SPECIFICITIES OF INSURER'S REVENUE ACCOUNTING

Maia Iankova Natchkova
Department „Accounting and Analysis", UNWE, Sofia, Bulgaria, maianch@mail.bg

Abstract: The insurers' revenue accounting is specific due to the fact that their revenue is different from the usual revenue of other financial and non-financial enterprises. Such specificities result from the type of insurance they have been licensed for by the state insurance supervisory authority, and namely direct insurance, active or passive reinsurance. These specificities of insurance revenue are relevant to their content, classification by types, measurement and recognition, occurrence periods, accounting methods and methodology and synthetic accounts under which they are accounted for.
Insurer's revenue results from their ordinary activities, which are part of the wide scope of financial services offered by the financial enterprises. Insurance business is strictly regulated by the law due to the higher degree of realisation of insurance and financial risks, and therefore it is subject to licensing by the state regulatory authority Insurance Supervision Division at the Financial Supervision Commission (FSC). Thus, insurance revenue is mainly realised from the insurers' ordinary activities related to the licenses obtained for entering into non-life insurance contracts (property and health insurance, liability insurances, casualty, travel assistance, etc.), life insurance licenses or reinsurance licenses.
Any information about earned revenue from insurance, financing and other activity during the reporting period is disclosed by the insurers in their financial statements for this period. Insurers' revenue are stated and disclosed in their financial statements as insurance revenue, investment revenue as a result of transactions with financial assets and financial instruments and revenue realised from other non-ordinary activities they have carried out during the reporting year.
Revenue must be presented and disclosed truly and fairly, in all material respects, in the Statement of profits and losses and other comprehensive income of the insurers for the relevant reporting period, while observing the Matching principle, the Accrual principle, and all accounting rules, principles, concepts and conventions.
The objective of this study is to present, substantiate and distinguish the specificities of insurers' revenue accounting by substance, type and occurrence method. The object of this study refers to the specificities of the insurers' revenue accounting. The studied subject matter covers the creation of reliable information about reported revenue of insurers, which must be disclosed, in all material respects, in their financial statements.
Keywords: insurers, revenue, accounting, financial statements.

1. INTRODUCTION

The insurers' revenue accounting is specific due to the fact that their revenue is different from the usual revenue of other financial and non-financial enterprises. Such specificities result from the type of insurance they have been licensed for by the state insurance supervisory authority, and namely direct insurance, active or passive reinsurance. These specificities of insurance revenue are relevant to their content, classification by types, measurement and recognition, occurrence periods, accounting methods and methodology and synthetic accounts under which they are accounted for.
Insurer's revenue results from their ordinary activities, which are part of the wide scope of financial services offered by the financial enterprises. Insurance business is strictly regulated by the law due to the higher degree of realisation of insurance and financial risks, and therefore it is subject to licensing by the state regulatory authority Insurance Supervision Division at the Financial Supervision Commission (FSC). Thus, insurance revenue is mainly realised from the insurers' ordinary activities related to the licenses obtained for entering into non-life insurance contracts (property and health insurance, liability insurances, casualty, travel assistance, etc.), life insurance licenses or reinsurance licenses. In contrast to other financial and non-financial enterprises that account for net revenue from realised sales of products, goods and services, insurers recognise and account for gross revenue based on accrued (written) gross premiums under concluded insurance contracts. Insurers also act as institutional investors on capital markets in order to maintain their financial stability, profitability, liquidity and solvency. Therefore, significant portion of their revenue is financial revenue. Insurers realise financial revenue as a result of transactions with financial assets and financial instruments in which their own funds and the allocated insurance (technical) provisions under the insurance contracts they have entered into with insureds and insuring parties are invested. Any information about earned revenue from insurance, financing and other activity during the reporting period is disclosed by the insurers in their financial statements for this period. Insurers' revenue are stated and disclosed in their financial

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2. CHARACTERISTICS OF INSURERS' REVENUE AND SPECIFICITIES OF THEIR ACCOUNTING

