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

Meeting Summary
Hong Kong Insurance Implementation Support Group (HKIISG)
27 November 2020

Attendance
HKICPA representatives
Shelley So, Financial Reporting Standards Committee (FRSC)
Cecilia Kwei, Director, Standard Setting
Tiernan Ketchum, Deputy Director, Standard Setting
Carmen Ho, Associate Director, Standard Setting

HKIISG members
Dennis Chiu, (representing Sai-Cheong Foong), AIA Group Limited
Marcus Chung (representing Norman Yao), AXA China Region Insurance Company Limited
Ronnie Ng, China Overseas Insurance
Sally Wang, Dajia Insurance Group
Kevin Wong, FWD Life Insurance Company (Bermuda) Limited
Carrie Yip and Scott Ellis (representing Alexander Wong), HSBC Life
Steven To (representing Tracey Polsgrove), Manulife Asia
Wenhao Zhao (representing Candy Ding), Ping An Insurance (Group)
Matsuta Ng (representing Nigel Knowles), Prudential Hong Kong Limited
Joyce Lau, Target Insurance Company Limited
Francesco Nagari, Deloitte Hong Kong
Peter Telders, EY Hong Kong
James Anderson (representing Erik Bleekrode), KPMG China
Ian Farrar (representing Chris Hancorn), PwC Hong Kong

Discussion objectives:
Readers are reminded that the objective of the HKIISG is not to form a group consensus or decision on how to apply the requirements of HKFRS/IFRS 17 *Insurance Contracts*. The purpose of HKIISG is to share views on questions raised by stakeholders on the implementation of HKFRS 17. Refer to HKIISG terms of reference.

The meeting summaries of HKIISG discussions are solely to provide a forum for stakeholders to follow the discussion of questions raised. Stakeholders may reference HKIISG member views when reconsidering their own implementation questions—but should note that the meeting summaries do not form any interpretation or guidance of HKFRS/IFRS 17.

1. Local submission: Accounting for premiums due after the end of the coverage period

This summary should be read in conjunction with the local submission (Paper 3[1]). Please refer to the full submission for the detailed fact pattern and analysis.

This submission notes that the Amendments to IFRS 17 changed the definition of the liability for remaining coverage (LfRC) and the liability for incurred claims (LIC). This paper presents a case where a transfer from LfRC to the LIC may be necessary, and proposes alternative views on how it should be accounted for under IFRS 17. This is the case when there is a clause in an insurance contract to collect premiums (or part of premiums receivable from the policyholder) beyond the end of the coverage period.

Readers should consider taking their own accounting and/or legal advice if in doubt as to their obligations under HKFRS 17 *Insurance Contracts* and other related requirements. The Hong Kong Institute of Certified Public Accountants, its committees, its staff, and members of HKIISG do not accept any responsibility or liability in respect of this meeting summary and any consequences that may arise from any person acting or refraining from action as a result of this meeting summary.

[1] https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Standards-and-regulation/SSD/06_New-and-major-stds/hkfrs-17/2020-Agenda-papers-and-meeting-summaries/p3_2711.pdf

The submission asks one question and presents three views.

Question: How will the reinsurer account for premiums that are not yet due/collected (outstanding premiums receivable, either due or past due) but relate to past service?

- View 1 – As part of the LfRC: At the end of the reporting period, the premiums remain to the recognized as part of the LfRC. Supporters of this view argue that according to IFRS 17 paragraph 100, the LfRC and the LIC are to be reconciled from the opening to the closing balances separately.
- View 2A – As part of LIC to the extent insurance services have already been provided: Supporters of this view argue that the outstanding premiums relating to past services should be recognized as part of LIC because they present an amount that relates to insurance contract services that have already been provided.
- View 2B – As part of the LIC when there is no remaining coverage under the contract: Similar to View 2A, Supporters of this view argue that the outstanding premium relating to past services should be recognised as part of the LIC because it represents an amount that relates to insurance contract services that have already been provided. However, unlike View 2A, this view requires an entity to reclassify the entire outstanding premium to LIC where there are no longer any insurance contract services that remain to be provided under the contract.

