Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Meeting Summary
Hong Kong Insurance Implementation Support Group (HKIISG)
12 September 2018

Attendance
HKICPA representatives
Shelley So, Chair, Financial Reporting Standards Committee (FRSC)
Christina Ng, Director, Standard Setting
Kam Leung, Associate Director, Standard Setting

HKIISG members
Dennis Chiu/Sai-Cheong Foong, AIA Group Limited
Kevin Lee, AXA China Region Insurance Company Limited
Ronnie Ng, China Overseas Insurance Limited
Sally Wang, China Pacific Life Insurance Co., Ltd
Kevin Wong, FWD Life Insurance Company (Bermuda) Limited
Alexander Wong, Hang Seng Insurance
Steven To (representing Kenneth Dai), Manulife Asia
Candy Ding, Ping An Insurance (Group)
Carrie Yip (representing Nigel Knowles), Prudential Hong Kong Limited
Joyce Lau, Target Insurance Company, Limited
Doru Pantea, EY Hong Kong
Francesco Nagari, Deloitte Hong Kong
Erik Bleekrode, KPMG China
Chris Hancorn, PwC Hong Kong

Guests
Cathy Chen, Peak Reinsurance
David Menezes, Peak Reinsurance
Alain Beland, Swiss Reinsurance
Anson Wong, Swiss Reinsurance
Gloria Lo, Swiss Reinsurance

Discussion objectives:
Readers are reminded that the objective of the HKIISG is not to form a group consensus or decision on how to apply the requirements of HKFRS/IFRS 17 *Insurance Contracts*. The purpose of HKIISG is to share views on questions raised by stakeholders on the implementation of HKFRS 17. Refer to HKIISG terms of reference.

The meeting summaries of HKIISG discussions are solely to provide a forum for stakeholders to follow the discussion of questions raised. Stakeholders may reference HKIISG member views when considering their own implementation questions—but should note that the meeting summaries do not form any interpretation or guidance of HKFRS 17.

1. Reinsurance sharing from Peak Re and Swiss Re

Peak Re: Ms. Cathy Chen (CFO) and Mr. David Menezes (Director of Reserving) shared some key IFRS 17 implementation challenges and issues from a reinsurer and cedant's perspective for non-life products. The potential impact on business operations and product design were also shared. Finally, their IFRS 17 implementation timeline was shared.

Swiss Re: Mr. Alain Beland (Head of IFRS Implementation, Asia) shared: an overview of their implementation status, timeline and impact analysis; key challenges from both a reinsurer and cedant's perspective for life products; and the findings and learning to date.

Members then participated in a question and answers session with the guests.

2. Onerous contracts – Loss component
Members agreed that an expanded paper (to include more journal entries) will be considered at a future HKIISG meeting.

Action/Conclusion:
Mr. Francesco Nagari will provide an expanded paper to be considered at a future meeting.

3. Coverage units – Base contracts and additional riders
The submission, extracted from question 2 of paper 5B of the March 20 HKIISG meeting, asked how coverage units should be determined when an insurance contract covers multiple risks. For example, for a contract that offers a death benefit of CU10m and coverage for annual medical costs up to CU1m. The submission outlines three views for how coverage units could be determined:

- View A: Coverage unit is determined solely based on the basic coverage.
- View B: Coverage unit is determined by combining the coverage unit of basic coverage and riders coverage. The contribution of coverage unit from basic and riders should be based on the respective contribution of CSM at initial recognition.
- View C: Coverage unit is determined by basic and riders coverage separately and applied to its corresponding CSM.

Most members commented that the May IASB TRG meeting outcome paragraphs 32 to 35 is helpful guidance for determining coverage units.

One member commented that the determination of coverage units for the scenario in the submission should be a variation of view B, that is, to align it with the May IASB TRG meeting outcome paragraph 35(h)(iii) and use a method based on the amount the entity expects the policyholder to be able to validly claim in each period if an insured event occurs. The variation would mean that although coverage unit is determined by combining the coverage unit of basic coverage and riders coverage, the contribution of coverage unit from basic and riders should not be based on the respective contribution of CSM at initial recognition. Instead, it should be based on the respective stand ready obligation/benefit to the policyholder:

- Under IFRS 17, an entity assesses the projected outflows of an insurance contract (which includes the probability weighting of all the different number of scenarios that can occur) and then discounts it back to present value.
- To determine the coverage unit, an entity could calculate the benefit that it stands ready to pay, which represents the insurance benefit to be considered for the determination of coverage units.
- To determine the amount that the insurer is standing ready to pay before incorporating the probability that it will occur, an entity could divide the projected outflows by the probability that the insured event occurs. This would in effect reverse the probability weighting for the insurance risk. All other risks such as policyholder behavior (non-insurance risk) would remain.
- Such a model would then separate the probability weighting between insurance and non-insurance risks.
- This member commented that such a model, based on the stand ready obligation and respective benefit to the policyholder, is practical. This is because it is from the entity's perspective and derived from its fulfillment cash flows. It can also be applied to contracts with multiple benefits.
- This member also noted that such a model will maintain an updated coverage unit adjusted for time as it applies updated cash flows at each reporting period so the release of coverage units into the P&L is consistently updated.
- This member further notes that IFRS 17 paragraph B119 requires an entity to consider for each contract the quantity of the benefits provided under a contract and its expected coverage duration. The member commented that views A and C in the submission are not appropriate because it does not take into account all

considerations specified under paragraph B119. For example, view C does not consider the take-up rate of the rider.

