



Insurance Authority

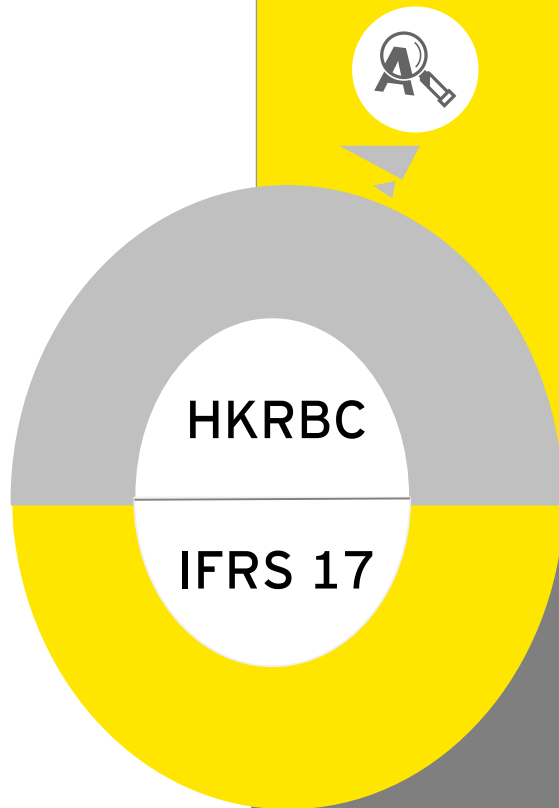
Future Task Force
HKRBC/IFRS interaction

26 October 2018



Building a better
working world

Key Objectives of HKRBC and IFRS 17



- To protect Hong Kong policyholders and the insurance industry
 - To continue promoting the competitiveness of the Hong Kong insurance industry
 - A risk based three-pillar approach, covering quantitative aspects, qualitative aspects on enterprise risk management (ERM) and own-risk and solvency assessment (ORSA) and disclosure.
- To standardize insurance accounting globally to improve comparability and increase transparency
 - To provide users of accounts with the information they need to meaningfully understand the insurer's financial position, performance and risk exposure
 - Three measurement models: BBA, VFA and PPA

Many of the key focus areas and assumptions of IFRS 17 are closely linked to HKRBC and IFRS 9





Hong Kong Risk Based Capital Standards (HKRBC)

Define the accounting policy

Measurement & actuarial model/ integrated solution

Transition, presentation & disclosure

IFRS 17 Implementation Key components

- 00  Definition & scope
- 01  Separation
- 02  Recognition
- 03  Level of aggregation

04 Measurement

Measurement model
Expected cash flows
Attributable expense
Discount rate
Time value of options and guarantees
Risk adjustment for non-financial risk
Contractual service margin (CSM)

05 Initial / subsequent measurement

06 Onerous contract

07 Reinsurance

Actuarial model / integrated solution (DSP)

08 Transition

09 Disclosure

10 IFRS 9/ 17 interactions

11 Presentation

12 Investor story

Interaction with other standards:

