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# HKICPA POCKET SUMMARY

## Implementing HKFRS 17 *Insurance Contracts*

May 2018



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

Users of this publication should consider taking their own accounting and/or legal advice if in doubt as to their obligations under HKFRS 17 *Insurance Contracts* and other related requirements. The Hong Kong Institute of Certified Public Accountants, its committees and its staff do not accept any responsibility or liability in respect of this publication and any consequences that may arise from any person acting or refraining from action as a result of this publication.

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# INTRODUCTION

This pocket summary is the first in a series of instalments.

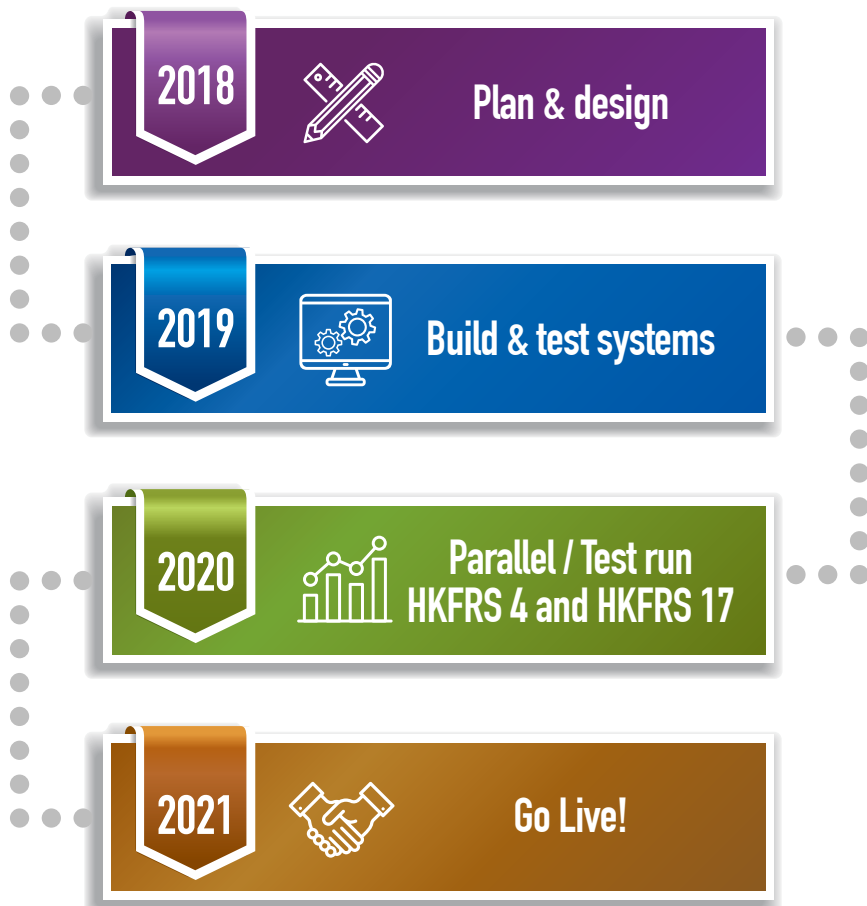
It provides insurers with a simple framework and general references for planning the implementation of HKFRS 17 *Insurance Contracts*, and contains:

- a roadmap for implementation;
- top ten operational considerations management should discuss with the Board;
- important concepts of HKFRS 17 to bear in mind; and
- key decisions to identify information needs arising from HKFRS 17.

Readers should note that this publication is not a comprehensive summary of the standard—it does not contain all the requirements of HKFRS 17 and is not a guide on how to implement the standard. This publication may be updated in the future for new information regarding HKFRS 17 (if any).

HKICPA thanks members of its Insurance Regulatory Advisory Panel and their supporting teams, and staff of the International Accounting Standards Board for their input on this publication.

# ROADMAP FOR IMPLEMENTATION



# TOP TEN OPERATIONAL CONSIDERATIONS

Decisions to be agreed with  
Board of Directors



## IDENTIFY GAPS

*Questions 1 to 3 help to identify what type of information is required to be collected and maintained by your IT systems.*

1. Have you reviewed all your insurance contracts (including reinsurance arrangements) and considered key decision-making points?
2. What new presentation and disclosures are required?
3. What is the interaction with other critical projects that need to be considered? For example, HKFRS/IFRS 9 *Financial Instruments* and the new Risk Based Capital regulatory reporting being developed?
4. What changes to your IT data collection and reporting systems are required?
5. Have you engaged with your auditor as you are developing accounting policies? Are your finance and actuarial teams sufficiently educated and able to handle the workload? Do you need external consultants?

