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

Meeting Summary
Insurance Advisory Panel (IAP)
30 April 2024

Attendance
HKICPA representatives
Gary Stevenson, Chairman, Financial Reporting Standards Committee
Carrie Lau, Associate Director, Standard Setting
Kennis Lee, Associate Director, Standard Setting

IAP members and designees
Sam Ho, AIA Company Limited
Alexander Wong, HSBC Life
Cynthia Yeung, Manulife Financial Asia Limited
HuangHan, Ping An Insurance (Group) Company of China, Ltd.
Matthew Sims, Prudential Hong Kong Limited
Francesco Nagari, Deloitte China
Liza Gonzalo, Deloitte China
Peter Telders, EY Hong Kong
Steve Cheung, EY Hong Kong
David Kwok, KPMG China
Albert Chai, KPMG Hong Kong
Ian Farrar, PwC Hong Kong
Jason Li, PwC Hong Kong

Apologies
Issac Tong, AIA Group Limited
Ronnie Ng, China Overseas Insurance Limited
Maggie Au, FWD Life Insurance Company (Bermuda) Limited
Bingwen Zhang, Ping An Insurance (Group) Company of China, Ltd.

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

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

1. Submission 1: Allocation of insurance acquisition cash flows (IACF) and non-distinct investment component (NDIC) between the liability for remaining coverage (LRC) excluding the loss component and the loss component of LRC

This summary should be read in conjunction with the local submission (Paper 1). The Paper discusses the basis for the systematic allocation of IACF and NDIC between LRC excluding the loss component and the loss component of LRC in accordance with IFRS 17.50(a) under three scenarios.

Scenario 1 – IACF is larger than the total premium of the product

One attendee explained that his firm has published guidance on the fact pattern of Scenario 1. He explained that his firm's view is similar to View 3. However, unlike View 3 where IACF paid is first allocated to the LC, his firm considered that IACF paid should be allocated last to the LC. This is because, in his firm's opinion, the excess of IACF, after considering all expected inflows from the group of insurance contracts, should go to the LC.

Another attendee explained that his firm was not aware of the fact pattern in real practice, and so they did not hold a strong view on it.

[Post meeting notes: The firm's guidance shared by the attendee explains the view that IFRS 17:B123 and B125 work together to achieve an insurance revenue that reflects the total premium (adjusted for a financing effect and excluding any investment component) as required by IFRS 17:B120. Therefore, the insurance revenue determined by applying IFRS 17:B123 and B125 should be considered together and not in isolation. As a result of applying IFRS 17:B123 and B125, the actual amount of IACF is recognised as insurance service expense, but the amount of total revenue is equal to total premiums.]

Scenario 2 – NDIC is larger than the total premium of the product
Scenario 3 – Saving product that provides a fixed guaranteed return, which is higher than the discount rate

The attendees shared their views on Scenario 2 and 3 together.

One attendee from an audit firm did not agree with the fact pattern of Scenario 2 and therefore could not form a view on Scenario 2. This is because, based on his firm's interpretation of the definition of investment component set out in IFRS 17 Appendix A[1], the repayment of an NDIC cannot be greater than the premium received after taking into account the time value of money. In his firm's view, an NDIC cannot give rise to an onerous contract.

In response to a question from another attendee from an audit firm as to why there could not be an onerous contract due to an NDIC as in Scenario 3, the above attendee elaborated his view that a financial loss is not an onerous loss. He considered that onerous losses should only arise from non-financial variables and be recognised when expected outflows for insurance risk are greater than the expected inflows. In his view, financial losses should be recognised as part of insurance finance income or expense (IFIE). He considered that the loss in Scenario 2 represents a cost of guarantee which does not qualify as an NDIC, as the repayment of cash should not result in a loss for the insurer when the insurer only returns to the policyholder the amount it initially received.

[1] 'Investment component' is defined as *'The amounts that an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs'.*

The submitter, who is from an audit firm, considered that in the extreme fact pattern of Scenario 3, the discount rate for future cash flows including NDIC is lower than the guaranteed returns to policyholders, resulting in onerous contracts. He believed that such loss should be recognised in the insurance service result and cannot be split into amounts related to financial risk as IFIE on the initial recognition of the group of insurance contracts.

Regarding the above submitter's view, the attendee who considered that the NDIC would not give rise to an onerous contract, considered that an NDIC at initial recognition can only be discounted at the time value of money and thus, no negative insurance revenue would be recognised.

For Scenario 2, another attendee considered that if the NDIC as referred to in the fact pattern meets the definition in IFRS 17 Appendix A, his firm will have more concerns regarding View 2 and View 3, which result in a positive insurance revenue. His firm considered that there should not be insurance revenue when NDIC is equal to or, in this case, greater than the premium. Regarding View 1, he did not disagree with the recognition of a negative insurance revenue, as there is no specific guidance prohibiting a negative insurance revenue.

The submitter asked the attendees' views on whether insurance revenue recognised for recovering IACF should be limited to the amount of premium excluding NDIC, based on the wording of IFRS 17:B125. One attendee opined that the starting point should be the application of IFRS 17:B120, which requires the recognition of insurance revenue as the consideration for the insurance contracts, i.e. the amount of premiums paid to the insurer, adjusted for the time value of money and excluding any NDIC.

2. No AOB were raised.