



香港保險業聯會
The Hong Kong Federation of Insurers

Our Ref: Lv066/18

9 November 2018

By Email only

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board

Dear Chairman Hoogervorst

Implementation of International Financial Reporting Standard 17 – Insurance Contracts (IFRS 17) in Hong Kong

The Hong Kong Federation of Insurers (HKFI) is the representative body of insurers in Hong Kong. Currently, we have 136 member insurers, of which the majority are small and medium ones with limited actuarial support. Together we contribute more than 90% of the gross premiums written in the Hong Kong insurance market. On behalf of our member insurers, I am writing to request your kind consideration of postponing the implementation of IFRS 17 for two years.

As you know, the Hong Kong Institute of Certified Public Accountants (HKICPA) has approved the issuance of HKFRS 17 *Insurance Contracts*, a word-for-word adoption of IFRS 17 including transitional provisions and the effective date. While we at HKFI are supportive in principle of the implementation of IFRS 17, many of our member insurers have shared with us their serious concerns on the practicality of the 2021 implementation date as expressed to the HKICPA from day one and now validated by our latest market surveys. From Annex A you can see that the majority of our members have indicated in no uncertain terms that they find the implementation timeline more than challenging. Specifically, they have admitted that their companies are below the level of 50% in terms of systems and data readiness.

Upon issuance of the new standards and announcement of the January 2021 implementation date, our Federation has made continuous efforts in helping our member insurers particularly those with limited actuarial support to get properly prepared (as detailed in Annex B):

- (i) Setting up of Task Forces under our General Insurance and Life Insurance Councils to oversee and help ensure the smooth implementation of IFRS 17 in collaboration with our industry regulator;
- (ii) Pro bono briefings for all Member Companies conducted on 23 June 2017 and 18 April 2018 to facilitate a better and deeper understanding of the key features of IFRS 17 and what changes are required to make their systems duly compliant. We had sessions conducted in English and Chinese/Cantonese respectively to cater for professionals with different language skills;
- (iii) Five pro bono monthly forums for our General Insurance Members including insurers and reinsurers since June 2018, covering IFRS 17 from diverse perspectives and with the presence of Ms Kam Leung, Associate Director, Standard Setting from HKICPA;
- (iv) Industry surveys and consultancy studies to identify and highlight the key challenges faced by insurers from both general and life insurance perspectives.



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Despite all these efforts made on an industry-wide basis, our member insurers remain deeply concerned about their ability to meet the implementation timeline. The challenge is particularly daunting for the Hong Kong insurers because unlike other jurisdictions where IFRS is not universally adopted (e.g. in some jurisdictions, applicable to listed companies only), under the present regime administered by the HKICPA, the relevant standards are being applied across the board here in Hong Kong without any modification.

From all sources of information we have gathered so far, it is confirmed beyond any doubt that insurers in Hong Kong particularly those of smaller scale are facing tremendous, and in certain cases, insurmountable difficulties in meeting the implementation timeline of 1 January 2021. By no means they are unwilling to put in their best to meet the timeline. The fact of the matter is they are simply unable to get adequately prepared within the set timeframe because of the huge magnitude and complexity of what is being involved in terms of:

- (a) Availability of necessary actuarial input required for the implementation of IFRS 17. Unlike life insurers who may already have in-house actuarial teams, smaller scale general insurers need time to secure adequate actuarial input to help them prepare for IFRS 17;
- (b) IT systems and control process changes needed to prepare data of suitable quality and reliability;
- (c) operational constraints, including the lack of sufficient skilled IT resources and software solutions;
- (d) the need for impact analyses on future financials and business planning;
- (e) the need for impact analysis on profits and loss accounts;
- (f) availability of support from the accounting professions for small scale insurers.

For all insurers, the implementation timeline of IFRS 17 is too tight as it clashes with the implementation of the upcoming Hong Kong Risk-Based Capital Regime, which is a major undertaking requiring new systems in itself and a new levy collection scheme. These concurrent regulatory changes have already consumed material amounts of insurers' actuarial, financial and IT resources.

HKFI conveyed the industry's grave concerns to HKICPA both in writing and face-to-face on 11 December 2017 and 18 January 2018 respectively. We were given to understand that member insurers could raise specific questions and challenges in implementing IFRS 17 to HKICPA's Hong Kong Insurance Implementation Support Group (HKIISG). But it seems that this Group can only raise technical issues with the IASB and anything to do with operational readiness would be out of their scope of work.

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In view of the above, I am presenting to you herewith the collective requests of our member insurers for allowing them two year deferment in implementing IFRS 17. This, in our considered view, is a proper and sensible way forward given the implementation challenges they are facing.