## FILL IN THE GAPS

6. Have you prepared the project plan for implementation, which considers critical activities (parallel run or test run, etc), timing, resourcing, systems and budget?
7. Have you identified the appropriate: IT specifications/systems to build/acquire; human talent to hire/educate; and external consultants to assist with implementation?
8. Have you thought about when and how to communicate the financial reporting impact to your investors and stakeholders?
9. Presentation and disclosure of financial reports will change. Have you reviewed existing KPIs to consider if these need to be modified?
10. Has the impact of the standard (including project plan, budget and potential impact to investors) been communicated, and approved where necessary, by your Board of Directors and senior management?



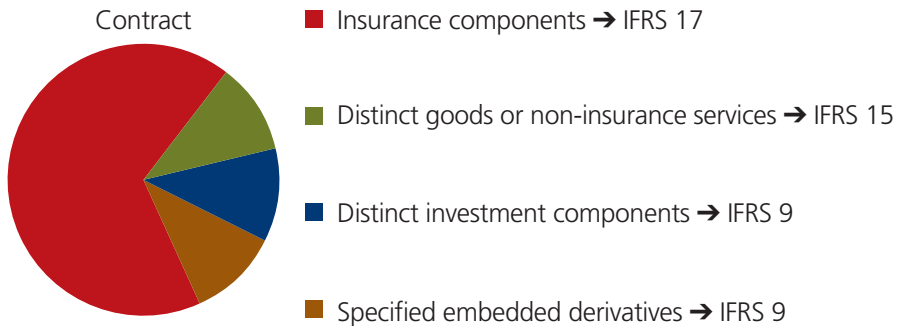
# HKFRS 17 GENERAL MODEL: IMPORTANT CONCEPTS



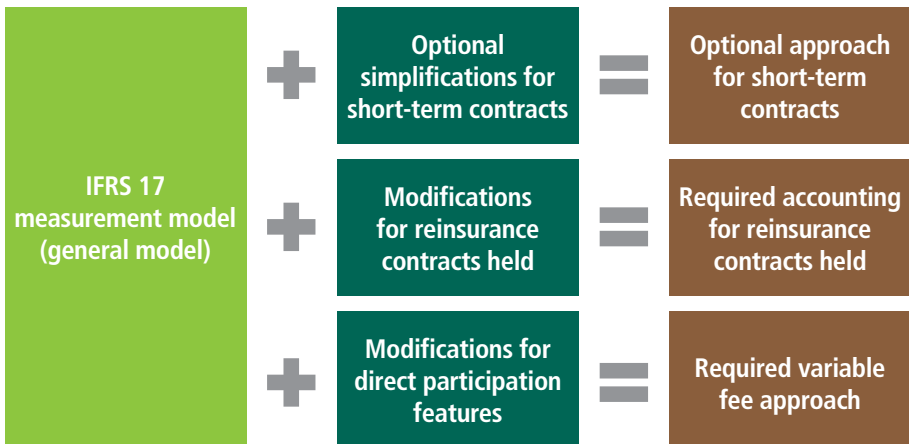
# OVERVIEW OF HKFRS/IFRS 17

Extracted from education materials published by the International Accounting Standards Board (IASB)

## 1. Scope of the standard - what is measured under IFRS 17?



## 2. The measurement model



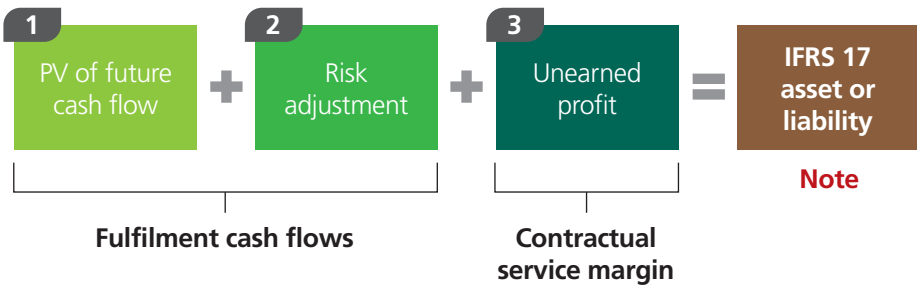
# INSURANCE CONTRACT LIABILITY

Extracted from education materials published by the IASB

## 2. Core requirements

All insurance contracts measured as the sum of:

