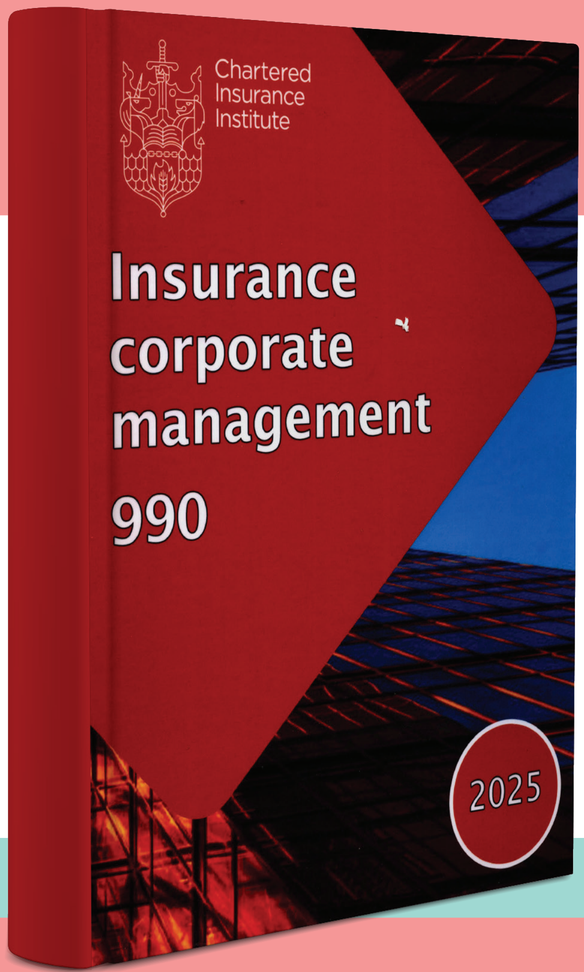
فراخوان ترجمه کتاب



پژوهشکده بیمه، به منظور کمک به گسترش دانش بیمه‌ای، ترجمه کتاب

Insurance corporate management (990)

را در دستور کار خود قرار داده است. لذا از کلیه اساتید، پژوهشگران، صاحبنظران و کارشناسان دعوت می‌شود که در صورت تمایل به ترجمه کتاب مذکور، کاربرگ درخواست ترجمه پیوست را به همراه سوابق علمی و اجرایی خود و ترجمه صفحات ذکر شده با ذکر عنوان کتاب، حداکثر تا تاریخ ۱۴۰۴/۰۷/۲۴ به آدرس ایمیل nashr@irc.ac.ir ارسال فرمایند.

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کاربرگ درخواست ترجمه کتاب

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الف- اطلاعات عمومی

نام و نام خانوادگی	
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مرتبه علمی (ویژه اعضای هیات‌علمی)	
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آدرس	
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Introduction

Refer to
M92: *Insurance business and finance* provides an excellent foundation for the corporate concepts dealt with in this chapter. We provide a copy on RevisionMate.

An insurer, by its very nature, deals almost entirely in financial transactions and data, so it is crucial that you have a good knowledge of the financial function generally, as well as an awareness of the specific issues affecting the finances of an insurance business.

In this chapter we will:

- describe the challenge presented by adopting different accounting standards and using key management tools of ratio analysis and cash flow analysis;
- consider the principles of financial planning and project appraisal, as well as the ever important subject of compliance with regulatory obligations; and
- explain what actuarial functions do within insurance companies.

Key terms

This chapter features explanations of the following terms and concepts:

Acquisition and disposal of businesses	Actuarial function	Debt	Equity
Financial planning	Financial reporting	International Financial Reporting Standards (IFRS)	Investment/project appraisal
'Keeping the score'	Managing credit	Managing liquidity	Raising capital
Ratio analysis	Rights issue	Tax planning	

A Role of the finance function

Most students could be expected to identify some of the key elements of the finance function's role, but most would not be able to list and explain the full range. Clearly, the exact range of activities will differ between companies and may also depend on whether the company is a subsidiary of another, or is the parent/holding company of others; but the basic function in any insurance company is to manage the finances and financial records of the company.

The entire business of insurance revolves around financial data and transactions; whether it is the calculation and quoting of premiums, risk limits etc. for a policy, collecting premiums, paying claims and commissions, reserving for losses, buying and selling investments and receiving investment income, paying the expenses of the business, paying dividends, taxes and managing the capital of the company etc.

A1 Keeping the score

This is the activity most students would identify.

