	2021
Direct Gross Written Premiums (HK\$ million)	4,169	4,308	4,632	4,738	4,953
Underwriting Profit/(Loss) (HK\$ million)	(521)	(441)	(514)	(242)	(301)
Number of Vehicles Covered	901,068	891,090	921,161	937,059	979,407
Average Premium Per Vehicle (HK\$)	4,627	4,834	5,029	5,056	5,057

Figure 19 Overall Performance of Direct Motor Vehicle Business

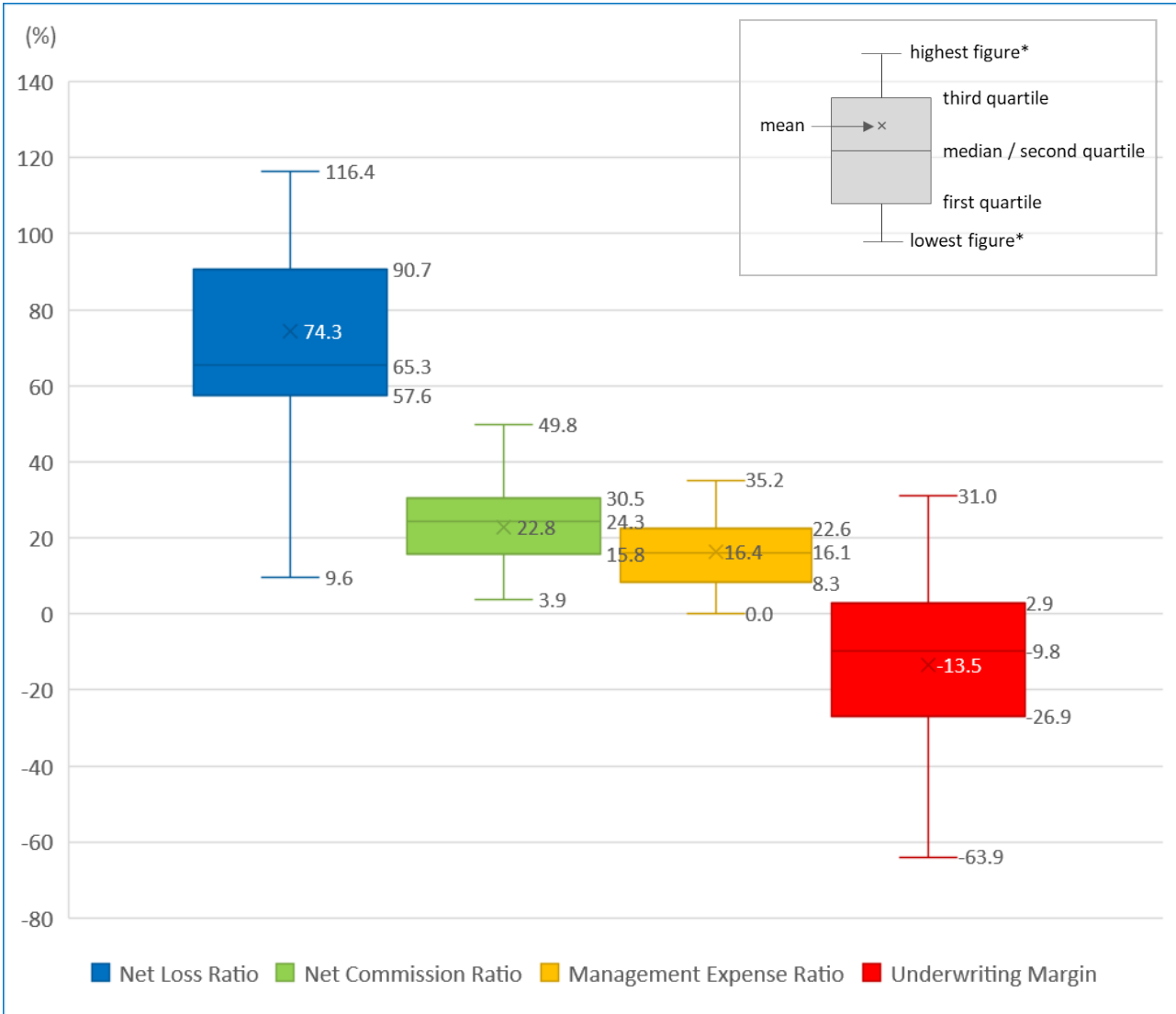


The top 25 direct MV business insurers accounted for 98.4% of the total market share in terms of net earned premiums in 2021. The average underwriting margin worsened from -8.1% in 2020 to -13.5% in 2021, mainly due to the increase in the average net loss ratio from 68.0% in 2020 to 74.3% in 2021.

The net loss ratio was less dispersed in 2021, with the third quartile being 90.7%, up from 83.3% in 2020. While the net loss ratios of individual insurers varied, the second quartile of 65.3% is significantly lower than the average net loss ratio of 74.3% in 2021, indicating that more than half of these top 25 direct MV insurers had a net loss ratio at or below 74.3%.

As with the direct EC market, the IA will continue to collaborate with the industry to facilitate sustainable development of the direct MV insurance market. Reserve adequacy remains a key supervisory focus, and the IA will continue to conduct thematic reviews on individual insurers to ensure robust reserving is being maintained.

Figure 20 Key Indicators — Top 25 Direct Motor Vehicle Insurers in 2021



* Figures of outliers are excluded.