- **Fulfilment cash flows (FCF)**
  1. Present value of probability-weighted expected cash flows—reflects financial risk
  2. Plus an explicit risk adjustment for non-financial risk (e.g. insurance risk)
- **Contractual service margin (CSM)**
  3. The unearned profit from the contracts



### Note from HKICPA:

On day one, if FCF are:

- Positive, the 'unearned profit' is of an equivalent amount (i.e.  $FCF + CSM = 0$ )
- Negative, then the 'onerous' loss amount is immediately recognised in the P&L

# UNEARNED PROFIT ON DAY ONE

Extracted from education materials published by the IASB

## 3. Contractual Service Margin – initial recognition

The unearned profit of the group of contracts that relates to future service to be provided

The amount determined so that no gains are recognised in profit or loss on initial recognition

**Example** — Consider a group of contracts with PV of future cash flows of CU4,250 and risk adjustment of CU750

If premiums  
CU5,500

- Contracts profitable at inception
- CSM = CU500 [CU5,500 – CU750 – CU4,250]

If premiums  
CU3,500


- Contracts onerous at inception
- Day-one loss CU1,500 recognised in profit or loss [CU3,500 – CU750 – CU4,250]
- No CSM

# LEVEL OF AGGREGATION (1/3)

Extracted from education materials published by the IASB


## 4. Why are insurance contracts grouped?

Other industries and IFRS contract accounting



Typically, recognise and measure at individual contract level

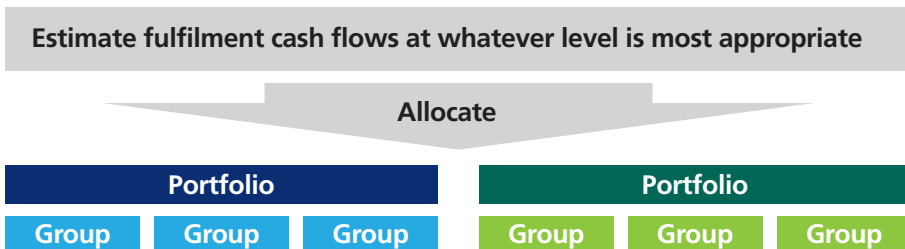
**Insurance and IFRS 17 contract accounting**



- Insurance activities often rely on issuing a number of similar contracts to reduce risk
- Measuring profitability on an individual contract may not reflect this
- However, if profitability is measured on a collection contracts that have been aggregated at too high a level then useful information is lost because profit and loss are treated asymmetrically in IFRS 17

## 5. What does grouping affect?

Fulfilment cash flows are required to be allocated to groups of insurance contracts so that the resulting fulfilment cash flows of the group comply with requirements of IFRS 17






# LEVEL OF AGGREGATION (2/3)




Extracted from education materials published by the IASB

## 6. How to divide contracts into portfolios and groups

1: Identify portfolios of insurance contracts:

Portfolio 1	Portfolio 2	Portfolio 3
e.g. whole-life insurance	e.g. annuities	e.g. car insurance
		
<ul style="list-style-type: none"> <li>✓ Similar risks</li> <li>✓ Managed together</li> </ul>	<ul style="list-style-type: none"> <li>✓ Similar risks</li> <li>✓ Managed together</li> </ul>	<ul style="list-style-type: none"> <li>✓ Similar risks</li> <li>✓ Managed together</li> </ul>

2: Divide a portfolio into minimum groups of:

Onerous at initial recognition, if any	Remaining contracts in the portfolio, if any	At initial recognition, no significant possibility of becoming onerous, if any
		

Note from HKICPA:

