

STANDARD SETTING



HKFRS 17 *Insurance Contracts* – Journal Entries on Reinsurance Contracts Held

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Hong Kong Institute of
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Abbreviations

The following abbreviations are used within this publication:

<i>AIC</i>	Asset for Incurred Claims
<i>ARC</i>	Asset for Remaining Coverage
<i>BEL</i>	Best Estimate Liability
<i>CSM</i>	Contractual Service Margin
<i>FCF</i>	Fulfilment Cash Flows
<i>GMM</i>	General Measurement Model
<i>IASB</i>	The International Accounting Standards Board
<i>LIC</i>	Liability for Incurred Claims
<i>LRC</i>	Liability for Remaining Coverage
<i>PAA</i>	Premium Allocation Approach
<i>P&L</i>	Profit and Loss
<i>PV</i>	Present Value
<i>RA</i>	Risk Adjustment for Non-financial Risk
<i>RCH</i>	Reinsurance Contracts Held
<i>TRG</i>	The IASB's Transition Resource Group for IFRS 17
<i>VFA</i>	Variable Fee Approach

About this publication

This publication is a continuation of the '[HKFRS 17 Insurance Contracts – Journal Entries](#)' that was published in June 2023. The previous publication focused on discussing the journal entries for direct insurance contracts under the different models specified in HKFRS 17. In this publication, we discuss another important aspect of insurance contracts accounting – the accounting for reinsurance contracts held (RCH). With these two publications, we hope that readers can gain a comprehensive understanding of the insurance contracts accounting, covering both the insurer's accounting for insurance contracts **issued** and the cedant's accounting for reinsurance contracts **held**.

There could be various reasons for a cedant to purchase reinsurance, depending on its specific needs and operational objectives. Typically, a cedant may purchase reinsurance to help manage and mitigate risk by transferring a portion of insurance risk to a reinsurer, thereby limiting their potential losses in the event of significant claims. The accounting requirements in HKFRS 17 for direct insurance contracts issued, as discussed in our previous publication, also apply to reinsurance contracts issued by reinsurers. These requirements also apply to RCH, except when HKFRS 17 provides specific guidance, i.e., HKFRS 17.60-70A, or when HKFRS 17 specifically refers to insurance contract issued¹. However, insurance contracts in which the entity is the policyholder is not within the scope of HKFRS 17², unless those insurance contracts are RCH [HKFRS 17.7(g)].

In this publication, we explain the concepts of RCH by providing simplified scenarios and illustrating the relevant journal entries that a cedant would record for reinsurance contracts it holds.

This publication first illustrates the journal entries for basic RCH transactions in **Part 1**, followed by showing in **Part 2** the pertinent impacts of these journal entries on an entity's statement of financial position and statement of profit or loss. Readers should note that the tables presented in **Part 1** and **Part 2** are intended solely for illustrating the relevant journal entries and do not serve as an illustration of the relevant presentation and disclosure requirements of HKFRS 17.

While this publication aims to explain the requirements of HKFRS 17 through the use of simplified illustrative examples, there are '[Notes for further insights](#)' (denoted with ☼) for those readers who are interested in gaining deeper understanding and knowledge of HKFRS 17 in discussions of relevant areas.

¹ See HKFRS 17.4(a).

² See HKFRS 17.3-8A for the scope of HKFRS 17.

Users of the publication should note that the examples in this publication are developed based on highly simplified fact patterns for educational purposes only. As such, the illustrative approaches in this publication may not necessarily be applicable to other circumstances or fact patterns. **Entities should exercise judgement and carefully consider their specific contractual terms, facts, and circumstances when applying HKFRS 17. This publication does not prescribe, nor should it be interpreted as requiring, a specific approach to applying the requirements.** There could be other possible ways to record the journal entries for compliance with HKFRS 17 with regard to the fact pattern and assumptions given.

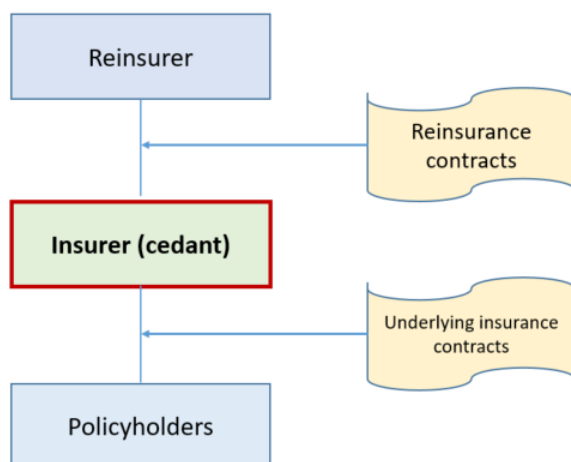
1. Accounting for RCH from the perspective of cedant

HKFRS 17 Appendix A defines a reinsurance contract as an insurance contract issued by one entity (the reinsurer) to compensate another entity (cedant) for claims arising from one or more insurance contracts issued by the cedant (underlying contracts)³. The scope of HKFRS 17 covers both reinsurance contracts **issued** as well as reinsurance contracts **held** by the entity.

In regard to the reinsurance contracts **issued**, their recognition and measurement requirements under the GMM and PAA are the same as those for direct insurance contracts issued. VFA cannot be used for measurement of reinsurance contracts because reinsurance contracts cannot be insurance contracts with direct participation features for the purposes of HKFRS 17 [HKFRS 17.B109]. The measurement requirements are applied to the reinsurance contracts themselves, rather than the individual underlying direct contracts. For a better understanding of the accounting for direct insurance contracts issued, please refer to the [previous publication](#).

This section focuses on discussions of the cedant's accounting for reinsurance contracts **held** (RCH). The diagram below provides a simple illustration of the relationship among the reinsurer, insurer (cedant) and policyholders.

Diagram 1 Relationship among reinsurer, insurer (cedant) and policyholders



HKFRS 17 requires a RCH to be accounted for separately from the underlying insurance contracts to which it relates. This is because a cedant does not normally have a right to reduce the amounts it owes to the underlying policyholders by the amounts it expects to receive from the reinsurer⁴. That means, a cedant bears the primary responsibility for paying claims to the policyholders

³ An insurance contract is a reinsurance contract if any of the underlying contracts issued by the cedant are insurance contracts.

⁴ The IASB acknowledged that separate accounting for the reinsurance contracts and their underlying insurance contracts might create mismatches that some regard as purely accounting, for example on the timing of recognition (see HKFRS 17.BC304-BC305), the measurement of the reinsurance contracts (see HKFRS 17.BC310-BC312) and the recognition of profit (see HKFRS 17.BC313). However, the IASB concluded that accounting for a RCH separately from the underlying insurance contracts gives a faithful representation of the entity's rights and obligations and the related income and expenses from both contracts [HKFRS 17.BC298].

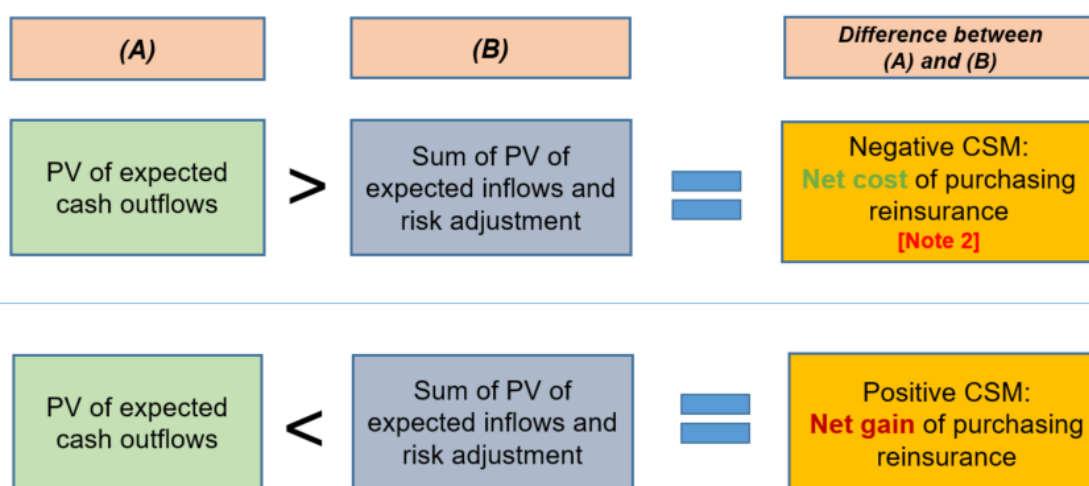
covered by the RCH, irrespective of whether the reinsurer fulfils its obligation under the RCH. HKFRS 17 modifies the requirements for RCH to reflect the fact that:

- (a) groups of RCH are generally assets, rather than liabilities; and
- (b) cedants generally pay a margin to the reinsurer as an implicit part of the premium, rather than generating profits from the reinsurance contracts purchased⁵ [HKFRS 17.BC302].

In contrast to insurance contracts issued, a RCH cannot be considered onerous and therefore the requirements for dividing a portfolio into groups are modified for RCH. For a group of RCH, an insurer (cedant) expects either to incur a net cost or make a gain from purchasing the reinsurance contract, if any. In this regard, a portfolio of RCH is divided into at least three groups: (1) a net gain on initial recognition, if any; (2) no significant possibility of a net gain arising subsequently, if any; and (3) remaining contracts in the portfolio, if any [HKFRS 17.61].