International Financial Reporting Standards (IFRS) 4 and 17 Insurance Contracts do not contain a definition of insurers' revenue. Therefore, the definition of insurers' revenue must be sought in the general IFRS/IAS framework. In the context of the Foreword to the IFRS and the General requirements to the preparation and presentation of financial statements, insurers' revenue may be defined as an increase of their economic benefits during the reporting period in the form of cash inflows or increase of assets, respectively, decrease of liabilities, which eventually results in an increase of the equity of insurance joint stock companies. Such equity increase is different from the increases related to the shareholders' contributions. Reported insurers' revenue refers to income earned in the course of their ordinary insurance activities. Revenue gained from insurance differs from the *total comprehensive income*, which in addition to gains from insurers' ordinary activities, also comprise the other comprehensive income. To this end, insurers' revenue reflects the results from the realised insurance activity (realised profits) and becomes part of the insurance joint stock companies' equity cycle. Thus, revenue result in increase of equity arising from the increase of the economic benefit of the insurers through generation of profits as a result of realised insurance activity. Revenue is the specific outcome from the realisation of the ordinary insurance activity of the insurers, which is strictly regulated as part of the financial services offered by the financial enterprises (Code of Insurance, (2023), article 9 and Supplementary Provision, paragraph 1, item 43). Insurers generate cash flows in insurance cash funds intended for payment of compensations or amounts and ensuring insurance covers of the risks upon occurrence of events or realisation of events or conditions set out in a contract or by law.
The specificities of the accounting of insurers' revenue refer to their content, types, measurement and recognition, periods of occurrence, methods and methodology for their accounting, presentation and disclosure in the insurers' financial statements, and are as follows:
The first specificity of insurers' revenue accounting refers to their specific content and type. Non-life and life insurers account for revenue by type and content determined by the legislator and the insurance regulatory authority (Code of Insurance, 2022; Directive 2009/138/EC of the European Parliament and of the Council (Solvency II) and its regulations, 2009, and Ordinance No 53 of the FSC, 2016). Based on its content, insurers' revenue is:
<u>Insurance revenue</u>, which is gained and accounted for by the insurers with regard to the insurance contracts concluded with insureds and insuring parties, depending on the obtained license for pursuing insurance activity. This is revenue from direct insurance, passive reinsurance and active reinsurance.
<u>Investment revenue</u>, as a result of the activity carried out by the insurers as institutional investors on stock and cash markets. This is financial revenue from investment and management of generated insurance cash funds and own funds of the insurers against the risks and liabilities assumed thereunder as issuers of insurance policies. This is revenue from transactions with financial assets and instruments, from changes in their fair values, from interests, dividends, from brokerage fees, etc. Financial assets and liabilities that generate income for the insurers are their investments with fixed maturity; financial assets held for sale; investments calculated according to the effective interest rate method; financial assets or liabilities classified otherwise and accounted for at fair value in the profit and loss; interest-bearing impaired financial assets,; derivatives, etc.;
<u>Other revenue</u> of the insurers related to single disposal of fixed tangible assets (buildings, vehicles, computer equipment, etc.). Insurers may invest their own assets and up to 10% of the allocated technical provisions in investment property, which brings them rental revenue or results in increase of their equity.
The second specificity of the insurers' revenue accounting refers to the basis for their recognition in the accounting records and their financial statements. The insurance premium is an expression of insurers' revenue as a result from their insurance activity. This is the amount, which the holders of insurance policies pay by virtue of concluded insurance contracts in order to have insurance protection. This is the price of the insurance contract, it is inseparable and is paid in full in the form of money. It is not subject to free negotiations. However, it is determined by the insurance actuaries, depending on the level of probability for occurrence of covered insured risk, on the mass scale of the relevant type of insurance, on the size of the insured amount and on other factors. Insurers recognise revenue

from insurance premiums on the basis of gross accrued (written) premiums under insurance contracts received as cash flows. Recognition of insurers' revenue in accordance with the IFRS/IAS is related to two main indications: each insurance premium should be recognised individually and the time of recognition of revenue should be the receipt of the insurance premiums in the form of money. In terms of recognition of revenue, the criteria for obtaining future economic benefit and reliably measurable value of revenue must be also met.

The third specificity of the insurers' revenue accounting refers to their measurement. Insurers' revenue is measured at fair value of received insurance premiums. Revenue measurement strongly depends on a number of components, such as nature, time duration and object of the relevant insurance policy.