Please rest assured that we are fully committed to assisting our member insurers in getting ready for the proposed new implementation timeline. Specifically, we will continue to step up efforts on an industry-wide basis to help all players prepare for the changes ahead even if the proposed deferment is granted. As you can see, we just need the extra time to get the implementation of the new standards properly executed and ensure it is off to a good start. We seek your and the Board's support for this two year deferral in order to ensure that IFRS17 is implemented in a controlled fashion and to a high quality standard.

My apologies for writing this letter at some length but I hope you would appreciate why this is necessary given the seriousness of the issue which we are tackling. We look forward to your sympathetic consideration of our request and to your early and favourable reply. Thank you.

Yours sincerely

A handwritten signature in black ink, appearing to be 'P L Chan', written over a faint circular stamp or watermark.

P L Chan
Chairman

PS: This letter has the full support of our Life and General Insurance Councils. Please see Annex C for the membership list.

cc:

The Hon Chan Kin Por
Mr Clement Cheung, Chief Executive Officer, Insurance Authority
Mr Eddie Cheung, Deputy Secretary for Financial Services & the Treasury
Mr Simon Lam, President, Actuarial Society of Hong Kong
Ms Christina Ng, Director, Standard Setting, Hong Kong Institute of Certified Public Accountants
Members, Hong Kong Insurance Implementation Support Group, HKICPA
Councillors, General Insurance Council (GIC) and Life Insurance Council (LIC)
Task Forces on IFRS 17 under GIC and LIC
Authorized Representatives, all Member Companies



Annex A

**Market Survey on the Effects of IFRS 17
for Life Insurance Members (LIM)**

Part A: Online survey

The online survey was conducted online from 05.09.2018 through 03.10.2018.

30 executives representing 24 out of 49 LIMs participated.

Major observations:

- Most insurers are only getting started or midway through interpreting IFRS 17 and mapping out the impacted processes
- Most characterize their readiness in terms of systems and data less than 50%, and admit they are challenged by the implementation timeline
- All say their systems are in need of upgrades, and most expect to spend up to US\$50m for system enhancements and new purchases
- There is strong agreement on the need to partner with external vendors to upgrade systems; however, most do not believe external platforms are fully ready for IFRS 17
- IT, finance and actuarial skill sets are most in demand for IFRS 17
- Most place expected HR costs in the US\$1M to \$5M range, with consultants and external contractors constituting the bulk of additional resources
- There is mostly agreement on the long term need for additional resources following IFRS 17 rollout, with significant impact seen on business strategy
- Most insurers anticipate new regulatory changes coming in the next two years that will compete with IFRS 17 for resources
- Most insurers expect a significant impact of IFRS17 on their financials but also in shaping business strategy, product focus and risk appetite. Many do not have a clear idea of detailed impacts as they are only at a preliminary stage in assessing the impact.
- Transition, derivation of discount rate and measurement model assessment are the top IFRS 17-related priorities for policy decisions

Part B: Follow-up one-to-one discussions with a sample of insurance companies, and industry bodies

(To be available by mid-November 2018)

IFRS / HKFRS 17 Insurance Contracts Simplified Case Study for insurers that apply IFRS / HKFRS Standards for General Insurance Members (GIMs)

The named Study was adapted from the first part of EFRAG and conducted since June 2018.

After rounds of follow-ups, 23 out of 87 GIMs submitted returns which were analysed and compiled as summary survey findings:

1. Progress of impact analysis

	Commencement	Completion
2017	22%	
2018	30%	43%
2019	9%	4%
2020		13%
Unspecified	39%	39%

2. Progress of implementation

	Plan approved	Commencement	Completion
2018	13%	9%	4%
2019	9%	9%	17%
Unspecified	78%	83%	78%

3. Upgrade of system

Item	Number of Responding GIMs
To be determined	26%
Planning in progress	61%
System upgrade in progress	4%
Under review	4%
No plan to adapt / upgrade our system	4%



4. Implementation costs estimation (In HKD '000)

One-off costs	Internal	External	Total
Classification of Insurance contracts	100-4,600	350-5,520	450 – 10,120
IT - Actuarial systems	9 – 7,000	500 - 32,200	509 – 39,200
IT- Accounting and reporting systems	1,900 - 4,600	40 - 18,400	1,940 - 23,000
Non-IT systems	TBC - 13,800	TBC - 18,400	TBC - 32,200
Understanding IFRS / HKFRS 17	10 - 32,200	10 - 13,800	20 – 46,000
Investor relations	n/a	n/a	n/a
Other costs	TBC - 1,600	1,600 - 36,800	1,600 – 38,400
TOTAL:	2,019 – 63,800	2,500 – 125,120	4,519- 188,920

5. Support expected from HKFI/ HKICPA

Item	
IFRS/HKFRS 17 Practical Workshop (by HKICPA)	96%
Q&A Corer (by HKICPA)	78%
IT Vendor showcase (by HKFI)	52%

6. Impression on IFRS / HKFRS 17

- (i) Majority of GIMs believed that IFRS / HKFRS 17 could improve the quality of financial information of insurers with more transparency and consistency
- (ii) There is a mixed view as to IFRS/ HKFRS 17 could lead to an increased understanding of the insurance sector by capital providers/ investors, IFRS / HKFRS 17 provides a better transparency and consistency of financial information but the complexity of IFRS 17 may cause confusion
- (iii) Majority of GIMs expected no significant change to existing internal and external KPIs



Annex B

HKFI's Support Activities on IFRS 17 Readiness

HKFI has been keen on providing various support activities for Member Companies including those with limited actuarial support with the presence of Ms Kam Leung, Associate Director, Standard Setting from HKICPA, in all Monthly Forums and at least 1 representative from all enrolled member companies.

