

# Market Overview - General Insurance

## Market Performance of General Insurance Business in 2018<sup>1</sup>

Total gross written premiums (“GWP”) recorded growth of 10.0% to HK\$53,101 million in 2018, which was its strongest growth in the past five years. The overall retention rate in 2018 dropped to 65.4% compared to 68.5% in 2017. The premium growth was mainly driven by the growth in General Liability business followed by Accident & Health business, which reported increments of 22.3% and 9.2% respectively. Other business lines delivered growth between 1.3% and 8.4%.

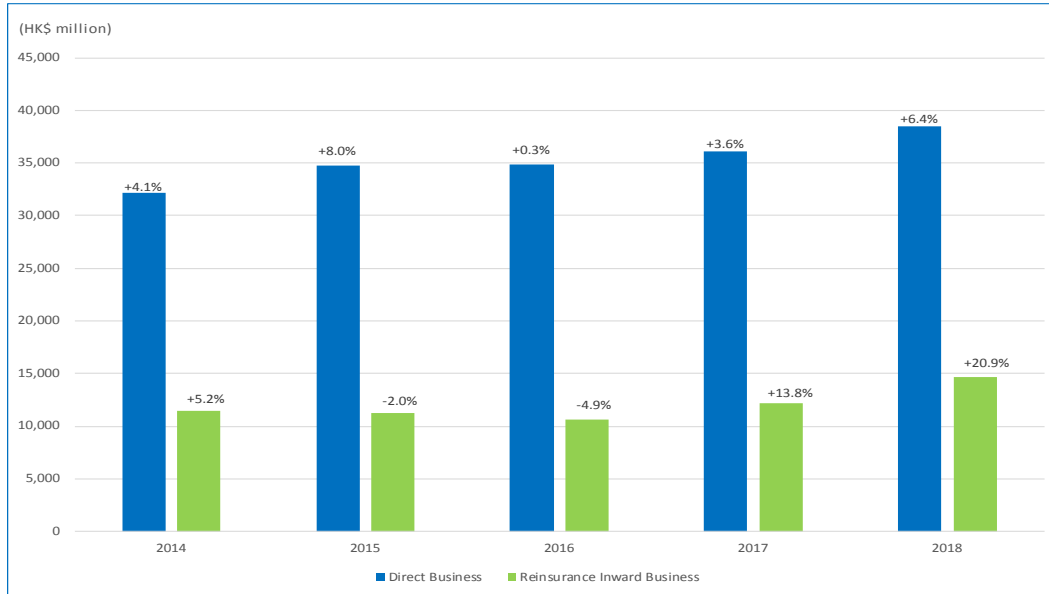
The overall underwriting performance restored its profit of HK\$583 million from a loss of HK\$827 million in 2017, mainly contributed by improved performance of reinsurance inward business. The overall claim situation for general insurance business slightly improved with a net loss ratio of 62.4% in 2018 despite the impact of Typhoon Mangkhut. The higher net loss ratio of 64.7% in 2017 was mainly due to Typhoon Hato related losses. Property Damage business was the largest contributor to the overall underwriting loss in 2017. Property Damage business turned around to a profit of HK\$199 million in 2018.

The underwriting loss for Motor Vehicle business improved in 2018, with an underwriting loss of HK\$248 million compared to a loss of HK\$512 million in 2017. All business classes, with the exception of Motor Vehicle and Miscellaneous business (including Ships, Goods in Transit, Aircraft and Treaty Reinsurance business), recorded positive underwriting results in 2018. Specifically, the Property Damage and General Liability (including Employees’ Compensation) business both delivered stronger underwriting performance compared to 2017.

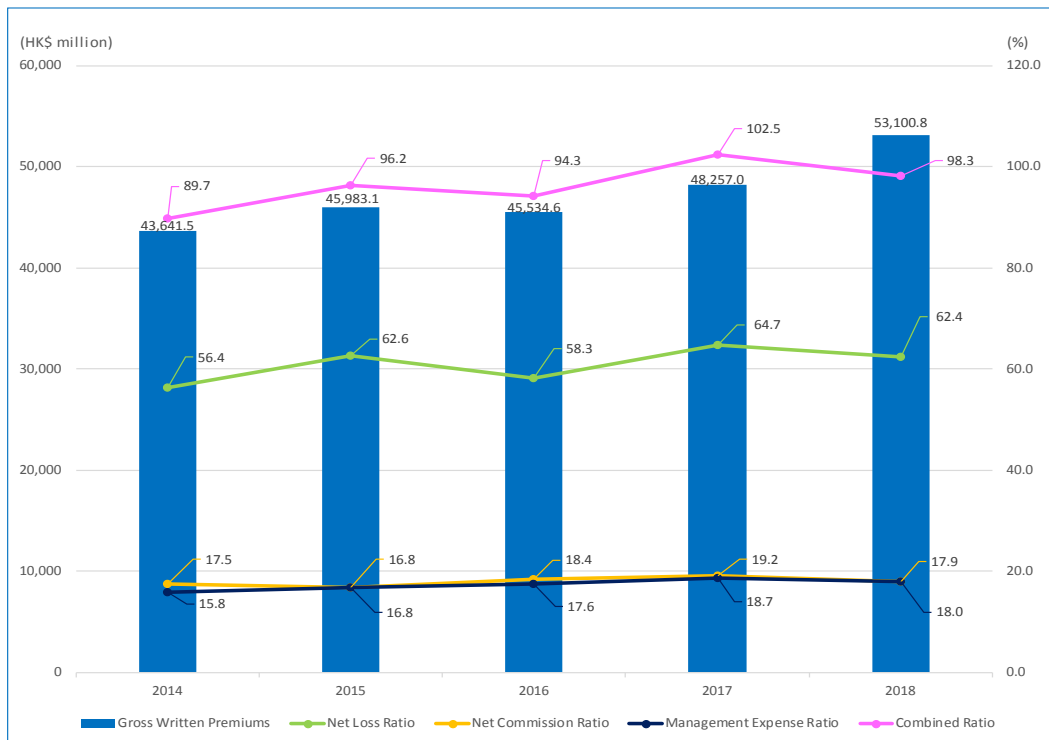
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<sup>1</sup> The statistics in the “Market Overview” chapter cover those insurers whose financial years ended between 1 January 2018 and 31 December 2018.

**Figure 1 Growth of Gross Written Premiums**



**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

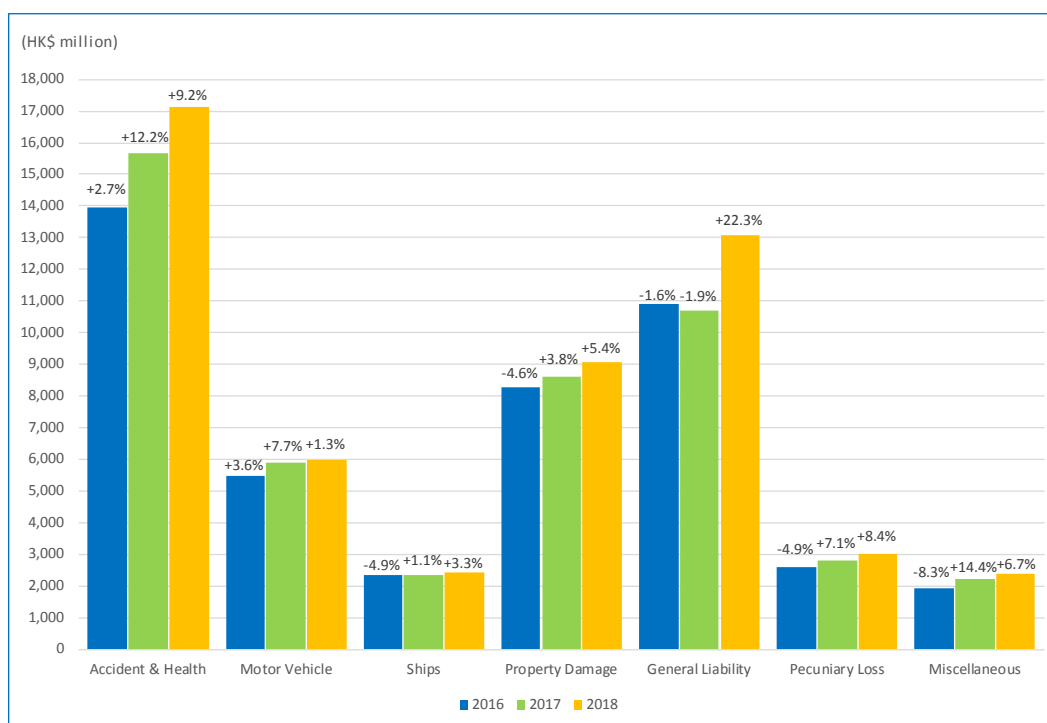
## Industry Statistics Highlights – General Insurance Business