All companies are required under the **Companies Act 2006** to 'keep adequate accounting records…that are sufficient to show and explain the company's transactions… (and) to disclose with reasonable accuracy…the financial position (of the company)'. All but the very smallest or dormant companies are required to submit financial statements that have been independently verified ('audited') by an authorised external auditor to Companies House, usually on an annual basis, though there are occasions when companies change their reporting period. Failure to submit audited accounts within the specified deadline can result in the company being fined, potentially receiving bad publicity and being struck off the Companies Register, prohibiting trade.

It is the finance function's role to maintain the financial records of the company and to prepare the company's statutory financial statements in line with company law. To do this, processes and controls need to be put in place to ensure that:

- All transactions and financial arrangements entered into by the company are recorded 'reasonably' (see Companies Act requirement above), accurately and in the time period to which they relate.
- All liabilities of the company, even where they may not yet have crystallised (e.g. claims reserve estimates), are recorded as accurately as reasonably possible given the information available.
- All monies received by and due to the company are recorded.
- All assets of the company are recorded at an appropriate value (there are various rules that apply, depending on the assets involved).
- The records are held in such a form as to enable the production of accurate and reliable financial statements for the company, within a reasonable time, when required.

Clearly, in a company of any size, the finance function will not process every transaction – transactions will be input across the business by a range of different functions and initially recorded on a variety of IT systems (e.g. policy file, claims file, investment records, payroll etc.). It is, therefore, one of the finance function's responsibilities to ensure that all these data items and transactions are captured accurately, summarised appropriately and transferred (posted) to the principal financial records of the company (often called the general ledger), from which they can then produce the financial statements.

Therefore, the finance function needs to ensure that appropriate financial controls are in place across all areas of the business to ensure that the financial records created meet the five objectives listed above.

'Keeping score' is quite a complex activity even in a small company; it can become even more so in a large and complex organisation.

Corporate management decision: Accounting records
How do you balance the need for appropriate controls with the need to avoid creating a bureaucracy?

Chapter 4

For reference only

A2 Managing the cash

A company needs sufficient cash in order to pay its debts as they fall due, and it is a general truism that more companies fail as a result of running out of cash than from making (book) losses. A company can continue to operate while making losses as long as it has access to cash, e.g. from shareholders, an overdraft etc., but if a company cannot pay its debts no one will trade with them. Most insurers, under normal trading conditions, are cash positive, i.e. cash received (from customers before a claim is paid) is greater than outgoings, though there can be times (such as following a severe claims event) when this may not be the case.

The finance function will look to manage the cash resources and cash flows of the company and ensure that there is always sufficient cash to meet debts as they fall due over time.

Cash is generated from a range of areas such as:

- Policyholders paying premiums.
- Reinsurance claims.
- Claims recoveries.
- Sale of assets, investments etc.
- Investment income.
- Raising capital (e.g. issue of new shares, corporate debt etc.).

But it is also consumed in numerous ways:

- Settlement of claims and payments to claims services providers (e.g. replacement goods suppliers).
- Commission.
- The expenses of running the business (including staff salaries etc.).
- Purchasing assets, investments etc.
- Reinsurance premiums.
- Taxation.
- Interest on financing (loans, overdrafts etc.).
- Dividends to shareholders.
- Repayment of capital (redemption of debt, buying back of shares etc.).

The finance function needs to predict the value and timing of inflows and outflows from and to all sources/uses. If the needs of the business exceed the cash generated from day-to-day activities and the sale of any assets considered reasonable to sell, the finance function will need to ensure that additional funds (e.g. an overdraft, loan, financial reinsurance, or shareholder capital) are available to meet these needs. This will involve forecasting cash flow at least six to twelve months into the future. The often complex processes necessary to implement large, one-off transactions (e.g. buying another company, redeeming corporate debt, purchasing a new office building etc.) may be set in motion months before the cash is made available/required on completing the transaction.

In addition to ensuring that cash is available to meet the company's debts as they fall due, it is also important to ensure that any cash that is surplus to the company's immediate needs is put to good use. Cash can be either invested on a short-term basis (e.g. in a deposit account) in case it is needed in the near future, or for the longer term (e.g. in corporate bonds or the stock market) if not. As a general rule, short-term investments tend to generate a lower return than longer-term ones, so it is in the interests of the company to only hold what it needs to run its business effectively in short-term investment holdings.

A key element of an insurer's cash flow is the money receivable from policyholders – in many companies the follow-up on collection of these monies is not the responsibility of the finance function but other areas of the business. In such instances, the finance function will need to ensure that robust and appropriate efforts are made across the business to collect monies due (according to the company's credit terms) to enable them to manage the overall cash position of the company with reasonable certainty.

Another key issue to be managed is the allocation of resources (cash) across the company. The finance function will normally play a significant role in the key decisions regarding allocation of cash/resources to new projects and activities.

