

Market Overview - General Insurance

Market Performance of General Insurance Business in 2020¹

Hong Kong general insurance market demonstrated strong resilience despite the considerable challenges brought by COVID-19 throughout the year. Total gross written premiums (“GWP”) recorded a growth rate of 8.0% to HK\$59,869 million in 2020. Overall underwriting profit reached HK\$2,336 million, up from HK\$869 million in 2019.

The market was able to achieve premium growth during this difficult time due to positive contributions from Property Damage, General Liability and Pecuniary Loss business. Rates increase and new business continued to fuel Property Damage and General Liability business, which both showed double-digit growth of 17.6% and 10.4% respectively. Upward adjustment of the maximum property values for the Mortgage Insurance Programme propelled forward mortgage insurance business, driving an upsurge of 57.0% in Pecuniary Loss business. However, COVID-19 seriously affected direct sales of medical insurance and travel insurance, and dampened Accident & Health business, which recorded a decline of 3.5% in 2020 for the first time since the SARS outbreak in 2003.

While overall underwriting profit saw a significant increase in 2020, it should be noted that such a favourable result mainly stemmed from subdued economic activities and deferral of medical care amidst the pandemic, which led to lower reported claims in Employees’ Compensation and Accident & Health business respectively. With this in mind, the market should thus be prepared for the gradual normalization of claims.

In the coming year, the market will face strong headwinds as COVID-19 continues to drag down the economy. Although growth in premiums is expected to slow down further, the market should be able to sustain its underwriting profitability as long as it continues to abide by strict underwriting discipline. In view of the uncertainty regarding the duration and ongoing impact of COVID-19, the market needs to stay vigilant and continue to manage the impacts of the pandemic, both positive and negative, as well as to pay close attention to any possible unexpected volatility.

¹ The statistics cover those insurers whose financial year ended between 1 January 2020 and 31 December 2020. A total of 108 insurers reported to the Insurance Authority on their Hong Kong general insurance business for 2020.

Figure 1 Growth of Gross Written Premiums for General Insurance Business

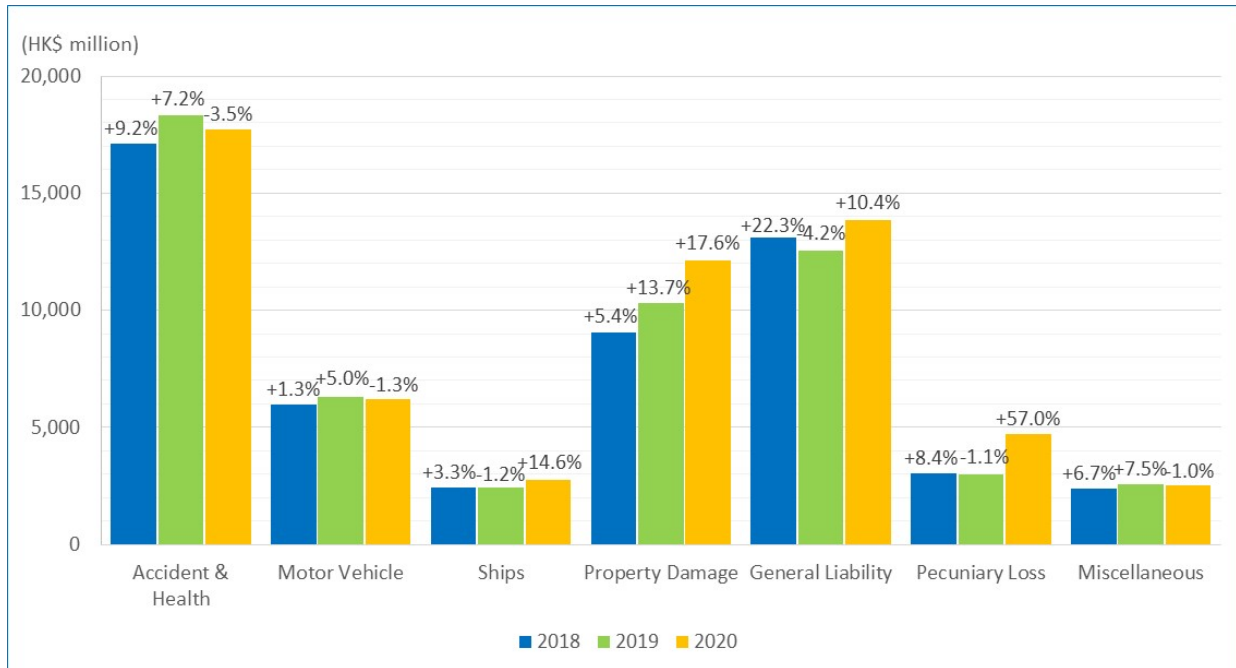
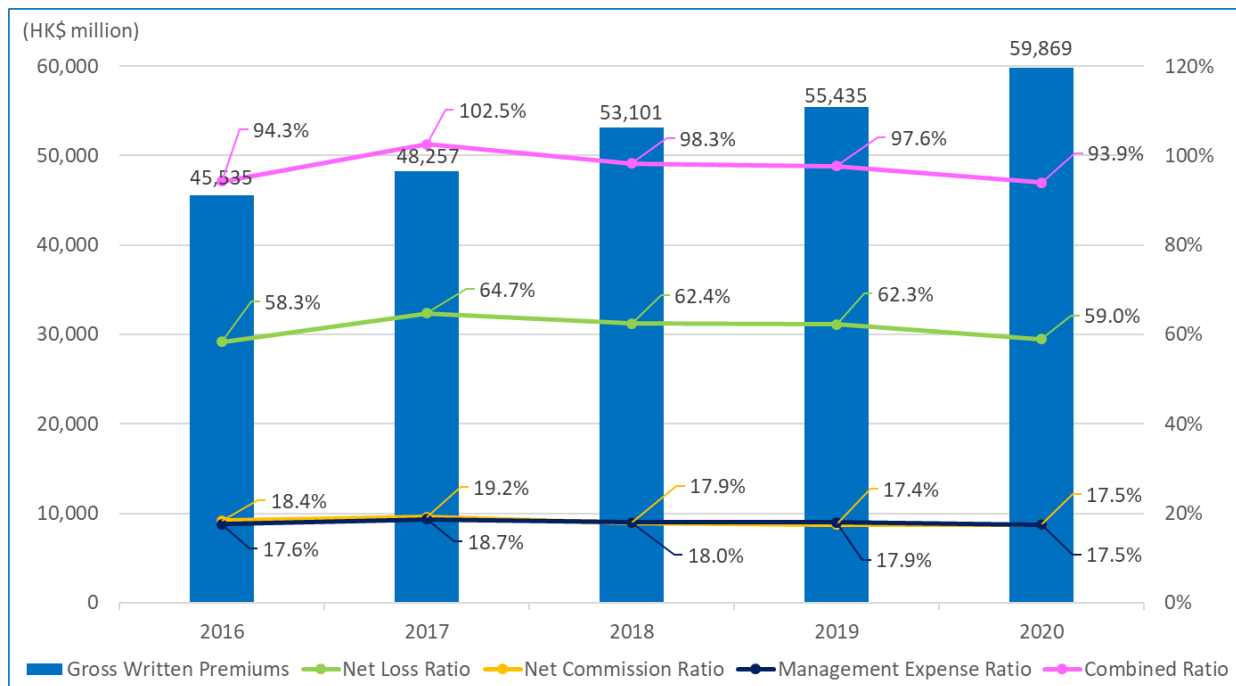


Figure 2 Overall Performance of General Insurance Business



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\$44,259 million and HK\$15,611 million in 2020 respectively, representing 73.9% and 26.1% of total GWP, as compared with 75.8% and 24.2% in 2019. Individual business lines followed similar trends to last year, with Accident & Health business taking the biggest share, followed by General Liability and Property Damage business.