### Premium (Direct and Reinsurance Inward Business)

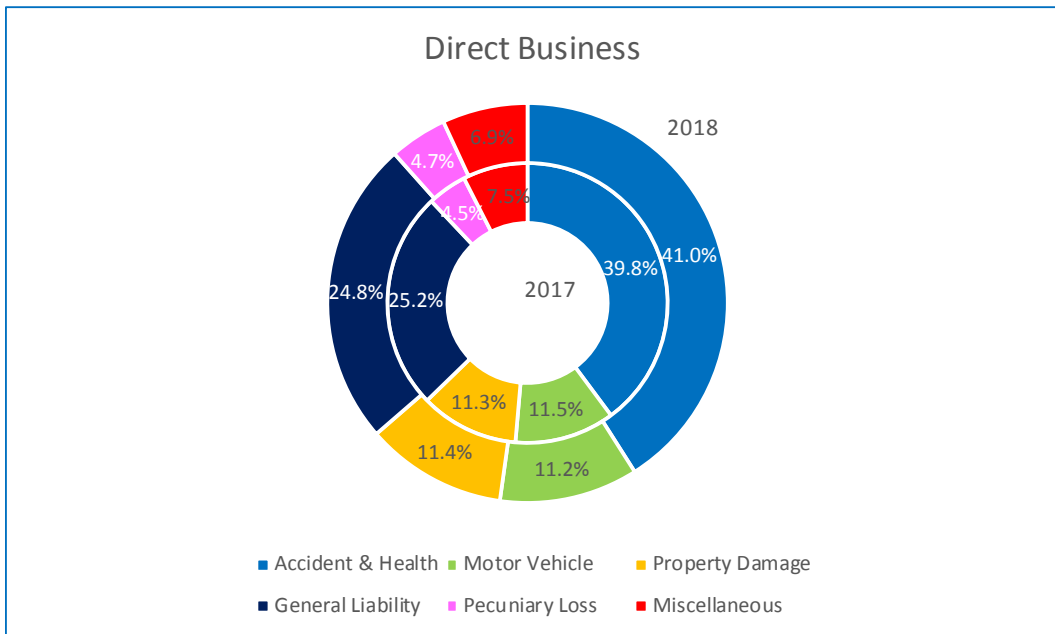
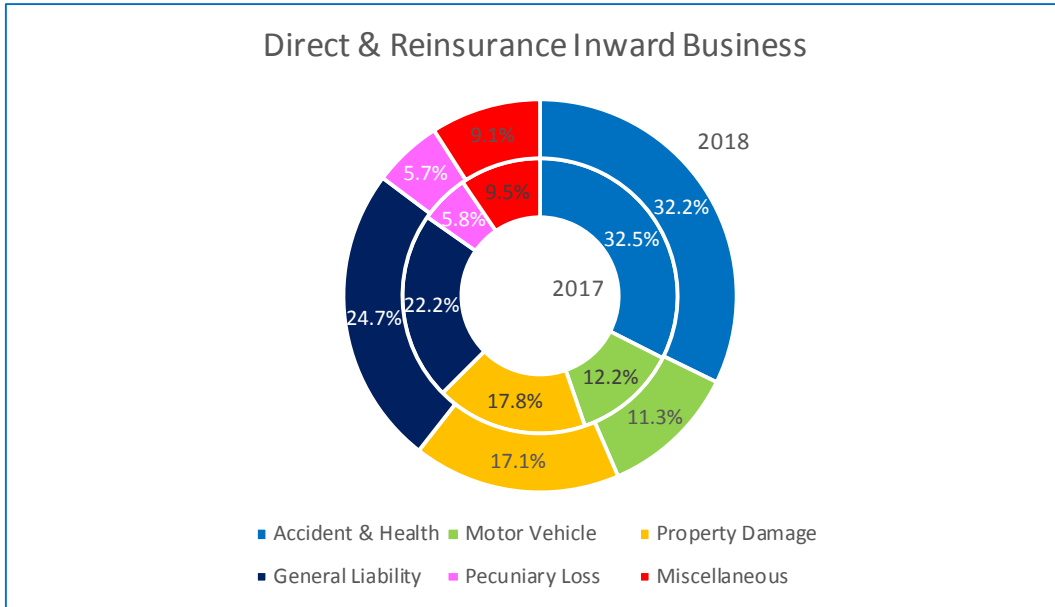
Total Gross Written Premiums (“GWP”) for Hong Kong business, comprising direct and reinsurance inward business, amounted to HK\$53,101 million in 2018. This represented growth of 10.0%, the strongest growth in the past five years. The increase in total GWP was mainly driven by growth in General Liability business followed by Accident & Health business, which reported increments of 22.3% and 9.2% respectively. Other business lines delivered growth between 1.3% and 8.4%.

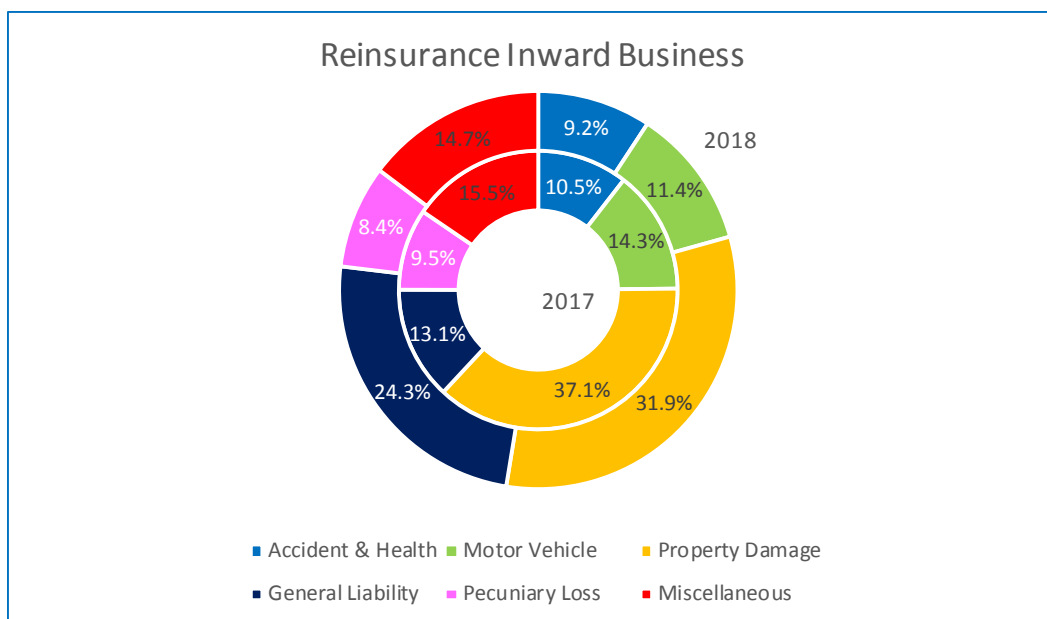
Direct business and reinsurance inward (“RI”) business accounted for 72.4% and 27.6% of total GWP respectively in 2018, compared to 74.9% and 25.1% in 2017. Individual business classes followed similar trends to 2017, with Accident & Health, General Liability and Property Damage business topping the general insurance business market.