In addition, the requirements of HKFRS 17.38 that relate to determining CSM on initial recognition of insurance contracts issued are modified for RCH to reflect the fact that, for a group of RCH there is no unearned profit but instead there is a net cost or net gain on purchasing the reinsurance contract⁶. Hence, unless HKFRS 17.65A applies, on initial recognition the entity shall recognize any net cost or net gain on purchasing the group of RCH as a CSM. The relevant requirements are illustrated in *Diagram 2* and *Diagram 3* below:

Diagram 2 Initial recognition of CSM for RCH [Note 1]



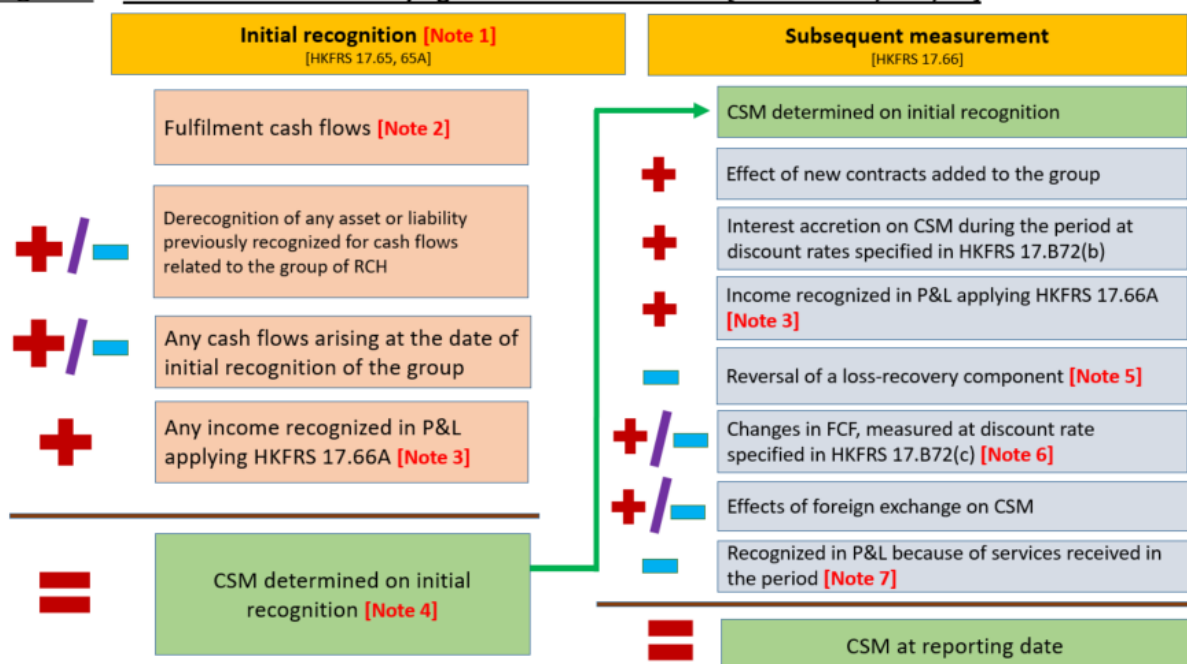
⁵ In practice, the cedant may generate a gain from purchasing RCH, resulting in recognition of a positive CSM for RCH. See *Diagram 2* for illustration.

⁶ For the measurement of the group of insurance contracts the entity issues, HKFRS 17 specifies that the CSM can never be negative. HKFRS 17 does not include a limit on the amount by which the CSM of a group of RCH could be adjusted as a result of changes in estimates of cash flows, subject to the amount of premium paid to the reinsurer. This is because the CSM for the group of RCH depicts the expense the entity incurs when purchasing reinsurance coverage rather than the profit it will make by providing services under the insurance contract [HKFRS 17.BC314].

Notes

- 1 The above diagram is a simplified illustration. Please refer to HKFRS 17.65 for detailed requirements of the components that give rise to CSM for RCH.
- 2 In situations where the net cost of purchasing reinsurance coverage relates to events that occurred **before** the purchase of the group of RCH, the entity shall recognize such a cost immediately in P&L as an expense as required by HKFRS 17.65A. In other cases in which HKFRS 17.65A does not apply, referring to **Diagram 3** below, the entity shall initially recognize a positive or negative CSM for RCH on initial recognition in accordance with HKFRS 17.65 as appropriate.

Diagram 3 Measurement of the carrying amount of CSM for RCH [HKFRS 17.65, 65A, 66]



Notes

- 1 In this diagram, the CSM for RCH at initial recognition is assumed to be a debit balance (i.e. net cost of purchasing the reinsurance) and so the adjustment to the CSM due to income recognized in P&L applying HKFRS 17.66A is considered to be an addition to the CSM. See also Notes 3 & 4.
- 2 $FCF = BEL + RA = (\text{Estimates of future cash flows} + \text{Time value of money}) + RA$. HKFRS 17.63 & 64 set out the requirements for the measurement of BEL and RA as follows:
 - (i) BEL:
 - An entity shall use consistent assumptions⁷ to measure the estimates of the PV of future cash flows for the group of RCH and the estimates of the PV of the future cash flows for the group(s) of underlying insurance contracts.
 - The contract boundary requirements of HKFRS 17⁸ also apply to RCH. All expected future cash flows within the boundary of the group of RCH, including those anticipated cash flows related to underlying contracts yet to be issued by the entity (i.e. those which have not been recognized by the entity as underlying insurance contracts) should be considered⁹.

⁷ As discussed in its [February 2018 meeting \(Agenda paper no.7, log#S17\)](#), the TRG agreed that 'consistent' in IFRS 17.63 (HKFRS 17 equivalent) does not necessarily mean 'identical'. The extent of dependency between the cash flows of RCH and the underlying cash flows should be evaluated in applying IFRS 17.63.

⁸ See HKFRS 17.33-35 and B61-B71 for the detailed requirements.

⁹ In its February 2018 meeting ([Agenda paper no.3](#)), the TRG agreed that the cash flows within the boundary of a RCH arise from substantive rights and obligations of the entity (cedant). Therefore, the substantive right is to receive services from the reinsurer; and the substantive obligation is to pay amounts to the reinsurer. Consistently, a substantive right to receive services from the reinsurer ends when the reinsurer has the practical ability to reassess the risks transferred to the reinsurer and can set a price or level of benefits for the contract to fully reflect the reassessed risk, or when the reinsurer has a substantive right to terminate the coverage. Accordingly, the boundary of a RCH could include cash flows related to underlying contracts covered by the reinsurance contracts that are expected to be issued by the cedant in the future.

- The entity shall include in BEL for RCH the effect of any risk of non-performance by the issuer of the reinsurance contracts, including the effects of collateral and losses from disputes [HKFRS 17.63]. This is because an entity holding reinsurance contracts faces the risk that the reinsurer may default, or may dispute whether a valid claim exists for an insured event. As HKFRS 17 requires the expected credit losses to be estimated based on expected values, estimates of the amounts and timing of cash flows are probability-weighted outcomes after calculating the effect of credit losses [HKFRS 17.BC308].
- (ii) RA:
- The estimate of RA shall be determined to represent the amount of risk being transferred by the cedant to the reinsurer [HKFRS 17.64].
- 3 In October 2020, HKFRS 17.66 was amended and HKFRS 17.66A was added to require an entity to adjust the CSM of a group of RCH, and as a result recognize income, when the entity recognizes a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to a group and hence establishing a loss-recovery component. See further discussion immediately following this diagram [HKFRS 17.BC315A]. It is noteworthy that HKFRS 17.66A applies if, and only if, the RCH is entered into before or at the same time as the onerous underlying insurance contracts are recognized [HKFRS 17.B119C, BC315C]¹⁰.
 - 4 See the discussion in Note 2 in *Diagram 2* concerning the requirement to recognize the net cost for coverage related to events that have occurred before the purchase of the group of RCH.
 - 5 This adjustment represents the reversals of a loss-recovery component recognized applying HKFRS 17.66B to the extent those reversals are not changes in FCF of the group of RCH [HKFRS 17.66(bb)]¹¹.
 - 6 This adjustment represents the changes in FCF, measured at the discount rates specified in HKFRS 17.B72(c) to the extent that the change relates to future service, unless (i) the change results from a change in FCF allocated to a group of underlying insurance contracts that does not adjust the CSM for the group of underlying insurance contracts; or (ii) the change results from applying HKFRS 17.57-58 (on onerous contracts), if the entity measures a group of underlying insurance contracts applying the PAA [HKFRS 17.66(c)].
 - 7 The amount is determined by the allocation of the CSM remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period of the group of RCH, applying HKFRS 17.B119 [HKFRS 17.66(e)].

The Amendments to IFRS 17 published in June 2020 (HKFRS 17 equivalent, published in October 2020) include changes to the accounting for RCH. The Amendments respond to concerns that, applying IFRS 17 before the Amendments, an entity would have recognized a loss on initial recognition of an onerous group of insurance contracts (or on addition of onerous contracts to a group), without recognizing corresponding income on a RCH that covers that onerous group of insurance contracts. Some stakeholders said this is an accounting mismatch and suggested the IASB amend IFRS 17 so that income is recognized on the RCH at the same time losses are recognized on initial recognition of onerous underlying insurance contracts. That income would reflect the entity's right to recover those losses [HKFRS 17.BC315E]. As a result, the IASB issued the Amendments to address such an issue by extending the ability to 'match' income from RCH with the losses from the underlying contracts to all RCHs that are entered into before or at the same time as the onerous underlying insurance contracts are recognized¹². The amount to be recognized as income is calculated using the following formula:

¹⁰ For the amendment described in HKFRS 17.66A to apply, an entity must enter into a RCH before or at the same time as the entity recognizes the onerous underlying insurance contracts. The IASB concluded it would not be appropriate for an entity to recognize a recovery of loss when the entity does not hold a reinsurance contract [HKFRS 17.BC315C].

¹¹ The release patterns of CSM and loss-recovery component for RCH can be different under HKFRS 17. For more discussions, please refer to '*Notes for further insights*' after JE2 in *Scenario 4*.

¹² Please refer to HKFRS 17.BC315F for the justification behind the IASB's decision to make the Amendments.

Diagram 4 Calculation of the amount to be recognized as income for RCH when underlying contracts are onerous [HKFRS 17.B119D]



An entity adjusts the CSM of a group of RCH, and as a result recognizes income, when the entity recognizes a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to a group [HKFRS 17.66A]. To apply HKFRS 17.66A, an entity applies the above formula in *Diagram 4* to determine the adjustment to the CSM of a group of RCHs [HKFRS 17.B119D]. The entity shall establish (or adjust) a loss-recovery component of the asset for remaining coverage for a group of RCHs depicting the recovery of losses recognized applying HKFRS 17.66(c)(i)-(ii) and 66A. The loss-recovery component determines the amounts that are presented in P&L as reversals of recoveries of losses from RCHs and are consequently excluded from the allocation of premiums paid to reinsurer [HKFRS 17.66B].