Market share of GWP for the top 10 and top 20 insurers was 41.9% and 62.8% in 2020 respectively.

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

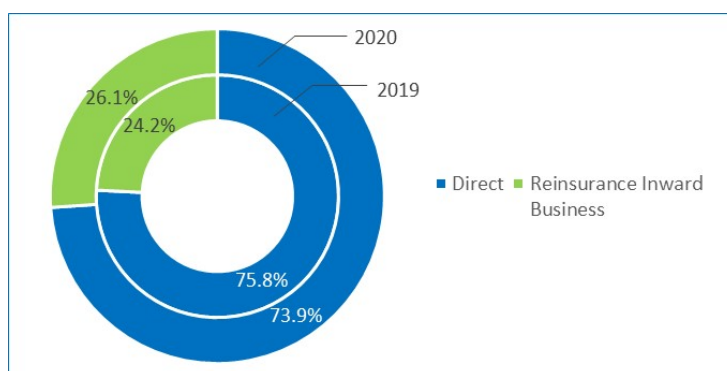
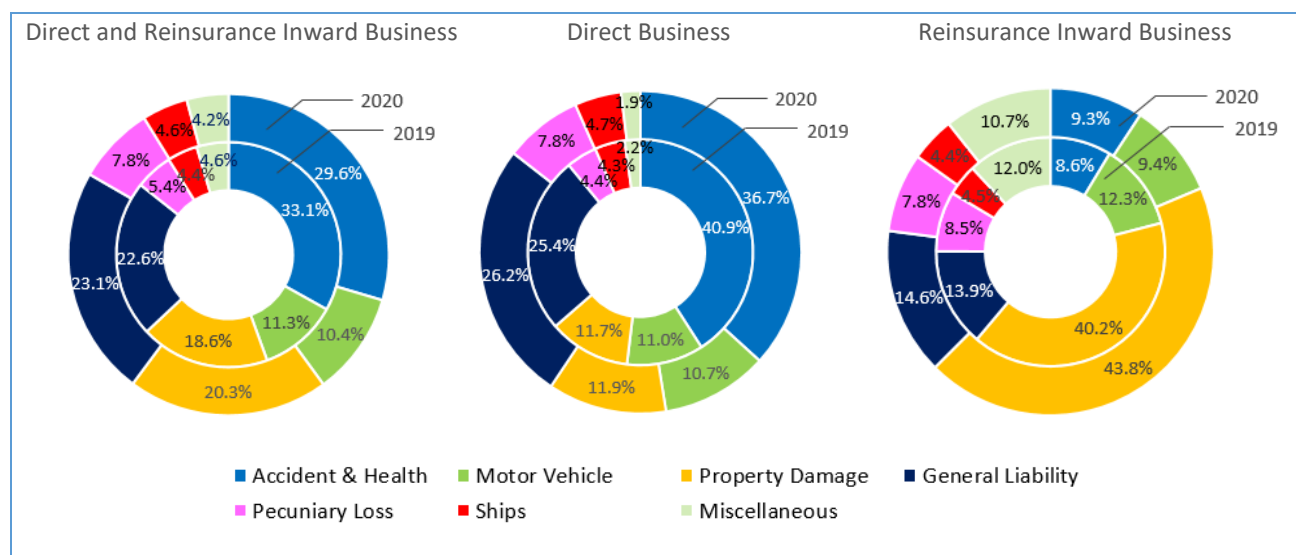
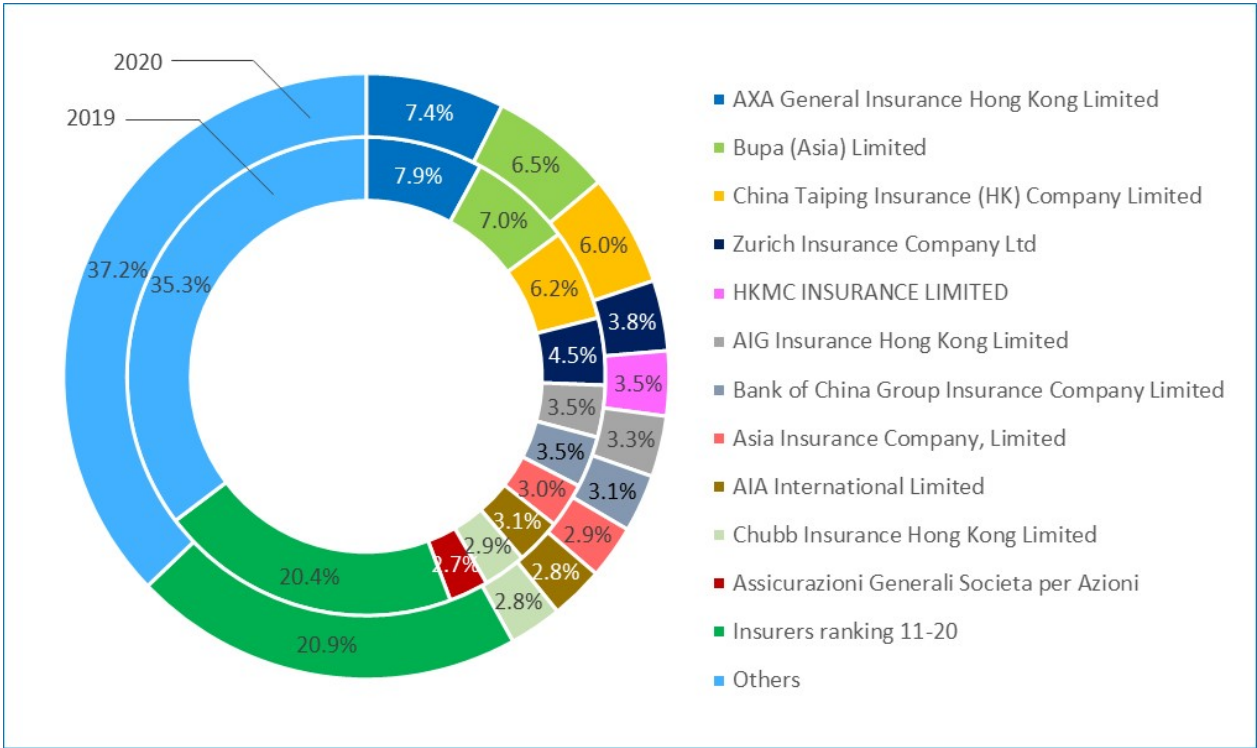


Figure 4 Composition of Gross Written Premiums by Lines of Business



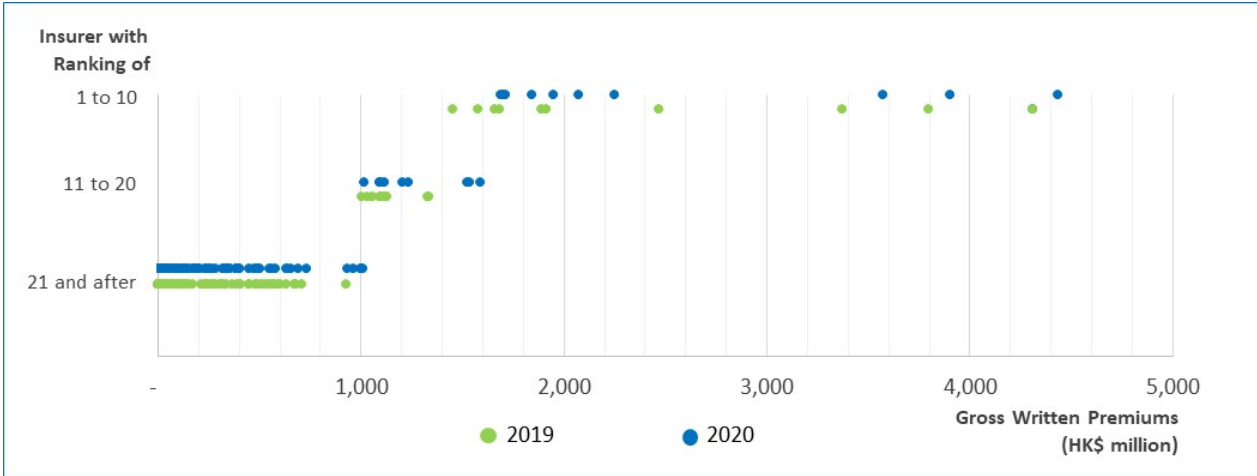
Percentages shown above may not add up to 100% due to rounding.