**Figure 3 Growth of Gross Written Premiums for Major Lines of Business**



**Figure 4 Composition of Gross Written Premiums**





The IA began to collect detailed data on non-Hong Kong insurance business written by authorized insurers. According to this information, the GWP for non-Hong Kong RI business amounted to HK\$22,652 million for 2018.

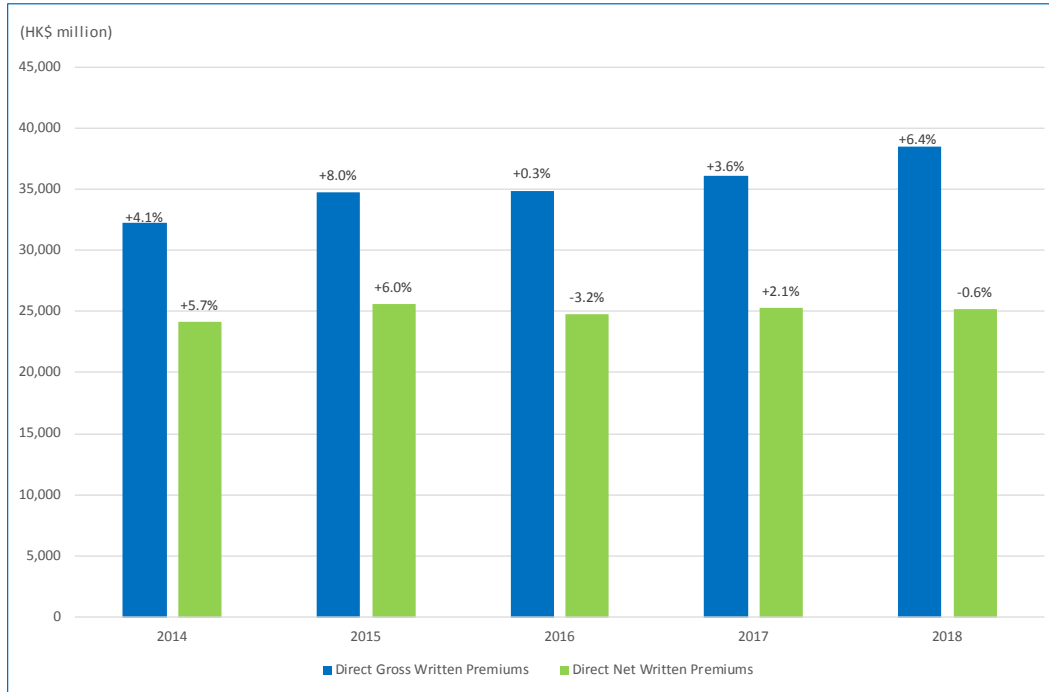
#### Direct Hong Kong Business

Total GWP for direct business was HK\$38,436 million in 2018, representing strong growth of 6.4% over 2017. This top-line increase was driven by the growth in all business lines except for Ships business. It was led by Accident & Health business, which reported a 9.5% increase in direct GWP to HK\$15,761 million.

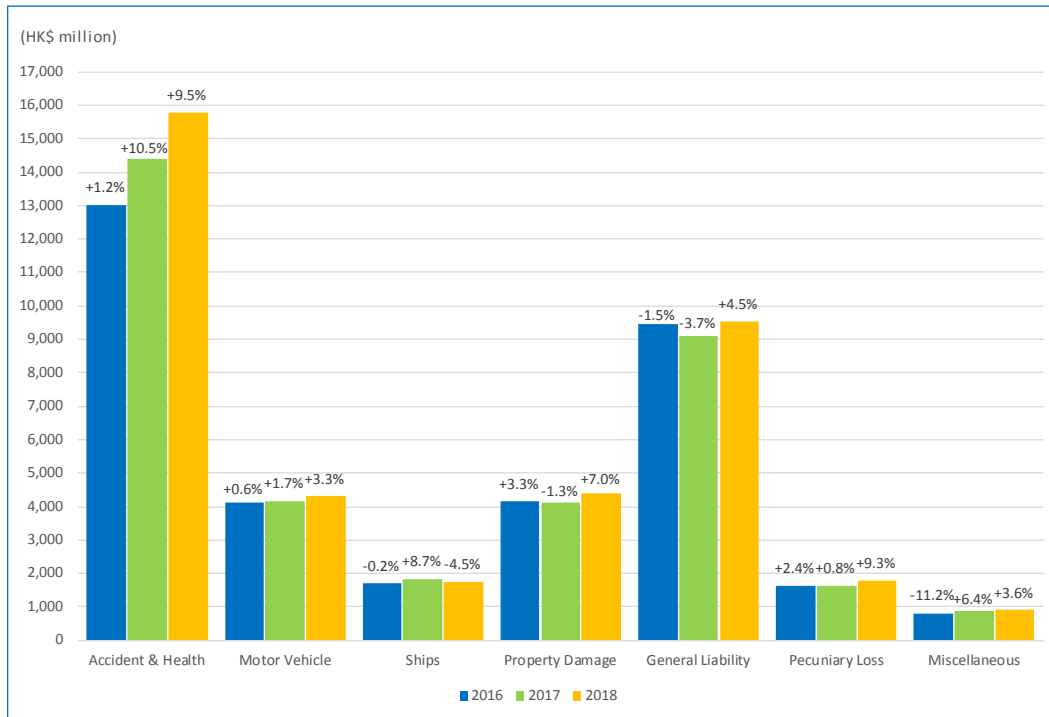
The retention rate for direct business in 2018 fell to 65.4%, the lowest in the past five years. The lower retention rate also led to a reduction in direct net written premiums of HK\$25,135 million, representing a 0.6% decrease compared to 2017.

While direct business continued to generate an underwriting profit in 2018, the underwriting margin reduced, with a combined ratio of 99.3% compared to 98.4% in 2017. Direct business bore a higher net commission ratio of 17.7% and a higher management expense ratio of 20.2% compared with 16.6% and 19.8% respectively in 2017. Motor Vehicle, Property Damage and Miscellaneous business (including Ships, Goods in Transit and Aircraft) recorded underwriting losses in 2018. All other business lines generated underwriting profits.

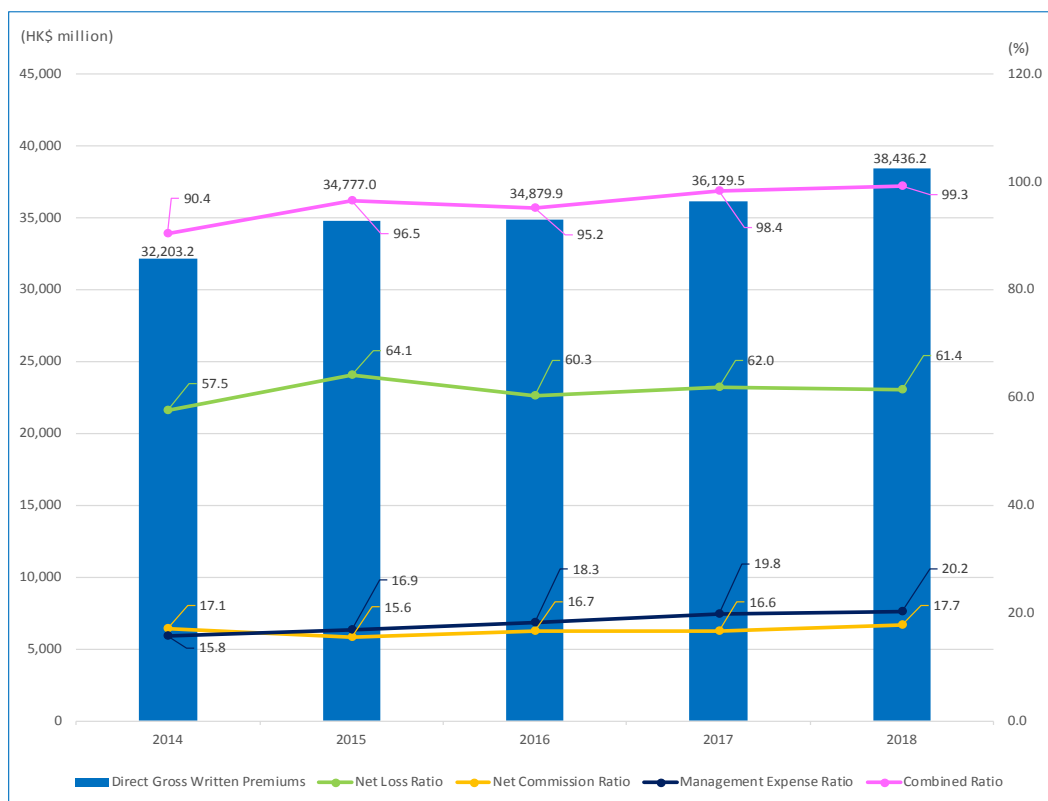
**Figure 5 Growth of Written Premium Income for Direct Business**