After an entity has established a loss-recovery component applying HKFRS 17.66B, the entity shall adjust the loss-recovery component to reflect changes in the loss component of an onerous group of underlying insurance contracts. The carrying amount of the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of RCH [HKFRS 17.B119F].

Illustration of scenarios

The following scenarios demonstrate the journal entries for a cedant's accounting for its RCH, covering the situations below. The journal entries for the underlying contracts are not illustrated.

- Scenario 1: Proportionate RCH – net cost position, profitable underlying contracts
- Scenario 2: Proportionate RCH – net gain position, onerous underlying contracts
- Scenario 3: Non-proportionate RCH – net gain position, onerous underlying contracts
- Scenario 4: Non-proportionate RCH – net cost position, onerous underlying contracts

Proportionate RCH covers the losses of separate insurance contracts on a proportionate basis. On the other hand, non-proportionate RCH covers aggregate losses from a group of underlying contracts that exceed a specified amount [HKFRS 17.BC304]. Under HKFRS 17, the classification of a RCH as proportionate or non-proportionate has an impact on the timing of recognizing a group of RCH. The different requirements on the determination of the initial recognition date for proportionate and non-proportionate RCH are set out in HKFRS 17.62 and 62A. The following four scenarios provide examples of the relevant journal entries that apply these requirements. It is also

important to note that, the timing of recognizing a group of RCHs, as stated in HKFRS 17.62(b), is also affected by the timing of recognizing the onerous group of underlying insurance contracts¹³.

The objective of the scenarios is to demonstrate the mechanics of the HKFRS 17 requirements for RCH (see ☀). The scenarios are highly simplified, with assumptions made for the sake of simplicity. They are not intended to reflect a real fact pattern. Each scenario is presented as a separate example and has no connection with the others.

Notes for further insights

☀ Premium Allocation Approach

The scenarios below are prepared under GMM. Consistent with the requirements for the measurement of insurance contracts an entity issues, the entity may also use PAA to simplify the measurement of RCH, provided that the qualifying criteria are satisfied at the inception of the group [HKFRS 17.69-70]. The application of PAA for RCH is not covered in this publication. However, readers should note that because RCH are recognized separately from the underlying insurance contracts, the assessment of whether a group of RCH meets the conditions for PAA is performed separately and the outcome of which may differ from the assessment of whether the group(s) of underlying insurance contracts meet(s) those conditions [HKFRS 17.BC301].

Variable Fee Approach

For reinsurance contracts, the cedant and the reinsurer do not share the returns on underlying items and the cedant also does not receive investment-related services from the reinsurer. The three eligibility criteria set out in HKFRS 17.B101 are therefore not met, regardless of whether the underlying insurance contracts issued are VFA contracts. As such, VFA is not applicable for RCH and reinsurance contracts issued [HKFRS 17.B109].

Although the four scenarios are similar¹⁴, we have organized the journal entries for each of them to facilitate easy reference and comprehension of their corresponding entries. To further assist readers in understanding, the following table presents an overview of the four scenarios, highlighting their major similarities and differences:

	<u>RCH</u>	<u>Initial recognition – timing</u>	<u>Initial recognition – CSM & loss-recovery component</u>	<u>Subsequent accounting</u>
Scenario 1	Proportionate	Apply HKFRS 17.62 & 62A; 62A is applicable for proportionate RCH [JE1]	CSM is net cost position, so ARC – CSM is a debit on initial recognition of the RCH [JE1]	<ul style="list-style-type: none"> • Release of expected claims recovery to P&L [JE3] • Recognition of actual recovery from reinsurer in P&L [JE4]

¹³ In June 2020, the IASB amended IFRS 17 for RCH when underlying insurance contracts are onerous at initial recognition (see paragraphs IFRS 17.BC315A–BC315L). As a consequence of that amendment, the IASB also amended the requirement in IFRS 17.62 (for recognizing a group of RCH) to require an entity to recognize a group of RCH when the entity recognizes onerous underlying insurance contracts, if it does so earlier than when the entity would otherwise recognize the group of RCH. The IASB concluded **such an amendment was necessary for income to be recognized on a group of RCH at the same time that losses are recognized on initial recognition of onerous underlying insurance contracts**. The HKICPA issued the equivalent amendments in October 2020 [HKFRS 17.BC305A].

¹⁴ For example, the above table shows that the journal entries of **Scenarios 2** and **3** are similar regardless of whether the RCH provides proportionate or non-proportionate coverage. The key difference is the different consideration for the timing of initial recognition of RCH under the relevant requirements of HKFRS 17.

	<u>RCH</u>	<u>Initial recognition – timing</u>	<u>Initial recognition – CSM & loss-recovery component</u>	<u>Subsequent accounting</u>
			<p>Profitable underlying contracts, so no loss-recovery component is established.</p> <p>Payment of reinsurance premium to reinsurer [JE2]</p>	<ul style="list-style-type: none"> • Release of CSM to P&L [JE5] • Receipt of claims recovery from reinsurer [JE6]
Scenario 2	Proportionate	Same with Scenario 1 [JE1]	<ul style="list-style-type: none"> • CSM is a net gain position, so ARC – CSM is a credit on initial recognition of the RCH [JE1] • Adjust to the CSM and recognize income to match the onerous loss from the underlying contracts. [JE2] <p>Onerous underlying contracts, with the following entries being made:</p> <ul style="list-style-type: none"> • Initial recognition of the loss-recovery component [JE3] <p>Payment of reinsurance premium to reinsurer [JE4]</p>	<ul style="list-style-type: none"> • Release of expected claims recovery to P&L [JE5] • Recognition of actual recovery from reinsurer in P&L [JE6] • Reversal of recoveries of losses from RCH in P&L [JE7] • Receipt of claims recovery from reinsurer [JE8]
Scenario 3	Non-proportionate	Apply HKFRS 17.62; 62A not applicable [JE1]	Same with Scenario 2 [JE1 - JE4]	<ul style="list-style-type: none"> • Same with Scenario 2 [JE5 - JE7] • Release of CSM to P&L [JE8] • Receipt of claims recovery from reinsurer [JE9]
Scenario 4	Non-proportionate	Same with Scenario 3 [JE1]	<p>Same with Scenario 1 [JE1]</p> <p>Same with Scenario 2 [JE2 - JE4]</p>	Same with Scenario 3 [JE5 - JE9]

The relevant journal entries to record the payment of reinsurance premium and the receipt of actual claims recovery from reinsurer are the same for all four scenarios.

Scenario 1: Proportionate RCH – net cost position, profitable underlying contracts

An entity enters into a reinsurance contract with a reinsurer for insurance coverage of its issued insurance contracts on a proportionate basis¹⁵. It is expected that the entity will incur a **net cost** from the RCH. The fact pattern and assumptions are set out below:

Fact pattern and assumptions			
			HK\$
<i>Profitable underlying insurance contracts</i>			
Cash flows	Premiums		3,000
	Less: Expected claims		(2,500)
	Expected gain		500
<i>Reinsurance contract held (RCH)</i>			
Cash flows	Reinsurance premium to reinsurer (HK\$3,000 X 40%) ¹⁶		1,200
	Proportion of claims reinsured and expected claims recovery		40%
Assumptions	For simplicity ¹⁷ : <ul style="list-style-type: none"> • RCH is entered into at the same time as the underlying contracts are recognized, which is the beginning of the year • One-year coverage for both RCH and underlying contracts. GMM is applied, i.e. the cedant does not opt to apply PAA. The coverage period of RCH starts at the beginning of the year • No differences in expected and actual future cash flows • No contracts will lapse before the end of the coverage period • No changes in other estimates and all other amounts • Effect of discounting, RA¹⁸ and risk of non-performance of reinsurer are ignored • No other cash flows other than premiums and claims recovery 		

Part 1 – illustration of journal entries for RCH with narrative explanation

Initial recognition

HKFRS 17.62 states that, instead of applying HKFRS 17.25, an entity shall recognize a group of RCH from the earlier of the following:

- (a) the beginning of the coverage period of the group of RCH; and

¹⁵ See earlier discussions on the meaning of proportionate and non-proportionate reinsurance contracts [HKFRS 17.BC304].

¹⁶ For illustration purposes in the examples provided in **Scenario 1** and **2**, the reinsurance premium paid to reinsurer is set at 40% of the premium of the underlying cash flows. It is important to note that the pricing of reinsurance premium is agreed between the cedant and the reinsurer. It is not necessarily based on a fixed percentage of the premium of the underlying insurance contracts.

¹⁷ Readers should note that the assumptions in the examples (**Scenarios 1 to 4**) are highly simplified, which is for illustration purposes only. Accordingly, the fact pattern given may not be consistent with reality. For example, the examples assume that all the underlying contracts and the RCH are inception and recognized on the same date.

¹⁸ Please refer to **Section 2** of this publication, 'Comparison between GMM for direct insurance contracts issued and GMM for RCH', for references to journal entries relating to the RAs.

- (b) the date the entity recognizes an onerous group of underlying insurance contracts applying HKFRS 17.25(c), if the entity entered into the related RCH in the group of RCH at or before that date.

Notwithstanding HKFRS 17.62(a), an entity shall delay the recognition of a group of RCH that provide proportionate coverage until the date that any underlying insurance contract is initially recognized, if that date is later than the beginning of the coverage period of the group of RCH. [HKFRS 17.62A].

In this example, the initial recognition of the RCH is the beginning of the year, which is both the commencement of the coverage period (HKFRS 17.62(a)) and the date of recognition of the underlying contracts (HKFRS 17.62A). HKFRS 17.62(b) is not applicable as the underlying contracts are profitable.

JE1 – Initial recognition of proportionate RCH				
			HK\$	HK\$
DR	ARC – BEL – Claims recovery	(a)	1,000	
DR	ARC – CSM	(b)	200	
	CR	ARC – BEL – Reinsurance premium		1,200

- (a) ARC – BEL – Claims recovery is determined as follows:
 = Expected claims on underlying contracts X % of Proportion of claims reinsured
 = HK\$2,500 X 40%
 = **HK\$1,000**

The amount represents the estimates of PV of future cash inflows.