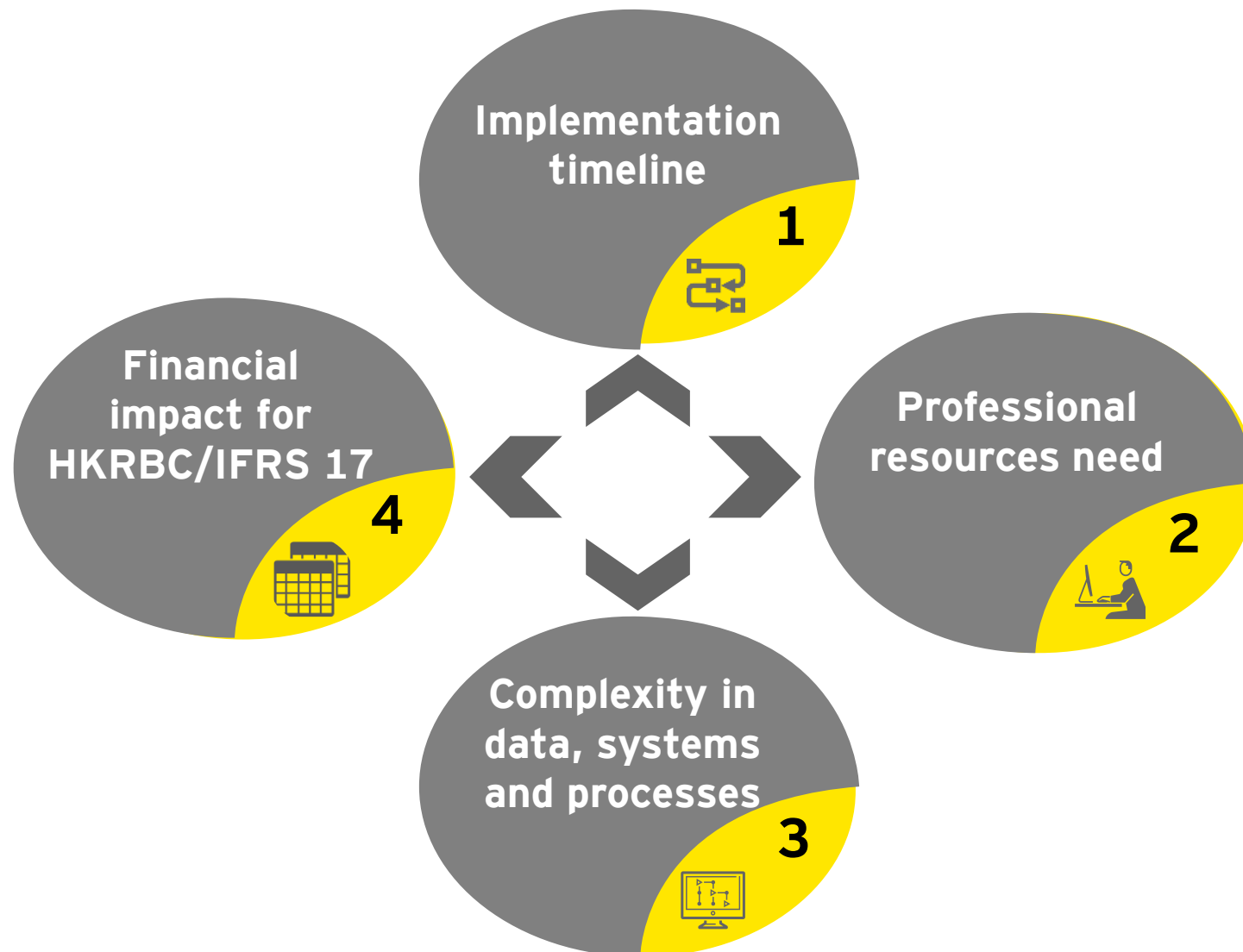
IFRS 9 Financial instruments

IFRS 13 Fair value measurement

IFRS 15 Revenue from contracts with customers

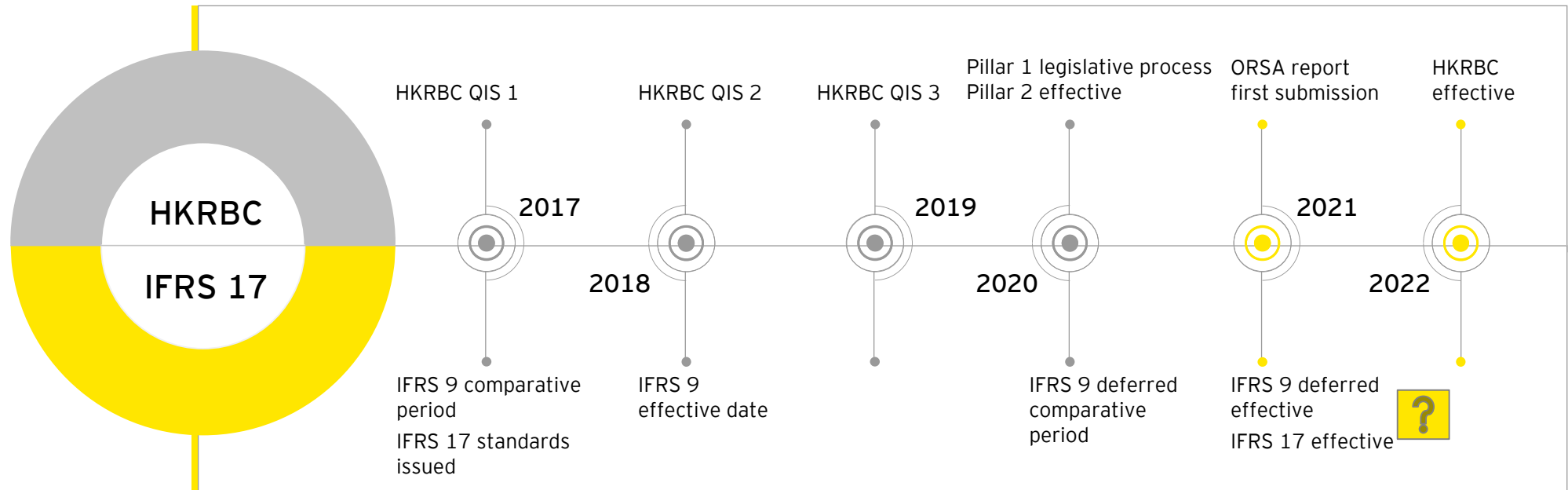
Relevant standards & local regulation

EY's top 4 observations related to the implementation of HKRBC and IFRS 17 in the Hong Kong industry



Implementation timeline

Bottleneck timeline in implementing HKRBC/IFRS 17 & 9



At an educational meeting on Wednesday 24 October, 2018, the IASB discussed how they might evaluate at future meetings whether to make limited changes to IFRS 17 for 25 areas of concern and implementation challenges raised by stakeholders.

- While no decisions were made, the IASB appears to be open to considering limited changes in the coming months including considering a delay to the current IFRS 17 implementation date of 1 January 2021, and possibly also of IFRS 9.