Figure 5 Market Share by Gross Written Premiums



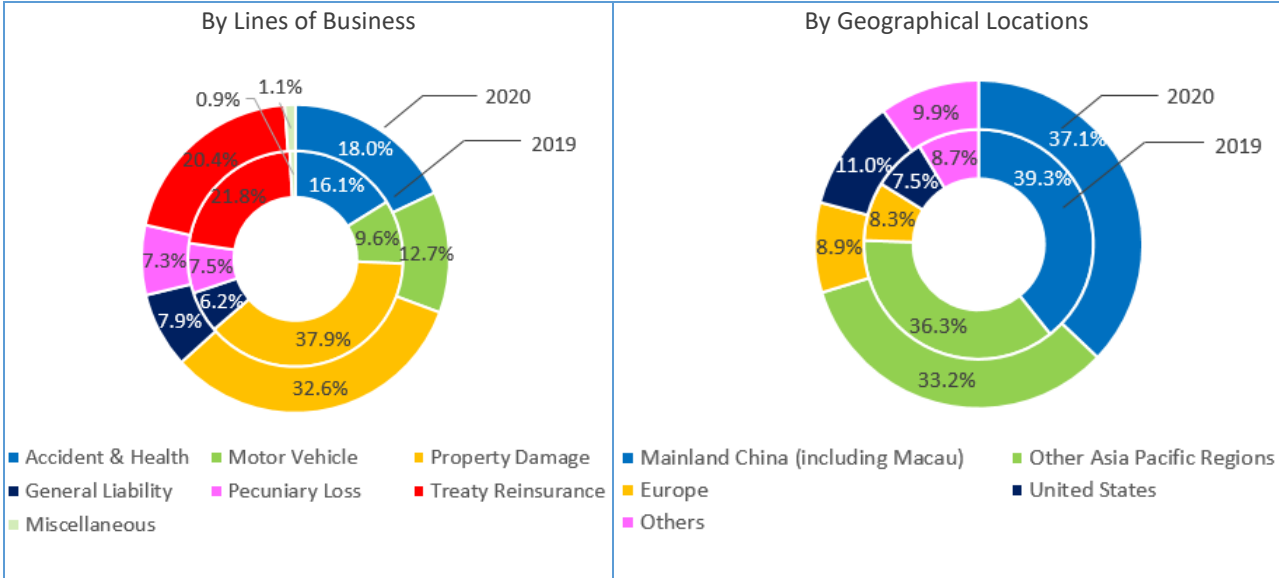
Percentages shown above may not add up to 100% due to rounding.

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 rose by 7.2% from HK\$27,173 million in 2019 to HK\$29,124 million in 2020. Although Property Damage continued to be the primary line of business, its share decreased, while Accident & Health and Motor Vehicle business saw noticeable growth.

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\$44,259 million in 2020, registering moderate growth of 5.3% over 2019, as compared with 9.3% last year.

The slowdown in premium growth resulted from the contraction of Accident & Health business, with GWP for Accident & Health dropping by 5.4% as sales of medical insurance and travel insurance were undermined by the ongoing pandemic. However, the direct market was supported by growth in other major lines of business. Among them, Pecuniary Loss business delivered outstanding growth of 87.6%, riding on the increase in the maximum property values of the Mortgage Insurance Programme.

Underwriting profit for direct business soared from HK\$488 million in 2019 to HK\$1,856 million in 2020, with the overall combined ratio reducing from 98.3% to 93.7%. Accident & Health and Employees’ Compensation business were the main contributors to the positive results, attributable to lower claims activity amid the pandemic. The direct property damage business also improved in the absence of major typhoons in Hong Kong during the year.