- (b) ARC – CSM (debit balance to reflect the net cost position) is calculated below:

<i>Initial recognition of CSM for RCH</i>	HK\$
Claims expected to be recovered from reinsurer (See (a) above)	1,000
Reinsurance premium (i.e. cost of reinsurance, see (c) below)	(1,200)
CSM net cost (debit)	(200)

- (c) The amount represents the estimates of PV of future cash outflows arising from reinsurance premium payable to the reinsurer.

The net impact of **JE1** is **Dr. ARC – CSM HK\$200, Cr. ARC – BEL HK\$200**. According to HKFRS 17.107¹⁹, the estimates of PV of future cash inflows of HK\$1,000 and the estimates of PV of future cash outflows of HK\$1,200, together with RA (ignored in this example) and CSM net cost of HK\$200 determined on initial recognition of RCH should be included in the disclosures.

¹⁹ HKFRS 17.107 states that 'For insurance contracts other than those to which the premium allocation approach described in HKFRS 17.53-59 or 69-70A has been applied, an entity shall disclose the effect on the statement of financial position separately for insurance contracts issued and reinsurance contracts held that are initially recognised in the period, showing their effect at initial recognition on: (a) the estimates of the present value of future cash outflows, showing separately the amount of the insurance acquisition cash flows; (b) the estimates of the present value of future cash inflows; (c) the risk adjustment for non-financial risk; and (d) the contractual service margin' (underline added).

JE2 – Payment of reinsurance premium

			HK\$	HK\$
DR	ARC – BEL – Reinsurance premium	(d)	1,200	
	CR	Cash		1,200

- (d) The amount represents the reinsurance premium paid to the reinsurer. See **JE3 & JE5** for the reinsurance premium allocation to reflect the impact of such expense in P&L.

End of the Year

JE3 – Allocation of reinsurance premium paid to P&L – release of expected claims recovery

			HK\$	HK\$
DR	Allocation of reinsurance premium paid (P&L)	(e)	1,000	
	CR	ARC – BEL – Claims recovery		1,000

- (e) This entry records the release of claims recovery of HK\$1,000 (see **JE1(a)**) into P&L for the period, which is measured at the amount expected at the beginning of the period.

JE4 – Actual recovery from reinsurer

			HK\$	HK\$
DR	AIC – BEL – Claims recovery	(f)	1,000	
	CR	Amount recovered from reinsurer – Recoveries from incurred claims (P&L)		1,000

- (f) This entry records the recognition of the amount of claims recovered from the reinsurer according to the terms of RCH. The term 'Recoveries from incurred claims' is included in 'Amounts recovered from reinsurer' for presentation and disclosures, applying HKFRS 17.86(a).

JE5 – Allocation of reinsurance premium paid to P&L – release of CSM for RCH for the period

			HK\$	HK\$
DR	Allocation of reinsurance premium paid (P&L)	(g)	200	
	CR	ARC – CSM		200

- (g) This entry records the release of CSM for RCH into P&L in the period (see **JE1**) because of services received from reinsurer as required by HKFRS 17.66(e).

JE6 – Receipt of claims recovery from reinsurer

DR	Cash		(h)	HK\$	1,000	HK\$
	CR	AIC – BEL – Claims recovery	(h)			1,000

(h) It is assumed that the amount is received in the same financial year.

Part 2 – Relevant impacts on the statement of financial position

The following table demonstrates the relevant impacts on RCH recognized in the entity's statement of financial position based on the journal entries explained in **Part 1**. The table is not intended to illustrate the presentation²⁰ and disclosure requirements of HKFRS 17.

Relevant impacts on the statement of financial position – RCH

	ARC Dr / (Cr)			AIC Dr / (Cr)		Total Dr / (Cr)
	BEL	CSM	Total ARC	BEL		
	(a) HK\$ JE	(b) HK\$ JE	(c) = (a) + (b) HK\$	(d) HK\$ JE	(c) + (d) HK\$	
Initial recognition						
Initial recognition of RCH	(200) 1	200 1	-	-		-
Payment of reinsurance premium	1,200 2	-	1,200	-		1,200
End of the Year						
Allocation of reinsurance premium paid to P&L – release of expected claims recovery	(1,000) 3	-	(1,000)	-		(1,000)
Recognition of recoveries of incurred claims	-	-	-	1,000 4		1,000
Allocation of reinsurance premium paid to P&L – release of CSM for RCH		(200) 5	(200)	-		(200)
Receipt of recoveries of incurred claims	-	-	-	(1,000) 6		(1,000)
End of the Year	-	-	-	-		-

²⁰ The following are the key principles in presentation of RCH as required by HKFRS 17.78:

- RCH are presented separately from insurance contracts issued,
- RCH are presented in the statement of financial position at a portfolio level of aggregation, and
- Portfolios of RCH that are in an asset position are presented separately from those in a liability position.

Part 3 – Relevant impacts on the statement of financial performance

The following table demonstrates the relevant impacts on the entity's statement of financial performance²¹ based on the journal entries made in **Part 1**. The table illustrates the impacts on the relevant line items only and is not intended to illustrate the presentation and disclosure requirements of HKFRS 17.

Relevant impacts on the statement of financial performance			
		(Dr) / Cr HK\$	JE
Allocation of reinsurance premium paid:			
i. End of the Year			
Allocation of reinsurance premium paid		(1,200)	3, 5
Amounts recovered from reinsurer:			
i. End of the Year			
Actual recoveries from reinsurer	[Note 1]	1,000	4
Net cost from RCH	[Note 2]	(200)	

Notes

- 1 The amount of HK\$1,000 is the same as the expected claims recovery as calculated in **JE1(a)**.
- 2 The amount of HK\$200 is the same as the net cost from RCH (i.e. cash in HK\$1,000 less cash out HK\$1,200). See **JE1(b)**.

²¹ An entity shall present income or expenses from RCH separately from the expenses or income from insurance contracts issued in its statement of financial performance [HKFRS 17.82].

Scenario 2: Proportionate RCH – net gain position, onerous underlying contracts

An entity enters into a reinsurance contract with a reinsurer for insurance coverage of its issued insurance contracts on a proportionate basis. It is expected that the entity will make a **net gain** from the RCH. The fact pattern and assumptions are set out below:

Fact Pattern and assumptions			
			HK\$
<u>Onerous underlying insurance contracts</u>			
Cash flows	Premiums		3,000
	Less: Expected claims		(4,500)
	Expected loss	[Note 1]	(1,500)
<u>Reinsurance contract held (RCH)</u>			
Cash flows	Reinsurance premium to reinsurer (HK\$3,000 X 40%)		1,200
	Proportion of claims reinsured and expected claims recovery		40%
<u>Underlying insurance contracts and RCH</u>			
Assumptions	For simplicity: <ul style="list-style-type: none"> • RCH is entered into at the same time as the underlying contracts are recognized, which is the beginning of the year • One-year coverage²² for both RCH and underlying contracts. GMM is applied, i.e. the cedant does not opt to apply PAA. The coverage period of RCH starts at the beginning of the year • No differences in expected and actual future cash flows • No contracts will lapse before the end of the coverage period • No changes in other estimates and all other amounts • Effect of discounting, RA and risk of non-performance of reinsurer are ignored • No other cash flows other than premiums and claims recovery 		

Note

- 1 The expected loss is recognized in P&L on initial recognition as the group of underlying contracts is onerous [HKFRS 17.47].

Part 1 – illustration of journal entries for RCH with narrative explanation

In this example, given that the RCH provides proportionate coverage and the underlying contracts are onerous, the requirements of HKFRS 17.62(a), (b) and HKFRS 17.62A are relevant for consideration in determining the initial recognition of the RCH. Applying the requirements, the entity recognizes the RCH at the beginning of the year, which is both the commencement date of the coverage period of the RCH (HKFRS 17.62(a)) and the date the entity recognizes the onerous underlying contracts (HKFRS 17.62(b), 62A). Please refer to '*Illustration of scenarios*' in the

²² In *Scenarios 2 to 4*, it is assumed that the coverage periods for the RCH and the underlying contracts are both one year resulting in the release of CSM and loss-recovery component for RCH being fully recognized in the same year. However, it is worth highlighting that the **release patterns** of CSM and loss-recovery component for RCH can be different under HKFRS 17. Please refer to '*Notes for further insights*' after JE2 in *Scenario 4* for more discussions.

above for relevant discussions of HKFRS 17.62(b) in situations where the underlying contracts are onerous.

In contrast to **Scenario 1** in which the underlying contracts are profitable, **Scenarios 2 to 4** illustrate the recoveries of losses from RCH for the onerous underlying contracts.

JE1 – Initial recognition of proportionate RCH

			HK\$	HK\$
DR	ARC – BEL – Claims recovery (excluding loss-recovery component)	(a)	1,800	
	CR	ARC – CSM		600
	CR	ARC – BEL – Reinsurance premium		1,200

- (a) ARC – BEL – Claims recovery (excluding loss-recovery component) is determined as follows:
= Expected claims on underlying contracts X % of Proportion of claims reinsured
= HK\$4,500 X 40%
= **HK\$1,800**

The amount represents the estimates of PV of future cash inflows.

- (b) ARC – CSM (credit balance to reflect the net gain position) is calculated below:

	HK\$
Claims expected to be recovered from reinsurer (See (a) above)	1,800
Reinsurance premium (i.e. cost of reinsurance, see (c) below)	(1,200)
CSM net gain (credit)	600

- (c) The amount represents the estimates of PV of future cash outflows arising from reinsurance premium payable to the reinsurer.

The net impact of **JE1** is **Dr. ARC – BEL HK\$600, Cr. ARC – CSM HK\$600**. According to HKFRS 17.107, the estimates of PV of future cash inflows (HK\$1,800) and the estimates of PV of cash outflows (HK\$1,200) on initial recognition of RCH, together with RA (ignored in this example) and CSM recognized in **JE1** together with any amounts recognized in **JE2** on initial recognition of RCH (see the table in **JE2(d)** below) should be included in the disclosures.

