

Measures on Administration of Reserves for Non-life Insurance Business of Insurance Companies (Tentative)

保险公司非寿险业务准备金管理办法（试行）

(The CIRC Ordinance No. 2004-7)

Reviewed and approved at the Chairmen Meeting of the China Insurance Regulatory Commission on November 22nd, 2003, *Measures on Administration of Reserves for Non-life Insurance Business of Insurance Companies (Tentative)* is now promulgated and shall come into effect as of January 15, 2005.

Wu Dingfu
Chairman
China Insurance Regulatory Commission
December 15th, 2004

Chapter 1 General Provisions

Article 1

These Measures are formulated in accordance with *the Insurance Law of the People's Republic of China* for purposes of strengthening supervision and administration of the reserves for non-life insurance business of insurance companies, ensuring the sound operation and adequate solvency of insurance companies and protecting the interests of the insured.

Article 2

“Non-life insurance business” in these Measures refers to insurance business other than life insurance business, including property damage insurance, liability insurance, credit insurance, short-term health insurance and accidental injury insurance business as well as the reinsurance business of the aforesaid business.

Article 3

“Insurance companies” in these Measures refer to the property insurance companies and reinsurance companies established in accordance with the law within the territory of the People's Republic of China, including Chinese funded insurance companies, Chinese-foreign joint venture insurance companies, wholly foreign-owned insurance companies and the branches of foreign insurance companies.

Article 4

Any insurance company engaged in the non-life insurance business mentioned in these Measures shall, according to the stipulations of the China Insurance Regulatory Committee (hereinafter referred as the “CIRC”), observe non-life actuarial theory, methods and prudent principles, value various reserves, draw and carry down these reserves accurately according to the valuation results.

Chapter 2 Categories of Reserves

Article 5

The reserves for non-life insurance business of an insurance company includes unearned premium reserves, outstanding loss reserves, and other liability reserves stipulated by the CIRC.

Article 6

Unearned premium reserves refer to the reserves drawn for insurance liabilities that have not been terminated as of the date of reserve valuation, including reserves drawn by an insurance company for insurance liabilities that have not expired under insurance contracts which have a duration of less than 1 year (inclusive), and long-term liability

reserves drawn by an insurance company for insurance liabilities that have not expired under insurance contracts which have a duration of more than 1 year (exclusive).

Article 7

Outstanding loss reserves refer to the reserves drawn by an insurance company for claims that have not been settled, including reserves in respect of outstanding losses incurred and reported, reserves in respect of outstanding losses incurred but not reported, and claim handling expense reserves.

Article 8

Reserves in respect of outstanding losses incurred and reported refer to the reserves drawn for compensation cases where the insured events have occurred and claims have been made against the insurance company but have not been settled by the company.

Article 9

Reserves in respect of outstanding losses incurred but not reported refer to the reserves drawn for compensation cases where the insured events have occurred, but no claims have been made against the insurance company.

Article 10

Claim handling expense reserves refer to the reserves drawn for expenses which may arise from compensation cases that have not been settled. Among claim handling expense reserves, the funds drawn for payments to experts and lawyers and payments for loss assessment, and other expenses directly arising from a particular compensation case constitutes the reserve for direct claim handling expense; while the funds drawn for expenses not directly arising from a particular compensation case constitutes the reserve for indirect claim handling expense.

Chapter 3 Reserving Method

Article 11

One of the following methods shall be applied when drawing unearned premium reserves:

1. "24ths" method (reserving on a monthly basis);
2. "365ths" method (reserving on a daily basis);
3. For some special insurance lines, more prudent and reasonable methods may be applied according to the risk distribution of those lines;

Once determined, the reserving method for unearned premium reserves shall not be changed arbitrarily.

Article 12

When drawing unearned premium reserves, an insurance company shall conduct a test on the adequacy of the reserves. Where the unearned premium reserves are inadequate, premium deficiency reserves shall be drawn.

Article 13

Reserves in respect of outstanding losses incurred and reported shall be drawn prudently by using Case Estimate Method, Average Cost Per Claim Method or other methods recognized by the CIRC.

Article 14

Reserves in respect of outstanding losses incurred but not reported shall be valued and drawn prudently by using at least two of the following methods in accordance with the risk nature, risk distribution and experiential data of the insurance lines:

1. Chain-Ladder Method;
2. Average Cost Per Claim Method;
3. Reserve Development Method;
4. Bornhuetter-Ferguson Method or other appropriate methods.

Article 15

The reserve for direct claim handling expense shall be drawn by using Case Estimate Method; the reserve for indirect claim handling expense shall be drawn reasonably in proportion with the claim.

Article 16

For an insurance product which contains elements of investment or saving, the unearned premium reserve and outstanding loss reserve shall be drawn for the risk protection part of the product in accordance with the above-mentioned methods.

Article 17

All reserves drawn shall not be discounted.

Chapter 4 Reserve Report

Article 18

All insurance companies shall establish an actuarial system, and appoint a responsible actuary to be in charge of reserving.

Article 19

An insurance company shall submit reserve valuation report signed by the responsible actuary of the company to the CIRC regularly. The report shall contain the following:

1. Objective of the reporting;
2. Statement that the applied method is in compliance with the stipulations of insurance supervision and administration department;
3. Actuarial opinion on the reserving;
4. Detailed description of the reserve valuation;
5. Definite explanation of special terms and ambiguous concepts in the report.

Article 20

Description of the reserve valuation shall contain the following:

1. Definite criteria for division of insurance lines or categories and names of the insurance lines or categories;
2. Completeness and accuracy of the data of different insurance lines or categories, and a description of the problems these data may have;
3. The actuarial method and model for valuation; if the actuarial method and model differ from those previously adopted, reasons for making the change and its effects on the reserve results shall be described;
4. Major assumptions of the actuarial method and model, and reasons for adopting such assumptions;
5. The discrepancy between the actuarial result of the previous reserving and the reality;
6. Adequacy of reserving;
7. For unearned premium reserves, changes concerning periodicity, basic premium rate, risk adjustment coefficient, loss ratio, expense ratio, surrender ratio and other factors of insurance lines shall be described.
8. For outstanding loss reserves, changes concerning the occurrence rules of compensation cases, case closing rules, changing rules of average cost per claim, underwriting practices, claim settlement practices, ceding arrangement, additional cost increment and other factors shall be described.

Article 21

An insurance company shall draw reserves according to the insurance lines or categories and report respectively the reserving results before reinsurance and after reinsurance.

Article 22

An insurance company shall submit the reserve valuation report in accordance with the time specified by the CIRC.

Article 23

The Measures shall come into effect as of January 15, 2005.

End.