**Figure 6 Growth of Direct Gross Written Premiums for Major Lines of Business**



**Figure 7 Overall Performance of Direct Business**



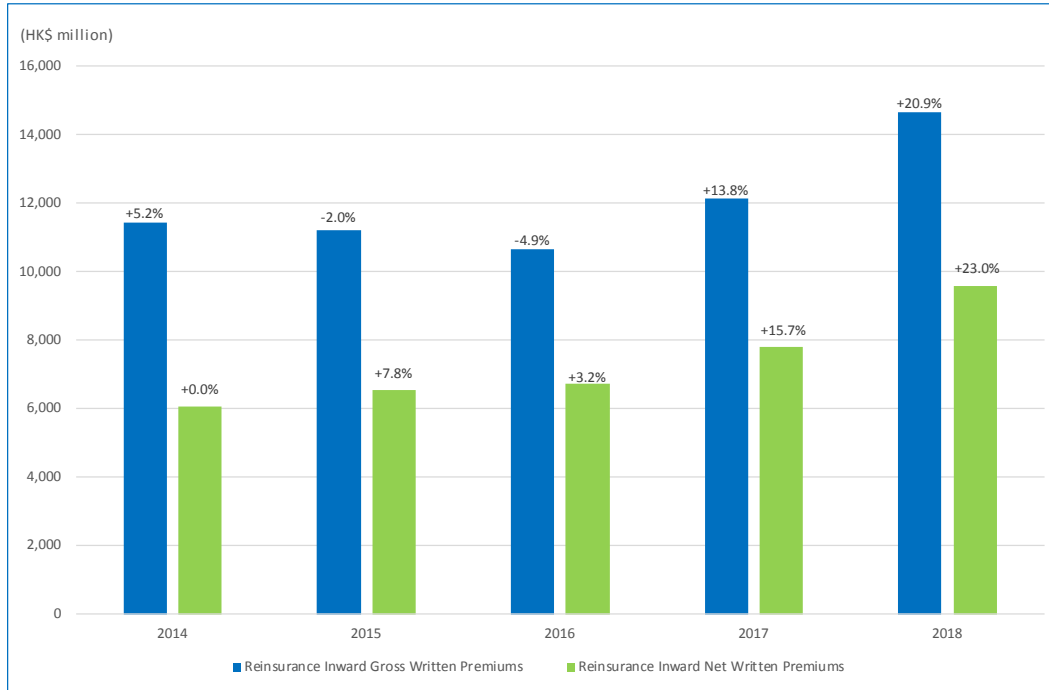
### Reinsurance Inward Business

Compared to direct business, RI business recorded more robust growth, with RI GWP increasing by 20.9% to HK\$14,665 million in 2018. The year 2018 also stood out as having the most significant top-line growth in RI business of the past five years. With the exception of Motor Vehicle business, all business lines reported growth in RI GWP.

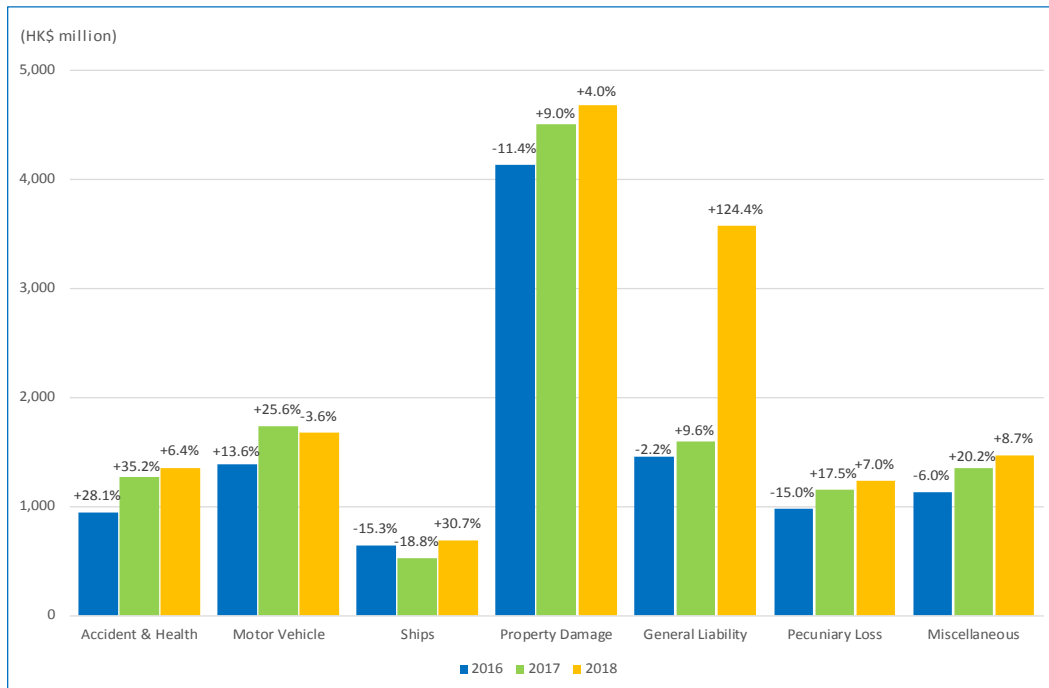
In 2018, the underwriting performance of RI business was stronger than that of direct business. RI business contributed an underwriting profit of HK\$414.3 million, compared to the HK\$169.1 million contributed by direct business. Since 2014, RI business has consistently delivered an underwriting profit, except in 2017 when a severe loss of HK\$1,224 million was recorded due to Typhoon Hato related losses. The effect of Typhoon Mangkhut in 2018 was less severe than that caused by Typhoon Hato in 2017 and the sector returned to an underwriting profit of HK\$414.3 million in 2018. Contributing to this underwriting profit were improved net loss, net commission and management expense ratios compared to 2017, which decreased to 65.2%, 18.4% and 12.0% respectively.

Apart from Pecuniary Loss and Miscellaneous business (including Ships, Goods in Transit, Aircraft and Treaty Reinsurance business), all other business lines delivered positive underwriting performances in 2018.