JE2 – Adjustment of CSM to recognize income from the RCH to match the onerous loss from the underlying contracts recognized on day 1

			HK\$	HK\$
DR	ARC – CSM	(d)	600	
	CR	Amounts recovered from reinsurer – Recoveries of losses from RCH (P&L)		600

- (d) As required by HKFRS 17.66A, an entity shall adjust the CSM of a group of RCH, and as a result recognize income, when the entity recognizes a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to a group. Applying HKFRS 17.66A, an entity shall determine the adjustment to the CSM of a group of RCH and the resulting income by applying a formula specified in HKFRS 17.B119D (see **Diagram 4**).

The amount of recoveries of losses from the onerous underlying contracts and related adjustment to CSM of RCH applying the formula is determined as follows:
= Loss recognized on underlying insurance contracts X % of claims on underlying insurance contracts the entity expects to recover from reinsurance
= HK\$1,500 X 40%
= HK\$600 (see **JE2** above)

The result of ARC – CSM from **JE1** and **JE2** is shown below:

<i>Initial recognition of CSM for RCH</i>	HK\$
CSM net gain (before the income recognized under HKFRS 17.66A) (See JE1)	600
Adjustment to CSM due to income recognized under HKFRS 17.66A (See JE2)	(600)
CSM net gain (after income recognized under HKFRS 17.66A)	-

JE3 – Initial recognition of loss-recovery component

			HK\$	HK\$
DR	ARC – BEL – Loss-recovery component	(e)	600	
	CR			600
	ARC – BEL – Claims recovery (excluding loss-recovery component)	(e)		

(e) The loss-recovery component of the asset for remaining coverage for RCH is established in accordance with HKFRS 17.66B.

JE4 – Payment of reinsurance premium

			HK\$	HK\$
DR	ARC – BEL – Reinsurance premium	(f)	1,200	
	CR			1,200
	Cash	(f)		

(f) The amount represents the reinsurance premium paid to the reinsurer. See **JE5** for the reinsurance premium allocation to reflect the impact of such expense in P&L.

End of the Year

JE5 – Allocation of reinsurance premium paid to P&L – release of expected claims recovery

			HK\$	HK\$
DR	Allocation of reinsurance premium paid (P&L)	(g)	1,200	
	CR			1,200
	ARC – BEL – Claims recovery (excluding loss-recovery component)	(g)		

(g) This entry records the release of expected claims recovery (excluding loss-recovery component) of HK\$1,200 (see **JE1(a)** and **JE3**) into P&L for the period.

JE6 – Actual recovery from reinsurer

				HK\$	HK\$
DR		AIC – BEL – Claims recovery	(h)	1,800	
	CR	Amounts recovered from reinsurer – Recoveries from incurred claims (P&L)	(h)		1,800

- (h) This entry records the recognition of the amount of claims recovered from the reinsurer according to the terms of RCH. The item 'Recoveries from incurred claims' is included in 'Amounts recovered from reinsurer' for presentation and disclosures, applying HKFRS 17.86(a).

JE7 – Reversal of recoveries of losses from RCH

				HK\$	HK\$
DR		Amounts recovered from reinsurer – Reversal of recoveries of losses from RCH (P&L)	(i)	600	
	CR	ARC – BEL – Loss-recovery component	(i)		600

- (i) This entry records the reversal of ARC – BEL – Loss-recovery component that reflects the changes in the loss component of an onerous group of underlying contracts [HKFRS 17.B119F]. See related entry in **JE3**. The item 'Reversal of recoveries of losses from RCH' is included in 'Amounts recovered from reinsurer' for presentation and disclosures, applying HKFRS 17.86(ba).

JE8 – Receipt of claims recovery from reinsurer

				HK\$	HK\$
DR		Cash	(j)	1,800	
	CR	AIC – BEL – Claims recovery	(j)		1,800

- (j) It is assumed that the amount is received in the same financial year.

Part 2 – Relevant impacts on the statement of financial position

The following table demonstrates the relevant impacts on RCH recognized in the entity's statement of financial position based on the journal entries explained in **Part 1**. The table is not intended to illustrate the presentation and disclosure requirements of HKFRS 17.

Relevant impacts on the statement of financial position – RCH									
	ARC Dr / (Cr)						AIC Dr / (Cr)	Total Dr / (Cr)	
	BEL (excluding loss-recovery component)		BEL (loss-recovery component)		Total BEL	CSM			Total ARC
	(a)		(b)		(c) = (a) + (b)	(d)	(e) = (c) + (d)	(f)	(g) = (e) + (f)
	HK\$	JE	HK\$	JE	HK\$	HK\$	JE	HK\$	HK\$
Initial recognition									
Initial recognition of RCH	600	1	-		600	(600)	1	-	-
Adjustment of CSM to match with the onerous loss from the underlying contracts on initial recognition	-		-		-	600	2	600	600
Initial recognition of loss-recovery component	(600)	3	600	3	-	-		-	-
Payment of reinsurance premium	1,200	4	-		1,200	-		1,200	1,200
End of the Year									
Allocation of reinsurance premium paid to P&L – release of expected claims recovery	(1,200)	5	-		(1,200)	-		(1,200)	(1,200)
Recognition of recoveries of incurred claims	-		-		-	-		1,800	1,800
Reversal of recoveries of losses from RCH	-		(600)	7	(600)	-		(600)	(600)
Receipt of recoveries of incurred claims	-		-		-	-		(1,800)	(1,800)
End of the Year	-		-		-	-		-	-

Part 3 – Relevant impacts on the statement of financial performance

The following table demonstrates the relevant impacts on the entity's statement of financial performance based on the journal entries made in **Part 1**. The table illustrates the impacts on the relevant line items only and is not intended to illustrate the presentation and disclosure requirements of HKFRS 17.

Relevant impacts on the statement of financial performance			
	(Dr) / Cr HK\$	(Dr) / Cr HK\$	JE
Allocation of reinsurance premium paid:			
i. End of the Year			
• Allocation of reinsurance premium paid		(1,200)	5
Amounts recovered from reinsurer:			
i. Initial recognition			
• Gain recognized as a result of recoveries of losses from RCH	600		2
ii. End of the Year			
• Actual recoveries from reinsurer	1,800		6
• Less: reversal of recoveries of losses from RCH	(600)		7
		1,800	[Note 1]
Net gain from RCH		600	[Note 2]

Notes

- 1 The amount of HK\$1,800 is the same as the expected claims recovery as calculated in **JE1(a)**.
- 2 The amount of HK\$600 is the same as the net gain from RCH (i.e. cash in HK\$1,800 less cash out HK\$1,200). See **JE1(b)**.

Scenario 3: Non-proportionate RCH – net gain position, onerous underlying contracts

An entity enters into a reinsurance contract with a reinsurer for insurance coverage of its issued insurance contracts on a non-proportionate basis. It is expected that the entity will make a **net gain** from the RCH. The fact pattern and assumptions are set out below:

Fact pattern and assumptions			
			HK\$
<i>Onerous underlying insurance contracts</i>			
Cash flows	Premiums		3,000
	Less: Expected claims		(4,500)
	Expected loss	[Note 1]	(1,500)
<i>Reinsurance contract held (RCH)</i>			
Cash flows	Reinsurance premium to reinsurer		1,560
	Expected claims recovery		1,800
Assumptions	For simplicity: <ul style="list-style-type: none"> • RCH is entered into at the same time as the underlying contracts are recognized, which is the beginning of the year • One-year coverage for both RCH and underlying contracts. GMM is applied, i.e. the cedant does not opt to apply PAA. The coverage period of RCH starts at the beginning of the year • No differences in expected and actual future cash flows • No contracts will lapse before the end of the coverage period • No changes in other estimates and all other amounts • Effect of discounting, RA and risk of non-performance of reinsurer are ignored • No other cash flows other than premiums and claims recovery 		

Note

- 1 The expected loss is recognized in P&L on initial recognition as the group of underlying contracts is onerous [HKFRS 17.47].

Part 1 – illustration of journal entries for RCH with narrative explanation

Regarding initial recognition of RCH, unlike **Scenario 2**, HKFRS 17.62A is not applicable in **Scenario 3** as the RCH does not provide proportionate coverage. For **Scenario 3**, applying the requirements of HKFRS 17.62, the entity recognizes the RCH at the beginning of the year, which is both the commencement date of the coverage period of the RCH (HKFRS 17.62(a)) and the date when the onerous underlying contracts are recognized (HKFRS 17.62(b)).

JE1 – Initial recognition of non-proportionate RCH				
			HK\$	HK\$
DR	ARC – BEL – Claims recovery (excluding loss-recovery component)	(a)	1,800	
	CR	ARC – CSM		240
	CR	ARC – BEL – Reinsurance premium		1,560

- (a) The amount of expected claims recovery is HK\$1,800 in this example, which represents the estimates of PV of future cash inflows.
- (b) ARC – CSM (credit balance to reflect the net gain position) is calculated below:

	HK\$
Claims expected to be recovered from reinsurer (See (a) above)	1,800
Reinsurance premium (i.e. cost of reinsurance, see (c) below)	(1,560)
CSM net gain (credit)	240

- (c) The amount represents the estimates of PV of future cash outflows arising from reinsurance premium payable to the reinsurer.

The net impact of **JE1** is **Dr. ARC – BEL HK\$240, Cr. ARC – CSM HK\$240**. According to HKFRS 17.107, the estimates of PV of future cash inflows (HK\$1,800) and the estimates of PV of future cash outflows (HK\$1,560) on initial recognition of RCH, together with RA (ignored in this example) and CSM recognized in **JE1** together with any amounts recognized in **JE2** on initial recognition of RCH (see the table in **JE2(d)** below) should be included in the disclosures.