The fourth specificity of the insurers' revenue accounting refers to the periods of their occurrence. Insurers' revenue comprises gross flows of economic benefits during the period in which the insurance contracts have been concluded, irrespective of the fact that the insurance year does not coincide with the reporting calendar year in non-life insurance. In terms of life insurance, the insurance period comprises more than one reporting calendar years. Nevertheless, insurance revenue are charged at the time of receipt of cash flows in the form of insurance premiums paid by the holders of insurance policies – insureds or insuring parties, or insurance beneficiaries (insureds' heirs). They are accounted for as revenue during the reporting year they have been received as cash flows, notwithstanding the fact that they refer to the overall insurance period covered by the insurer, which comprises parts of at least two reporting calendar periods.

The fifth specificity of the insurers' revenue accounting refers to the methods and methodology of their accounting. They are accounted for by the insurers in strict observance of the main accounting principles, concepts and conventions as set out in the accounting legal regulations. (Accounting Act, (2021) and Ordinance No 53, (2019) We share the opinion of R. Ivanova that "Recognition and presentation of revenue should comply both with the rules for current accounting and with the rules for preparation and presentation of enterprise's financial statements. These rules are determined as accounting basis and are in conformity with the requirements of the adopted framework." (Ivanova, R., (2021)

The sixth specificity of the insurers' revenue accounting refers to their disclosure for the purposes of reporting insurers' solvency and the preparation of the so called supervisory financial statements under Solvency II Directive (2009/138/EC). The legislator obliges the insurers to ensure the completeness of data about the insurance and investment revenue they have reported. They should guarantee to the state insurance regulatory authority that the data for their revenue are presented in their financial statements truly and fairly in all material aspects.

3. ACCOUNTING OF INSURERS' INSURANCE REVENUE

This revenue comprises:

A) Direct insurance revenue – from insurance premiums; from insurance from previous years; from co-insurance; from charges and fees; from released insurance (technical) provisions; from recognized recourse under direct insurance and other direct insurance revenue.

B) Passive reinsurance revenue – from received compensations from reinsurers; from reinsurers' share in the result; from reinsurers' commissions; from passive reinsurance in previous years; from allocated reinsurance (technical) provisions and other passive reinsurance revenue.

C) Active reinsurance revenue – from reinsurance premiums; from active reinsurance in previous years; from released reinsurance (technical) provisions; from recognised recourse under active reinsurance and other active reinsurance revenue.

All insurance revenue is accounted for under passive, synthetic, book accounts, which are credited upon accrual of different types of revenue against the debit of third parties accounts and upon release of allocated technical provisions in direct insurance and in active reinsurance, or upon allocation of the shareholder's share in the assignor's provisions in case of passive reinsurance against debit of technical provision accounts. The accounts under which insurers' revenue are accounted for are debited upon their closure at the end of the reporting period against credit of Profit and loss from the current year account. The analytical accounting to the accounts under which insurance revenue are accounted for is organised by type of insurances or reinsurances.

Accounting of insurers' direct insurance revenue

Accounting models for reporting of insurers' direct insurance revenue are as follows:

<u>1. Upon direct insurer's accrual of insurance premiums under concluded insurance contracts:</u>

Dt account Customers under voluntary or compulsory insurance, or
Dt account Insurance brokers or agents
analytical account by counterparties

    Ct account Revenue from insurance premiums
    analytical account by type of insurance

2. Upon direct insurer's accrual of insurance premiums under insurance contracts concluded in previous years, which are cashed during the current reporting period:
Dt account Customers under voluntary or compulsory insurance, or
Dt account Insurance brokers or agents
analytical account by counterparties
Ct account Insurance revenue from previous years
analytical account by type of insurance

3. Upon accrual of the portion of the insurance premium attributable to the non-leading co-insurer in the total insurance premium collected by the leading co-insurer under the co-insurance contract concluded between them:
Dt account Co-insurance
analytical account by co-insurers
Ct account Co-insurance revenue
analytical account by type of insurance

4. Upon direct insurer's accrual of fees and commissions at the account of foreign insurers when their insurance products are offered:
Dt account Foreign correspondents
analytical account by counterparties
Ct account Revenue from fees and commissions
analytical account by type of insurance

5. Upon release of insurance (technical) provisions allocated by the direct insurer in previous period:
Dt account Technical provisions
analytical account by type of insurance provision
Ct account Revenue from released insurance provisions
analytical account by type of insurance

