The calm before a storm?

Hong Kong's general insurance sector saw profits increase in 2020, but insurers ought to make provisions for a rainy day.

By Ridwan Abbas

Gross premiums in Hong Kong's general insurance (GI) sector grew by 9% y-o-y in 2020 to HK$60.3bn ($7.8bn), while underwriting profit improved by 99% to HK$2.2bn.

The improvement in loss ratios which led to the industry's sound underwriting results, was in large part helped by a reduction in economic activities due to the pandemic and ensuing lockdowns which followed.

Although the motor business still failed to generate an underwriting profit, losses last year improved to (HK$141.5m) compared to (HK$420m) in 2019. Meanwhile, employee compensation (EC) business, which is the industry's second largest line after accident and health, recorded a profit of HK$391.2m compared to a loss of (HK$168.8m) in 2019.

Preparing for economic rebound

Last year, Berkshire Hathaway Specialty Insurance (BHSI) become the largest carrier of EC business in Hong Kong, overtaking Zurich Insurance on its way to writing HK$792m worth of premiums. According to BHSI Asia Middle East President Marc Breuil, this is a testimony to BHSI's excellent claims service rather than a target in itself.

Mr Marc Breuil

But Mr Breuil is particularly aware that improvement in loss ratios in the EC segment is only a temporary reprieve, with claims expected to rebound as the economy recovers.

"The inevitable claims rebound very much signals that GI carriers in Hong Kong must maintain underwriting discipline – now more than ever. Many segments of GI in Hong Kong, such as EC/EL in general and construction EC in particular, have suffered from lack of underwriting discipline and mispricing in the past," he said.

Mr Breuil added that for frequency-driven lines like motor and EC, claims would naturally start to pick up as normal economic activity resumes – with the only question being whether loss ratios are going to rebound higher than during pre-pandemic times.

"Unfortunately we continue to see a lack of underwriting discipline in segments like construction EC where despite the poor risk management practices of some contractors, certain buyers are solely focused on lower premium and some underwriters are happy to oblige by undercutting the market."

"At times it feels like gambling, with underwriters closing their eyes and literally hoping that such actions will not impact on their P&L in the next three to five years," he said.

Another segment which he believes has been under-priced systematically is CAT exposures, particularly for wind and flood.

"Mean temperatures in Hong Kong are rising due to climate change. Warmer sea temperatures and higher sea levels bring higher likelihood of damaging typhoons and storm surges."

"We are also increasingly at risk for floods due to storm surge, with Hong Kong being one of the most exposed cities in Asia. And this is especially so in the new territories where several new developments are being built in low-lying areas."

Navigating a tough market

In December last year, Hong Kong registered an unemployment rate of 6.6% which was the highest recorded in 16 years. Many small businesses have also shut down in the past year, with the pandemic dealing a heavy blow as Hong Kong's economy contracted by 6.1% in 2020 – the sharpest annual decline on record.

Even before the COVID-19 crisis, the economy had been under pressure after months of social unrest which impacted spending and investment on the island. The Hong Kong Census and Statistics Department expects the economy to see positive growth in 2021, although the first half of this year is likely to remain challenging.

With an uncertain economic outlook, the general insurance market faces a challenging period in the near term although pockets of growth exist, said Mr Breuil. He expects accident and health as well as travel insurance to pick up in the second half of this year, when the territory's borders hopefully start re-opening for international travel.

He also pointed out to the hardening market for executive liability, including D&O insurance, where capacity remains tight especially for US-exposed entities.

Mr Breuil said, "We also foresee a pick-up in government-funded infrastructure projects, including 'green projects' whether it's 5G, electrification or renewables to boost the local economy. In particular, development in the Greater Bay Area will present opportunities for some of the GI players."