JE2 – Adjustment of CSM to recognize income from the RCH to match the onerous loss from the underlying contracts recognized on day 1

DR			HK\$	HK\$
	ARC – CSM	(d)	600	
	CR	Amounts recovered from reinsurer – Recoveries of losses from RCH (P&L)	(d)	600

- (d) % of claims on underlying insurance contracts the entity expects to recover from reinsurance:
= HK\$1,800 / 4,500
= **40%**

As required by HKFRS 17.66A and B119D, the calculation formula in *Diagram 4* for determination of the amount of recoveries of losses from the onerous underlying contracts is applied below:

= Loss recognized on underlying insurance contracts X % of claims on underlying insurance contracts the entity expects to recover from reinsurance
= HK\$1,500 X **40%**
= HK\$600 (see **JE2** above)

The result of ARC – CSM from **JE1** and **JE2** is shown below:

<i>Initial recognition of CSM for RCH</i>		HK\$
CSM net gain (before the income recognized under HKFRS 17.66A) (See JE1)		240
Adjustment to CSM due to income recognized under HKFRS 17.66A (See JE2)		(600)
CSM net cost (after income recognized under HKFRS 17.66A) (See JE8)		(360)

JE3 – Initial recognition of loss-recovery component

DR			HK\$	HK\$
	ARC – BEL – Loss-recovery component	(e)	600	
	CR	ARC – BEL – Claims recovery (excluding loss-recovery component)	(e)	600

- (e) The loss-recovery component of ARC for RCH is established in accordance with HKFRS 17.66B.

JE4 – Payment of reinsurance premium

			HK\$	HK\$
DR	ARC – BEL – Reinsurance premium	(f)	1,560	
	CR	Cash	(f)	1,560

- (f) The amount represents the reinsurance premium paid to the reinsurer. See **JE5** and **JE8** for the reinsurance premium allocation to reflect the impact of such expense in P&L.

End of the Year

JE5 – Allocation of reinsurance premium paid to P&L – release of expected claims recovery

			HK\$	HK\$
DR	Allocation of reinsurance premium paid (P&L)	(g)	1,200	
	CR	ARC – BEL – Claim recovery (excluding loss-recovery component)	(g)	1,200

- (g) This entry records the release of expected claims recovery (excluding loss-recovery component) of HK\$1,200 (see **JE1(a)** and **JE3**) into P&L for the period.

JE6 – Actual recovery from reinsurer

			HK\$	HK\$
DR	AIC – BEL – Claims recovery	(h)	1,800	
	CR	Amounts recovered from reinsurer – Recoveries from incurred claims (P&L)	(h)	1,800

- (h) This entry records the recognition of the amount of claims recovered from the reinsurer according to the terms of RCH. The item 'Recoveries from incurred claims' is included in 'Amounts recovered from reinsurer' for presentation and disclosures, applying HKFRS 17.86(a).

JE7 – Reversal of recoveries of losses from RCH

			HK\$	HK\$
DR	Amounts recovered from reinsurer – Reversal of recoveries of losses from RCH (P&L)	(i)	600	
	CR	ARC – BEL – Loss-recovery component	(i)	600

- (i) This entry records the reversal of ARC – BEL – Loss-recovery component that reflects the changes in the loss component of an onerous group of underlying contracts [HKFRS 17.B119F]. See related entry in **JE3**. The item 'Reversal of recoveries of losses from RCH' is included in 'Amounts recovered from reinsurer' for presentation and disclosures, applying HKFRS 17.86(ba).

JE8 – Allocation of reinsurance premium paid to P&L – release of ARC – CSM into P&L

DR	Allocation of reinsurance premium paid (P&L)	(j)	HK\$ 360	HK\$
	CR			
	ARC – CSM	(j)		360

(j) This entry records the release of ARC – CSM into P&L for the period (see the table under **JE2**) applying HKFRS 17.66(e).

JE9 – Receipt of claims recovery from reinsurer

DR	Cash	(k)	HK\$ 1,800	HK\$
	CR			
	AIC – BEL – Claims recovery	(k)		1,800

(k) It is assumed that the amount is received in the same financial year.

Part 2 – Relevant impacts on the statement of financial position

The following table demonstrates the relevant impacts on RCH recognized in the entity's statement of financial position based on the journal entries explained in **Part 1**. The table is not intended to illustrate the presentation and disclosure requirements of HKFRS 17.

Relevant impacts on the statement of financial position – RCH

	ARC Dr / (Cr)						AIC Dr / (Cr)	Total Dr / (Cr)		
	BEL (excluding loss-recovery component)		BEL (loss-recovery component)		Total BEL				CSM	Total ARC
	(a)	(b)	(c) = (a) + (b)		(d)	(e) = (c) + (d)				
HK\$	JE	HK\$	JE	HK\$	JE	HK\$	JE			
Initial recognition										
Initial recognition of RCH	240	1	-		240	(240)	1	-		
Adjustment of CSM to match with the onerous loss from the underlying contracts on initial recognition	-		-		-	600	2	600		
Initial recognition of loss-recovery component [Note 1]	(600)	3	600	3	-	-		-		
Payment of reinsurance premium	1,560	4	-		1,560	-		1,560		
End of the Year										
Allocation of reinsurance premium paid to P&L – release of expected claims recovery	(1,200)	5	-		(1,200)	-		(1,200)		

Relevant impacts on the statement of financial position – RCH

	ARC Dr / (Cr)					AIC Dr / (Cr)		Total Dr / (Cr)
	BEL (excluding loss-recovery component)	BEL (loss- recovery component)		Total BEL	CSM	Total ARC		
	(a)	(b)		(c) = (a) + (b)	(d)	(e) = (c) + (d)	(f)	(g) = (e) + (f)
	HK\$ JE	HK\$	JE		HK\$ JE	HK\$	HK\$ JE	
Recognition of recoveries of incurred claims	-	-		-	-	-	1,800 6	1,800
Reversal of recoveries of losses from RCH	-	(600) 7		(600)	-	(600)	-	(600)
Allocation of reinsurance premium paid to P&L – release of ARC – CSM	-	-		-	(360) 8	(360)	-	(360)
Receipt of recoveries of incurred claims	-	-		-	-	-	(1,800) 9	(1,800)
End of the Year	-	-		-	-	-	-	-

Note

- 1 **JE2** and **JE3** refer to the same amount of HK\$600. The initial recognition of loss-recovery component (HK\$600) as referred to in **JE3** is the direct result of HK\$600 recognized in P&L under **JE2**.

Part 3 – Relevant impacts on the statement of financial performance

The following table demonstrates the relevant impacts on the entity's statement of financial performance based on the journal entries made in **Part 1**. The table illustrates the impacts on the relevant line items only and is not intended to illustrate the presentation and disclosure requirements of HKFRS 17.

Relevant impacts on the statement of financial performance			
	(Dr) / Cr HK\$	(Dr) / Cr HK\$	JE
Allocation of reinsurance premium paid:			
i. End of the Year			
• Allocation of reinsurance premium paid		(1,560)	5, 8
Amounts recovered from reinsurer:			
i. Initial recognition			
• Gain recognized as a result of recoveries of losses from RCH	600		2
ii. End of the Year			
• Actual recoveries from reinsurer	1,800		6
• Less: reversal of recoveries of losses from RCH	(600)		7
		1,800	[Note 1]
Net gain from RCH		240	[Note 2]

Notes

- 1 The amount of HK\$1,800 is the same as the expected claims recovery as stated in **JE1(a)**.
- 2 The amount of HK\$240 is the same as the net gain from RCH (cash in HK\$1,800 less cash out HK\$1,560). See **JE1(b)**.

Scenario 4: Non-proportionate RCH – net cost position, onerous underlying contracts

An entity enters into a reinsurance contract with a reinsurer for insurance coverage of its issued insurance contract on a non-proportionate basis. It is expected that the entity will incur a **net cost** from the RCH. The fact pattern and assumptions are set out below:

Fact pattern and assumptions			
			HK\$
<u>Onerous underlying insurance contracts</u>			
Cash flows	Premiums		3,000
	Less: Expected claims		(4,500)
	Expected loss	[Note 1]	(1,500)
<u>Reinsurance contract held (RCH)</u>			
Cash flows	Reinsurance premium to reinsurer		1,950
	Expected claims recovery		1,800
	For simplicity: <ul style="list-style-type: none"> • RCH is entered into at the same time as the underlying contracts are recognized, which is the beginning of the year • One-year coverage for both RCH and underlying contracts. GMM is applied, i.e. the cedant does not opt to apply PAA. The coverage of the RCH starts at the beginning of the year • No differences in expected and actual future cash flows • No contracts will lapse before the end of the coverage period • No changes in other estimates and all other amounts • Effect of discounting, RA and risk of non-performance of reinsurer are ignored • No other cash flows other than premiums and claims recovery 		

Note

- 1 The expected loss is recognized in P&L on initial recognition as the group of underlying contracts is onerous [HKFRS 17.47].

Part 1 – illustration of journal entries for RCH with narrative explanation

Initial recognition

Same as **Scenario 3**, which is also a non-proportionate RCH, the initial recognition of RCH in this example is at the beginning of the year applying HKFRS 17.62. However, unlike **Scenario 3**, **Scenario 4** has a net cost position for the RCH.

JE1 – Initial recognition of non-proportionate RCH				
			HK\$	HK\$
DR	ARC – BEL – Claims recovery (excluding loss-recovery component)	(a)	1,800	
DR	ARC – CSM	(b)	150	
	CR	ARC – BEL – Reinsurance premium		1,950

- (a) The expected claims recovery is HK\$1,800 in this example, which represents the estimates of PV of future cash inflows.
- (b) ARC – CSM (debit balance to reflect the net cost position) is calculated below:

	HK\$
Claims expected to be recovered from reinsurer (See (a) above)	1,800
Reinsurance premium (i.e. cost of reinsurance, see (c) below)	(1,950)
CSM net cost (debit)	(150)

- (c) The amount represents the estimates of PV of future cash outflows arising from reinsurance premium payable to the reinsurer.

The net impact of **JE1** is **Dr. ARC – CSM HK\$150, Cr. ARC – BEL HK\$150**. According to HKFRS 17.107, the estimates of PV of future cash inflows (HK\$1,800) and the estimates of PV of future cash outflows (HK\$1,950), together with RA (ignored in this example) and CSM recognized in **JE1** together with any amounts recognized in **JE2** on initial recognition of RCH (see the table in **JE2(d)** below) should be included in the disclosures.

