



Meeting Summary
Hong Kong Insurance Implementation Support Group (HKIISG)
9 October 2018

Attendance

HKICPA representatives

Sanel Tomlinson, Member, Financial Reporting Standards Committee (FRSC)
Christina Ng, Director, Standard Setting
Kam Leung, Associate Director, Standard Setting

HKIISG members

Sai-Cheong Foong / Dennis Chiu, AIA Group Limited
Kevin Lee, AXA China Region Insurance Company Limited
Ronnie Ng, China Overseas Insurance Limited
Kevin Wong, FWD Life Insurance Company (Bermuda) Limited
Alexander Wong, Hang Seng Insurance
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 / Steve Cheung, EY Hong Kong
Francesco Nagari, Deloitte Hong Kong
Erik Bleekrode, KPMG China
Chris Hancorn, PwC Hong Kong

Dial-in

Sally Wang, China Pacific Life Insurance Co., Ltd

Guest

Alain Beland, 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. Draft paper to IASB staff

Refer to Paper 2 of the October 9 meeting (only available to HKIISG members) for full details of the technical issues discussed.

A working draft of the letter to IASB staff was discussed at HKIISG's 9 October meeting. In addition to requesting for comments on the drafting on the letter from a technical perspective, the following three questions were posed to all 14 members and one guest (representing the reinsurer's perspective): (a) should a letter be written to the IASB; (b) what issues should be included in the letter; and (c) what should be the level of detail for the letter. No major comments from a technical perspective were received from HKIISG.

a) Should a letter be written to the IASB?

No one disagreed with writing a letter to the IASB.

b) What issues should be included in the letter?

i) CSM amortization for indirect participating contracts

- Two insurers disagreed with this being an issue because they think the standard is appropriate and the rationale well documented in the Basis for Conclusions, Paper 5 of the May IASB TRG meeting, as well as Paper 2C of the June IASB meeting. These insurers think that if CSM amortization is changed for indirect participating contracts, then it would require fundamental changes to the standard as the real issue is because of the introduction of some contracts under the GMM model and VFA model. In addition, one of the insurers commented that the comparison to IFRS 15 is not a strong enough argument. Therefore, these insurers suggested to exclude it from the paper.
- The majority of insurers and practitioners agreed that this is an issue, emphasizing that the inconsistent treatment of CSM for similar products will greatly impact how the market and investors perceive their company. These members noted that since the issue is critical and controversial in Hong Kong, the different arguments should be raised to the IASB.
- With respect to the proposed solution, one insurer thinks the definition of insured event should not be changed as there could be unforeseen circumstances.

Action/Conclusion:

The majority of members strongly support including this issue in the letter despite the split views. Staff will include this issue, and represent both views.

ii) Transition

- There was general agreement for this issue to be submitted.
- One insurer questioned if our proposed solutions should include the drafting changes to the text of IFRS 17. The insurer also noted that it is unclear if the proposed changes would cause inconsistency among companies.
- Another insurer suggested that the issue should also include a question on what is considered "impracticable" to apply the fully retrospective approach under IFRS 17.C5.

Action/Conclusion:

All members supported including this issue in the letter. Staff will include this issue to improve understandability and simplicity of applying the modified retrospective approach.

iii) Reinsurance contracts held—estimation of new business not yet written

- There was general agreement for this issue to be submitted.
- One reinsurer (the invited guest) and a few practitioners commented that the mismatch on initial recognition between reinsurance contracts held and its corresponding underlying insurance contracts is a higher priority issue and should also be submitted.
- The invited guest reinsurer noted that there are other issues for reinsurance including the level of aggregation and the prohibition of the VFA model for reinsurance contracts issued and held.
- General insurers noted that reinsurance is the key issue for them as they are heavily reliant on reinsurance contracts.

Action/Conclusion:

- All members support including this issue in the letter. Some members commented that the issue relating to the mismatch on initial recognition should also be included. Staff will include both issues: estimation of new business and the mismatch on initial recognition.
- Staff will not to include the other two reinsurance issues, as they had not been previously discussed by HKIISG. Staff invited the reinsurer to submit a paper on the other two topics for discussion at future HKIISG meetings.

iv) Level of aggregation and annual cohorts

- Some members were neutral about including this issue in the letter.
- A few insurers and one practitioner agreed that the issue should be submitted, that is,

changing how losses are recognized on onerous groups of contracts.

- Two insurers commented that they needed more time to understand and assess the issue and proposed solution, as the current drafting is unclear. They did not think the issue a priority.
- One insurer commented that the issue and proposed solution is contradictory to IFRS 17's fundamental principle of recognizing losses on onerous groups of contracts, and suggested to remove the issue from the letter.
- Two insurers also commented that the current drafting of the issue is unclear and that, as drafted, it appears there may be a misinterpretation of the standard.
- One practitioner commented that the issue is not a priority.

Action/Conclusion:

There are mixed views on whether this technical issue is a priority to be resolved as addressing it will inevitably require reopening fundamental aspects of the standard. Staff are aware that the level of aggregation required by the standard may be an operational burden and there is debate about whether to include a note regarding operational challenges in the letter since it does not relate to the technical aspects of the standard.

v) *Others*

- One member said that operational challenges should be included in the letter, such as: IT systems; stakeholder management (educating board and investors, analysts, rating agencies); and the fact that it appears the standard is still not stable and that vendors are still developing IT solutions.
- Some stakeholders thought that the reference to other issues raised by the CFO forum to EFRAG should be:
 - reworded so that it is clear that they are relevant to Hong Kong insurers (even if it is not a priority to be explored in this paper); and
 - should be mentioned at the beginning of the paper not the end.

