

Accounting Standards for Business Enterprises No. 26 — Reinsurance Contracts (Cai Kuai [2006] No. 3)

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 reinsurance contracts.

Article 2

A reinsurance contract is an insurance contract under which an insurer (the reinsurance cedant) cedes a portion of its premiums to another insurer (the reinsurance acceptor), and the reinsurance acceptor compensates the reinsurance cedant for claim costs and other related expenses arising from the original insurance contract.

Article 3

This Standard applies to reinsurance contracts issued or held by insurers. Retrocession contracts, under which an insurer retrocedes reinsurance business accepted to other insurers, shall be accounted for by reference to this Standard.

Article 4

Original insurance contracts issued by insurers shall be accounted for under *Accounting Standards for Business Enterprises No. 25 — Original Insurance Contracts*.

Chapter 2: Accounting Treatment for Ceded Business

Article 5

A reinsurance cedant shall not offset assets arising from reinsurance contracts against liabilities arising from related original insurance contracts.

A reinsurance cedant shall not offset income or expenses arising from reinsurance contracts against expenses or income arising from related original insurance contracts.

Article 6

In the period in which premium income from the original insurance contract is recognized, the reinsurance cedant shall calculate and determine the ceded premium in accordance with the terms of the related reinsurance contract and recognize it in profit or loss for the period.

For non-life original insurance contracts, the reinsurance cedant shall also calculate and recognize the related reinsurance receivables for unearned premium reserves in accordance with the terms of the related reinsurance contract and reduce the provision for unearned premium reserves.

When adjusting the balance of unearned premium reserves for original insurance contracts at the balance sheet date, the reinsurance cedant shall correspondingly adjust the balance of reinsurance receivables for unearned premium reserves.

Article 7

In the period in which premium income from the original insurance contract is recognized, the reinsurance cedant shall calculate and determine the reinsurance commissions recoverable from the reinsurance acceptor in accordance with the terms of the related reinsurance contract and recognize it in profit or loss for the period.

Article 8

In the period in which provisions for outstanding claims, life insurance reserves, or long-term health insurance reserves are made for the original insurance contract, the reinsurance cedant shall calculate and determine the corresponding reinsurance recoverables from the reinsurance acceptor in accordance with the terms of the related reinsurance contract and recognize them as reinsurance receivables for the respective reserves.

Article 9

In the period in which claim payments are determined or claim settlement expenses are actually incurred, thereby

reducing the balance of the corresponding reserves for the original insurance contract, the reinsurance cedant shall reduce the balance of the corresponding reinsurance receivables for reserves. At the same time, the reinsurance cedant shall calculate and determine the claim costs recoverable from the reinsurance acceptor in accordance with the terms of the related reinsurance contract and recognize them in profit or loss for the period.

Article 10

In the period in which the original insurance contract is terminated early, the reinsurance cedant shall calculate and determine the adjustment amounts for the ceded premium and reinsurance commissions recoverable in accordance with the terms of the related reinsurance contract and recognize them in profit or loss for the period. At the same time, the reinsurance cedant shall derecognize the related reinsurance receivables for reserves.

Article 11

In the period in which claim costs for the original insurance contract are adjusted due to the acquisition or disposal of salvage, recognition or receipt of subrogation recoverables, etc., the reinsurance cedant shall calculate and determine the adjustment amounts for recoverable claim costs in accordance with the terms of the related reinsurance contract and recognize them in profit or loss for the period.

Article 12

When issuing a reinsurance statement, the reinsurance cedant shall recognize the deposit withheld as reinsurance deposits for the current period as specified in the statement. At the same time, the reinsurance cedant shall derecognize the related reinsurance deposits based on the return of deposits withheld in the previous period as specified in the statement.

The reinsurance cedant shall calculate interest on reinsurance deposits periodically in accordance with the terms of the related reinsurance contract and recognize it in profit or loss for the period.