JE2 – Adjustment of CSM to recognize income from the RCH to match the onerous loss from the underlying contracts recognized on day 1

DR	ARC – CSM	(d)	HK\$	HK\$
			600	
CR	Amounts recovered from reinsurer – Recoveries of losses from RCH (P&L)(see ☀)	(d)		600

- (d) % of claims on underlying insurance contracts the entity expects to recover from reinsurance:
= HK\$1,800 / 4,500
= **40%**

As required by HKFRS 17.66A and B119D, the calculation formula in *Diagram 4* for determination of the amount of recovery of loss from onerous underlying contracts is applied as follows:

= Loss recognized on underlying insurance contracts X % of claims on underlying insurance contracts the entity expects to recover from reinsurance
= HK\$1,500 X **40%**
= HK\$600 (see **JE2** above)

Notes for further insights

☀ Compared to **Scenario 3**, **Scenario 4** demonstrates a net cost position on initial recognition of the RCH. It is worth noting that the recognition of the 'day one' gain (by creating a loss-recovery component)(see **JE2** and **JE3**) shall be made irrespective of whether the RCH is a net gain or net cost on initial recognition.

The IASB considered a view that the amendment described in HKFRS 17.B119D and BC315A should apply only when a RCH is in a net gain position – in other words, when an entity expects to receive from the reinsurer claim recoveries that are higher than the premium the entity pays to the reinsurer. The IASB disagreed with this view because an entity has a right to recover claims from the RCH regardless of whether claim recoveries are expected to be higher or lower than the premiums the entity pays to the reinsurer [HKFRS 17.BC315K].

The result of ARC – CSM from **JE1** and **JE2** is shown below:

<u>Initial recognition of CSM for RCH</u>	HK\$
CSM net cost (before the income recognized under HKFRS 17.66A) (See JE1)	(150)
Adjustment to CSM due to income recognized under HKFRS 17.66A) (See JE2)	(600)
CSM net cost (after income recognized under HKFRS 17.66A) (See ☀ below, JE8)	(750)

Notes for further insights

☀ According to HKFRS 17.66A, the loss-recovery component adjusts the CSM for RCH at initial recognition. Therefore, as shown in the above table, if the CSM is in a net cost position, the loss-recovery component is an amount that is added to the CSM calculated applying HKFRS 17.65. However, the **release pattern** will be different for loss-recovery component and CSM. CSM recognized based on HKFRS 17.65 will be recognized in profit or loss based on coverage units whereas the loss-recovery component associated with the same RCH group will be reversed to P&L applying HKFRS 17.B119F (i.e. to reflect changes in the loss component of an onerous group of underlying insurance contracts).

Readers are also recommended to refer to the Illustrative Example 12C of HKFRS 17, which demonstrates the initial and subsequent measurement of a group of RCH when one of the groups of underlying insurance contracts is onerous, applying HKFRS 17.66A-66B and B119C-B119F.

JE3 – Initial recognition of loss-recovery component

			HK\$	HK\$
DR	ARC – BEL – Loss-recovery component	(e)	600	
	CR			600
	ARC – BEL – Claims recovery (excluding loss recovery component)	(e)		

(e) The loss-recovery component of the asset for remaining coverage for RCH is established in accordance with HKFRS 17.66B.

JE4 – Payment of reinsurance premium

			HK\$	HK\$
DR	ARC – BEL – Reinsurance premium	(f)	1,950	
	CR			1,950
	Cash	(f)		

(f) The amount represents the reinsurance premium paid to the reinsurer. See **JE5** and **JE8** for the reinsurance premium allocation to reflect the impact of such expense in P&L.

End of the Year

JE5 – Allocation of reinsurance premium paid to P&L – release of expected claims recovery

			HK\$	HK\$
DR	Allocation of reinsurance premium paid (P&L)	(g)	1,200	
	CR			1,200
	ARC – BEL – Claim recovery (excluding loss-recovery component)	(g)		

(g) This entry records the release of expected claims recovery (excluding loss-recovery component) of HK\$1,200 (see **JE1(a)** and **JE3**) into P&L for the period.

JE6 – Actual recovery from reinsurer

				HK\$	HK\$
DR		AIC – BEL – Claims recovery	(h)	1,800	
	CR	Amounts recovered from reinsurer – Recoveries from incurred claims (P&L)	(h)		1,800

- (h) This entry records the recognition of the amount of claims recovered from the reinsurer according to the terms of RCH. The item 'Recoveries from incurred claims' is included in 'Amounts recovered from reinsurer' for presentation and disclosures, applying HKFRS 17.86(a).

JE7 – Reversal of recoveries of losses from RCH

				HK\$	HK\$
DR		Amounts recovered from reinsurer – Reversal of recoveries of losses from RCH (P&L)	(i)	600	
	CR	ARC – BEL – Loss-recovery component	(i)		600

- (i) This entry records the reversal of ARC – BEL – Loss-recovery component that reflects the changes in the loss component of an onerous group of underlying contracts [HKFRS 17.B119F]. See related entry in **JE3**. The item 'Reversal of recoveries of losses from RCH' is included in 'Amounts recovered from reinsurer', for presentation and disclosures, applying HKFRS 17.86(ba).

JE8 – Allocation of reinsurance premium paid to P&L – release of ARC – CSM into P&L

				HK\$	HK\$
DR		Allocation of reinsurance premium paid (P&L)	(j)	750	
	CR	ARC – CSM	(j)		750

- (j) This entry records the release of ARC – CSM of HK\$750 (see the table under **JE2**) into P&L for the period applying HKFRS 17.66(e).

JE9 – Receipt of claims recovery from reinsurer

				HK\$	HK\$
DR		Cash	(k)	1,800	
	CR	AIC – BEL – Claims recovery	(k)		1,800

- (k) It is assumed that the amount is received in the same financial year.

Part 2 – Relevant impact on the statement of financial position

The following table demonstrates the relevant impacts on RCH recognized in the entity's statement of financial position based on the journal entries explained in **Part 1**. The table is not intended to illustrate the presentation and disclosure requirements of HKFRS 17.

Relevant impacts on the statement of financial position – RCH									
	ARC Dr / (Cr)						AIC Dr / (Cr)	Total Dr / (Cr)	
	BEL (excluding loss-recovery component)		BEL (loss- recovery component)		Total BEL	CSM	Total ARC		
	(a)		(b)		(c) = (a) + (b)	(d)	(e) = (c) + (d)	(f)	(g) = (e) + (f)
	HK\$	JE	HK\$	JE	HK\$	JE	HK\$	JE	HK\$
Initial recognition									
Initial recognition of RCH	(150)	1	-		(150)	150	1	-	-
Adjustment of CSM to match with the onerous loss from the underlying contracts on initial recognition	-		-		-	600	2	600	600
Initial recognition of loss-recovery component [Note 1]	(600)	3	600	3	-	-		-	-
Payment of reinsurance premium	1,950	4	-		1,950	-		1,950	1,950
End of the Year									
Allocation of reinsurance premium paid to P&L – release of expected claims recovery	(1,200)	5	-		(1,200)	-		(1,200)	(1,200)
Recognition of recoveries of incurred claims	-		-		-	-		1,800	1,800
Reversal of recoveries of losses from RCH	-		(600)	7	(600)	-		(600)	(600)
Allocation of reinsurance premium paid to P&L – release of ARC – CSM	-		-		-	(750)	8	(750)	(750)
Receipt of recoveries of incurred claims	-		-		-	-		(1,800)	(1,800)
End of the Year	-		-		-	-		-	-

Note

- 1 **JE2** and **JE3** refer to the same amount of HK\$600. The initial recognition of loss-recovery component (HK\$600) as referred to in **JE3** is the direct result of HK\$600 recognized in P&L under **JE2**.

Part 3 – Statement of financial performance

The following table demonstrates the relevant impacts on the entity's statement of financial performance based on the journal entries made in **Part 1**. The table illustrates the impacts on the relevant line items only and is not intended to illustrate the presentation and disclosure requirements of HKFRS 17.

Relevant impacts on the statement of financial performance			
	(Dr) / Cr HK\$	(Dr) / Cr HK\$	JE
Allocation of reinsurance premium paid:			
i. End of the Year			
• Allocation of reinsurance premium paid		(1,950)	5, 8
Amounts recovered from reinsurer:			
i. Initial recognition	600		2
• Gain recognized as a result of recoveries of losses from RCH			
ii. End of the Year			
• Actual recoveries from reinsurer	1,800		6
• Less: reversal of recoveries of losses from RCH	(600)		7
		1,800	[Note 1]
Net cost from RCH		(150)	[Note 2]

Notes

- 1 The amount of HK\$1,800 is the same as the expected claims recovery as stated in **JE1(a)**.
- 2 The amount of HK\$150 is the same as the net cost from RCH (cash in HK\$1,800 less cash out HK\$1,950). See **JE1(b)**.

2. Comparison between GMM for direct insurance contracts issued and GMM for RCH

GMM is the default approach for all insurance contracts **issued** by an entity, except for those for which VFA or PAA applies. A modified version of the GMM is applied by cedants for reinsurance contracts they **held**, as discussed in [Section 1](#) above²³. RCH is required to be accounted for separately from the underlying contracts and therefore accounting mismatches²⁴ may arise between the RCH and the underlying contracts when different measurement models are applied to RCH (GMM or PAA) and the underlying contracts (GMM, PAA or VFA).

The following table provides a high-level comparison between the GMM for insurance contracts issued and GMM for RCH.

	Direct insurance contracts issued under GMM	RCH under GMM
Onerous contracts	Different accounting requirements for onerous contracts and profitable contracts issued and therefore the grouping of insurance contracts. See 'Grouping in a portfolio' below.	The principal requirements of HKFRS 17 for grouping of insurance contracts that apply to direct insurance contracts issued also apply to RCH. See 'Grouping in a portfolio' below. However, a RCH cannot be considered as onerous. Instead, an entity either: <ul style="list-style-type: none"> incurs a net cost, or makes a net gain from purchasing the reinsurance contract. <p>There are additional requirements for recognizing and measuring loss-recovery component for RCH.</p>
Grouping in a portfolio	At a minimum, a portfolio is divided into: <ol style="list-style-type: none"> a group of contracts that are onerous at initial recognition, if any; a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and a group of remaining contracts in the portfolio, if any. 	At a minimum, a portfolio is divided into: <ol style="list-style-type: none"> a group of contracts on which there is a net gain at initial recognition, if any; a group of contracts on which at initial recognition there is no significant possibility of a net gain arising subsequently, if any; and a group of remaining contracts in the portfolio, if any.
Timing of initial recognition	Recognized at the earliest of: <ol style="list-style-type: none"> the beginning of the coverage period of the group of insurance contracts; the date the first payment from a policyholder in the group becomes due; and for a group of onerous contracts, when the group becomes onerous. 	Recognized from the earlier of the following: <ol style="list-style-type: none"> at the beginning of the coverage period of the group of RCH; and the date the entity recognizes an onerous group of underlying insurance contracts applying HKFRS 17.25(c), if the entity

²³ As discussed in [Section 1](#), an entity may use PAA to simplify the measurement of RCH provided that the qualifying criteria are satisfied at the inception of the group. VFA is not applicable for RCH and reinsurance contracts issued as cedant and reinsurer do not share the returns on underlying items and the cedant also does not receive investment-related services from the reinsurer.

