Accounting Standards for Enterprises No. 25 - Direct Insurance Contracts

Chapter I General Provisions

Article 1 With a view to regulating the recognition, measurement of the original insurance contracts concluded by insurants and the presentation of relevant information, the present Standards are formulated according to the Accounting Standards for Enterprises - Basic Standards.

Article 2 The term "insurance contract" refers to an agreement under which the insurer and the insured stipulate the insurance rights and obligations and the insurer undertakes the insurance risks sourced from the insured. Insurance contracts are classified into original insurance contracts and re-insurance contracts. The term "original insurance contract" refers to an insurance contract under which the insurer charges the insurance premium and undertakes the liability to pay the insurance money for the property losses resulted from the prescribed possible accident(s), or undertakes the liability to pay the insurance money when the insured dies, or is injured, disabled or sick, or attains to the stipulated age or time period.

Article 3 The following items shall be subject to other relevant accounting standards:

(1) The impairment of assets such as the post-loss goods produced by an original insurance contract issued by an insurer shall be subject to the Accounting Standards for Enterprises No. 1-Inventories.

(2) A contract issued by an insurer to the insured on a risk other than the insurance risks shall be subject to the Accounting Standards for Enterprises No. 22 - Recognition and Measurement of Financial Instruments and the Accounting Standards for Enterprises No. 37 - Presentation of Financial Instruments.

(3) A reinsurance contract issued or held by an insurer shall be subject to the Accounting Standard for Enterprises - Reinsurance Contracts.

Chapter II Determination of Original Insurance Contracts

Article 4 No matter whether a contract concluded by an insurer and an insured is an original insurance contract or not, that whether or not the insurer has undertaken the insurance risks shall, on the basis of a single-item contract, be judged according to the contract terms. Where the occurrence of an insurance accident is likely to cause the insurer to undertake the liability to pay the insurance money, it shall be determined that the insurer has undertaken the insurance risks. The term "insurance accident" refers to accidents which are prescribed in an insurance contract and fall within the scope of insurance liabilities.

Article 5 Where a contract concluded by an insurer and an insured puts the insurer in a position of not only undertaking the insurance risks but also other risks, it shall be respectively treated according to the following circumstances:

(1) Where the insurance risks can be distinguished from other risks and can be measured separately, the insurance risks may be separated from other risks. The part of insurance risks shall be determined as an original insurance contract. And the part of other risks may not be determined as an original insurance contract.

(2) Where the insurance risks cannot be distinguished from other risks, or where the insurance

risks can be distinguished from other risks but can not be measured separately, the entire contract shall be determined as an original insurance contract.

Article 6 The insurer shall, in light of whether or not it undertakes the liability to pay the insurance money during the extension period of the original insurance contracts, classify the original insurance contracts into original life insurance contracts and original non-life insurance contracts. Where the insurer undertakes the liability to pay the insurance money during the extension period of an original insurance contract, it shall determine it as an original life insurance contract. Where it does not undertake the liability to pay insurance money during the extension period of an original insurance contract, it shall determine it as an original non-life insurance contract. The "extension period of an original insurance contract" refers to the period during which the insured does not pay premium from the maturity date of the previous period, but the insurer still undertake the liability to pay the insurance money.

Chapter III The Income from Original Insurance Contracts

Article 7 The premium income, which can meet the following requirements simultaneously, may be recognized:

(1) An original insurance contract has been established and corresponding insurance liabilities have been undertaken;

(2) The economic benefits related to the original insurance contract are highly probable to flow in;

(3) The income related to the original insurance contract can be measured reliably.

Article 8 An insurer shall, according to the following provisions, calculate and determine the amount of insurance income:

(1) As for an original non-life insurance contract, the amount of insurance income shall be determined according to the total premium as stipulated in the original insurance contract.

(2) As for an original life insurance contract, if the insurance premium as charged by installments, the amount of insurance income shall be the premium charged in the current period. If the premium is charged in a lump sum, the insurance income shall be determined according to the premium which shall be charged in a lump sum.

Article 9 Where an original insurance is cancelled prior to the expiration date, the insurer shall, according to the stipulations of the original insurance contract, calculate and determine the refund to the insured as the refund premium, and record it in the profits and losses of the current period.

Chapter IV Reserves for Original Insurance Contracts

Article 10 The reserves for original insurance contracts shall include unearned premium reserves, reserves for outstanding claims, reserves for life insurance liabilities and reserves for long-term health insurance liabilities. The term "unearned premium reserves" refers to the reserves drawn by an insurer for unexpired non-life insurance liabilities. The term "reserve for outstanding claims" refers the reserves drawn by an insurer for the non-life insurance accidents which have already occurred but have not been settled. The term "reserves for life insurance liabilities" refers to the reserves drawn by an insurer for unexpired life insurance liabilities. The term "reserves for long-term health insurance liabilities" refers to the reserves calculated and drawn by an insurer for unexpired long-term health insurance liabilities.

Article 11 An insurer shall, in the current period of recognition of the income from non-life insurances, calculate and draw unearned premium reserve as an adjustment to the premium income of the current period in light of the actuarial amount, and recognize the unearned premium reserves as a liability. An insurer shall, on the balance sheet date, recalculate the balance between the recognized amount of the unearned premium reserves and the drawn amount of the unearned premium reserves in light of the actuarial amount, and shall make an adjustment to the unearned premium reserves.