Figure 8 Growth of Written Premium Income for Direct Business

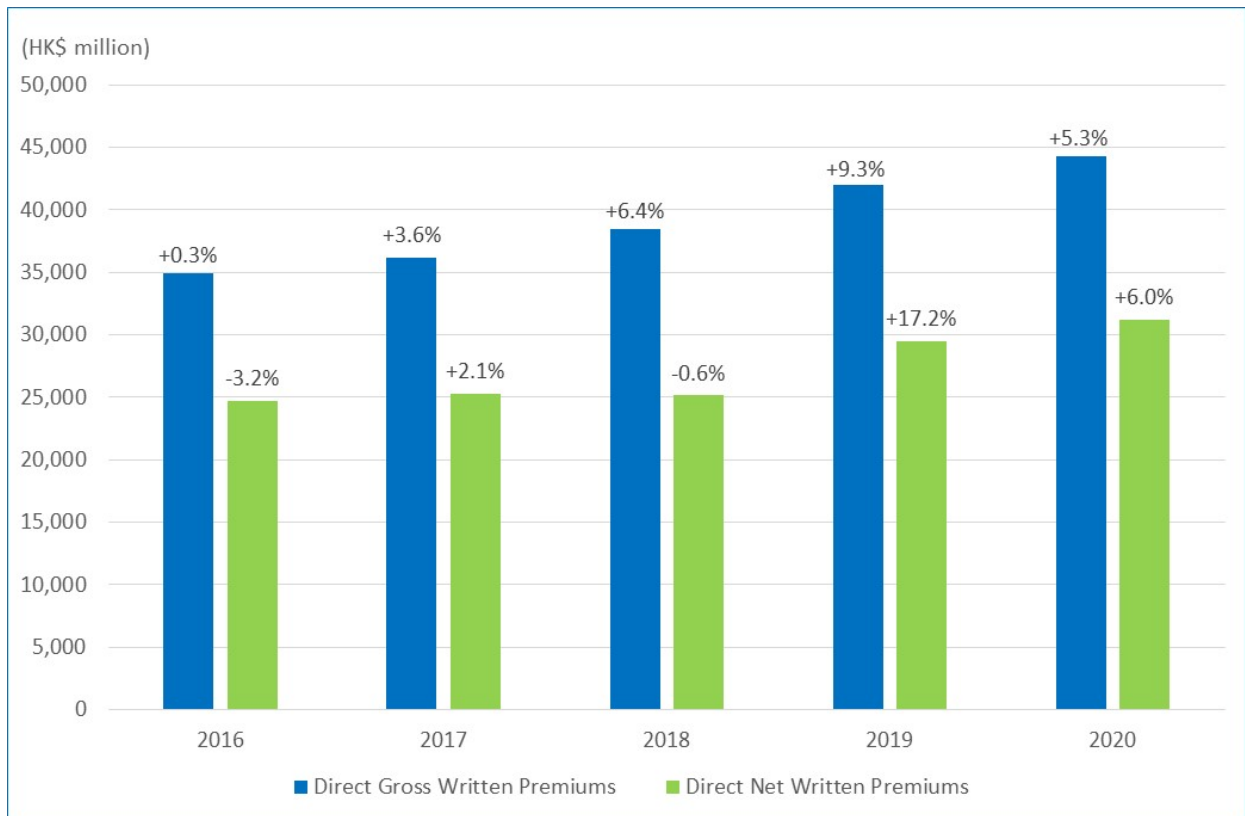


Figure 9 Growth of Direct Gross Written Premiums for Major Lines of Business

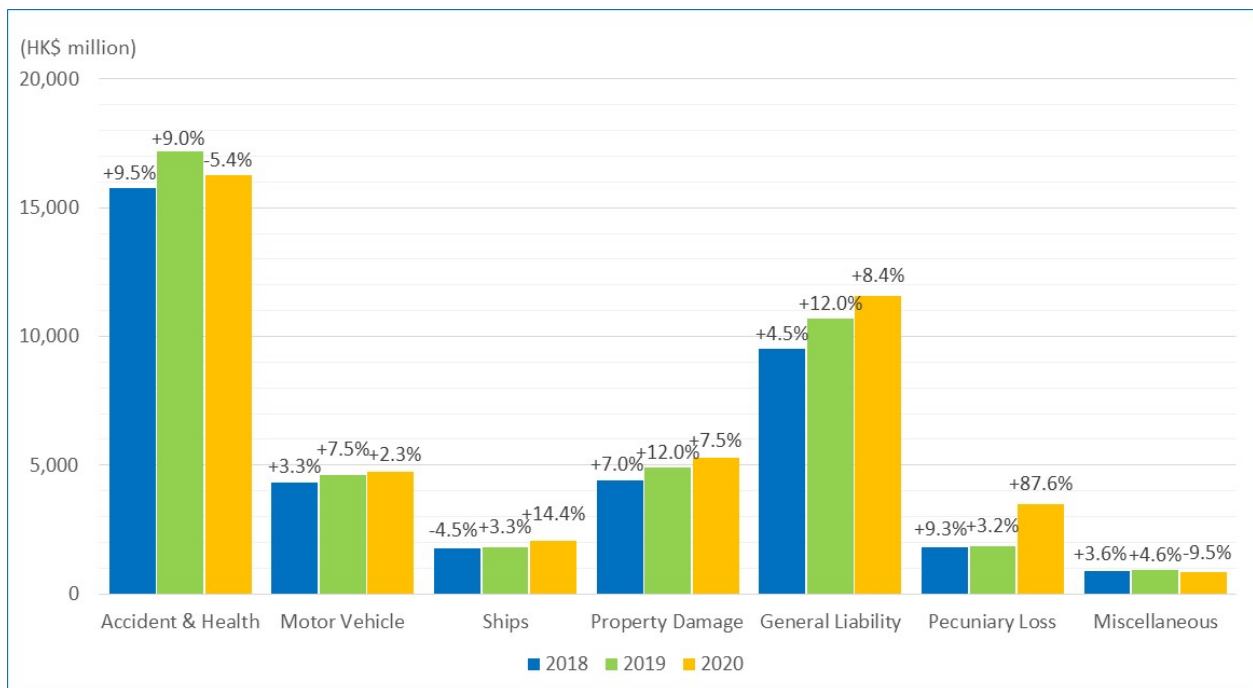
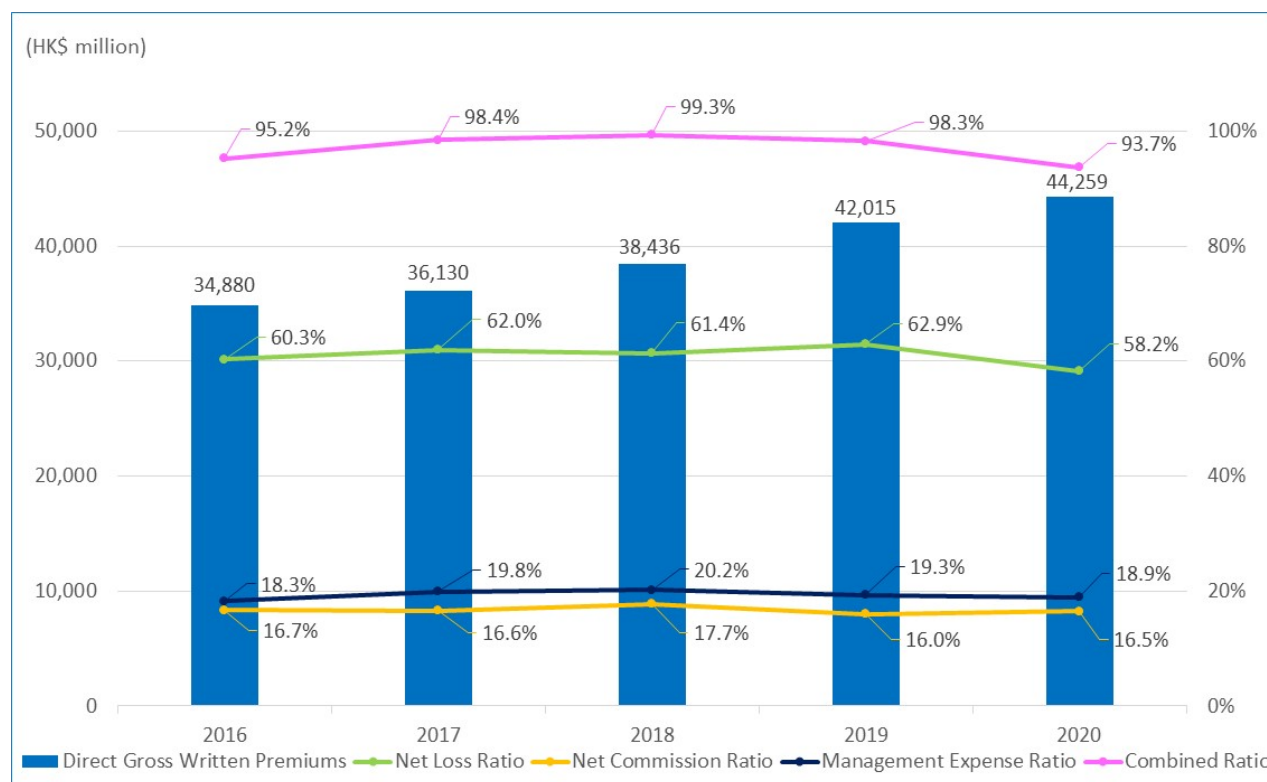


Figure 10 Overall Performance of Direct Business



Reinsurance Inward Business

Total GWP for RI business rose by 16.3% to HK\$15,611 million in 2020, mainly propelled by Property Damage and General Liability business. These two lines of business grew notably by 26.9% and 21.6% respectively, building on market hardening as well as new business being brought into Hong Kong.

RI business recorded an underwriting profit of HK\$480 million in 2020, which indicated an improvement from HK\$381 million in 2019. While the overall combined ratio was stable at 94.7%, performance varied for different lines of business. General Liability and Ships business turned from a loss of HK\$210 million and HK\$115 million to a profit of HK\$260 million and HK\$92 million respectively, both due to more favourable claims experience in 2020. In contrast, underwriting profit for Property Damage business reduced from HK\$731 million in 2019 to HK\$185 million in 2020.