²⁴ In situation where the underlying insurance contracts issued are measured using VFA, a certain level of accounting mismatch could be reduced if risk mitigation is applied. Please refer to HKFRS 17.B115-B118 and BC250-BC256H for detailed requirements.

	Direct insurance contracts issued under GMM	RCH under GMM
		<p>entered into the related RCH in the group of RCH at or before that date.</p> <p>Notwithstanding (a), an entity shall delay the recognition of a group of RCH that provide proportionate coverage until the date that any underlying insurance contract is initially recognized, if that date is later than the beginning of the coverage period of the group of RCH.</p>
Measurement – contract boundary	<p>Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with insurance contract services.²⁵</p>	<p>The same HKFRS 17 requirement that applies to direct insurance contracts issued also applies to RCH. However, contract boundaries for RCH may differ from those of the underlying direct insurance contracts because of different terms and conditions of RCH.</p> <p>Cash flows are within the boundary of a RCH if they arise from substantive rights and obligations that exist during the reporting period in which the reinsurer can compel the entity to pay the premiums or in which the reinsurer has a substantive obligation to provide the entity with insurance contract services.</p>
Measurement – estimates of future cash flows	<p>Represents present value of all future cash flows within the boundary of each contract in the group. The estimates of future cash flows shall:</p> <ol style="list-style-type: none"> Be <i>expected value</i> (i.e. the probability-weighted mean) of the full range of possible outcomes; Reflect the <i>perspective of the entity</i>, provided that the estimates are consistent with observable market prices for market variables; Be <i>current</i> – the estimates reflect conditions at the measurement date; and Be <i>explicit</i> – estimate the risk adjustment for non-financial risk separately from the other estimates 	<p>The same HKFRS 17 requirement that applies to direct insurance contracts issued also applies to RCH. However, in applying the measurement requirements of HKFRS 17.32-36 to RCH, to the extent that the underlying contracts are also measured applying those paragraphs, the entity shall use <i>consistent assumptions</i>²⁶ when determining estimates of present value of future cash flows for a group of RCH and those of the underlying contracts.</p> <p>An adjustment is included in the expected present value of future cash flows for the risk that the reinsurer may fail to satisfy its obligations under the RCH ('non-performance risk')²⁷. Changes in FCF due to changes in non-performance risk are reflected in P&L when they occur, instead of adjusting</p>

²⁵ Refer to HKFRS 17.34, B61-B71 for the detailed requirements.

²⁶ At its [February 2018 meeting \(Agenda paper no.7_log#S17\)](#), the TRG agreed that 'consistent' in IFRS 17.63 does not necessarily mean 'identical'. The extent of dependency between the cash flows of RCH and the underlying contracts should be evaluated when applying IFRS 17.63.

²⁷ Effect of risk of non-performance by the reinsurer includes the effects of collateral and losses from disputes [HKFRS 17.63]. This is because cedant faces the risk that the reinsurer may default, or may dispute whether a valid claim exists for an insured event. HKFRS 17 requires the estimates of expected credit losses to be based on expected values. Hence, estimates of the amounts and timing of cash flows are probability-weighted outcomes after calculating the effect of credit losses [HKFRS 17.BC308].

	Direct insurance contracts issued under GMM	RCH under GMM
	No non-performance risk of the insurer is reflected in the FCF of insurance contracts issued.	CSM as those changes do not relate to future service.
Measurement – risk adjustment for non-financial risk	Reflects the compensation an entity requires for bearing the uncertainty about the amount and timing of cash flows from non-financial risk as the entity fulfils the insurance contracts (i.e. an outflow).	Reflects the amount of risk transferred from insurer (i.e. cedant, the holder of the group of reinsurance contracts) to reinsurer (i.e. inflow).
Measurement – CSM	<p>Represents unearned profit the entity will recognize as it provides services in the future.</p> <p>At initial recognition, CSM is determined as the amount that results in no income or expense arising from:</p> <ul style="list-style-type: none"> (a) initial recognition of FCF measured by applying HKFRS 17.32-37; (b) any cash flows arising from the contracts in the group at that date; (c) the derecognition at the date of initial recognition of (i) any asset for insurance acquisition cash flows applying HKFRS 17.28C; and (ii) any other asset or liability previously recognized for cash flows related to the group of contracts as specified in HKFRS 17.B66A. <p>At the reporting period end, it is adjusted to reflect a number of items, including the effect of any new contracts to the group, interest accretion, changes in FCF relating to future service, effect of currency exchange differences and the amount recognized as insurance revenue because of transfer of services in the period [HKFRS 17.44].</p> <p>The amount recognized as insurance revenue because of transfer of services in the period is determined by the allocation of the CSM remaining at the reporting period end (before any allocation) over the current and remaining coverage period of the group of contracts based on coverage units applying HKFRS 17.B119.</p> <p>HKFRS 17 prohibits CSM to be negative and hence expected losses on a group of insurance contracts issued is recognized immediately in P&L on initial recognition of loss component.</p>	<p>The same HKFRS 17 requirement that applies to direct insurance contracts issued also applies to RCH except for areas where HKFRS 17 has a specific requirement.</p> <p>Represents the net cost (sometimes net gain) of purchasing reinsurance that the entity will recognize as it receives services under RCH. However, if the RCH covers events that have already occurred, the net cost at initial recognition is recognized immediately in P&L.</p> <p>Adjusts the CSM, and as a result recognizes a gain when an entity recognizes a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to a group [HKFRS 17.66A]. HKFRS 17.B119C further requires that HKFRS 17.66A applies, if and only if, the RCH is entered into before or at the same time as the onerous underlying insurance contracts are recognized.</p> <p>At the reporting end, it is adjusted for a number of items, including the effect of new contracts added to the group, interest accretion, income recognized in P&L applying HKFRS 17.66A, changes in FCF, effect of currency exchange differences and the amount recognized in P&L because of receipt of services in the period, etc. [HKFRS 17.66] See <i>Diagram 3</i> for the relevant requirements.</p> <p>The amount recognized in P&L because of services received in the period is determined by the allocation of the CSM remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period of the group of RCHs based on coverage units applying HKFRS 17.B119.</p>

	Direct insurance contracts issued under GMM	RCH under GMM
Journal entries (assuming no IACF, no time value of money and other financial risks are negligible)	<p>The following journal entries refer to the base scenario discussed in Section 1.1 of the previous publication on accounting for direct insurance contracts issued under GMM:</p> <p><u>Initial recognition</u></p> <p>Dr. LRC – BEL Cr. LRC – RA Cr. LRC – CSM <Initial recognition of insurance contracts issued></p> <p>Dr. Cash Cr. LRC – BEL <Receipt of premium received></p> <p><u>At year end</u></p> <p>Dr. LRC – RA Cr. Insurance revenue <Release of risk adjustment for risk expired></p> <p>Dr. LRC – BEL Cr. Insurance revenue <Release of expected claims></p> <p>Dr. LRC – CSM Cr. Insurance revenue <Release of CSM over the coverage period based on coverage units></p> <p>Dr. Insurance service expenses Cr. LIC – BEL <Recognition of actual incurred claims></p> <p>Dr. Insurance service expenses Cr. LIC – RA <Recognition of related risk adjustment during the period></p> <p>Dr. LIC – BEL Cr. Cash <Payment of actual incurred claims></p> <p>Dr. LIC – RA Cr. Insurance service expenses <Release of related risk adjustment></p>	<p>The following entries are summarized from Scenario 1²⁸ in this publication, which discusses the journal entries for accounting for RCH with profitable underlying contracts. To ensure comparability with the entries for direct insurance contracts shown in the left column, the relevant entries on RAs are also provided below:</p> <p><u>Initial recognition of proportionate RCH with profitable underlying contracts (assume no other cash flows other than claims recovery and reinsurance premium and no underlying contracts are onerous)</u></p> <p>Dr. ARC – BEL – Claims recovery Dr. ARC – RA Dr. ARC – CSM* Cr. ARC – BEL – Reinsurance premium <Initial recognition of RCH under <u>net cost</u> position></p> <p>* If net gain position, then Cr. ARC – CSM.</p> <p>Dr. ARC – BEL – Reinsurance premium Cr. Cash <Payment of reinsurance premium></p> <p><u>At year end</u></p> <p>Dr. Allocation of reinsurance premium paid (P&L) Cr. ARC – BEL – Claims recovery <Release of expected recoveries to P&L></p> <p>Dr. Allocation of reinsurance premium paid (P&L) Cr. ARC – RA <Release of RA to P&L></p> <p>Dr. Allocation of reinsurance premium paid (P&L) Cr. ARC – CSM <Release of CSM net cost></p> <p>Dr. AIC – BEL – Claims recovery Cr. Amounts recovered from reinsurer – Recoveries from incurred claims (P&L) <Recognition of actual claims recovered from reinsurer></p> <p>Dr. AIC – RA Cr. Amounts recovered from reinsurer (P&L) <Recognition of related RA during the period></p>

²⁸ For the 'RCH under GMM' column, RA is ignored in **Scenario 1**, which was discussed earlier in this publication.

	Direct insurance contracts issued under GMM	RCH under GMM
		Dr. Cash Cr. AIC – BEL – Claims recovery <Receipt of actual claims from reinsurer> Dr. Amounts recovered from reinsurer (P&L) Cr. AIC – RA <Release of related risk adjustment>

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