Action/Conclusion:

There was debate about whether to include these operational challenges in the letter as they do not relate to the technical aspects of the standard.

c) What should be the level of detail for the letter?

- A few members thought that the letter should be shorter.
- A few members thought that the letter should be comprehensive.
- A few other members thought that a balance should be struck, for example, the letter should clearly describe and explain the issues, why it is an issue, and propose solutions (potentially with a lighter touch as the solutions for the issues have not been field tested or thoroughly debated at HKIISG).
- A few members commented that it appears that current drafting of some issues is unclear, and emphasized that it does not matter what the level of detail is, as long as the drafting is clear.

Action/Conclusion:

Staff will proceed with a balanced level of detail.

[Post-meeting note: A draft technical issues paper which incorporated the variety of comments from HKIISG on 9 October, the Institute's Insurance Regulatory Advisory Panel and Financial Reporting Standards Committee was sent to the IASB's insurance project staff before the IASB Board meeting in October. A final issues paper is proposed to be published in November.]

2. Discussion of IASB September TRG meeting papers¹

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- *For the background and description of the issues and arguments: Readers must read the IASB September TRG [summary briefing](#) and the [respective TRG papers](#).*

Mr. Francesco Nagari and Ms. Sally Wang provided a debrief on the outcomes of the September IASB TRG meeting. Members then participated in a questions and answers session on each topic, and observed the following:

AP09: Industry pools managed by an association

- The Hong Kong Employee Compensation Insurance Residual Scheme appears to be analogous to pool 1 in AP09. It was agreed that it would be worthwhile to discuss this fact pattern at a future HKIISG meeting.

Action/Conclusion:

Ms. Joyce Lau will submit a paper on this topic.

AP05: Cash flows that are outside the contract boundary at initial recognition

- The right to exercise of an existing rider option in a contract could trigger the recognition of a new contract when the rider option is deemed to be a change that creates commercial substance from what it was prior to the reassessment required under paragraph B64 of IFRS 17 and when it results in a full repricing of the risks as mandated under paragraph 34. When all these conditions are true a new contract is recognized under IFRS 17 and the previous contract reaches the end of its boundary, even if these two contracts are part of the same legal agreement. Onerous testing will be applied (as per initial recognition requirements) on the new accounting contract.
- One member observed that this treatment could impact profit emergence.
- There is a difference between coverage period duration and contract boundary. Having a contract boundary of 90 days when there is a right to fully reprice, is not the same as the coverage period duration or the settlement period duration. If there is a contract boundary of 90 days, then a new contract is recognized afterwards—yet, the contract recognized before may still continue to be reported because the associated rights and obligations are not extinguished.
- For reinsurance contracts held, a contract boundary of 90 days means that the cash flows of new business not yet written beyond that period do not need to be estimated and recognized.

AP04: Premium experience adjustments related to current and past service

- The IASB TRG did not deal with the scenario of a limited pay premium insurance. For example, does a lapse relate to the future or current and past service? It was agreed that it would be worthwhile to discuss this fact pattern at a future HKIISG meeting.

Action/Conclusion:

Mr. Kevin Wong will submit a paper on this topic.

AP06: Recovery of insurance acquisition cash flows

- It was noted that the IASB TRG had commented that IFRS 17 paragraph 106 would be amended to clarify how premium experience adjustments related to current or past services should be disclosed and reconciled (applicable for both AP04 and AP06).

AP08: Group insurance policies

- One member observed that the guidance issued by the prudential regulator in the UK on solvency II appears to have the opposite impact of paragraph 29(d) of the IASB TRG meeting summary.
- A few members noted that in Hong Kong it is very common to have a 7 day notice period for cancellation. This implies that a new accounting contract would be recognized every 7 days, which would be operationally complex and burdensome. It was agreed that it would be worthwhile to discuss this fact pattern at a future HKIISG meeting.

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- *For meeting outcomes: Readers must read the IASB September TRG [summary of meeting outcomes](#) and TRG [meeting summary](#).*



Action/Conclusion:

Mr. Kevin Lee, Ms. Joyce Lau and Mr. Ronnie Ng will submit a paper on this topic.

AP11: Other submissions

- Members observed that the application of IFRS 17 paragraph B137 would mean that assumptions need to be reset at each interim reporting period, which may be different from a group level versus subsidiary level (for example, if the subsidiary does not have interim reporting). This would result in two different CSM's under the GMM.

There were no major questions on the debrief relating to:

- AP01: Insurance risk consequent to an incurred claim;
- AP02: Determining discount rates using a top-down approach
- AP03: Commissions and reinstatement premiums in reinsurance contracts held;
- AP07: Premium waivers; and
- AP10: Annual cohorts for contracts that share in the return of a specified pool of underlying items.

Any other business

- Paper 4 is deferred for discussion.
- Submissions should be received at least 3 weeks prior to the HKIISG meeting.