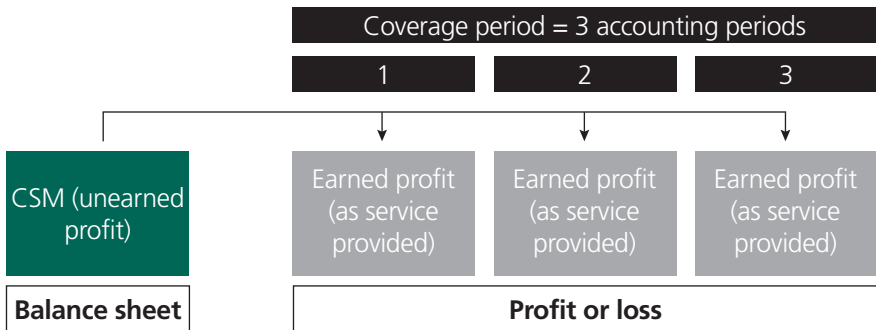
Do not include contracts issued more than one year apart in the same group. If necessary, further divide groups.

# LEVEL OF AGGREGATION (3/3)

Extracted from education materials published by the IASB

## 7. Allocation of profits for a group of contracts

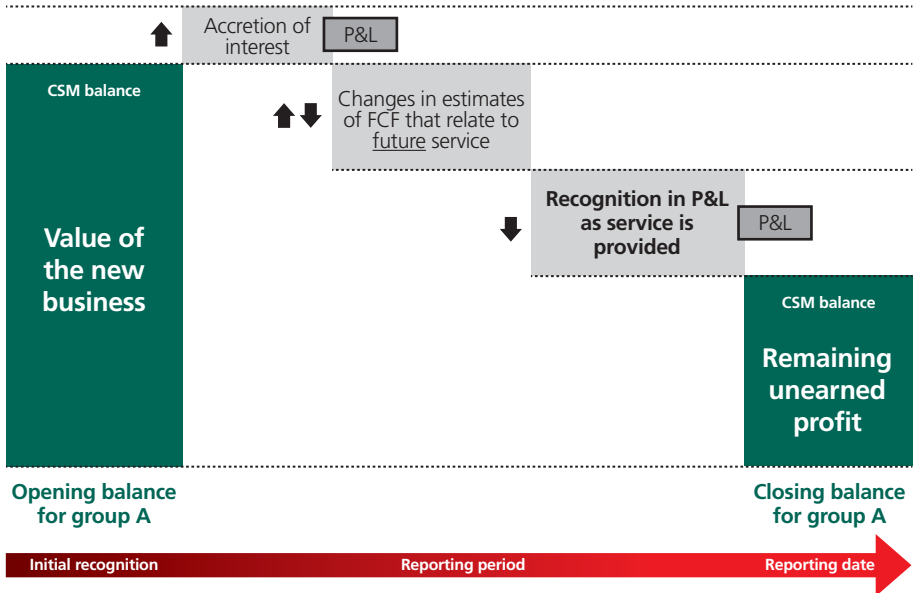
- Grouping contracts means profit is not identified with each individual contract
- Coverage units provides basis for systematic allocation of unearned profit of a group to each period that represents service provided



