



Meeting Summary

Hong Kong Insurance Implementation Support Group (HKIISG)

14 April 2021

Attendance

HKICPA representatives

Gary Stevenson, Financial Reporting Standards Committee (FRSC)

Cecilia Kwei, Director, Standard Setting

Tiernan Ketchum, Deputy Director, Standard Setting

Carmen Ho, Associate Director, Standard Setting

HKIISG members and designees

Sai-Cheong Foong, AIA Group Limited

Norman Yao, AXA China Region Insurance Company Limited

Marcus Chung, AXA China Region Insurance Company Limited

Sally Wang, Dajia Insurance Group

Kevin Wong, FWD Life Insurance Company (Bermuda) Limited

Carrie Yip (representing Alexander Wong), HSBC Life

Steven To (representing Tracey Polsgrove), Manulife Asia

Zhao Qiaohan, Ping An Insurance (Group)

Matsuta Ng, Prudential Hong Kong Limited

Eric Chum, Prudential Hong Kong Limited

Joyce Lau, Target Insurance Company Limited

Francesco Nagari, Deloitte Hong Kong

Liza Gonzalo, Deloitte Hong Kong

Peter Telders, EY Hong Kong

Erik Bleekrode, KPMG China

Ian Farrar (representing Chris Hancorn), PwC Hong Kong

Apologies

Ronnie Ng, China Overseas Insurance

Alexander Wong, HSBC Life

Tracey Polsgrove, Manulife Asia

Wenhao Zhao, Ping An Insurance (Group)

Chris Hancorn, PwC Hong Kong



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 reconsidering their own implementation questions—but should note that the meeting summaries do not form any interpretation or guidance of HKFRS/IFRS 17.

1. Local submission: Interpretation of "an exercise of a right existing in a contract" in the context of contract modification

This summary should be read in conjunction with the local submission ([Paper 2](#)). Please refer to the full submission for the detailed fact pattern and analysis.

This paper analyzes the interpretation of “an exercise of a right existing in a contract” in the context of contract modification under IFRS 17:72. In particular, the paper sets out three scenarios to illustrate that in applying the guidance, “the exercise of a right included in the terms of a contract” does not necessarily require such a right to be substantive at initial recognition for this right to be scoped out of a contract modification treatment.

Scenario 1 – Where “the exercise of a right existing in a contract” by the policyholder obliges the insurer to fulfil while granting to the insurer the practical ability to reprice the whole contract at the right’s exercise date

Scenario 2 – Where “the exercise of a right existing in a contract” by the policyholder obliges the insurer to fulfill while granting to the insurer the practical ability to set the price for the obligation requested at the right’s exercise date

Scenario 3 – Where the original terms of the contract are changed such that the policyholder is given a fresh substantive right to purchase additional coverage that did not exist at the issue date of the contract

Among the HKIISG members who commented on the scenarios, the following comments were noted:

- One member questioned whether the main principle of the submission is that Scenario 1 and Scenario 2 are not modifications because of the insurer’s practical repricing ability, whereas Scenario 3 is a modification because of the lack of that repricing ability.
- In response to the comment above, the submitter clarified that there could be a contract modification under Scenario 3 if the option were not treated as a separate contract after considering IFRS 17:9. If the option was treated as a separate contract, the submitter considered that there was no modification as the additional coverage is a new contract in its own right.