6. Upon direct insurer's receipt of amounts from recognised recourse claims brought against other insurers: (Recourse means the reimbursed payment of insurance compensation to the insurer by the party by fault of which the insured event has occurred.)
Dt account Recourses
analytical account by insurers
Ct account Revenue from recourse
analytical account by type of insurance

7. Upon direct insurer's receipt of amounts due to abandon: (Abandon means the insurer's acquired right in part of or the whole property damaged as a result of occurred insured event for which it has made an insurance payment to the holder of the insurance policy.)
Dt account Other debtors and creditors
analytical account by counterparties
Ct account Other direct insurance revenue
analytical account by type of insurance

Accounting of reinsurers' active reinsurance revenue
Accounting models for reporting of reinsurers' active reinsurance revenue are as follows:
1. Upon reinsurer's accrual of reinsurance premiums assigned to assignors under concluded reinsurance contracts:
Dt account Assignors
analytical account by assignors
Ct account Revenue from reinsurance premium
analytical account by type of reinsurance

2. Upon reinsurer's accrual of premiums under reinsurance contracts concluded in previous periods that are cashed during the current period:

Dt account Assignors.

analytical account by assignors
Ct account Revenue from active insurance from previous years
analytical account by type of reinsurance

3. Upon release of reinsurance (technical) provisions allocated by the reinsurer in previous period:

Dt account Technical provisions
analytical account by type of reinsurance provision
Ct account Revenue from released reinsurance provisions
analytical account by type of reinsurance

4. Upon reinsurer's receipt of amounts under recognised recourse claims under active reinsurance brought against other reinsurers or direct insurers:

Dt account Recourses
analytical account by insurers
Ct account Revenue from recourses under active reinsurance
analytical account by type of reinsurance

5. Upon reinsurer's receipt of abandon amounts:

Dt account Assignors
analytical account by assignors, or
Dt account Other debtors and creditors –
analytical account by counterparties
Ct account Other active reinsurance revenue
analytical account by type of reinsurance

Accounting of assignors' passive reinsurance revenue

Accounting models for reporting of assigners' passive reinsurance revenue are as follows:

1. Upon assignor's receipt of compensations from reinsurers by virtue of concluded reinsurance contracts upon occurrence of reinsured risk:

Dt account Reinsurers
analytical account by reinsurers
Ct account Revenue from received compensations from reinsurers
analytical account by type of reinsurance

2. Upon assignor's receipt of amounts under clause "Reinsurers' share in the result" from reinsurers by virtue of concluded reinsurance contracts:

Dt account Reinsurers
analytical account by reinsurers
Ct account Revenue from reinsurers' share in the result
analytical account by type of reinsurance

3. Upon assignor's receipt of commissions from reinsurers for reinsurance contracts concluded with them:

Dt account Reinsurers
analytical account by reinsurers
Ct account Revenue from commissions from reinsurers
analytical account by type of reinsurance

4. Upon assignor's receipt of amounts from reinsurers under reinsurance contracts concluded in previous periods:

Dt account Reinsurers

analytical account by reinsurers
Ct account Revenue from passive reinsurance from previous years
analytical account by type of reinsurance

5. Upon allocation of reinsurers' portion to the assignor's reinsurance provisions:

Dt account Reinsurance provisions
analytical account by type of reinsurance provision
Ct account Revenue from allocated reinsurance provisions
analytical account by type of reinsurance

6. Upon assignor's receipt of other reinsurance amounts from reinsurers by virtue of concluded reinsurance contracts:

Dt account Reinsurers
analytical account by counterparties
Ct account Other passive reinsurance revenue
analytical account by type of reinsurance

4. CONCLUSION

Insurers' revenue accounting is directly related to its analysis, which can be detailed in accordance with their structure and development dynamics. Revenue analysis is oriented to the direct factors that influence the amount of profit from the insurance joint stock company's business. The changes in the amount of revenue are identified through direct comparison between their factual (from the current year) and reference (from the previous year) values. The difference between these values affects the insurer's financial result – profit or loss for the current year. As a result of the detailed revenue analysis, insurers' management bodies are able to make decisions for the future development of the company's business, for more effective and adequate management of the insurance and investment risk.

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