Figure 11 Growth of Written Premium Income for Reinsurance Inward Business

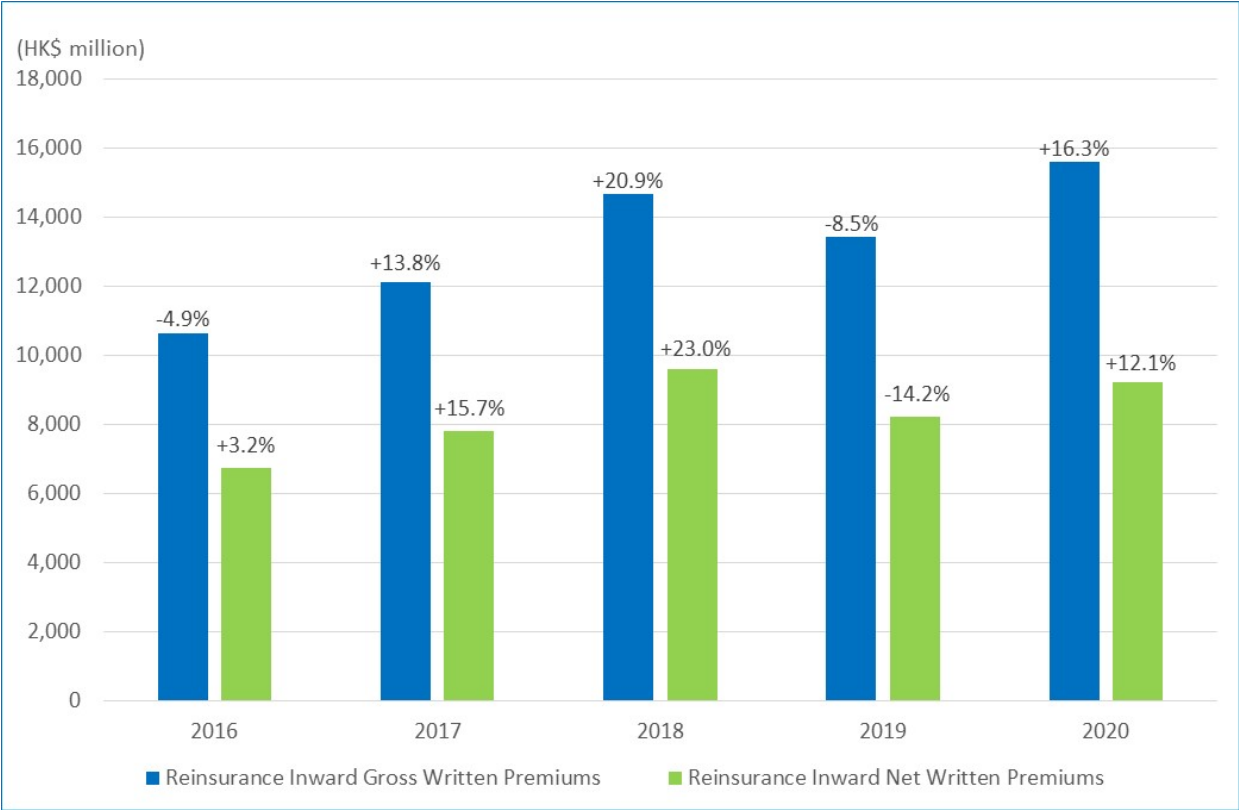


Figure 12 Growth of Reinsurance Inward Gross Written Premiums for Major Lines of Business

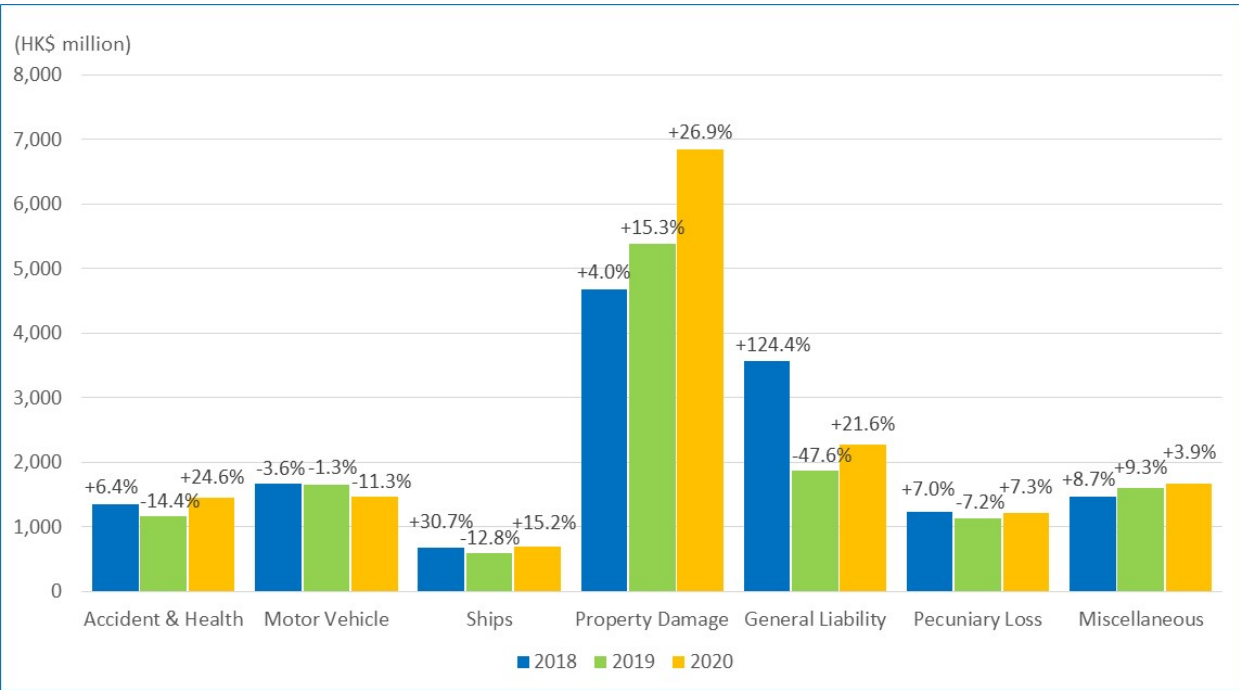
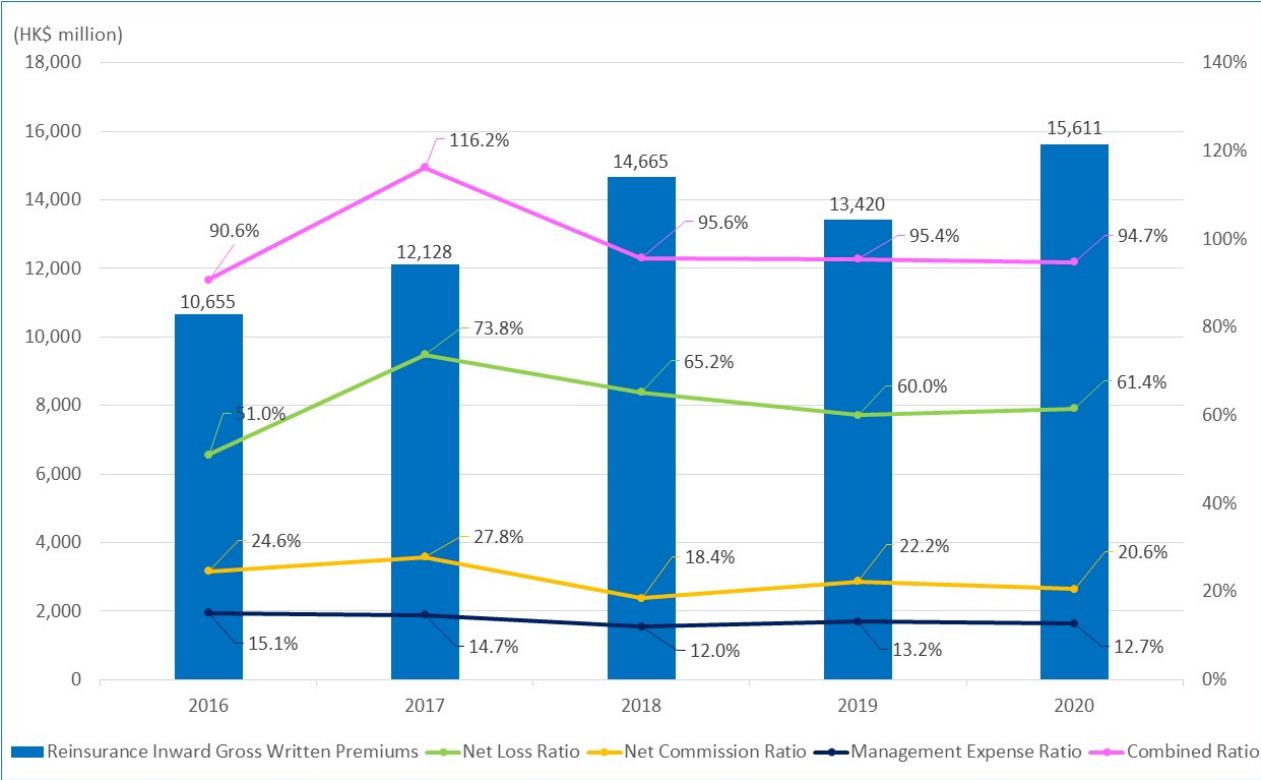