Among HKIISG members who commented on Paper 3, the following comments were noted:

- Overall, members expressed mixed views. It was additionally noted that there were a diversity of views in the market.
- A few members commented that there are multiple ways to rationalise this assessment, and it may differ by insurer, and particularly differ with regard to reinsurers.
- Among those who indicated support for View 1:
  - A few members commented the View 1 would be operationally easier to apply than View 2A/2B.
  - A couple members commented that the different views produce the same insurance revenue and premium recognition. As such, the additional work required for View 2A/2B may not be justified.
  - A member considered it would be misleading if unclaimed premiums in LfRC are reclassified to reduce the LIC.
  - A member noted that IFRS 17 paragraph 42 (related to LIC) makes no reference to revenue, whereas paragraph 41 (related to LfRC) does, which may support View 1. However, an objection to the use of View 1 can be noted in the definition of LfRC and LIC, with regard to past and future service.
  - A member who supported View 1 considered that this did not appear to be a particularly material issue, and that it would largely affect disclosures and the reconciliation required to be performed for LfRC and LIC. From the perspective of performing such reconciliation, it appeared intuitive that View 1 would provide better linkage between the LfRC and insurance service revenue.
- Among those who indicated support for View 2 (2A or 2B):
  - A few members who expressed preference for View 2B had considered that there would be practical difficulties in applying View 2A albeit recognising that it is a conceptually viable view. The practical difficulties would arise particularly because of the need to separate past insurance services provided to transfer to LIC, and to define what portions of a premium relate to past and future service.
  - In that context, one member noted it may be operationally easier to apply View 2B because there is a clear cut-off of when reclassification from LfRC to LIC is made (i.e., when the coverage has ended). This member also noted that View 2B is aligned with the principles of B119 around the contractual service margin

(CSM), which is current for the reporting period and for which adjustments can only be made when past and future services can be determined.
- A member commented that View 1 is not supportable and referenced paragraph 40(b), which discusses the liability for incurred claims comprising the fulfilment cash flows related to past service. As such, there must be a transfer to the LIC hence View 2A or 2B should apply. View 2A is more challenging in practice, but 2B appears to assume that there is no past service until the end of the coverage period. Hence, this member considered View 2A is the most technically supportable.
- One member also noted that some entities (reinsurers) have found it confusing in the event that they have an LfRC (or asset for remaining coverage) with no CSM, and considered this would better go to the LIC. Some entities consider that View 2A is operationally feasible by taking a revenue approach, under which insurance revenue is accrued, and when a premium notice is provided to the customer and a contractual right and obligation to collect cash is established, then the accrual asset can be disaggregated into that which will be settled and that which has been accrued. Hence, in this way the split between LfRC and LIC can be operationally determined.

The Chair noted that given the diversity of views on the question is this submission, it would be beneficial for the HKICPA SSD to reach out to other jurisdictions and share this issue.

2. Local Submission: Should the change in credit risk on collectability of premiums be presented in insurance revenue or insurance finance income and expense?

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

This submission explores whether a change in credit risk (recoverability of insurance premium receivables) on premiums in relation to the remaining services and past services should be reflected in insurance revenue (IR) or insurance finance income and expense (IFIE).

The submission asks two questions and presents corresponding views.

Question 1: Should the change in credit risk of premiums in relation to the remaining service be reflected in IR or IFIE?

- View A – Change in credit risk should be reflected in IR: IFRS 17 paragraph B120 and B126 suggest that the IR should be adjusted for the amount of premiums received and premiums expected to be the received. Supporters for this view also argue credit risk is non-financial and so should not be included in IFIE but in IR.
- View B – Change in credit risk should be reflected in IFIE: Supporters of this view argue IFIE arises from the effect of financial risk and changes in financial risk, therefore changes of premium credit risks related to remaining service should be reflected in IFIE. Supporters for this view also analogize to IFRS 15, where revenue is not normally adjusted for customer credit risk unless there is a significant financing component.
- View C – Entity should make an accounting policy choice as where to present the changes on credit risks in relation to premiums for remaining services, either in IR or IFIE

[2] https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Standards-and-regulation/SSD/06_New-and-major-stds/hkfrs-17/2020-Agenda-papers-and-meeting-summaries/p2_2711.pdf

Among HKIISG members who commented on Paper 2, Question 1, the following comments were noted:

- Overall, the members who commented supported View A.
- A member noted that when considering only future service, entities should consider whether they are actually dealing with credit risk, as they may not be for future service. This member noted that credit risk usually becomes relevant for past service.
- A member strongly agreed with View A and referenced paragraph B120 and that paragraph's principle for insurance revenue in support.
- A few members stated that in practice credit risk is accounted for in the same manner as lapse experience, which goes to insurance revenue (hence View A). One of these members commented that View B is not supported by the definition of financial risk in Appendix A of IFRS 17.
- One member emphasised that it should not be considered that an explicit split or disaggregation of the effects of lapse experience and credit risk is required.
- Other members supported View A for the rationale in Paper 3 and for the reasons stated by other members.

Question 2: If the conclusion is made that premiums due for past coverage from part of the liability for incurred claims, how do we reflect the non-collectability of premium: as an experience adjustment to IR for past service or IFIE?

- View A - The non-collectability of premium should be included in IR as an experience adjustment: Under paragraph 106 a(iv) and B124(d), the IR should be analyzed as the total of the changes in the LfRC in the period that relates to services for which the entity expects to receive consideration. The changes include experience adjustments for premium receipts other than those that relate to future service. Thus, if the expected premiums to be received change for past service, the amount of insurance revenue should be adjusted. In addition, the credit risk for premium receivables is a non-financial risk and so it should not be included in IFIE, but in IR.

- View B - The non-collectability of premium should be adjusted under IFIE as credit risk is a financial risk: The arguments for this view are similar as for View B for Question 1. Because coverage has expired and all the service has been provided, resulting in premiums due being recorded in LIC, supporters of this view draw further analogy with IFRS 15 and the treatment of bad debts.
- View C - Entity should make an accounting policy choice as where to present the changes on credit risks in relation to past services, either in IR or IFIE:

Among HKIISG members who commented on Paper 2, Question 2, the following comments were noted:

- Overall, the members who commented supported View A, however also acknowledged other views exist or may develop.
- Members noted that Paper 2, Question 2, is designed for those who take either View 2A or View 2B under Paper 3 of this meeting (i.e. based on the premise that premiums due for past coverage form part of LIC).
- One member supported View A in light of the requirements in paragraphs 106(a)(iv) and B124(d), in line with the submission. This member acknowledged there was a diversity of views due to the rationale stated in the paper for View B, and where analogy to IFRS 15 and the treatment of bad debts could be made.
- One member noted majority support for View A in the organisation this member belongs to, but that an additional view (effectively a "View D") was being considered based on IFRS 17 paragraph 103(b)(iii), which refers to disclosure of insurance service expenses

showing separately changes that relate to past service, i.e. changes in fulfilment cash flows relating to the LIC. Under View D, the amount would be reflected as insurance service expense rather than IR or IFIE.

- One member noted majority support for View A in the organisation this member belongs to, but acknowledged other views may exist. This member commented that the principle in paragraph B120, that insurance revenue should reflect consideration received, supports View A. This member also considered that the principle in paragraph B120 provides stronger support than the reference in paragraph 103(b)(iii) mentioned in context of the additional "View D" above.

3. Local Submission: Accounting for different types of premium repayment transactions that do not meet the investment component definition

This summary should be read in conjunction with the local submission (Paper 4[3]). Please refer to the full submission for the detailed fact pattern and analysis.

This submission presents premium repayment transactions that do not meet the definition of a non-distinct investment component (NDIC) and considers alternative views on how each transaction should be accounting for and presented in the financial statements under IFRS 17.

The submission asks four questions and presents corresponding views. Questions 2, 3 and 4 were considered and commented on together.

Question 1: Refund of Premium (ROP) on cancellation of a contract – What is the accounting treatment for an ROP (that is not NDIC) where a policyholder is entitled to obtain the ROP, if and only if, the policyholder cancels the policy before a point in time within the coverage period?