# RECOGNISING PROFIT

Extracted from education materials published by the IASB

## 8. Unravelling the CSM






# PLAN AND DESIGN: KEY DECISION POINTS

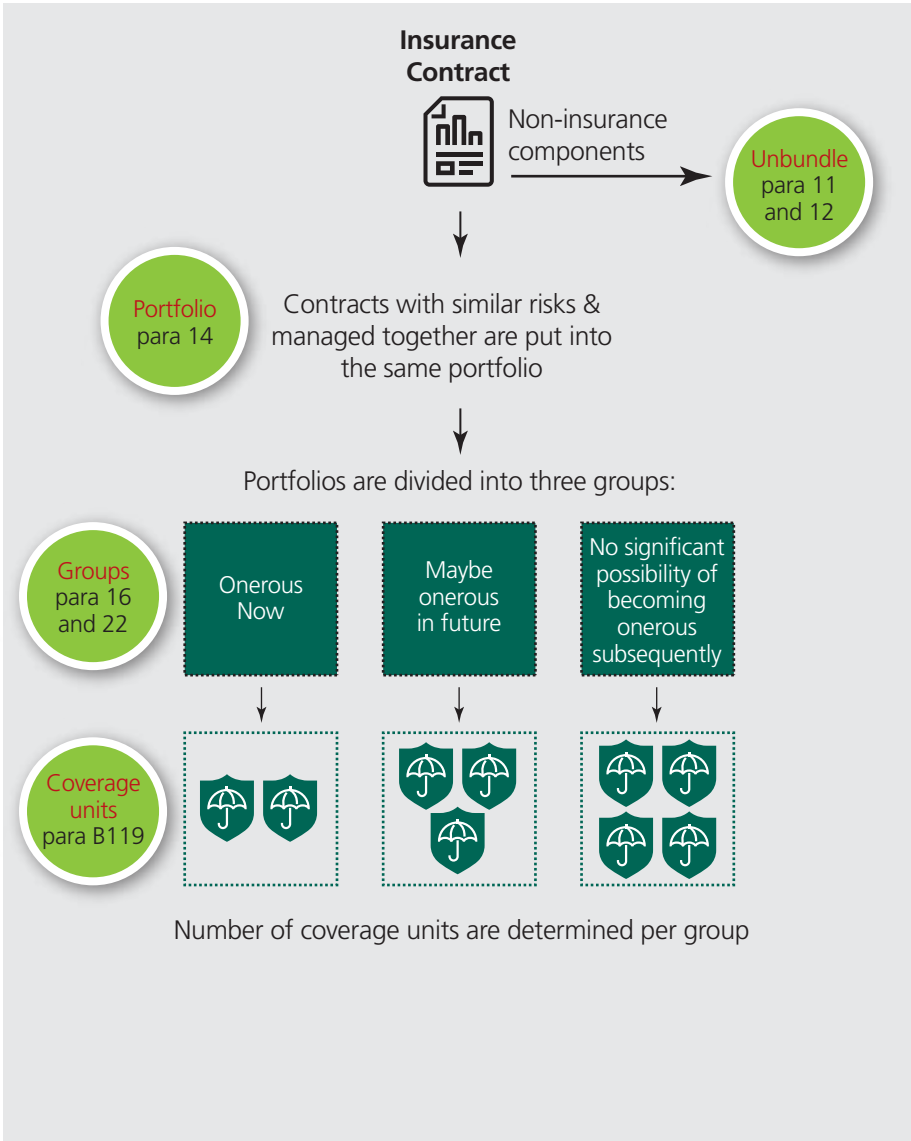
Decisions to be agreed with  
Board of Directors

The following content provides insurers with high-level general references on key questions that management should consider. It aims to help insurers identify their information needs arising from HKFRS/IFRS 17.