Figure 13 Overall Performance of Reinsurance Inward Business



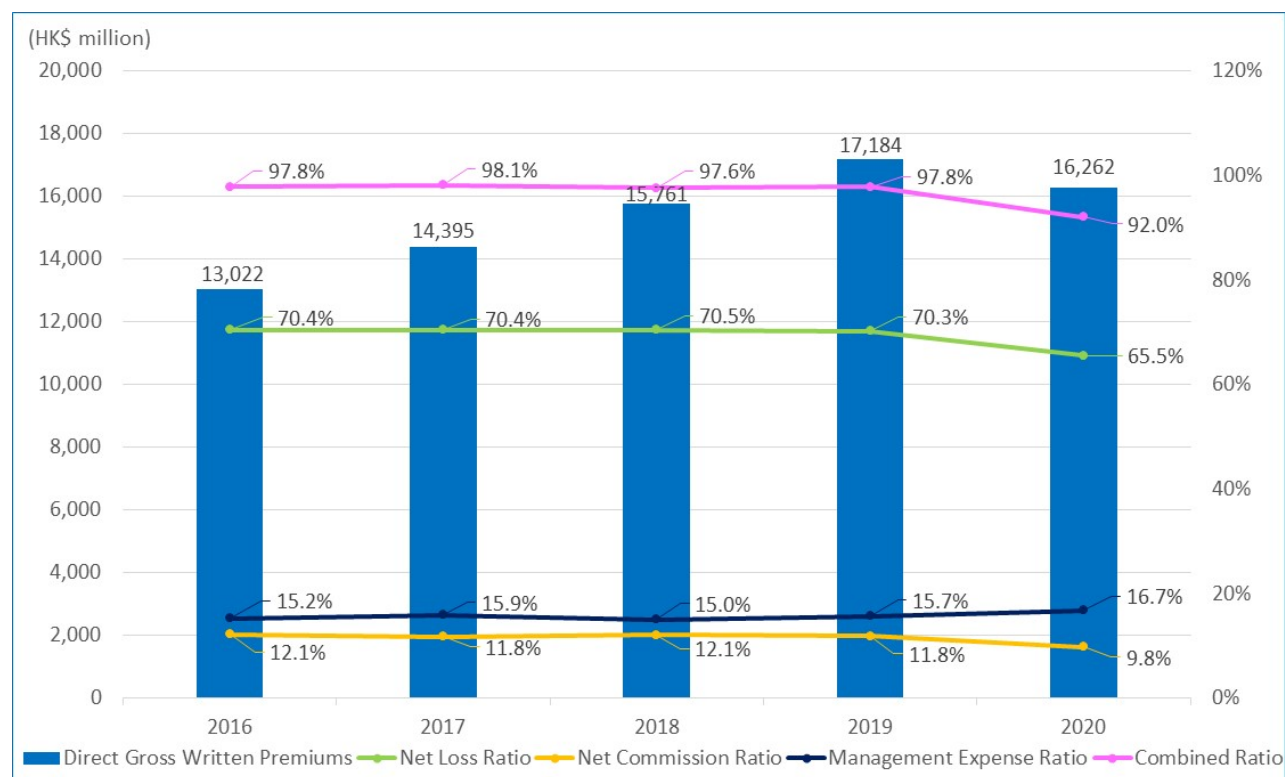
Direct Accident & Health Business

Accident & Health (“A&H”) business, being the largest line of business in terms of GWP, accounted for 36.7% of direct business GWP in 2020. A&H business had previously been the largest driving force for market growth. This trend ceased in 2020, where GWP declined by 5.4% to HK\$16,262 million since the travel insurance business was hit hard by inhibited outbound travel during the pandemic, compounded by the slowdown in the growth of medical business.

However, lower claims frequency was also evident across the market this year as a result of reduced or delayed access to medical services during the pandemic. This led to a more favourable underwriting performance in A&H business, with a combined ratio of 92.0% in 2020 as compared with 97.8% in 2019.

In light of this, the market needs to consider the impact of COVID-19 holistically in its determination of pricing and reserving.

Figure 14 Overall Performance of Direct Accident & Health Business



Direct Employees' Compensation Business

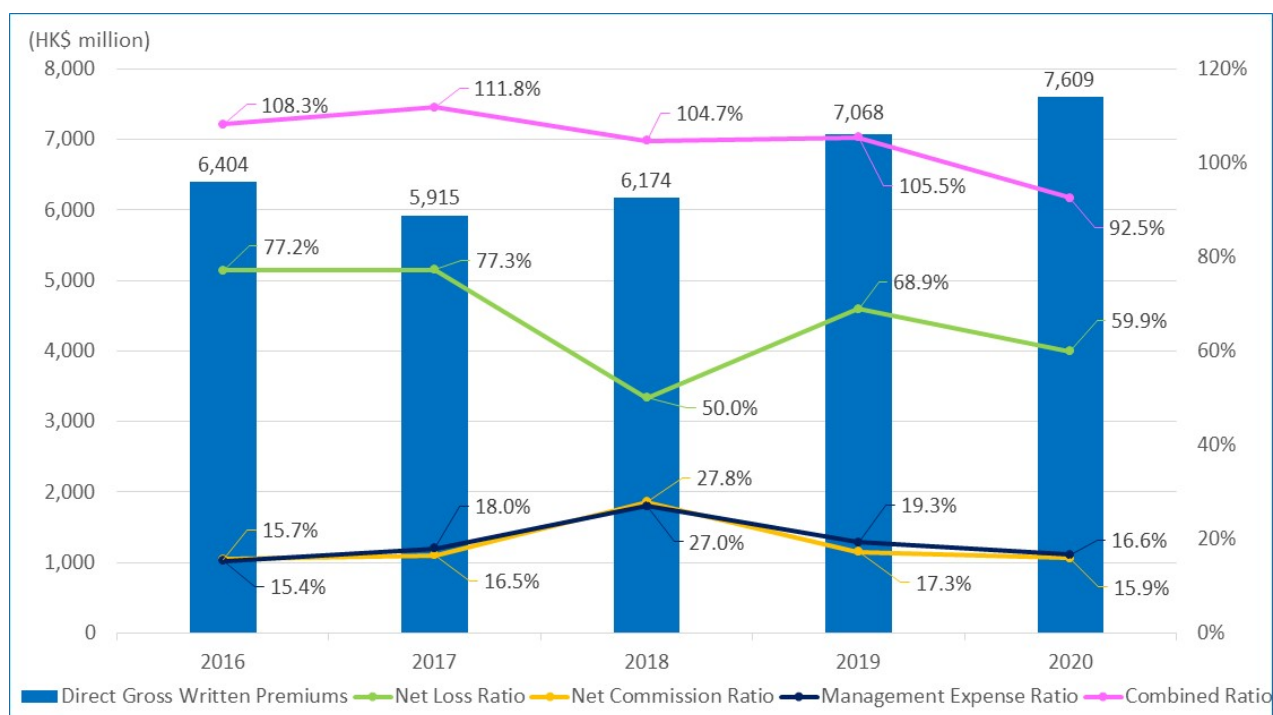
Direct Employees' Compensation ("EC") business contributed 17.2% of direct business GWP in 2020. GWP grew by 7.7% to HK\$7,609 million in 2020, mainly driven by large EC construction business written during the year. The construction (on contract value basis) sub-class, which represented around one-third of total GWP for direct EC business, reported notable growth of 16.3% in 2020.