Another member agreed that the variation of view B outlined above, is a valid interpretation of one of the methods to determine coverage units outlined in the May IASB TRG meeting outcome. This member also commented that this is not the only solution—entities can apply any of the various methods outlined in the May IASB TRG meeting outcome. However, the key challenge is how to operationalise the methods for determining coverage units with a system model/solution that can capture the different characteristics of different components in a contract.

One other member commented that:

- View A in the submission is not appropriate; view B (with the variation outlined above) is a possible way to determine coverage units; and although view C is operationally viable—it is not in compliance with IFRS 17 paragraph B119 (i.e. an entity cannot just add up the coverage unit of the different products in the same group).
- This member further noted that the determination of coverage units needs to be at a contract level, but the amortization of CSM (release of coverage units) needs to be at the group level. Therefore, an entity cannot just add up coverage units of different products in the same group as it does not appropriately reflect the requirements of B119.
- For example, consider a group where there is both product A (sum assured is based on the number of policies) and product B (sum assured is decreasing, that is, there is more benefit to the policyholder initially). In determining coverage units, an insurer cannot just add the sum assured together—it has to reflect the service provided by the group as a whole. This is because CSM should be released on a group level.
- Finally, this member commented that using CSM as a weighting for determining coverage units (as outlined in view B of the submission) may be difficult, as an entity should not be basing it on premiums (unless it reflects services provided).

Action/Conclusion:
Members noted that the IASB May meeting outcome was generally helpful guidance in determining coverage units for insurance contracts with multiple benefits. No further action necessary.

4. Staff update

a) Members received an update that:
   - HKICPA staff and staff of the Canadian standard setter would do a joint presentation on IFRS 17 implementation at the October meeting of the International Forum of Accounting Standard Setters.
     Post-meeting note: The joint-presentation also included the Korean standard setter.
   - HKICPA staff and other national standard setters from other jurisdictions having been discussing and sharing the challenges and issues arising from their jurisdictions, and agreeing on any next steps to be conducted together, where appropriate.

b) Members were also asked their views on on the accounting interaction between the immediate recognition of a loss for onerous contracts [IFRS 17.47] and the amortization of a net gain on the corresponding reinsurance contract [IFRS 17.65]. Most members agreed that the accounting is asymmetric and leads to an accounting mismatch in the P&L which may not faithfully reflect the insurer's risk management activities (i.e. transfer of insurance risk from the insurer to the reinsurer). Members did not have any comments on the draft proposed solution to the issue.

c) Members noted that the October IASB Board meeting would likely discuss key challenges and issues arising from IFRS 17. Members noted that the Institute's Financial Reporting Standards Committee had decided to write a letter to the IASB before their October meeting to communicate the key issues of Hong Kong stakeholders. Members were asked to communicate what they considered were their top priority technical issues.

d) Members suggested to include the following 5 issues in the letter to the IASB. A few members volunteered to provide input for proposed solutions to these issues:
   - Acquisition cash flows
   - CSM amortization for indirect participating contracts
   - Reinsurance
   - Level of aggregation and annual cohorts
   - Transition

Action/Conclusion:
A working draft of the letter will be discussed at the upcoming HKIISG meeting in October.

Post-meeting note: The draft letter to be discussed at the 9 October meeting does not include Acquisition cash flows as staff thinks that suggestions on the IASB Board's proposed amendments to IFRS 17 paragraph 27 could be provided during the comment period of the Annual Improvement Process.

Finally, members noted that HKICPA would be organizing an IFRS 17 forum in the first half of 2019. Members agreed to: participate in the forum; present; facilitate; and discuss local issues addressed at past HKIISG meetings.

5. Any other business
An informal survey was performed on the status of member insurers in securing the IT software solutions required to implement HKFRS/IFRS 17. It was observed that:
- Some insurers have selected their vendor and are in the process of planning and deciding on system solutions. Others are close to selecting a vendor.
- In particular, a solution for the 'CSM engine' for the calculation of CSM and CSM amortization is still highly sought after as it is new, complex and there are still moving pieces.
- One insurer mentioned that they may be developing their solution in-house since most vendors are also still developing a full solution.
- One insurer mentioned that the IT solutions providers may not fully understand IFRS 17 requirements, which complicates implementation.