Corporate management decision: Capital management
In an insurer, why is capital management often considered to be a bigger issue than cash flow management?

A3 Planning for the future

It is normal for companies to plan ahead – in detail for the next twelve months, and in broader terms, with less detail, for three to five years beyond that. Whether the high-level planning is carried out within finance (as is often the case), or separately in another part of the business, finance will play a key role in developing and agreeing the plans, not least because the majority of metrics that an insurer will use in measuring its business are financial. Short-term plans (within the next twelve months) typically take the form of an annual budget which, if achieved by all parts of the business, will deliver the expected/desired results, though clearly there will be many assumptions built into these budgets (ability to increase premiums, volume of premium income, claims incurred, investment performance, inflation impact on day-to-day expenditure etc.). Without a detailed set of budgets, management cannot tell whether the business is performing in the way expected, and if not, what they can do to rectify things.

Long-term financial plans will tend to focus on a few key figures (e.g. premiums, claims ratio, overall investment return, total expenses, net profit), rather than detailed budgets for each element of the business. Such plans are used to facilitate decisions regarding the shape and positioning of the business going forward, such as expanding into new areas, acquisitions, financing major IT programmes etc.

All plans developed should take account of the company's risk appetite (how much risk do we feel comfortable taking on?) and the capital currently available (or needed in the future) to support the business – significant growth and high-risk plans will require more capital than low-risk, low-growth plans. The financial and business projections will then be brought together into the insurance company's Own Risk and Solvency Assessment (ORSA). We discuss the planning process in insurance in Chapter 5.

A4 Monitoring and reporting on the business

Finance will monitor against the business plans and budgets and (typically) produce monthly management information, comparing actual performance against that budgeted. This enables management across the business, from individual department level up to board level, to assess performance, identify any issues or problems and develop actions to address them. Clearly, a key element of using such management information is to understand why things have turned out differently to expectations – such explanations will normally be developed by the business areas, not by finance.

In addition to internal management information, all companies must produce annual financial statements which, once audited (if required) must be published and a copy sent to Companies House. Such financial statements are one of the key means by which a company communicates with its shareholders and the other companies and groups it does business with (banks, bondholders, suppliers, regulators etc.). The finance function is responsible for the preparation of such financial statements. This includes both the detailed accounts contained within them and a significant part of the narrative and explanations that describe the company's performance. Quoted company financial statements typically run from 50 to 100 pages (and sometimes longer).

It is typical for large, quoted companies to also produce quarterly interim financial reports to update the shareholders and markets on performance etc. In the same way that finance produces the annual financial statements, they are also responsible for quarterly performance reporting. Such quarterly reports are not audited in the same way as the annual financial statements, but they are still required to be accurate and not misleading.

Corporate management decision: Financial reporting
Why do some companies decide to report quarterly, rather than annually, to their shareholders?

A5 Overseeing and managing large transactions

The finance function will typically take a very significant role in any large (one-off) transaction, whether that is carrying out due diligence on a potential acquisition, or producing the large quantities of supporting documentation and financial data for share or bond issues etc.

A6 Ensuring compliance with taxation obligations

Insurers are subject to a wide range of taxes and the finance function will usually be responsible for making all relevant returns and payments to the taxation authorities and ensuring that all necessary records are maintained.

The main types of taxation and tax returns that the finance function is responsible for managing and paying in the UK are:

- corporation tax;
- payroll tax;
- value added tax (VAT); and
- insurance premium tax (IPT).

In addition, for companies operating internationally, there will be a range of taxes to be paid relevant to the locations in which the company does business.

Chapter 4

B Principles of financial reporting

Financial reporting should provide a clear view of the company's assets and liabilities at a point in time (the reporting date) and its performance in the period up to that date. As far as possible, third parties (such as investment analysts) also require that the information produced by different companies is essentially comparable between companies.

To enable this, companies are required to produce formal (i.e. published outside the company itself) financial statements to standard conventions and principles (Generally Accepted Accounting Principles (GAAP) or Accounting Standards) for the country in which they are registered. Accounting standards include UK GAAP, US GAAP, Luxembourg GAAP, Singapore GAAP and many others. In addition, there are the International Financial Reporting Standards (IFRS), which can be applied in most of the world (over 100 jurisdictions, including the EU and most of Asia and South America, but not including the US).

The basic **principles of any financial reporting** are that the information must be:

- materially accurate ('material' means that all significant and important transactions and balances are included);
- complete (nothing significant missed out, or included which should not be);
- an essentially true picture (i.e. has not been produced in such a way as to give a misleading impression);
- accurate in matching income and expenditure to the time period in which it was earned/incurred; and
- clear on what basis and assumptions the financial information has been produced – there are various different ways in which certain transactions, assets or liabilities can be recorded, and there can be various assumptions and estimates used in arriving at some of the figures reported. The reporting should accurately describe the basis of reporting of key items and clearly describe the key assumptions and estimating techniques used.

