PARTICULARITIES OF THE FINANCIAL STATEMENTS AT INSURANCE COMPANIES

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Abstract:
Financial statements are information support used inside the company, as well as in relations with the outside and they should provide an accurate image of assets, liabilities, financial position, profit and loss of the entity, for that financial year.
The explanatory notes specific to insurance companies provide information and accounting policies on life insurance and general insurance, including information on gross written premiums, collected gross premiums, gross claims expenses, gross operating expenses, reinsurance balance.
The profit and loss account at insurance companies includes three separate accounts, namely: technical account of insurance, life insurance technical account and non-technical account.

Key words: *financial statements of insurance companies, technical account, technical reserves, investments.*

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1. INTRODUCTION

Insurance, insurance-reinsurance and reinsurance companies, known as insurers as well as insurance, insurance-reinsurance and reinsurance brokers, sequel referred to as insurance brokers their work involving mediation, negotiation, conclusion of insurance and reinsurance contracts, premium income, liquidation of damages, regression and recovery activities, and investing or taking advantage of own funds and attracted by the ongoing activity and they have the obligation to draw up and submit annual financial statements to the Insurance Supervisory Commission (ISC) and territorial units of the Ministry of Public Finance.

The annual financial statements are drawn up in accordance with the accounting regulations provisions corresponding with the European directives specific to insurance, approved by ISC President's Order no. 3.129/2005[1], that is applicable with the provisions of the accounting Law no. 82/1991, amended and republished.

According to the Order No. 1[2] of February 3, 2010 issued by the CSA, insurers and reinsures prepare and submit the following individual annual financial statements: Balance sheet, Profit and loss account, Statement of changes in equity, Cash flow statement and Explanatory notes on the annual financial statements, Data information, Statement of fixed assets.

The annual financial statements shall be submitted as follows:

- A copy to the Insurance Supervisory Commission,
- And the second copy, endorsed by stamping the Insurance Supervisory Commission at the territorial units of the Ministry of Public Finance.

[1] published in Monitorul Oficial al Romaniei, Part I, no. 1187 and 1187 bis of December 29, 2005, with subsequent changes and assitions
[2] for approving the Rules regarding the financial year 2009 for companies from the insurance domain

2. THE BALANCE SHEET OF INSURANCE COMPANIES

The **balance sheet** is the synthesis accounting document that describes the assets and liabilities of the company's financial year, and in other cases provided by law. In accordance with the specific activity of insurance, the *balance sheet of the insurance companies* has some specific characteristics.

The asset side of the balance sheet in insurance companies includes: intangible assets, investments, life insurance investments for which the exposure to investment risk is transferred to the contractor, the part of the technical reserves related to contracts ceded in reinsurance, claims, other assets and expenses in advance and they have the highest share of investments (in 70% of the total asset side) followed by the current assets (30%).

The *investment* group, the financial assets hold largest share, followed by tangible assets.

Usually *fixed assets* include land, buildings and transport and financial assets include:

- Contribution securities (stocks, bonds and other fixed income securities) held in affiliates companies;
- Debt securities and loans granted to affiliates companies;
- Debt securities and loans granted to companies in which there are participating interests;
- Participation to companies in which there is a participating interests.

Financial investments have a low risk and they generate interest and they are the resources inventory of insurance company, the most notable part of them being that they are intended to make benefit payments to the insured or to insurance beneficiaries.

The insurance companies invest their received funds as they accumulate because of the gap created between the time when the insurance premiums are collected and the time when the damages are paid, in the event of their occurrence.

Circulating assets related to insurance companies include liquidities, claims and stocks.

This characteristic of the balance sheet is due to the need to have continuous flow for providing compensation for damages.

The material stocks in nature of inventory items, packaging have a slight fluctuation from year to year and the share of stocks in the balance sheet is very low, due to the specific activity of the insurance societies.

The *claims* for insurance companies have a relatively small share in the balance sheet, because the settlement services, in most cases, was made almost simultaneously with their production and it represents the value of insurance coverage.

Liquidities - readily available means of payment, have high values because of the insurer's need to meet at any time the obligations to the insured, so insurers must have in the form of liquid assets at least 20% of the redemption amounts for the contracts where a redemption value is guaranteed and 0.5% of the sums insured for death insurance.

Under the order 113130/2006[3] issued by the CSA, *Liquid assets are*:

a) Treasury bills and bonds issued by local authorities;
b) Bank deposits;
c) The reserves in current accounts and in pay office;
d) Securities traded on regulated and supervised markets;
e) Contribution securities in collective investment in securities.

[3] for implementing the rules for the assets admitted to cover gross technical reserves for insurer that practices the general insurance acctivity, dispersion of assets admitted to cover the spread gross technical reserves. as well as the liquidity ratio.

Securities must be in the limit of 5% of the total securities issued by the same entity and the contribution securities in the limit of maximum 20% of the net assets of each fund.

The *liquidity coefficient* is the ratio between liquid assets and short-term obligations of the insurer towards the insured, and for the general insurance activity, the insurers are required to have a liquidity coefficient of at least 1 (one).

In calculating the liquid assets, the bonds will be weighted with a coefficient of 0.75, the shares with a coefficient of 0.50 and participating securities with a coefficient of 0.90. The insurer's obligations towards the insured, in the short term, are the gross claims reserve.

The liability side of the balance sheet in insurance companies include: capital and reserves, subordinated debt, technical reserves, mathematics reserve for life insurance for which the exposure to investment risk is transferred to contractors, reserves, deposits received from insurers, debt and revenue in advance.