**Figure 8 Growth of Written Premium Income for Reinsurance Inward Business**

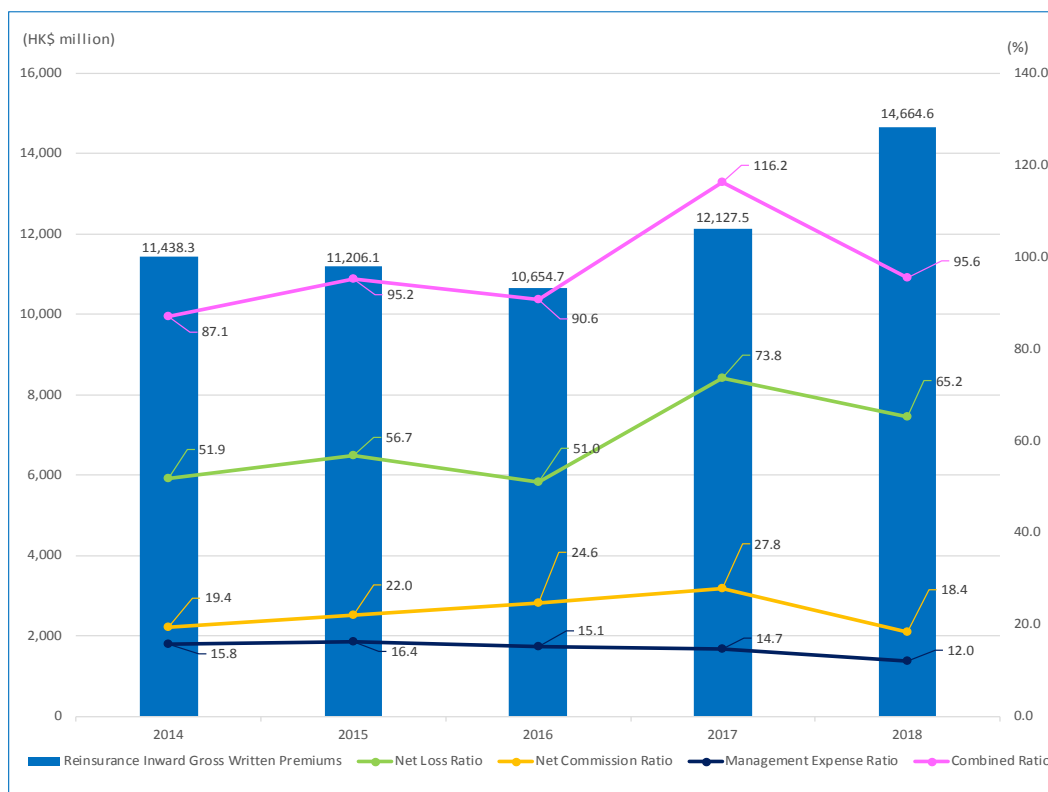


**Figure 9 Growth of Reinsurance Inward Gross Written Premiums for Major Lines of Business**





**Figure 10 Overall Performance of Reinsurance Inward Business**



### Direct Motor Vehicle Business

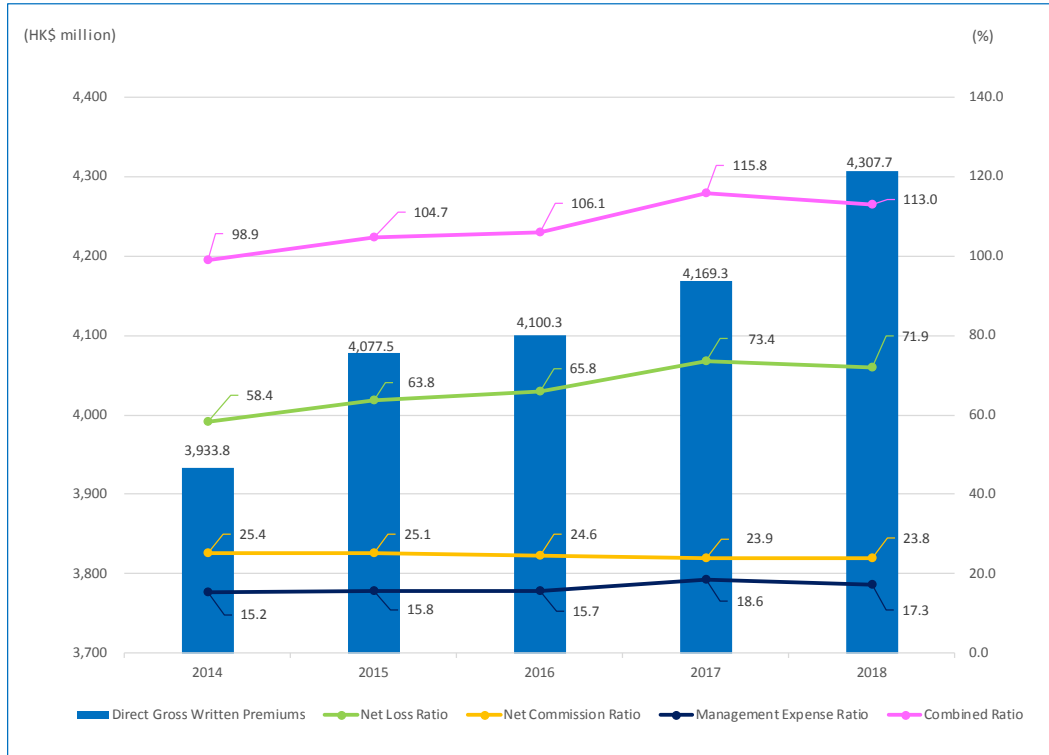
GWP for direct Motor Vehicle (“MV”) business continued to grow year on year. The average premium rate experienced a turnaround in 2018, rising to HK\$4,834 per vehicle after consecutive falls since 2015.

Direct MV business has recorded an underwriting loss every year since 2015, and 2018 was no exception. However, the magnitude of the loss reduced, with a combined ratio of 113.0% compared to 115.8% in 2017. With the net commission ratio in 2018 remaining flat, the net loss ratio and the net management expense ratio showed slight improvements.

**Figure 11 Direct Motor Vehicle Business Key Statistics**

	2014	2015	2016	2017	2018
Direct Gross Written Premiums (HK\$ million)	3,933.8	4,077.5	4,100.3	4,169.3	4,307.7
Underwriting Profit/(Loss) (HK\$ million)	33.8	(152.3)	(198.8)	(521.0)	(441.0)
Number of Vehicles Covered	791,883	826,254	866,202	901,068	891,090
Average Premium Per Vehicle (HK\$)	4,968	4,935	4,734	4,627	4,834