Article 12 An insurer shall, in the current period when the non-life insurance accident happens, draw the reserve for outstanding claims in light of the actuarial amount, and shall recognize the reserve for outstanding claims as a liability. The reserve for outstanding claims includes the reserve for outstanding claims that are incurred and reported, the reserve for outstanding claims that are incurred but not reported as well as the reserve for the expenses of settlement of claims. The "reserve for outstanding claims that are incurred and reported" refers to the reserve made by an insurer for the compensation cases, in which non-life insurance accidents have occurred and claims are made to the insurer, but are not settled yet. The "reserve for outstanding claims that are incurred but not reported" refers to the reserve made by an insurer for the compensation cases, in which non-life insurance accidents have occurred but no claim is made to the insurer yet. The "reserve for the expenses of settlement of claims" refers to the reserve made by an insurer for the attorney fees, litigation fees, loss inspection fees, wages and salaries of the personnel for the settlement of claims and other expenses which are likely to incur in compensation cases, in which non-life insurance accidents have occurred but which have not been settled yet.

Article 13 An insurer shall, in the current period of recognition of life insurance premiums, draw reserves for life insurance liabilities and long-term health insurance liabilities in light of the actuarial amounts, and shall recognize the reserves for life insurance liabilities and those for long-term health insurance liabilities as liabilities.

Article 14 An insurer shall, at least by the end of each year, test the abundance of the reserves for outstanding claims, life insurance liabilities, and long-term health insurance liabilities. Where the amount of relevant reserves which are recalculated and determined by the insurer in light of the actuarial amount exceeds the drawn amount of the relevant reserves on the abundance test date, the relevant reserves shall be replenished on the basis of the difference. If the amount of relevant reserves which are recalculated and determined by the insurer in light of the actuarial amount is less than the residual amount of the relevant reserves on the abundance test date, no adjustment shall be made to the relevant reserves.

Article 15 Where an original insurance contract is cancelled prior to its expiration date, the insurer shall write off the residue amounts of the relevant reserves for unearned premiums, life insurance liabilities and long-term health insurance liabilities, and recorded them into the profits and losses of the current period.

Chapter V Cost of Original Insurance Contracts

Article 16 The cost of an original insurance contract refers to the total outflow of economic benefits, which is incurred by the original insurance contract, will result in the decrease of the owner's equities and is irrelevant to the distribution of profits to the owners. The cost of an original insurance contract mainly includes the handling charges or commission, compensation cost, as well as the reserves for outstanding claims, life insurance liabilities and long-term health insurance liabilities. The compensation cost includes the indemnity or payment made by the insurer, and the expenses for the attorney fees, litigation fees, loss inspection fees, wages and salaries of the personnel for the settlement of claims which are incurred during the settlement of the claims.

Article 17 The handling fees and commissions, which are incurred to the insurer during the course of obtaining the original insurance contracts, shall be recorded into the profits and losses of the current period.

Article 18 The reserves for outstanding claims, life insurance liabilities, and long-term health insurance liabilities, which are drawn by an insurer in light of the actuarial amounts shall be recorded into the profits and losses of the current period. An insurer shall, in the current period of determination of the amount of compensation, record into the profits and losses of the current period the amount of compensation determined to make. Meanwhile, it shall offset the residual amount of the corresponding reserves for outstanding claims, reserves for life insurance liabilities or for long-term health insurance liabilities.

Article 19 The reserves for outstanding claims, life insurance liabilities or long-term health insurance liabilities, which are replenished by an insurer according to the abundance test, shall be recorded into the profits and losses of the current period.

Article 20 Any post-loss goods obtained by an insurer due to undertaking the liability to pay the insurance money shall be recognized as an asset calculated at the market price of the same class of or similar asset, and shall be used to offset the compensation cost of the current period. When disposing of any post-loss goods, the insurer shall adjust the compensation cost of the current period according to the balance between the amount received and the carrying amount of the post-loss goods.

Article 21 Where the subrogation recourse fee to be charged by an insurer for undertaking the liability to pay the insurance money meets the following requirements simultaneously, it shall be recognized as the receivable subrogation recourse fee and shall be used to offset the compensation cost of the current period:

(1) The economic benefits related to this subrogation recourse fee is likely to flow in; and

(2) The amount of the subrogation recourse fee can be measured reliably. When an insurer receives the receivable subrogation recourse fee, it shall, pursuant to the balance between the received amount and the carrying amount of the relevant receivable subrogation recourse fee, adjust the compensation cot of the current period.

Chapter VI Presentation

Article 22 An insurer shall, in the balance sheet, separately present the following items related to the original insurance contract:

(1) the unearned premium reserve;

(2) the reserve for outstanding claims;
(3) the reserve for life insurance liabilities; and
(4) the reserve for long-term health insurance liabilities.

Article 23 An insurer shall, in the profit statement, present separately the following items related to the original insurance contract:
(1) the income from premiums;
(2) the refunded premiums;
(3) the drawing of unearned premium reserve;
(4) the premiums earned;
(5) the disbursement of handling fee;
(6) the compensation cost;
(7) the reserve for outstanding claims;
(8) the reserve for life insurance liabilities; and
(9) the reserve for long-term health insurance liabilities.

Article 24 An insurer shall, in its annotations, disclose the following information related to the original insurance contract:
(1) the relevant information on the subrogation recourse fee;
(2) the relevant information on the post-loss goods;
(3) the increase and decrease of each reserve; and
(4) the main actuarial assumptions and methods for drawing these reserves and testing the abundance of the reserves.

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