View	*Initial measurement*	*Treatment when ROP incurred*	*Subsequent changes to the incurred ROP*
A	ROP is considered as an **expected reduction of inflows**	Balance sheet transfer from **Liability for remaining coverage (LfRC) to Liability for incurred claims (LIC)** with any impact recognised in **Insurance Revenue (IR)**	Adjusted through **IR**
B	ROP is considered as an additional **expected outflow**	Recognition of **Insurance service expense (ISE) and LIC**	Adjusted through **ISE**
C	ROP is considered as an **expected reduction of inflows**	Accounting for any impact is recognised in **IR**, the incurred ROP remains part of the **LfRC**	Adjusted through **IR**
D	ROP is considered as an **expected reduction of inflows**	Accounting for any impact is recognised in **ISE**, the incurred ROP remains part of the **LfRC**	Adjusted through **ISE**

[3] https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Standards-and-regulation/SSD/06_New-and-major-stds/hkfrs-17/2020-Agenda-papers-and-meeting-summaries/p4_2711.pdf

Among HKIISG members who commented on Paper 4, Question 1, the following comments were noted:

- Overall, the members who commented generally preferred View A/C over View B/D. Members expressed mixed support between View A and C.
- One member expressed a preference for View A/C in general, and View A in particular. This member considered there was little support for presentation through insurance service expense, as that would not produce meaningful information. This member viewed the amount as a refund of a premium due to early termination, hence considered a reduction in revenue the most appropriate representation.
- Another member supported View A on a similar basis. This member noted that before the amendments to the definition of LfRC and LIC, View C would have been supportable based on the TRG discussions referenced in Paper 4. However, as a result of the amendments to IFRS 17, the conclusions made by the TRG may be disputed. At the point of cancellation in the fact pattern in Paper 4, there is no more future coverage, hence a transfer should be made to the LIC. Additionally, this member preferred not to have an LfRC on the balance sheet with no CSM, as that may be confusing to users.
- Another member supported View A based on the amendments to the definitions of LfRC and LIC, and noted the TRG discussions may no longer be appropriate to support View C.
- One member expressed a preference for View A and C, and made reference to paragraph B120 regarding insurance revenue reflecting the consideration received. This member noted when a contract is cancelled, insurance revenue should be adjusted, hence either View A or C would be appropriate. This member did however prefer View C as it was operationally more practical.
- A member preferred View C, and in doing so noted that adjusting insurance revenue is appropriate because the situation in the paper is dealing with the cancellation of future service, and has nothing to do with past service. As such, there should not be a transfer to LIC.

Question 2: No Claim Bonus (NCB) calculated as percentage of premium –

What is the accounting treatment for the NCB calculated as a percentage of premiums (that is not a NDIC)?

View	*Initial measurement*	*Treatment when NCB incurred*	*Subsequent changes to the incurred NCB*
A	NCB is considered as an **expected reduction of inflows**	Balance sheet transfer from **LfRC to LIC** with any impact recognised in **IR**	Adjusted through **IR**
B	NCB is considered as an additional **expected outflow**	Recognition of **ISE and LIC**	Adjusted through **ISE**
C	NCB is considered as an **expected reduction of inflows**	Accounting for any impact is recognised in **IR**, the incurred ROP remains part of the **LfRC**	Adjusted through **IR**
D	NCB is considered as an **expected reduction of inflows**	Accounting for any impact is recognised in **ISE**, the incurred ROP remains part of the **LfRC**	Adjusted through **ISE**

Question 3: NCB as a fixed amount –
What is the accounting treatment for the NCB which is a fixed lump sum amount (that is not NDIC) and is this different to your answer to question 2 where the NCB is calculated as a percentage of premiums?

View	*Initial measurement*	*Treatment when NCB incurred*	*Subsequent changes to the incurred NCB*
A	NCB is considered as an **expected reduction of inflows**	Balance sheet transfer from **LfRC to LIC** with any impact recognised in **IR**	Adjusted through **IR**
B	NCB is considered as an additional **expected outflow**	Recognition of **ISE and LIC**	Adjusted through **ISE**
C	NCB is considered as an **expected reduction of inflows**	Accounting for any impact is recognised in **IR**, the incurred ROP remains part of the **LfRC**	Adjusted through **IR**
D	NCB is considered as an **expected reduction of inflows**	Accounting for any impact is recognised in **ISE**, the incurred ROP remains part of the **LfRC**	Adjusted through **ISE**

Question 4: Experience Refund –
If the repayment is structured as an ER payment what is the accounting treatment?