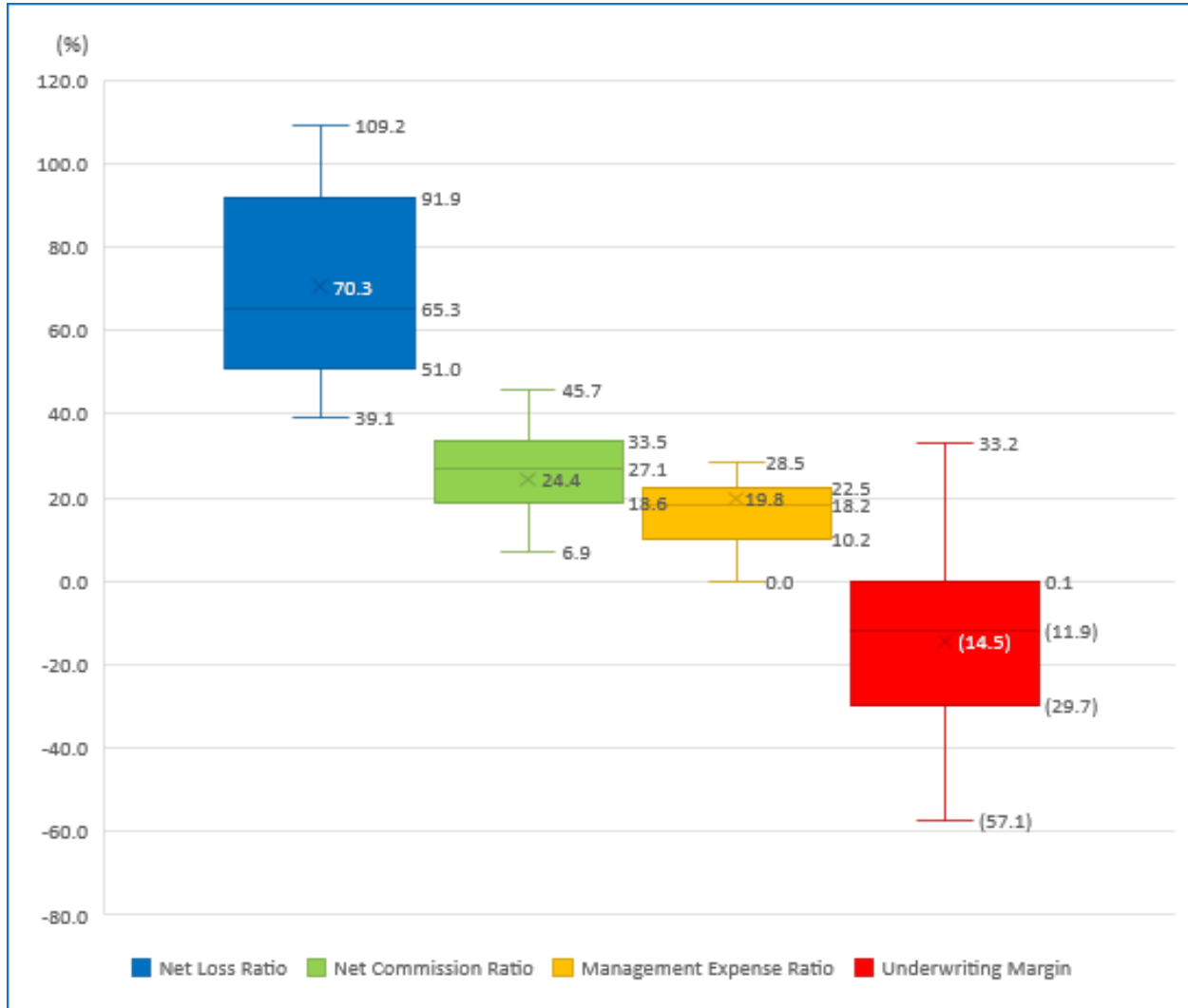
**Figure 12 Overall Performance of Direct Motor Vehicle Business**



The top 25 direct MV business insurers represented 98% of the total market share in terms of net earned premiums in 2018. As shown in Figure 13, the net loss ratio was more dispersed in 2018 than in 2017<sup>i</sup>. This is indicated by the insurers above the median having a wider spread in 2018, with the 75<sup>th</sup> percentile at a net loss ratio of 91.9% compared to a net loss ratio of 76.6% in 2017. The more dispersed net loss ratio in 2018 also led to a more dispersed underwriting margin.

On the expense side, the average net commission ratio of the top 25 MV insurers was lower than that of 2017, while the average management expense ratio increased compared with 2017.

Figure 13 Key Indicators — Top 25 Direct Motor Vehicle Insurers in 2018



### Direct Employees' Compensation Business

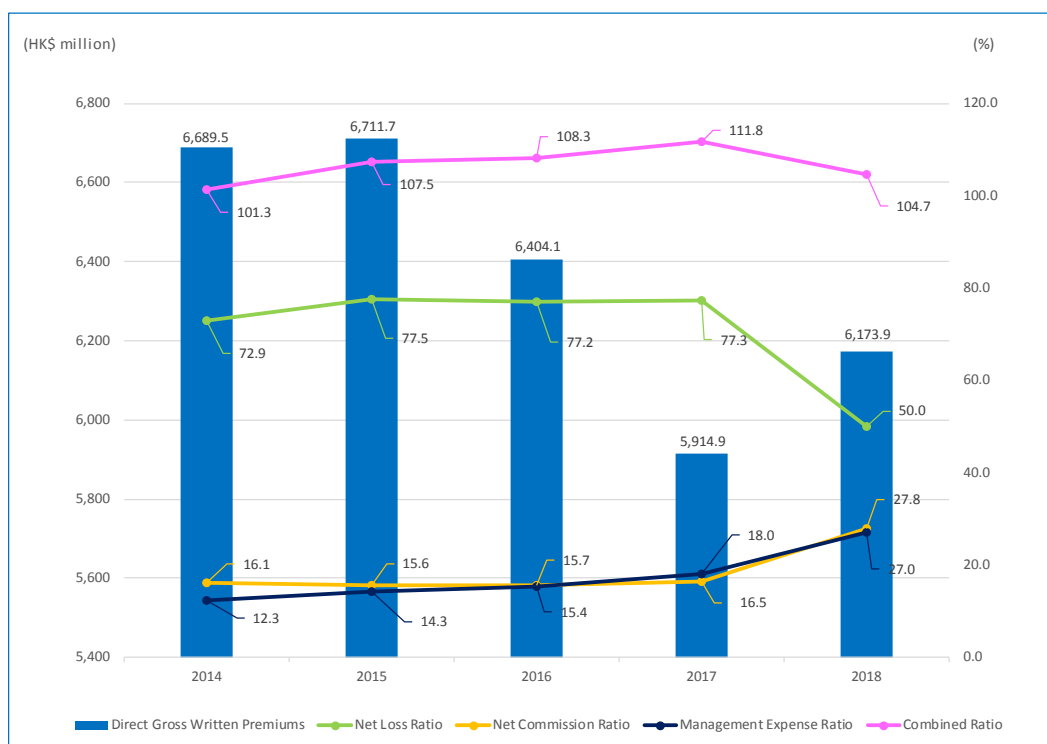
Direct Employees' Compensation ("EC") business is part of General Liability business, to which it contributed 64.8% in terms of GWP. GWP for direct EC business picked up in 2018 after exhibiting a downward trend in the previous three years. Following a significant improvement in the claims experience, with a net loss ratio of 50.0% in 2018 compared to 77.3% in 2017<sup>ii</sup>, the size of the underwriting loss reduced notably. Its combined ratio of 104.7% was the lowest in the last four years.

This improvement in the underwriting performance in 2018 was offset by a higher net commission ratio and management expense ratio. These increased to 27.8% and 27.0% respectively, compared to 16.5% and 18.0% in 2017.

**Figure 14 Direct Employees' Compensation Business Key Statistics**

	2014	2015	2016	2017	2018
Direct Gross Written Premiums (HK\$ million)	6,689.5	6,711.7	6,404.1	5,914.9	6,173.9
Underwriting Profit/(Loss) (HK\$ million)	(74.7)	(412.0)	(431.1)	(583.9)	(150.0)
Number of Policies in Force	383,458	419,090	423,646	399,614	390,259