- This member commented that the major principles behind the analysis in the submission were (1) whether there is something identifiable at the outset, and (2) what is the right producing in terms of economics for the insurer and policyholder.
- One member agreed in general with the conclusions in the submission. This member thought the right referenced in IFRS 17:72 is not limited by whether it is substantive or not. Moreover, this member thought that if certain terms are already included on the onset of the contract, such as in Scenario 1 and 2, the policyholder is exercising the right that has already been prescribed in the contract and the exercise of that right should not trigger a modification, regardless of whether the right is substantive. This member also considered that based on this understanding, contract modifications are not expected to be common in practice for insurers.
 - In responding to the comment above, the submitter agreed that modification should not be a frequent event for insurers given that there are many instances where non-substantive rights are granted, but as those are still rights per IFRS 17:72 they would not be considered modifications.
- One member noted that his firm has published guidance on this topic, which is based on discussions at the IASB Transition Resource Group in May 2018. This guidance firstly considers whether the option is a separate contract (IFRS 17:9), and it was noted the submission's examples conclude that it is not. This guidance secondly considers whether the terms of the option are guaranteed (if guaranteed, the cash flows are within the boundary of the contract at initial recognition, and if not guaranteed, then an entity would need to consider whether the option creates substantive rights and obligations). The guidance considers that guaranteed insurability is substantive. Hence, this member considered that the ability to reprice a part of a contract, taken in isolation, does not necessarily enable concluding whether the related cash flows should be included in the contract boundary.
- This member (immediately above) would agree with Scenario 1 (because the entity can reprice the entire contract, so the cash flows are deemed to be outside the contract boundary), and Scenario 3 (because the change was not part of the original terms so it cannot be inside the contract boundary). However, this member questioned whether under Scenario 2 an entity could avoid including cash flows related to guaranteed insurability (which would be considered substantive) from the contract boundary. This member also noted his firm had published an example which deemed that if an insurer has the ability to revoke a rider prior to its exercise, there would be no obligation to provide services within the contract boundary, and hence those cash flows would not be included within the boundary. This was contrasted to a situation where an insurer can reprice the rider but not revoke it or refuse coverage altogether.
 - In responding to the comment above, the submitter noted that in Scenario 2 of the paper, the only guarantee is to get to determine a price for the additional coverage at the time it is requested through the exercise of the contractual right to demand such additional coverage; however, the price is at the discretion of the insurer and is as of yet unknown. The submitter also noted Scenario 2 states that the insurer includes all cash flows associated with the option within the boundary of the original contract after considering IFRS 17:B62. The submitter also noted that the paper is not considering the measurement of this right. It is only considering whether or not the exercise of such a right, as described in scenario 2, is an event that must not be considered for the modification requirements in IFRS 17. The conclusion in the paper

is that the exercise of such right does not trigger an assessment under the modification requirements of IFRS 17.

- A member raised a question on Scenario 2 and the submission's point on needing to consider the current estimates of how a policyholder will exercise the option and price the additional coverage when assessing the variability of a contract for the variable fee approach (VFA). This member sought clarification on whether VFA eligibility should be assessed only at policy inception under Scenario 2, or also at the point when the right is exercised.
 - The submitter responded that under the view taken in the submission, the assessment should only be performed at inception as the exercise of the option in Scenario 2 is the exercise of a right, and as such it is not a modification. As such, the VFA eligibility assessment that was performed at inception remains valid. The submitter also noted that the cash flows estimates related to the option (probability of exercise, pricing) would need to be considered at inception as that may affect the assessment under IFRS 17:B101(c).
 - The member above who raised this question agreed with the submitter's view that in such cases where there is not a modification, the VFA eligibility assessment should not be re-performed subsequent to contract inception.
- A few members raised questions on consistency (particularly in Scenario 2) and whether cash flows arising from non-substantive rights and obligations should be included for the initial VFA eligibility assessment, and whether those cash flows should be included within the contract boundary. One member considered whether there should be consistency among the treatment for contract modifications, contract boundaries and measurement of fulfilment cash flows, and the VFA assessment (e.g. for Scenario 2 where the right was non-substantive and no modification was accounted for, the related cash flows also shouldn't be within the contract boundary or part of the fulfilment cash flows, and same for the VFA). Including these cash flows could also be practically difficult as the pricing would be yet to be determined. Another member commented that when determining whether cash flows are within the contract boundary per IFRS 17:B61, he would make reference to IFRS 17:2 and IFRS 17:34, which state only that substantive rights and obligations need to be taken into account.
- Another member emphasized that as per his firm guidance noted above, he would consider whether the right was substantive (an example of which is if there was guaranteed insurability). If it was substantive, it would be within the contract boundary, whereas if non-substantive it would be disregarded and not included in the contract boundary.
- A member noted that in practice there may be instances in practice where an insurer could choose to price coverage related to a rider in a manner that effectively resulted in refusing coverage to the policyholder. As such, it could be judgmental whether a case of guaranteed insurability always creates substantive enforceable rights, and there may be scenarios where such cash flows are not included in the contract boundary at inception.
 - In response to the comments above, the submitter noted that Scenario 2 presents a right in which the guaranteed insurability is the guarantee for the policyholder to receive a price, and that price is at the insurer's discretion. The submitter considered this a right that is enforceable but non-substantive (and by symmetry is non-substantive for both the insurer and policyholder). And hence, that right does not result in a modification.



- The submitter noted that the issue about consistency (with contract boundary and measurement, the VFA assessment, etc.) is beyond the scope of the submission, and suggested that this may be a future topic for discussion.

2. Other business

- The SSD staff was asked as to the status of the European endorsement process for IFRS 17. The SSD staff noted that the European Financial Reporting Advisory Group (ERFAG) finalized its due process around IFRS 17 and submitted its Final Endorsement Advice in March 2021. The SSD staff is continuing to monitor any updates with respect to the EFRAG endorsement process and will update the Institute's Financial Reporting Standards Committee and Insurance Regulatory Advisory Panel of any relevant developments.