Personal capitals represent the residual interest of the shareholders in the assets of an entity after deducting all its liabilities, and they have the largest share in the liabilities of insurance company (70%).

Corporate fund is the value equivalent issued by a company in the form of shares for insurance companies[4] and it is also called nominal capital because it contains the nominal value of all the issued shares.

Starting with July 1, 2006 the minimum capital of insurance companies under the order no. 3109 from December 16, 2004[5] issued by the CSA to be worth 10 million lei for general insurance business, except compulsory insurance, 15 million lei for general insurance business and 15 million lei for life insurance business, 12 million lei for compulsory house insurance against earthquakes, landslides or floods[6].

Technical reserves represent estimates of future payments, for risk produced in the past (for general insurance) or for those that will occur in the future (for life insurance) and the value of the technical reserves should allow the insurer at any time, to honor his commitments arising from the insurance contracts.

Technical reserves are calculated separately for each contract. It still allows the proper use of approximations or generalizations, if they produce about the same result as the individual calculations. The principle of separate calculation does not prevent in any way the formation of additional reserves for general risks which are not individualized.

A particular situation is presented by the provision for risks and expenses that include the provisions for pensions and similar obligations, provisions for taxes and other provisions. The provision will only be recognized when:

a) a company has a current obligation generated by a past event;

b) it is probable that an outflow of resources, that will affect the economic benefits, is needed to meet that requirement;

c) a good estimate of the obligation's value can be made.

3. PROFIT AND LOSS ACCOUNT AND ANNEXES TO INSURANCE COMPANIES

Profit and loss account is the financial situation which measure the activity performance of an entity during a given period, and under current legislation the listed form of profit and loss account was introduced and the presentation of revenues and expenditures by their economic nature.

[4] Angelescu, Coralia ; Ciucur, Dumitru ; Marin, Dinu- Dictionar de economie, Editura Economica, 2001

[5] for implementing the Rules regarding the updating the minimum limit of the paid up share capital of insurers

[6] According to Order no. 20/2009, amending the Rules of the Pool of Insurance against Natural Disasters

It is specific for insurance companies to divide the profit and loss account in 3 separate accounts, namely:

- Technical account of the general insurance;
- Technical account of life insurance;
- Non- technical account

The *general insurance technical account* will be drawn up for the direct insurance fields and the reinsurance corresponding fields and it present the technical result of general insurance (profit or loss).

The *technical account of life insurance* will be drawn up for areas of direct insurance and the corresponding field of reinsurance and it presents the technical result of life insurance (profit or loss).

The *non-technical account* includes the results of general insurance and life insurance, and also the non-technical incomes and expenses (from investments), extraordinary incomes and expenses, the gross result, the net result.

The profit and loss account includes:

- Net turnover;
- The year revenue and expenditure, grouped by their nature;
- Result for the year (profit or loss).

The turnover at insurers represents the gross written premiums from direct insurance, co-insurance and reinsurance during the financial year plus the fluctuation of the premium reserves resulted as the difference between reserves at the beginning of the period and reserves at the end of the period.

The earnings per share are presented for the current exercise, as well as for the previous one, whether it is positive or negative, in accordance with the IAS 33 provisions.

Accounting policies are the principles, bases, conventions, rules and practices applied by an entity in preparing and presenting the annual financial statements.

Insurance companies must comply with the statutory policy regarding to: the calculation methodology and technical reserve records, the asset categories admitted to cover technical reserves and the dispersion of investment rules.

The **explanatory notes** should provide information on accounting rules that governed the drawing of the annual financial statements and the accounting policies used. For the insurance companies there is information related to life insurance and general insurance.

For **life insurance**, the explanatory notes will indicate: gross written premiums, separately for direct insurance and for reinsurance acceptances, when these acceptances represent at least 10% of total gross premiums sum and, further, in the direct insurance the following elements: individual premiums, premiums as a group contract, the periodic premiums, single premiums, the premium without-profits, premium contract with profit sharing, bonus contracts where the investment risk is supported by the insured; and reinsurance balance.

For **general insurance** in the explanatory notes will appear: gross written premiums, collected gross premiums, gross claims expenses, gross operating expenses, reinsurance balance.

In all cases of insurance, for amounts exceeding 5% of the total gross premiums written in the explanatory notes it must be disclosed the total gross premiums in direct insurance from the companies' concluded contracts: in Romania, in Member States of the European Union and other countries.

Companies should indicate in the explanatory notes, the amount of commissions for direct insurance recorded during the financial year (commissions of any kind and, in particular, acquisition fees, renewal, collection and portfolio management).

4. CONCLUSIONS

Financial statements are the information support used inside the company, as well as in relations with the outside. They are the main source for national statistics by providing information for determining the economic policies of the state and it has the triple role: explanatory, evaluation and forecast. In theory they ensure the compliance for the double representation principles and of double registration by identifying the equality of economic resources and their sources. In practice, the financial statements represent a synthesis of information on economic activity and its final results.

Users want clear, concise and reliable information regardless of the area where the entity is located, enabling them to make decisions with maximum efficiency in the investigation of capital.

The specific activity of insurance companies determines the existence in accounting organized at their level of particular items.

It is specific for insurance companies the existence in the liability side of the technical reserves established on the basis of expenses and not profits, due to the random nature of the insurance contract.

Insurers who engage in the activity of life insurance are required to provide to the public the bases and the methods used in the calculation of technical reserves, including the reserves for benefits and rebates.

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