View	*Initial measurement*	*Treatment when ER incurred*	*Subsequent changes to the incurred ER*
A	ER is considered as an **expected reduction of inflows**	Balance sheet transfer from **LfRC to LIC** with any impact recognised in **IR**	Adjusted through **IR**
B	ER is considered as an additional **expected outflow**	Recognition of **ISE and LIC**	Adjusted through **ISE**
C	ER is considered as an **expected reduction of inflows**	Accounting for any impact is recognised in **IR**, the incurred ROP remains part of the **LfRC**	Adjusted through **IR**
D	ER is considered as an **expected reduction of inflows**	Accounting for any impact is recognised in **ISE**, the incurred ROP remains part of the **LfRC**	Adjusted through **ISE**

HKIISG members commented on Question 2, 3 and 4 as a single package. Among HKIISG members who commented on Paper 4, Question 2, 3 and 4, the following comments were noted:

- Overall, the majority of members who commented expressed support View B, however;

views were mixed.

- One member supported View B. This member drew a distinction from Question 1, in which he supported View A, on the basis that Question 1 dealt with a refund of premium that was dependent on policyholder behavior. For Question 2, 3 and 4, while policyholder behavior is an element impacting the three transaction types, the primary driver is related to claim conditions (i.e. the insured event not occurring, or occurring at a level of cost significantly lower than the amount set out in the policy).
- Another member supported View B, and considered that compared to Question 1, in Question 2, 3 and 4 the service has been delivered. Hence, this situation in Question 2, 3 and 4 is more akin to a genuine outflow than a repayment of inflows previously received.
- Another member supported View B based on the rationale in Paper 4.
- One member had observed some support for View B, however was hesitant to confirm View B and questioned as to whether this should be treated as a reduction of revenue. This member considered that View A or View C might be considered appropriate.
- One member expressed preliminary support for View A.
- Members noted that the fact pattern in Question 2, 3 and 4 does not deal with an experience refund that is considered a part of the underlying items.

4. Local Submission: Accounting for the experience variance from non-distinct investment components under the amended paragraph B96(c) of IFRS 17

This summary should be read in conjunction with the local submission (Paper 5[4]). Please refer to the full submission for the detailed fact pattern and analysis.

This submission discusses the application of IFRS 17 paragraph B96(c) and whether the amount described in paragraph B96(c) from the experience variance arising from non-distinct investment components becoming payable should be reported entirely in the insurance finance income or expenses line item.

The submission asks one question and presents two views.

Question: Is the amount described in paragraph B96(c) from the experience variance arising from non-distinct investment components becoming payable reported entirely in the insurance finance income or expenses line item?

- View A: The entire amount from IFRS 17 paragraph B96(c) is reported as insurance finance income or expenses (IFIE) and it does not adjust the CSM: Supporters of this view argue that the NDIC is repayable under all circumstances. Given the entire difference, both (1) the experience adjustment in the period, and (2) the change in estimate of NDIC fulfilment cash flows caused by the experience variance, arise solely from difference in the timing of NDIC expected to be repaid and timing of NDIC actually paid. Hence, the combined difference should be reported as IFIE. Under this view, there is no adjustment to CSM for these amounts.
- View B: The amount from IFRS 17 paragraph B96(c) adjusts the CSM and IFIE. However, the IFIE adjustment only captures the time value of money of NDIC at the beginning of the period and the rest adjusts CSM: Supporters of this view argue that paragraph B96(b) applies to changes of estimates of fulfilment cash flows in all cases, including for the circumstances described in paragraph B96(c). The new text in paragraph B96(c) applies to the experience adjustment of NDIC. They also argue that the changes in estimate of fulfillment cash flows for future periods follows paragraph

[4] https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Standards-and-regulation/SSD/06_New-and-major-stds/hkfrs-17/2020-Agenda-papers-and-meeting-summaries/p5_2711.pdf

B96(b), and paragraph B96(c) only applies to experience variance within the period.

Among HKIISG members who commented on Paper 5, the following comments were noted:

- The members who commented supported View B.
- Members considered that View B was now clear based on the revised language in IFRS 17 paragraph B96(c) and rationale as presented in Paper 5.
- A member considered that View B makes sense in terms of the resulting matching in profit or loss.
- A member explained that both View A and View B were operationally the same, however; that View B would additionally require the resulting amount to then put through the CSM accounting framework.