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Title :	Methods for the Setting Aside of Reinsurance Reserves by Professional Reinsurance Enterprises 
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Legislative :	1. Full four points adopted and issued 14 December 1993 per Letter No. (82)-Taiwan-Finance-Insurance-821227755 of the Ministry of Finance 2. Point 2 amended and issued 9 July 1996 per Letter No. (85)-Taiwan-Finance-Insurance-850381811 of the Ministry of Finance
Content :	<p>Article 1 The Methods are adopted in accordance with Article 145 of Insurance Act and Article 18 of Enforcement Rules for the Insurance Act.</p> <p>Article 2 1. At the time of final annual accounting, a professional reinsurance enterprise shall set aside, for each type of insurance, an unearned reinsurance premium reserve for the retained portion of its proportional reinsurance business in accordance with the following provisions: 1.1 The unearned reinsurance premium reserve to be set aside for fire insurance, automobile physical damage insurance, liability insurance, guarantee insurance, and other types of non-life insurance may not be inferior to 50 percent of that year's net reinsurance premiums, defined as retained reinsurance premiums less reinsurance commissions. 1.2 The unearned reinsurance premium reserve to be set aside for transit insurance (including marine, land, and aviation transit insurance) may not be inferior to 15 percent of that year's net reinsurance premiums, defined as retained reinsurance premiums less reinsurance commissions. 1.3 The unearned reinsurance premium reserve to be set aside for marine hull insurance (including fishing vessel insurance) may not be inferior to 40 percent of that year's net reinsurance premiums, defined as retained reinsurance premiums less reinsurance commissions. 1.4 The unearned reinsurance premium reserve to be set aside for life insurance, personal injury insurance, and health insurance may not be inferior to 50 percent of that year's net reinsurance premiums, defined as retained reinsurance premiums less reinsurance commissions. Where debit notes for the various types of reinsurance business referred to in the preceding paragraph are prepared on the basis of earned reinsurance premiums, it is not necessary to set aside an unearned reinsurance premium reserve for such business. 2. A professional reinsurance enterprise shall, for all types of reinsurance business and for all lines of insurance listed in its budget, and separately for proportional and nonproportional reinsurance, observe the following provisions in estimating, with respect to its retained portion, reinsurance claims in the course of settlement and reinsurance claims incurred but not reported ("IBNR reinsurance claims"), against which it shall set aside reserves: 2.1 With respect to proportional reinsurance business for each type of insurance, and for each reinsurance treaty, an estimate of reinsurance claims in the course of settlement shall be made, based on information provided by a relevant domestic or foreign company, for a given underwriting year specified in a reinsurance treaty, and a reserve shall be set aside accordingly against such estimated figure. At the time of final annual accounting, the moving average method shall be used to calculate, based upon the average rise in loss ratio calculated according to loss ratios over a period of five years, an estimate of all outstanding reinsurance claims for the remaining development years. This figure shall be compared against the figure for reinsurance claims in the course of settlement as estimated above and the reserve for IBNR reinsurance claims</p>

shall be increased by an amount deemed appropriate in light of the actual situation.

2.2 With respect to all nonproportional reinsurance business, an amount equal to two-thirds of all retained pure reinsurance premiums for the current year shall be set aside at the time of final annual accounting to a single loss reserve covering all insurance types. Two-thirds of the retained losses for that year shall be withdrawn from the accumulated loss reserves.

The pure reinsurance premiums referred to in the preceding paragraph shall be calculated at 70 percent of the original gross reinsurance premiums.

3. At the time of final annual accounting, special reserves (consisting of a reserve against loss ratio fluctuation and a reserve against losses on extraordinary matters) shall be set aside against the retained portion of each type of reinsurance business in accordance with the following requirements:

3.1 With respect to the reserve against loss ratio fluctuation, for each type of insurance listed in the budget an average loss ratio shall be calculated on the basis of the data from the preceding fifteen accounting years for retained earned reinsurance premiums and retained reinsurance losses. This figure shall be compared to the loss ratio of the current year. If the current year loss ratio is lower than the average loss ratio, for each such type of insurance, the retained earned net reinsurance premiums shall be multiplied by the difference, and no less than 50 percent of the amount thus obtained shall be set aside to the reserve against loss ratio fluctuation for the current year. If the current year loss ratio is higher than the average loss ratio, no reserve against loss ratio fluctuation need be set aside. Moreover, the reinsurance enterprise may multiply the retained earned net reinsurance premiums by the difference and reverse the amount thus obtained from the reserve against loss ratio fluctuation set aside in previous years. In addition, when the accumulated reserve against loss ratio fluctuation exceeds the retained earned net reinsurance premiums for the current year, the excess portion shall be reversed and treated as income.

3.2 With respect to the reserve against losses on extraordinary matters, 1 percent of total retained earned reinsurance premiums for the current year shall be set aside to a single reserve for all insurance types. At the time of final annual accounting, if any losses on extraordinary matters require amortization, the necessary amount shall be withdrawn from accumulated reserves. Amounts set aside to or reversed from the current year reserve against loss ratio fluctuation as referred to in subparagraph 1 of the preceding paragraph shall be netted out on the books. In addition, the term "retained reinsurance losses" includes reinsurance losses paid, reinsurance claims in the course of settlement, and IBNR reinsurance claims.

The losses on extraordinary matters contemplated in subparagraph 2 of the preceding paragraph are claims and related expenses that must still be paid for undischarged liability arising from business assumed from an insurer that undergoes bankruptcy, liquidation, litigation, or another extraordinary situation. Determinations regarding what constitutes an extraordinary matter, the estimation of losses thereon, and the setting of amortization periods shall be handled on a case-by-case basis.

4. A professional reinsurance enterprise shall make separate determinations regarding the nature of reinsurance claims in the course of settlement, loss reserves, and similar account items listed on the debit notes for each line of insurance business, and on the basis of those determinations shall treat each one as either an income statement item or an asset.