Due to subdued economic activities caused by COVID-19 pandemic, the direct EC market experienced a reduction in reported claims, and recorded a profit of \$409 million in 2020 as compared with a loss of HK\$260 million in 2019.

Figure 15 Direct Employees' Compensation Business Key Statistics

	2016	2017	2018	2019	2020
Direct Gross Written Premiums (HK\$ million)	6,404	5,915	6,174	7,068	7,609
Underwriting Profit/(Loss) (HK\$ million)	(431)	(584)	(150)	(260)	409
Number of Policies in Force	423,646	399,614	390,259	390,265	378,726

Figure 16 Overall Performance of Direct Employees' Compensation Business

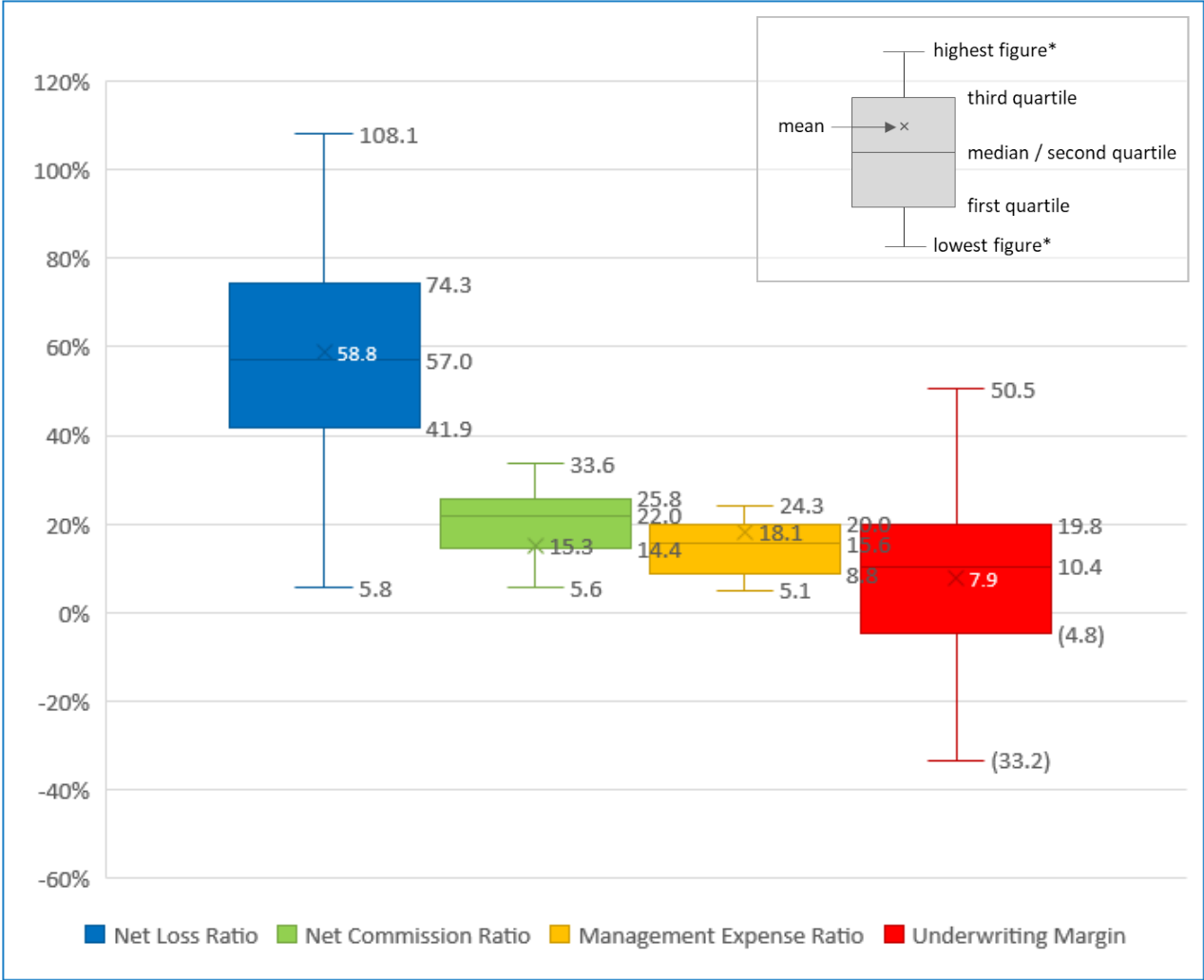


The top 25 direct EC business insurers held 92.5% of the total market share in terms of net earned premiums in 2020. Both the median and the mean of the underwriting margin were positive in 2020, indicating that more than half of the top 25 EC insurers had a positive underwriting performance.

The net loss ratio was less dispersed in 2020, with the third quartile being 74.3%, down from 95.2% in 2019. A majority of the insurers recorded a lower net loss ratio in 2020, with insurers above the second quartile in 2019 showing a more significant improvement.

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 EC insurance market.

Figure 17 Key Indicators — Top 25 Direct EC Insurers in 2020



* Figures of outliers are excluded.

Direct Motor Vehicle Business

Motor Vehicle (“MV”) business generated GWP of HK\$4,738 million, representing 10.7% of direct business GWP in 2020. MV saw modest growth of 2.3%, attributable to both the edging up of the average premium by 0.5% to HK\$5,056 per vehicle, and a slight increase of 1.7% in the number of vehicles covered.

Improvement was evidenced by the decrease in combined ratio from 114.1% in 2019 to 106.4% in 2020. Overall underwriting loss narrowed from HK\$514 million to HK\$242 million.

Private Cars represented 56.5% of total GWP of direct MV business in 2020. The underwriting performance for Comprehensive cover turned from a loss of HK\$74 million in 2019² to a profit of HK\$63 million in 2020³. However, the underwriting performance for Third Party cover deteriorated due to worsening claims experience, with underwriting loss widening from HK\$157 million in 2019² to HK\$202 million in 2020³.

Goods Carrying Vehicles represented 19.5% of total GWP of direct MV business in 2020. Similar to Private Cars, the underwriting performance for Comprehensive cover showed a turnaround with a combined ratio of 98.3% and a profit of HK\$10 million in 2020³, after three consecutive years of losses. However, Third Party cover experienced adverse claims development with the combined ratio escalating from 124.9% in 2019² to 151.5% in 2020³.

Taxis represented 10.9% of total GWP of direct MV business in 2020. As a result of ongoing pricing adjustment, coupled with the improved claims situation in 2020, loss ratios came down to a level below 100%³. Although the Taxi segment remained in underwriting loss, the combined ratios for both Comprehensive and Third Party covers reduced from 135.9% and 126.2% in 2019² to 102.0% and 115.6% in 2020³ respectively.