**Figure 15 Overall Performance of Direct Employees' Compensation Business**

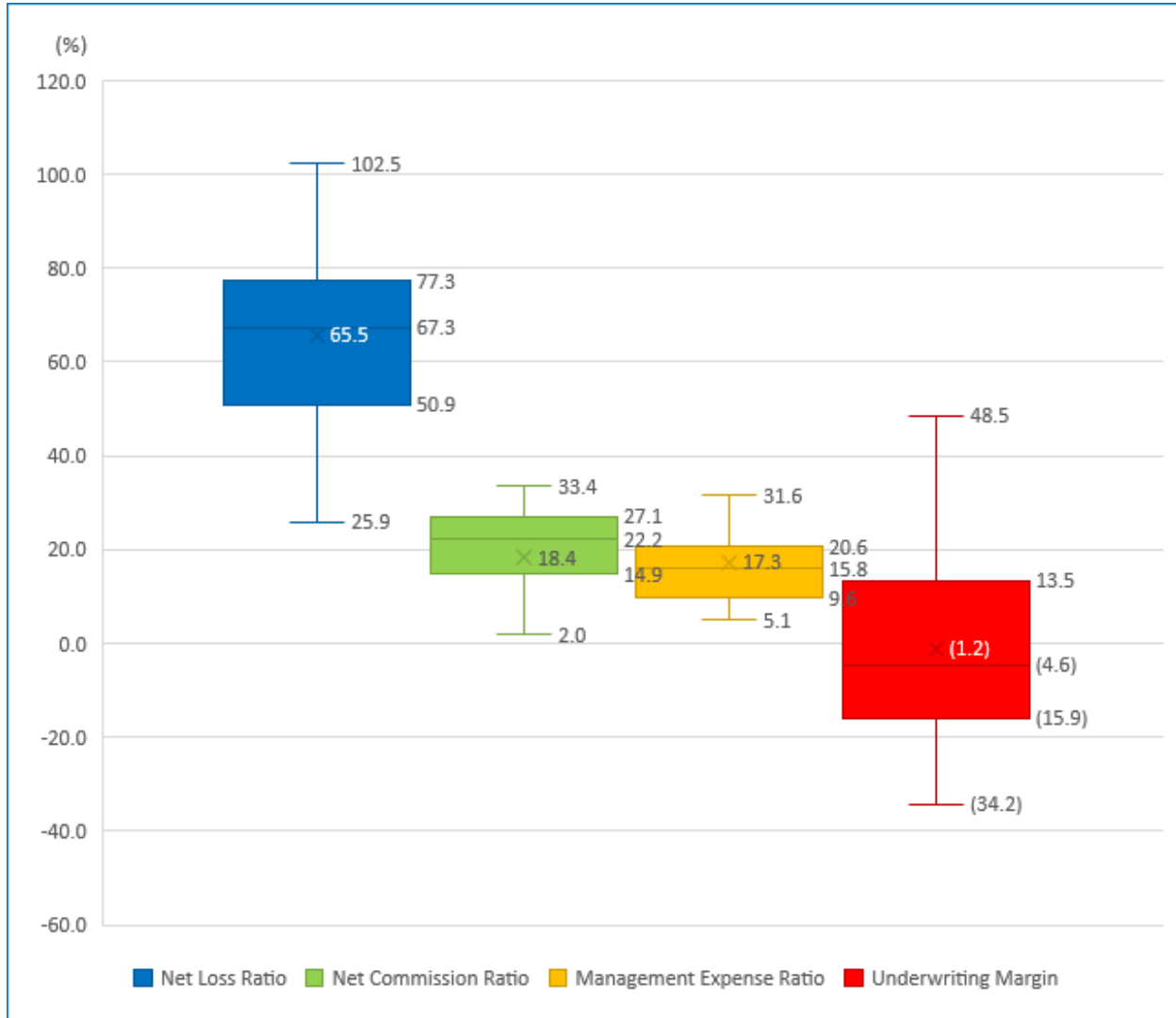


The top 25 direct EC business insurers held 95% of the total market share in terms of net earned premiums in 2018. As shown in Figure 16, both the mean and median of the underwriting margin were negative. This implies that more than half of the top 25 insurers had a negative underwriting performance.

Compared to 2017, the EC industry's claims performance had a comparatively lower variance in 2018. On the expense side, both the net commission ratio and the management expense ratio of the top 25 EC players seem to have similar distributions as in 2017.

As part of the continuous development of the EC market, the IA worked with the industry to emphasise the importance of evidence-based wage roll declarations in 2018.

Figure 16 Key Indicators — Top 25 Direct EC Insurers in 2018



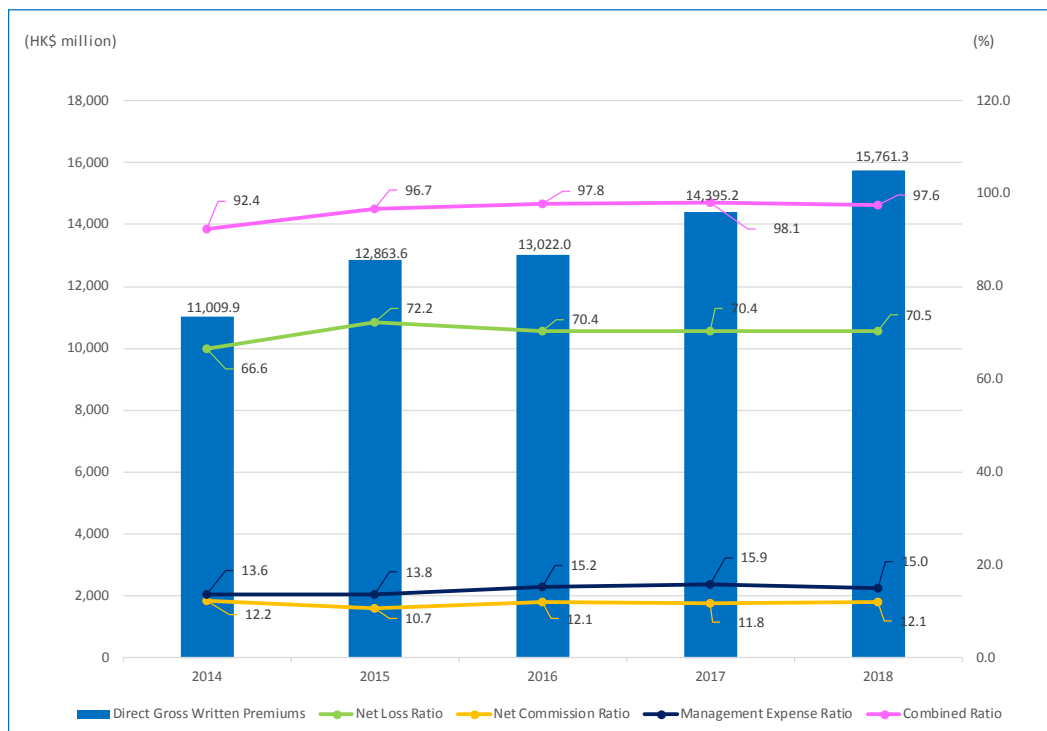
Accident & Health (Direct Business)

GWP for direct Accident & Health business have undergone a positive growth trend since 2014, and recorded growth of 9.5% in 2018.

The net commission ratio and management expense ratio have been relatively stable over the past three years, averaging around 12.0% and 15.4% respectively.

The underwriting performance of direct Accident & Health business has been stable in the past five years, with a combined ratio that has consistently stood below 100%. The direct group medical business, which accounted for approximately 61% of direct Accident & Health GWP in 2018, has run at a slight underwriting loss, with a combined ratio of around 103% in the past three years.

**Figure 17 Overall Performance of Accident & Health (Direct Business)**



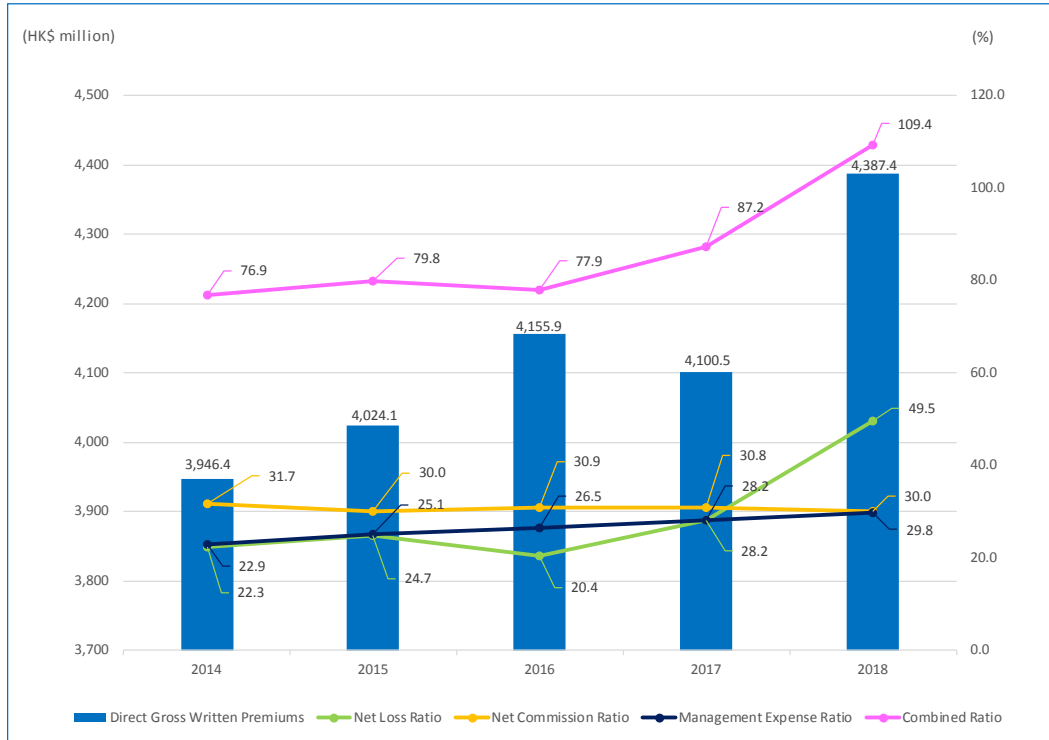
### Property Damage (Direct and Reinsurance Inward Business)

The overall GWP of the Property Damage business increased by 5.4% in 2018. Within this, GWP for both direct and RI business recorded growth, of 7.0% and 4.0% respectively.

