

26 November 2020

To: Chief Executives of authorized insurers
carrying on general insurance business

BY EMAIL

Dear Sirs,

Market Performance of Hong Kong General Insurance Industry

As at the end of June 2020, the gross and net premiums of general insurance business were HK\$33.5 billion (+9.7%) and HK\$22.8 billion (+8.8%) respectively with the net claims incurred ratio standing at 62%. The overall underwriting profit rose from HK\$432 million to HK\$624 million, driven by direct business.

Direct business generated an underwriting profit of HK\$756 million (+35.5%) due to improved performance of Accident & Health business and Employees' Compensation (EC) business. The former registered a profit of HK\$491 million while the latter recovered from a loss of HK\$66 million to a profit of HK\$152 million, both experiencing lower reported claims. Underwriting results have also been helped by the absence of significant natural catastrophe losses in the 2020 Typhoon season.

While the general insurance market is showing strong resilience, cautious interpretation is required on the improvement of direct business underwriting profit. Especially for EC and Health, they are mainly related to lower claim frequency because of subdued economic activities as well as deferral of medical care, both amidst COVID-19. Moreover, with the COVID-19 pandemic showing no abatement and the local economy slowing down, it is likely that the overall premium growth will come under further pressure.

In view of the massive uncertainty as to the duration, impact and ultimate severity of the pandemic, the Insurance Authority ("IA") considers it important to bring to your attention of the following, particularly in view of the impending year-end renewal season:

1. The current market situation calls for stronger vigilance in portfolio management. Revenue growth should only be achieved on a sustainable basis based on proper pricing. This underscores the importance of underwriting discipline supported by appropriate governance and controls. Any mispricing could have wide implications on prudential risk, such as reserve adequacy, and the long-term viability and sustainability of a company's business model.
2. Reserve risk management remains to be the top priority for insurers especially in EC and Motor. The industry has been suffering from perennial losses in EC and Motor, and the Motor business continues to suffer underwriting loss. For Health insurance, the group insurance market segment was in deficit and has been relying on cross-subsidization from the individual health insurance market, save for the exception this year due to the pandemic. Reserving will be an area of continued supervisory focus

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and our core expectation, that companies set best-estimated technical provisions, remains unaltered.

3. The COVID-19 situation should be carefully considered in any pricing and reserving determination. As an example, for Health business, the claims saved this year due to medical care deferral are often delayed to next year resulting in much higher level of claims next year. For EC claims that are deferred in 2020, it is almost certain that they will return in the coming year.
4. Although interest rate decline has little direct impact on the solvency position of general insurers, the reduced investment income will put pressure on their bottom line and as such, increased attention should be put on managing investment volatility.

The IA would like to draw the attention of the Chief Executive of authorized insurers to the importance of underwriting discipline and risk management. The IA considers them the cornerstones to the corporate governance of insurers. Specifically on EC, the IA wants to remind EC insurers to continue to adhere to the Evidence-based Information Requirements for Underwriting of EC insurance as per our Circular Letter of December 10, 2018. You should expect the IA to be interested in any apparent disconnect between individual supervisory discussions with companies and their observed market behaviors.

We have been closely monitoring the solvency positions of authorized insurers. Although the overall solvency position of general insurers appears strong even on a stressed level, there should not be any illusion of the underlying risk exposures improving. To the contrary, general insurers should be aware that they need to grapple with additional uncertainties in light of the current market conditions. This makes it ever more important for insurers to manage their portfolios in a responsible and sustainable manner and be transparent with their Boards as to how they intend to address the delicate balance between growth, profitability and adequate pricing.

Please contact your case officer in the first instance if you have any questions.

Yours faithfully,

Simon Lam
Executive Director, General Business
Insurance Authority