Accounting Standards for Business Enterprises No. 25 — Insurance Contracts (Cai Kuai [2020] No. 20)

Chapter 1: General Provisions

Article 1

This Standard is formulated in accordance with the *Accounting Standards for Business Enterprises — Basic Standards* to regulate the recognition, measurement, and presentation of information related to insurance contracts.

Article 2

An insurance contract is a contract in which an enterprise (the issuer) agrees to compensate the policyholder if a specified insured event adversely affects the policyholder and, as a result, assumes significant insurance risk transferred from the policyholder.

An insured event refers to an uncertain future event covered by the insurance contract that gives rise to insurance risk.

Insurance risk refers to risk, other than financial risk, transferred from the policyholder to the issuer.

Article 3

This Standard applies to the following insurance contracts:

1. Insurance contracts issued by an enterprise (including reinsurance contracts accepted);
2. Reinsurance contracts ceded by an enterprise;
3. Insurance contracts obtained by an enterprise through contract transfer or business combinations not under common control.

Investment contracts issued by an enterprise issuing insurance contracts that contain discretionary participation features are also subject to this Standard.

A reinsurance contract is an insurance contract under which a reinsurer (the issuer of the reinsurance contract) agrees to compensate the cedant for claims arising from the underlying insurance contracts.

An investment contract with discretionary participation features is a financial instrument that grants the policyholder contractual rights to receive a guaranteed amount and additional amounts, where the additional amounts are determined at the issuer's discretion based on the returns of specified items and are expected to constitute a significant portion of the contractual benefits.

Article 4

The following items are subject to other relevant accounting standards:

1. Contractual rights or obligations arising from the future use of non-financial items, which are governed by *ASBE No. 6 — Intangible Assets*, *ASBE No. 14 — Revenue*, or *ASBE No. 21 — Leases*, shall be accounted for under the respective standards.
2. Rights or obligations arising from employee benefit plans or share-based payments governed by *ASBE No. 9 — Employee Compensation* or *ASBE No. 11 — Share-based Payments* shall be accounted for under the respective standards.
3. Sales with quality assurance clauses governed by *ASBE No. 14 — Revenue* shall be accounted for under that standard.
4. Residual value guarantees provided by manufacturers, dealers, or retailers, and residual value guarantees provided by lessees in lease contracts, shall be accounted for under *ASBE No. 14 — Revenue* or *ASBE No. 21 — Leases*, respectively.
5. Contingent consideration in business combinations shall be accounted for under *ASBE No. 20 — Business Combinations*.
6. Financial guarantee contracts shall be accounted for under *ASBE No. 22 — Recognition and Measurement of Financial Instruments*, *ASBE No. 23 — Transfer of Financial Assets*, *ASBE No. 24 — Hedge Accounting*,

and *ASBE No. 37 — Presentation of Financial Instruments* (collectively referred to as the financial instruments standards). If an enterprise explicitly treats such contracts as insurance contracts and has accounted for them under insurance contract standards, it may elect to apply either this Standard or the financial instruments standards on a contract-by-contract basis. The election, once made, is irrevocable.

7. Credit card contracts or similar contracts that meet the definition of an insurance contract but do not separately assess and reflect the insurance risk of individual policyholders in pricing shall be accounted for under the financial instruments standards or other relevant standards for the non-insurance portions.

Article 5

For contracts that meet the definition of an insurance contract but primarily provide services for a fixed fee, an enterprise may elect to apply *ASBE No. 14 — Revenue* or this Standard, provided the following conditions are met:

1. The contract pricing does not reflect the risk assessment of individual policyholders;
2. The contract compensates the policyholder through services rather than cash payments;
3. The insurance risk transferred arises primarily from the policyholder's use of services rather than uncertainty in service costs.

The election shall be made on a contract-by-contract basis and is irrevocable.

Article 6

For contracts that meet the definition of an insurance contract but limit the compensation for insured events to the policyholder's payment obligations under the contract (e.g., loan contracts with death waiver clauses), an enterprise may elect to apply the financial instruments standards or this Standard. The election shall be made at the portfolio level and is irrevocable.

Chapter 2: Identification, Combination, and Separation of Insurance Contracts

Article 7

An enterprise shall assess whether the insurance risk in each individual contract is significant to determine whether the contract is an insurance contract. Contracts assessed as insurance contracts at inception shall not be reassessed subsequently.

Article 8

Multiple insurance contracts entered into with the same or related counterparties for an overall business purpose shall be combined and accounted for as a single contract to reflect their commercial substance.

Article 9

If an insurance contract contains multiple components, the enterprise shall separate the following components and apply the relevant accounting standards:

1. Embedded derivatives that meet the separation criteria under *ASBE No. 22 — Recognition and Measurement of Financial Instruments* shall be accounted for under the financial instruments standards.
2. Distinct investment components shall be accounted for under the financial instruments standards, unless the contractual terms related to the investment component meet the definition of an investment contract with discretionary participation features, in which case this Standard applies.
3. Distinct promises to provide goods or non-insurance services shall be accounted for under *ASBE No. 14 — Revenue*.

The remaining components of the insurance contract after separation shall be accounted for under this Standard.

An investment component refers to amounts that must be repaid to the policyholder regardless of whether the insured event occurs.

Insurance contract services include insurance coverage services provided by the enterprise, investment return services for policyholders of contracts without direct participation features, and investment-related services managing underlying items for policyholders of contracts with direct participation features.

Article 10

An enterprise shall allocate contract cash flows based on the separation of insurance contracts. After deducting cash flows attributable to separated embedded derivatives and distinct investment components, the remaining cash flows shall be allocated between the insurance component (including unseparated embedded derivatives, indistinct investment components, and indistinct promises to provide goods or non-insurance services) and distinct promises to provide goods or non-insurance services. Cash flows allocated to the insurance component shall be accounted for under this Standard.

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Release Date: February 24, 2022

Effective Date: January 1, 2023