

## Content

Title :	Directions for the Conduct of Outward Reinsurance Business by Insurance Enterprises <b>Ch</b>
Date :	2008.04.01
Legislative :	<p>1. Full six points adopted and issued 16 July 2003 per Order No. Taiwan-Finance-Insurance-0920751106 of the Ministry of Finance; to take effect from 16 July 2003</p> <p>2. Title and full ten points amended and issued 29 December 2005 per Order No. Financial-Supervisory-Insurance-III-09402540991 of the Financial Supervisory Commission, Executive Yuan; to take effect from 1 January 2006; amendment to Point 6 to take effect from 1 July 2006 (original title: Direction for Ceding of Reinsurance by Insurance Enterprises)</p> <p>3. Abolished on April 01, 2008</p>
Content :	<p><b>Article 1</b></p> <p>1. These Directions are adopted pursuant to Article 21 of the Regulations Governing the Administration of Insurance Enterprises, with a view to ensuring safe business practices in the conduct of outward reinsurance by insurance enterprises.</p> <p><b>Article 2</b></p> <p>2. Insurance enterprises conducting outward reinsurance business shall do so in accordance with these Directions.</p> <p><b>Article 3</b></p> <p>3. When an insurance enterprise conducts outward reinsurance business, it is said to be qualified outward reinsurance business if the assuming entity conforms with any one of the following definitions:</p> <p>3.1 Is an insurance enterprise approved by the competent authority for sole or concurrent operation of reinsurance business within the territory of the ROC.</p> <p>3.2 Is a foreign insurance enterprise approved by the competent authority for sole or concurrent operation of reinsurance business within the territory of the ROC.</p> <p>3.3 Is a foreign reinsurance or insurance organization with a prescribed or higher credit rating from an international credit rating agency.</p> <p>3.4 Is a reinsurance or insurance organization or risk spreading mechanism that may engage in reinsurance business under acts and regulations of the ROC.</p> <p>3.5 Is a reinsurance or insurance organization or risk spreading mechanism of a special nature that has received approval from the competent authority.</p> <p><b>Article 4</b></p> <p>4. The term "the prescribed or higher credit rating from an international credit rating agency" used in subparagraph 3 of Point 3 means any of the following ratings:</p> <p>4.1 A rating of "BBB" from Standard &amp; Poor's Corporation.</p> <p>4.2 A rating of "B+" from A.M. Best Company.</p> <p>4.3 A rating of "Baa" from Moody's Investors Service.</p> <p>4.4 A rating of "BBB" from Fitch Ratings Ltd.</p> <p>4.5 A rating of "twA+" from Taiwan Ratings Corporation.</p> <p>4.6 An equivalent credit rating from any other credit rating agency recognized by the competent authority.</p> <p><b>Article 5</b></p> <p>5. When an insurance enterprise arranges outward reinsurance business with an entity that does not conform to the provisions of Point 3, to account</p>

for the effect of the unqualified outward reinsurance business, the method set out in the yearly inspection report shall be employed to adjust the relevant liabilities and shareholder equity.

#### **Article 6**

6. An insurance enterprise arranging outward reinsurance business through an insurance broker must also do so in accordance with Point 3 and Point 5. If the insurance broker is a foreign insurance broker that has not been granted a practice license with the approval of the competent authority, and if the ceded business is not among the insurance lines that the competent authority has granted permission to be taken out offshore, then the outward reinsurance business in question shall be deemed unqualified outward reinsurance.

#### **Article 7**

7. When an insurance enterprise arranges reinsurance, it shall act in conformance with the principle of adequate premium rates; thus the premium rate for retained business may not be lower than the premium rate for reinsurance business.

Where outward reinsurance is arranged on a proportional basis, the premium rate for retained business may not be lower than the premium rate for the original policy. Where outward reinsurance is arranged on a nonproportional basis, a lower layer premium rate may not be lower than a higher layer premium rate, the premium rate at each layer shall be in line with rates in the international reinsurance market, and a reasonable premium split shall be adopted.

Where a special reinsurance arrangement not compliant with the principles of the preceding paragraph has been made in order to meet the need for flexibility in insurance operations, an explanation shall be provided in the certified actuarial report for that fiscal year.

#### **Article 8**

8. Where an insurance enterprise arranges, either directly or via an insurance broker, for reinsurance of commercial fire insurance business in an amount of NT\$3 billion or greater and the business is ceded as nonproportional facultative reinsurance, if a domestic insurance enterprise participates in the assumption of any portion (including, without limitation, what is known in the insurance industry as the primary layer, as well as any policy deductible or self-insurance retention buydown/buyback) thereof, then 10% or more of such business shall be jointly assumed by an offshore reinsurance or insurance organization with the prescribed or higher credit rating from an international credit rating agency, which shall provide a price quote for the original scope of coverage.

Where the outward reinsurance business of an insurance enterprise is arranged in a manner that is inconsistent with the provisions of the preceding paragraph, the business shall be deemed unqualified outward reinsurance, and domestic insurance enterprises may not assume it by way of retention.

#### **Article 9**

9. The term "the prescribed or higher credit rating from an international credit rating agency" used in Point 8 means any of the following ratings:

9.1 A rating of "A" from Standard & Poor's Corporation.

9.2 A rating of "B++" from A.M. Best Company.

9.3 An rating of "A2" from Moody's Investors Service.

9.4 A rating of "A" from Fitch Ratings Ltd.

9.5 An equivalent credit rating from any other credit rating agency recognized by the competent authority.

#### **Article 10**

10. If an insurance enterprise violates these Directions in conducting outward reinsurance business, the competent authority may impose sanctions commensurate with the seriousness of the circumstances pursuant to Article 149 of the Insurance Act and other applicable legal provisions.