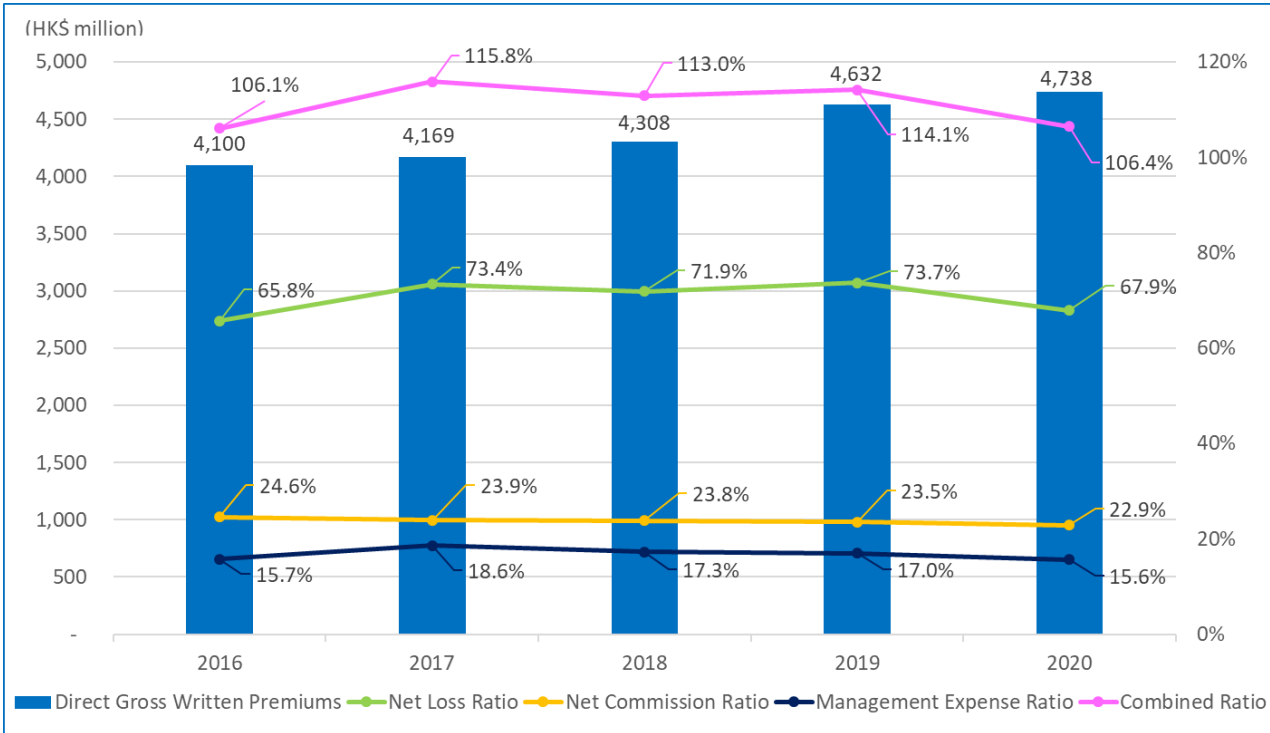
Figure 18 Direct Motor Vehicle Business Key Statistics

	2016	2017	2018	2019	2020
Direct Gross Written Premiums (HK\$ million)	4,100	4,169	4,308	4,632	4,738
Underwriting Profit/(Loss) (HK\$ million)	(199)	(521)	(441)	(514)	(242)
Number of Vehicles Covered	866,202	901,068	891,090	921,161	937,059
Average Premium Per Vehicle (HK\$)	4,734	4,627	4,834	5,029	5,056

² Based on 2019 provisional statistics (unaudited and prepared on a calendar year basis).

³ Based on 2020 provisional statistics (unaudited and prepared on a calendar year basis).

Figure 19 Overall Performance of Direct Motor Vehicle Business

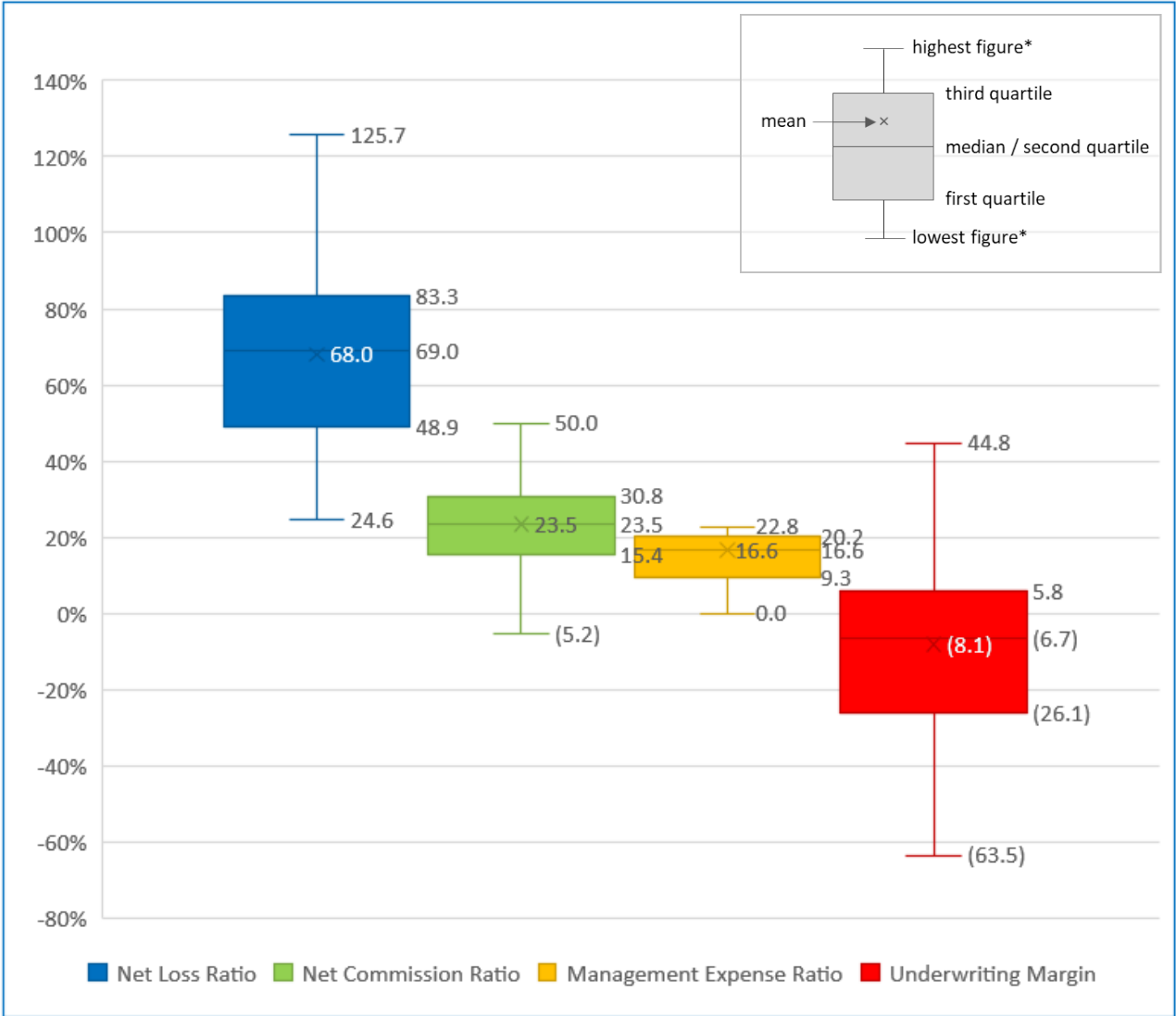


The top 25 direct MV business insurers accounted for 98.3% of the total market share in terms of net earned premiums in 2020. While the average net commission ratio of 23.5% in 2020 was on a par with 2019, both the average net loss ratio and management expense ratio reduced from 72.3% and 18.8% in 2019 to 68.0% and 16.6% in 2020 respectively, resulting in an improved average underwriting margin from -14.6% in 2019 to -8.1% in 2020.

The net loss ratio was less dispersed in 2020, with the third quartile being 83.3%, down from 90.2% in 2019. Insurers above the second quartile in 2019 mostly had an improved or stable net loss ratio, with a few exceptions due to reserve strengthening.

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

Figure 20 Key Indicators — Top 25 Direct Motor Vehicle Insurers in 2020



* Figures of outliers are excluded.