Professional resource need

Skilled individuals are limited in the Hong Kong industry

Others resources:

Business Operation: Brand management, Channel and marketing, etc.

Project Management Office (PMO)

★ Actuarial

HKRBC	IFRS 17	Common
PCR, TVOG	CSM, model design, product	Liabilities valuation Actuarial Modeling

★ Risk

HKRBC	IFRS 17	Common
ORSA reporting	Risk reporting	Risk culture

Investment

HKRBC	IFRS 17	Common
Solvency reporting	Profit reporting	Investor story

Finance ★

HKRBC	IFRS 17/9	Common
Asset break-down	BBA/VFA/PPA; FP&L Business Planning and forecasting	Financial reporting

IT

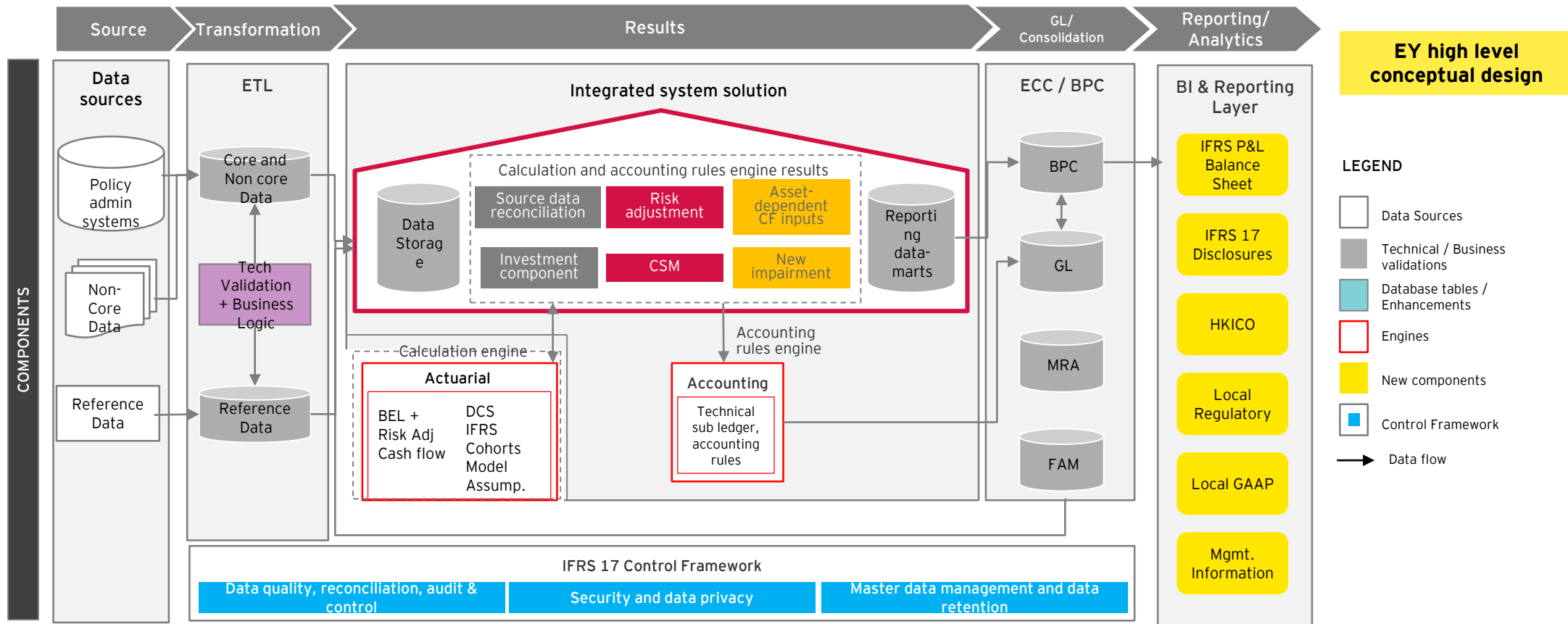
HKRBC	IFRS 17	Common
Prophet and other reporting systems	Finance, DSP and Sub-ledger	Data ETL, control and quality

