



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

## HKICPA Approves New Accounting Standard for Insurance Contracts

*HKFRS 17 strengthens investor protection to enhance market efficiency*

(Hong Kong, 23 February 2018) — The Hong Kong Institute of Certified Public Accountants (HKICPA) has approved HKFRS 17 *Insurance Contracts*, the equivalent of IFRS 17 issued by the International Accounting Standards Board (IASB). HKFRS 17 is a new accounting standard for insurance contracts that accounts for insurers' liabilities and revenues in a way that leads to better-informed investment decision making and protection for investors.

“HKFRS 17 ensures that Hong Kong’s insurance industry remains at the forefront of global accounting best practices and that Hong Kong maintains its position as a world’s leading financial centre. More importantly, HKFRS 17 better reflects the insurers’ liabilities and financial wellness by using more up-to-date market inputs and comparable data. This is important for investors assessing the long term continuity of the company, hence offering better protection to investors and enhancing market efficiency,” said Christina Ng, Director, Standard Setting of HKICPA.

Ms Ng explained that the new standard brings several key benefits to insurance policy holders and will make financial reporting more meaningful to investors. The new standard will become effective on 1 January 2021 and replaces the many ways in which insurers are currently allowed to account for and report insurance contracts.

### **Valuation of insurers’ liabilities strengthens investor protection**

Insurance, in particular life insurance, is based on long term assessments and estimations. By updating insurance liabilities with current value market inputs, HKFRS 17 helps policy holders and investors assess whether the companies have sufficient reserves to make payouts and cope with various economic risks over the long term. Currently an insurer’s liabilities may be measured using outdated market data which may not accurately portray its future insurance policy payouts. Investors who want to understand the long term risk profile of these companies currently must request management’s alternative performance measures, and these measures may vary by company.

### **Revenue recognition**

In applying HKFRS 17, insurance companies will recognise revenue as the insurance services are provided. This is an improvement on current practice, where premiums are recognised as revenues when they are received, although these premiums represent

services that will be provided over the course of time in the future. It is misleading to recognise revenue in advance of providing the goods or services to a customer.

### **Comparability for decision-making**

The new standard will make it clearer how much profit is made from insurance activities versus asset management activities if an insurer issues policies with both insurance and investment elements. This distinction will help investors make better comparisons between an insurer and its relevant peers, be it another insurer or a pure asset manager. This is important for a long term investor in assessing the full picture of a company's operations and sustainability in the long run.

### **HKICPA to monitor and support implementation**

Ms Ng said HKICPA has been working with stakeholders in the local insurance industry to shape IFRS 17 prior to its adoption, and while the new standard is largely beneficial, HKICPA will continue to speak up for and assist the insurance industry in Hong Kong to ensure they are not disadvantaged at the implementation stage.

"Other capital markets may not implement IFRS 17 in time or in full, so Hong Kong insurance companies are concerned they might be disadvantaged in the competitive global investment environment," she said.

"Locally, the insurance industry is also concerned about the availability of sufficient actuarial talent and IT solutions to meet the effective date of the new standard, as well as the costs of implementation."

HKICPA is in active dialogue with the IASB, and is addressing these concerns and assisting the insurance industry by creating an implementation support group, providing enhanced training and support, closely working with the Hong Kong Federation of Insurers and the Insurance Authority, as well as closely monitoring global developments in the standard's implementation.

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### **About HKICPA**

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the statutory body established by the Professional Accountants Ordinance responsible for the professional training, development and regulation of certified public accountants in Hong Kong. The Institute has more than 42,000 members and 18,000 registered students.

Our qualification programme assures the quality of entry into the profession, and we promulgate financial reporting, auditing and ethical standards that safeguard Hong Kong's leadership as an international financial centre.

The CPA designation is a top qualification recognised globally. The Institute is a member of and actively contributes to the work of the Global Accounting Alliance and International Federation of Accountants.

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