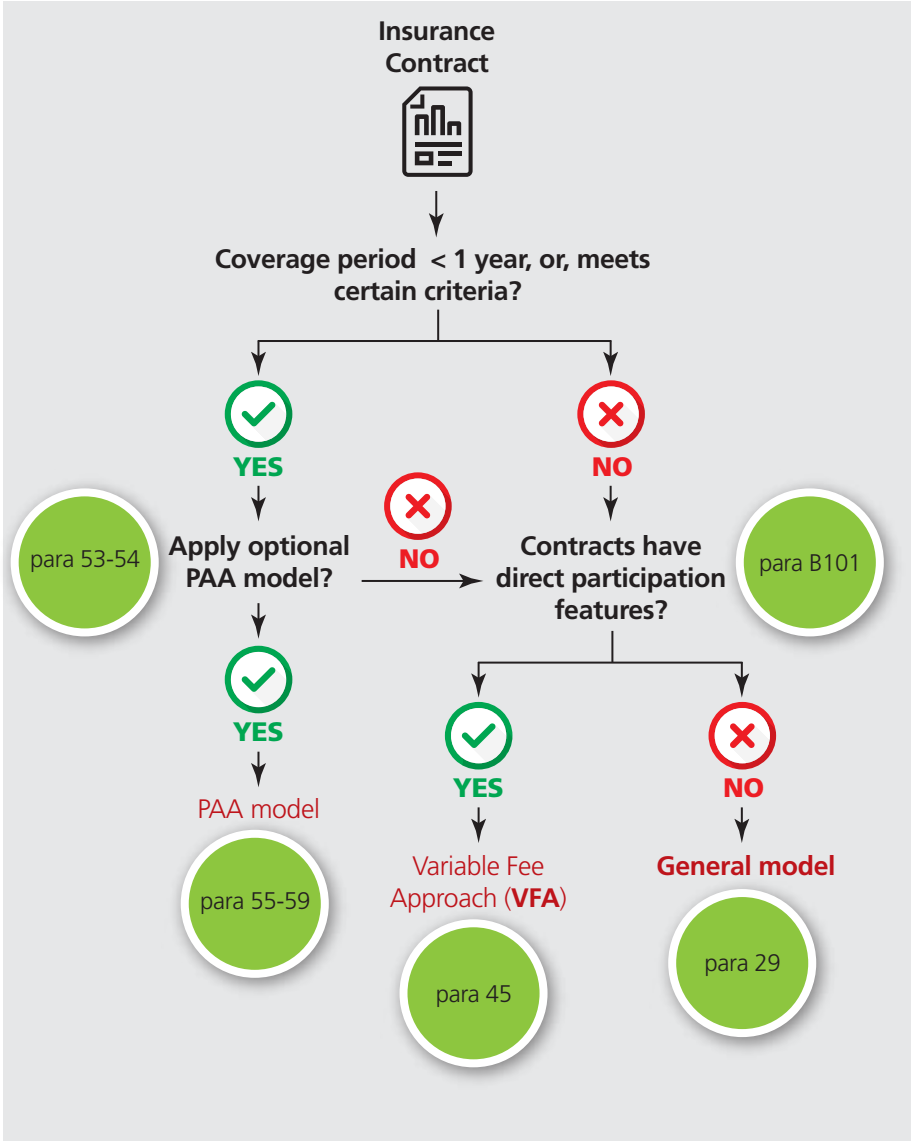
In the following pages:

 refers to the relevant HKFRS/IFRS 17 paragraphs.