★ : Critical and with big shortage of experienced resources

Complexity in data, system and process

The quality of implementation is important in avoiding manual workaround

Both HKRBC and IFRS 17 will require changes in Data, System and Process from the existing solvency and IFRS reporting framework. However, the effort required for IFRS 17 reporting will be much more complex and requires more investment in resources and money.



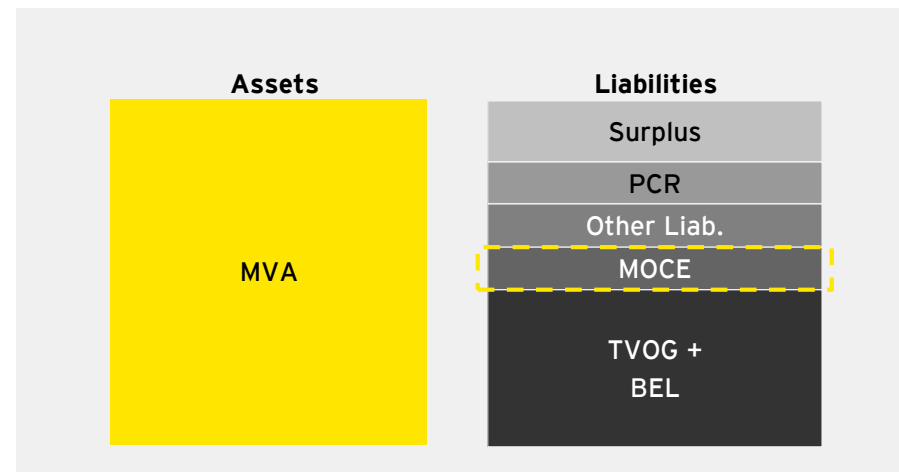
Financial impacts under HKRBC and IFRS 17

Understand the differences to identify common levers to manage both balance sheets

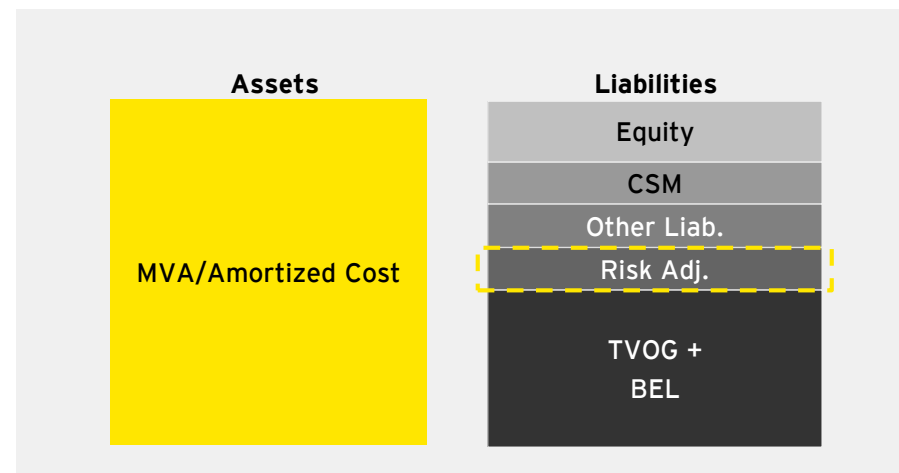
Key known issues common to HKRBC and IFRS 17