Article 13

When the reinsurance cedant can calculate and determine the contingent commissions receivable from the reinsurance acceptor in accordance with the terms of the related reinsurance contract, it shall recognize such commissions as recoverable reinsurance expenses and include them in profit or loss for the period.

Article 14

For non-proportional reinsurance contracts such as excess of loss reinsurance, the reinsurance cedant shall calculate and determine the ceded premium in accordance with the terms of the reinsurance contract and recognize it in profit or loss for the period.

When adjusting the ceded premium, the reinsurance cedant shall recognize the adjustment amount in profit or loss for the period.

When the reinsurance cedant can calculate and determine the claim costs recoverable from the reinsurance acceptor, it shall recognize such recoverable claim costs in profit or loss for the period.

Chapter 3: Accounting Treatment for Accepted Business

Article 15

Reinsurance premium income shall be recognized only when the following conditions are simultaneously met:

1. The reinsurance contract is in force and the corresponding insurance liability is assumed;
2. It is probable that the economic benefits associated with the reinsurance contract will flow to the reinsurance acceptor;
3. The income associated with the reinsurance contract can be measured reliably.

The reinsurance acceptor shall calculate and determine the amount of reinsurance premium income in accordance with the terms of the related reinsurance contract.

Article 16

In the period in which reinsurance premium income is recognized, the reinsurance acceptor shall calculate and

determine reinsurance expenses in accordance with the terms of the related reinsurance contract and recognize them in profit or loss for the period.

Article 17

When the reinsurance acceptor can calculate and determine the contingent commissions payable to the reinsurance cedant in accordance with the terms of the related reinsurance contract, it shall recognize such commissions as reinsurance expenses and include them in profit or loss for the period.

Article 18

Upon receipt of the reinsurance statement, the reinsurance acceptor shall adjust the related reinsurance premium income and reinsurance expenses based on the amounts specified in the statement, with the adjustment amount recognized in profit or loss for the period.

Article 19

The reinsurance acceptor shall make provisions for unearned premium reserves, outstanding claims reserves, life insurance reserves, and long-term health insurance reserves for accepted reinsurance business, as well as perform related reserve adequacy tests, by reference to the relevant provisions of *Accounting Standards for Business Enterprises No. 25 — Original Insurance Contracts*.

Article 20

In the period in which the reinsurance statement is received, the reinsurance acceptor shall recognize the claim payment amount specified in the statement as reinsurance claim costs and include them in profit or loss for the period. At the same time, the reinsurance acceptor shall reduce the balance of the corresponding reinsurance reserves.

Article 21

Upon receipt of the reinsurance statement, the reinsurance acceptor shall recognize the deposit withheld as reinsurance deposits for the current period as specified in the statement. At the same time, the reinsurance acceptor shall derecognize the related reinsurance deposits based on the return of deposits withheld in the previous period as specified in the statement.

The reinsurance acceptor shall calculate interest on reinsurance deposits periodically in accordance with the terms of the related reinsurance contract and recognize it in profit or loss for the period.

Chapter 4: Presentation

Article 22

An insurer shall separately present the following items related to reinsurance contracts in the balance sheet:

1. Reinsurance receivables;
2. Reinsurance receivables for unearned premium reserves;
3. Reinsurance receivables for outstanding claims reserves;
4. Reinsurance receivables for life insurance reserves;
5. Reinsurance receivables for long-term health insurance reserves;
6. Reinsurance payables.

Article 23

An insurer shall separately present the following items related to reinsurance contracts in the income statement:

1. Reinsurance premium income;
2. Ceded premiums;
3. Recoverable reinsurance expenses;
4. Reinsurance expenses;
5. Recoverable claim costs;
6. Reinsurance claim costs;
7. Recoverable outstanding claims reserves;

8. Recoverable life insurance reserves;
9. Recoverable long-term health insurance reserves.

Article 24

An insurer shall disclose the following information related to reinsurance contracts in the notes:

1. Changes in various reinsurance reserves for accepted business;
2. Major actuarial assumptions and methods used in establishing reinsurance reserves and performing reserve adequacy tests for accepted business.

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