Date	Topic	Speakers
Briefings:-		
23.06.2017	Introductory Briefing on IFRS 17 for all Member Companies (in English)	PwC
18.04.2018	Introductory Briefing on IFRS 17 for General Insurers (in Cantonese)	PwC
Monthly Forums:-		
22.06.2018	Walkthrough of "IFRS / HKFRS 17 Insurance Contracts Simplified Case Study for insurers that apply IFRS / HKFRS Standards"	Deloitte
29.08.2018	Performing IFRS 17 impact assessment and planning for the next steps <ul style="list-style-type: none"> - Eligibility of Premium Allocation Method (PAA) - Treatment of reinsurance contracts from insurers' perspectives with practical examples 	PwC
26.09.2018	Practical accounting issues for IFRS 17 <ul style="list-style-type: none"> - How to determine if an insurance contract / a group of contracts is onerous and its accounting treatment - Expense allocation to portfolio / cohort level - Unlocking Contract Service Margin - Premium received / premium receivable for PAA approach with examples 	KPMG
26.10.2018	IFRS 17 from actuarial and management perspectives <ol style="list-style-type: none"> i) Impact on Company strategy and KPI Management <ul style="list-style-type: none"> • Underwriting strategy • Reinsurance strategy • Setting of KPI due to change of reporting requirement ii) Actuarial Modelling <ul style="list-style-type: none"> • Determination of level of aggregation • Onerous contract identification and implication • Calculation of CSM and estimation of risk adjustment iii) IT System <ul style="list-style-type: none"> • Impact on enterprise applications iv) Accounting <ul style="list-style-type: none"> • High level P&L impact after IFRS 17 • R/I impact after IFRS 17 	Willis Towers Watson
27.11.2018	IFRS 17 from reinsurance perspectives Reinsurance Held mismatches: <ul style="list-style-type: none"> - level of aggregation - contract boundaries - Treatment of initial recognition - Day 1 benefit vs allocation over time - Difference in coverage units - Multi Year BBA contracts vs 1 year PAA underlying contract 	Swiss Re



Annex C

HKFI Corporate Governance

General Insurance Council

Mr David Alexander (<i>Chairman</i>)	Swiss Reinsurance Company Ltd
Mr Eric Hui (<i>Deputy Chairman</i>)	Zurich Insurance Company Ltd
Mr Pui-leung Chan	China Taiping Insurance (HK) Company Limited
Ms Polly Ho	Reinsurers' Forum
Mr Man-kit Ip	Medical Insurance Association
Mr Philip Kwan	Accident Insurance Association
Mr Sheung-kin Li	Sompo Insurance (Hong Kong) Co Ltd
Ms Huijun Liu	Bank of China Group Insurance Company Limited
Ms Teresa Ma	Fire Insurance Association
Ms Kelly Mok	Prudential General Insurance Hong Kong Limited
Mr Ronnie Ng	China Overseas Insurance Limited
Mr Jimmy Poon	Dah Sing Insurance Company (1976) Limited
Mr Martin Rueegg	AXA General Insurance Hong Kong Limited
Mr Ivan Tam	Chevalier Insurance Company Limited
Mr Harry Wong	Hong Leong Insurance (Asia) Limited
Mr Patrick Wong	Marine Insurance Association
Ms Winnie Wong	Asia Insurance Company Limited

Life Insurance council

Ms Charity Au (<i>Chairman</i>)	BOC Group Life Assurance Co Ltd
Mr Guy Mills (<i>Deputy Chairman</i>)	Manulife (International) Ltd
Mr Etienne Bouas-Laurent	AXA China Region Insurance Co (B) Ltd
Mr Chan Yu Man	CIGNA Worldwide Life Insurance Company Limited
Mr Peter Crewe	AIA International Ltd
Mr Praveen Daswani	Generali Worldwide Insurance Co Ltd
Mr Godfrey Hui	China Life Insurance (Overseas) Co Ltd
Mr Ken Lau	FWD Life Insurance Co (B) Ltd
Mr Mike Lee	MassMutual Asia Ltd
Ms Orchis Li	General Reinsurance AG
Mr Edward Moncreiffe	HSBC Life (International) Limited
Mr Derek Yung	Prudential Hong Kong Ltd