		Issue	Similar?
1		Discount rates	✗
2		TVOG	✗
3		Contract boundaries	✓
4		MOCE/RA	✗
5		PCR/CSM	✗

HKRBC balance sheet



HKFRS balance sheet



Key take-away

IA, industry bodies, professional bodies and insurers to work closely together



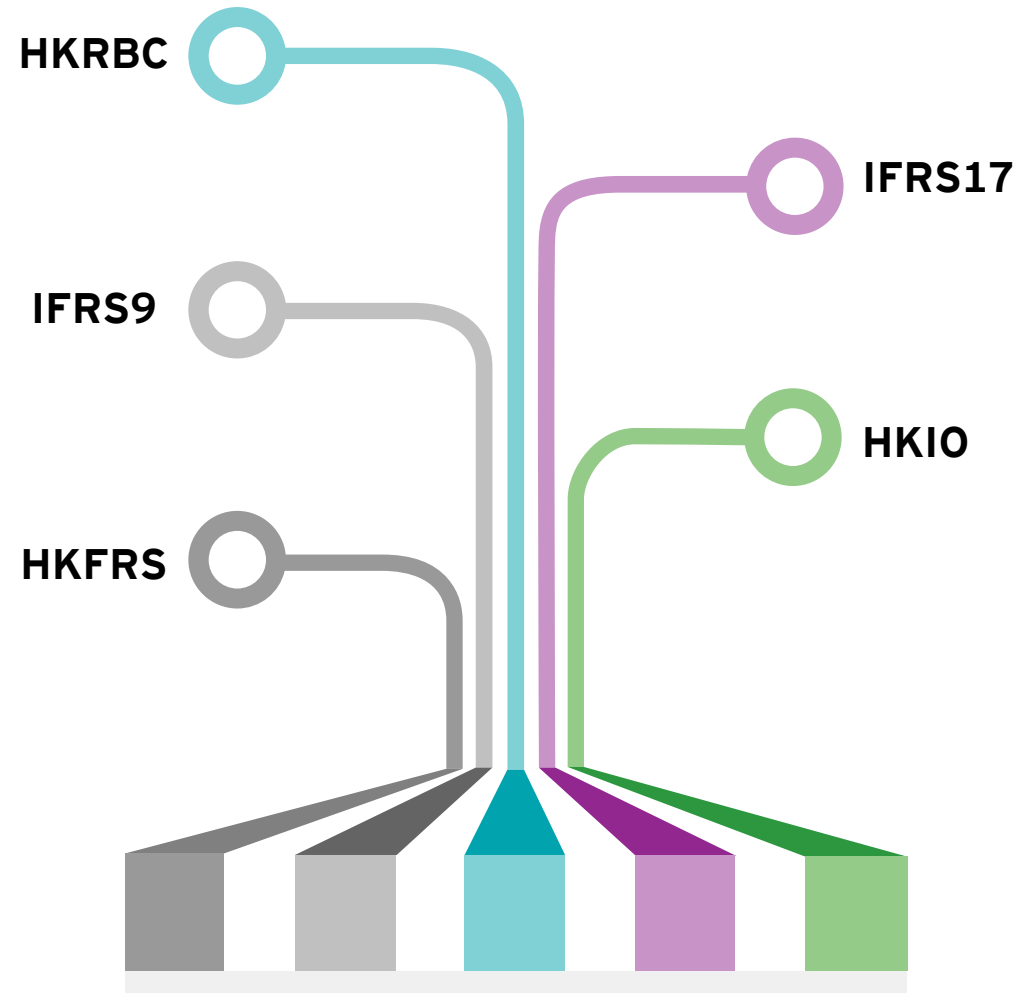
Assess the uncertainty



Assess the similarities/
dissimilarities



Assess the available resources



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