The Actuarial Society of Hong Kong

WORKSHOP : TRANSITION

2017 Insurance IFRS Seminar

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Session 21

Objective

- To evaluate **CSM at transition** as well as **profit pattern** using full retrospective approach:

  3 scenarios:

  - experience develops as expected
  - experience shock and non-economic assumption change
  - discount curve change

Case Facts

Product: 10 year level term life insurance

Insured characteristics: 45 year-old male

Face amount: $100k

Fixed annual premium(per $1,000 face): $3.5

Commission(% of premium)**:** FY 50%; RY 10%

Expenses(per policy)**:** FY $200; RY $30

Expected mortality: 70% of 2017 CSO

Discount curve: 2.5% flat

Risk Adjustment: 5% of present value of future cash outflows

Issuance date: 1/1/2014

Transition date: 1/1/2020

Coverage unit for CSM amortization: Expected benefit

For simplicity purposes, assume no surrender, inflation or investment return.

Full Retrospective Approach

Determine **CSM at transition** under the following 3 scenarios using full retrospective approach:

Case 1. Inception view

Case 2. Mortality deterioration

- Mortality experience in year 2 turned out to be 100% of 2017 CSO
- Mortality assumptions for year 3 onwards were thus revised to 80% of 2017 CSO

Case 3. Mortality deterioration + Interest rate rise

- Continued from the second case, in the 3rd year end, discount curve are revised to a 3% flat instead of 2.5%.
- **This is the actual case**

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Question

1. How can entities utilize **FVOCI options** to minimize **equity impact**? What are the possible restrictions or considerations in doing so?

2. What are the possible reasons that fair value of insurance liability may differ from the fulfilment cash flows?

Thank You

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