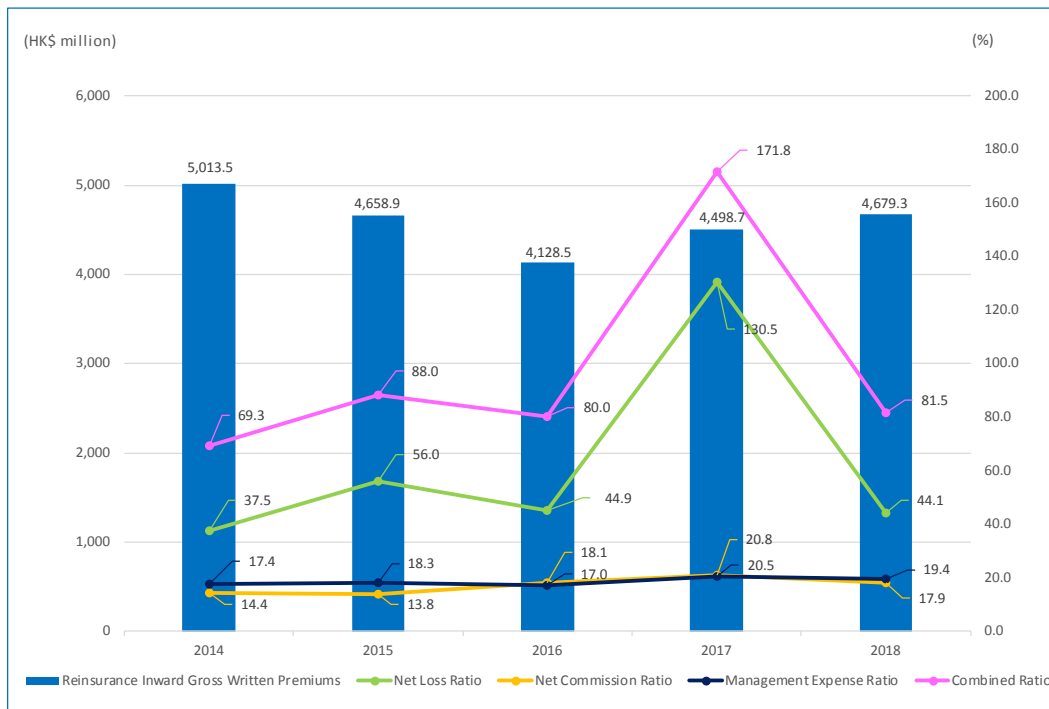
The overall underwriting performance of Property Damage business has been volatile due to natural disasters. Both its direct and RI business have been profitable in the past five years except for the years when super typhoons hit Hong Kong. In 2017, Macao proved to be more vulnerable than Hong Kong to Typhoon Hato. The substantial losses were ultimately absorbed by the reinsurance market in Hong Kong, causing an underwriting loss of HK\$1,506 million for RI business with a combined ratio of 171.8%, while direct business remained unaffected.

By contrast, in 2018, Typhoon Mangkhut mainly affected Hong Kong rather than Macao. It caused an underwriting loss of HK\$195.3 million for the direct insurance business segment, with a combined ratio of 109.4%. Meanwhile, the RI business segment delivered an underwriting profit of HK\$393.9 million, with a combined ratio of 81.5%.

**Figure 18 Overall Performance of Direct Property Damage Business**



**Figure 19 Overall Performance of Reinsurance Inward Property Damage Business**



## Market Share of Hong Kong Business

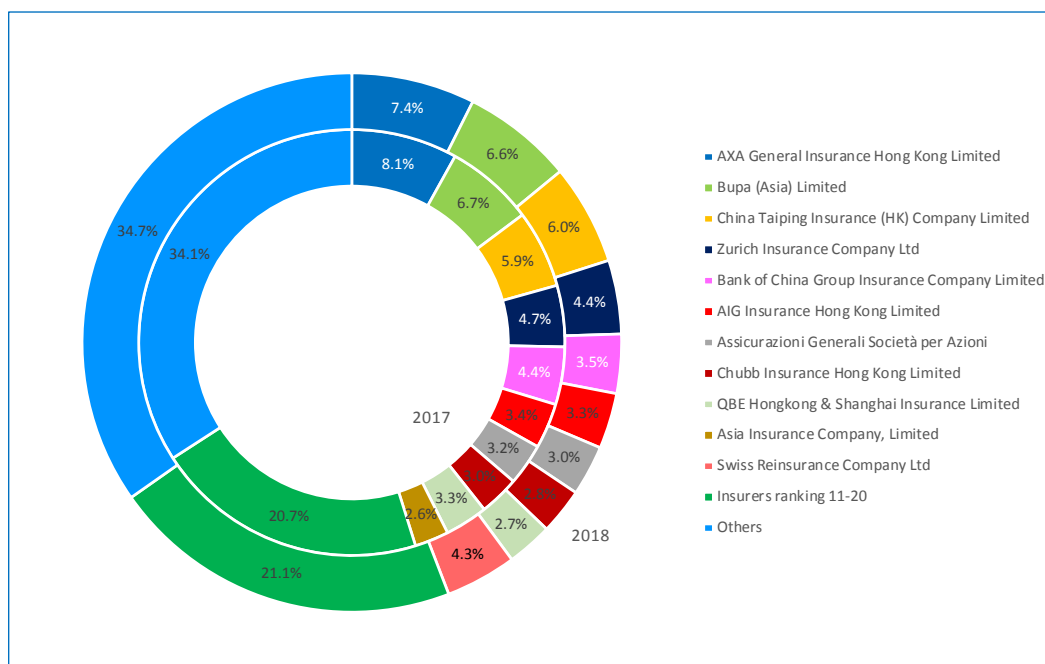
A total of 106 insurers reported to the IA on their Hong Kong insurance business for 2018.

As in previous years, more than half of the GWP were concentrated in the top 20 insurers. GWP by the top 10 and top 20 insurers amounted to HK\$23,445 million and HK\$34,650 million respectively, representing 44.2% and 65.3% of the market share in 2018. At the lower end of the scale, 11 insurers wrote GWP of below the HK\$1 million level.

**Figure 20 Distribution of Insurers' Market Share**

Ranking of Insurers	Range of Gross Written Premiums (HK\$ million)		Market Share (%)	
	2017	2018	2017	2018
1-10	1,247–3,889	1,451-3,933	45.3	44.2
11-20	778–1,242	883-1,442	20.7	21.1
21-50	253–700	257-838	26.3	26.9

**Figure 21 Market Share by Gross Written Premiums**



## Endnotes

<sup>i</sup> Please refer to the IA's 2017-18 Annual Report for 2017 motor vehicle (MV) performance key indicators

<sup>ii</sup> Please refer to the IA's 2017-18 Annual Report for 2017 compensation (EC) performance key indicators