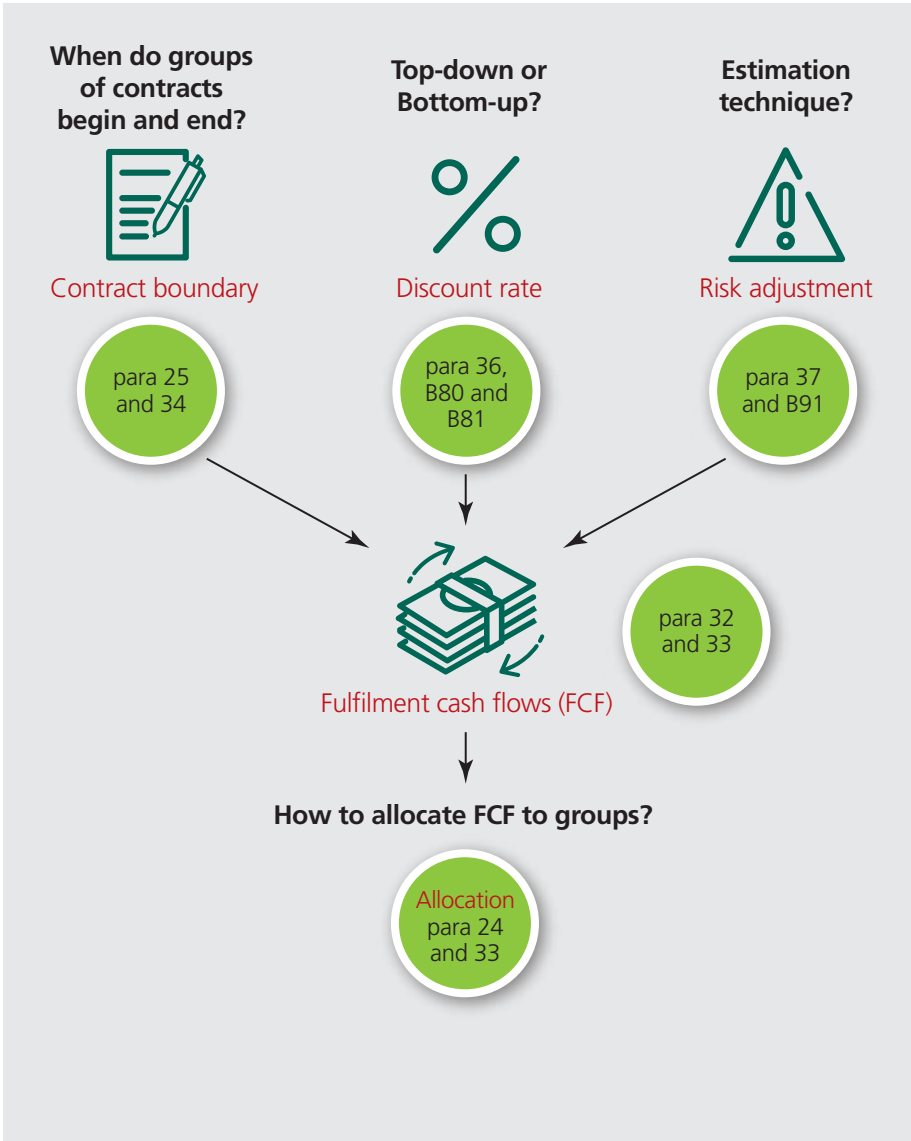
# CONTRACT GROUPS & COVERAGE UNITS



# ACCOUNTING MODEL



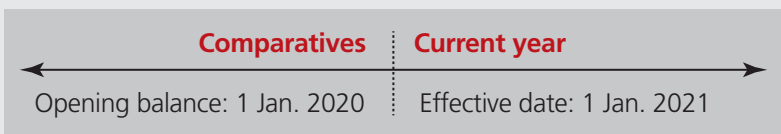
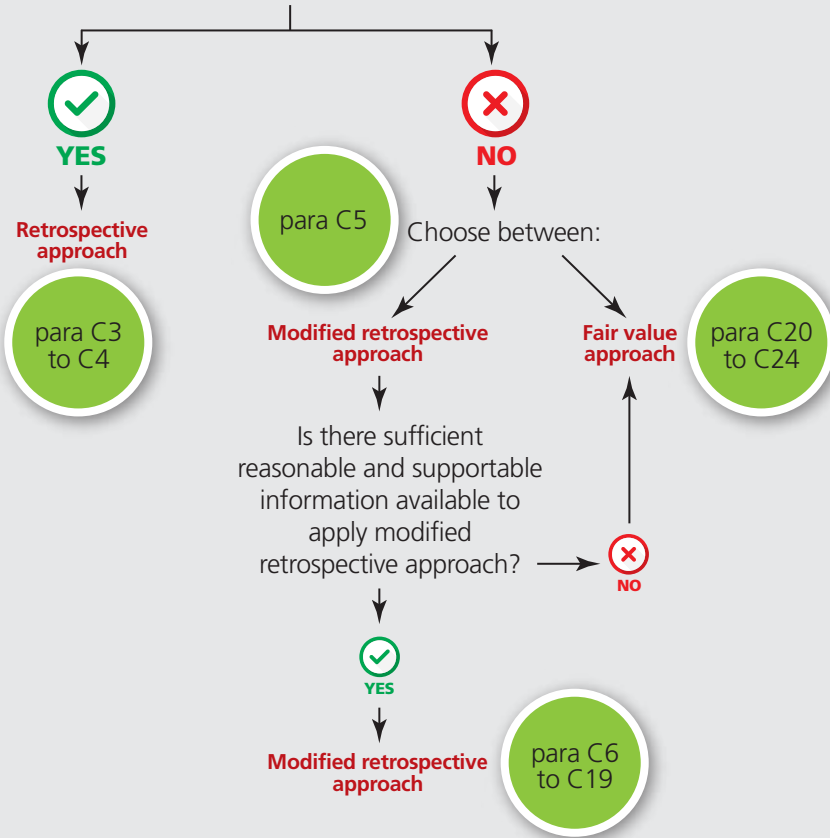
# GENERAL MODEL (DAY ONE)





# TRANSITION APPROACH BY A GROUP OF CONTRACTS

Is it practicable to apply retrospective approach?



# IMPLEMENTATION SUPPORT

## Training



## Forums



## Publications



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## Hong Kong Insurance Implementation Support Group (HKIISG)



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**HKICPA is working together with the Insurance Authority and the Hong Kong Federation of Insurers**




**HKICPA is monitoring and sharing global developments**



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