The Actuarial Society of Hong Kong

WORKSHOP : CONTRACT BOUNDARIES

2017 Insurance IFRS Seminar

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Session 4

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香港精算學會

Wellness Program

An entity recently rolled out a critical illness product with a lump-sum benefit paid upon diagnosis of any covered diseases. The product also offers a temporal 10% increase in CI benefit for the month when prescribed monthly fitness goals are reached

Should the CI benefit addition be separated from the insurance contract?

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Whole-life Contract

An entity issues a traditional whole-life contract that promises to pay, for a premium of 1,000:

- death benefit of 5,000 whenever the policyholder dies
- cash surrender value that initially equals 100 and increases by 1% annually.

The entity has a claims processing department to process the claims received and an asset management department to manage its investments.

Should the claims processing services, the asset management services or the cash surrender value be separated from the insurance contract?

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Equity Indexed Annuity

An entity issues a special annuity contract with following features:

- single premium of 1,000,000
- monthly cash payment of 2,000 in the first ten years regardless of whether annuitant is alive
- an account value (AV) initially equals 800,000 and grows at the rate tied to Hang Seng Index. AV will be annuitized into a plain vanilla life annuity at the tenth year end based on relevant assumptions at the point.
- AV or 800,000, whichever is larger, will be paid upon death of the annuitant.
- no surrender is allowed.

Should the monthly cash payment in the first decade be separated from the insurance contract?

Should the future cash flows beyond the point of annuitisation be included in the measurement of the contract?

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Equity Indexed Annuity (cont.)

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- AV or 800,000, whichever is larger, will be paid upon death of the annuitant.
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Should the monthly cash payment in the first decade be separated from the insurance contract?

Should the future cash flows beyond the point of annuitisation be included in the measurement of the contract?

Questions: contract boundaries

Determine the contract boundary for the following insurance contract:

1. 30-year level term life product, with benefits payable upon death of insured, and premiums reviewable every 10 years at discretion of insurer (reassessments will be based on risk characteristics of individual insured, e.g. health status, driver record, etc).

2. 30-year flexible premium universal life product, with premium payable at policyholder's discretion after the first deposit.

Questions: non-forfeiture options

Given the following non-forfeiture options, determine whether the future cash flows, beyond the date when policyholder exercises the options, arise **from the existing contract or a future contract** (i.e. whether these cash flows shall be included in the measurement of the existing contract)

1. Extended term insurance, with length of the extension determined at the date when policyholder exercises the option based on relevant assumption then.

2. Recued paid-up insurance, with reduced amounts prescribed at issuance of the contract.

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Thank You