Estimation is an important element of insurance company accounts; and the key estimate is the value of claims liabilities. Actuaries are generally used to assist with estimation of the value of the claims liabilities of the insurance company. They will draw on claims information provided by the claims handlers, information about what claims have been paid and also use wider market information to come up with their estimate of the claims known and not known by the company.

Be aware

Internal accounts, management information etc. can be prepared on any basis desired, and are not required to conform to such standards/principles, though clearly they will be based on the same underlying data. It is the external auditor's role to independently confirm that the published financial statements are true, fair and not misleading, and have been prepared in accordance with the stated conventions and principles.

C International financial reporting standards

International Financial Reporting Standards (**IFRS**)) were developed to try and create a single standard that was understood and accepted worldwide (or at least in the major industrialised nations) for use by international companies, or companies with shareholders from many countries. In theory, this is a very sensible idea, if international agreement can be reached and the results are relatively simple and straightforward to implement.

As with all such attempts at international standardisation of complex issues, they took a long time to reach agreement upon, and there are numerous areas where work still continues. However, there was sufficient agreement on a wide range of basic standards to allow many large companies to move 'to an IFRS basis'. At the same time, many local accounting standards have moved or converged towards financial reporting principles consistent with IFRS.

IFRS 17

IFRS 17 took effect for insurance contracts for reporting periods beginning on or after 1 January 2023. It is now the reporting standard for large insurance companies.

The key things IFRS 17 does are to:

- make insurance companies' financial statements across the world more comparable and consistent;
- make financial statements more comparable between types of insurance company, with all insurance companies required to follow more consistent recognition and measurement principles and disclosures; and
- increase the level of information that users of the financial statements have access to, for instance, insurance companies need to disclose their best estimate of claims liabilities and give detailed information on how this has changed in the reporting period.

IFRS 17 reporting is primarily based on cashflows and requires updated information regarding the obligations, risks and performance of insurance contracts. It affects how insurance contracts are recognised and measured, and so impacts profit and equity, as well as reserving, financial reporting processes, actuarial models and IT systems.

The key principles are:

- best estimate of expected future cash flows discounted for the time value of money;
- allowance for risk associated with those cash flows;
- no recognition of profit until services are provided; and
- timely recognition of any expected losses on onerous contracts.

The valuation under IFRS 17 is not identical to an economic valuation (or a Solvency II valuation). Therefore, valuation differences remain between the economic, IFRS and Solvency II balance sheets.

The valuation of the liabilities is much more prescriptive than under IFRS 4 and differs between different types of insurance companies:

- life insurers use the default contractual service margin (CSM) approach; and
- general insurers the premium allocation approach.

The different approaches reflect the IFRS 17 requirement to defer the recognition of profits in line with the service provided. A CSM is created on the balance sheet, which is effectively a stock of future profit. This particularly affects UK annuity writers, where profits are spread over long periods of time compared to using the current GAAP, where a large proportion of profits are recognised upfront.

For many insurance companies the recognition and measurement principles will both be very complex and costly to implement. It is particularly complex for those that insure multi-year and life insurance products. Consequently, such insurers are going through significant implementation projects.

The impact of IFRS 17 reporting will be significant for users of the financial statements of insurers and will affect listed insurers in particular.

IFRS 9
IFRS 9 is a new accounting standard covering the classification and measurement of financial assets after initial recognition. The adoption date was the same as for IFRS 17, due to the relationships between the two standards.

Its main features are:

- *classification* and measurement of financial assets: IFRS 9 introduced a new approach based on the business model and the cash flow characteristics of the assets;
- impairment of financial assets: a new expected credit loss model that requires entities to recognise impairment losses earlier; and
- a closer alignment between general hedge accounting and the risk being managed, allowing more flexibility in the application of hedge accounting.

Before IFRS 17 and IFRS 9 were implemented, insurance companies reported using IFRS 4.

Research exercise

Direct Line Group have produced a presentation on the expected effect of the application of IFRS 17 on their financial statements. Access the presentation and review pages 2, 9, 14 and 15 in particular to gain an understanding of how IFRS 17 impacts the presentation of both their income statement and balance sheet, as compared to IFRS 4.

You can find it here: *www.directlinegroup.co.uk/content/dam/dlg/corporate/images-and-documents/investors/oar-2023/documents/annual-report-and-accounts-2023.pdf.*

Also review the *Consolidated income statement* and *Balance sheets* contained in the 2023 and 2022 accounts:

www.directlinegroup.co.uk/en/investors/results-reports-and-events.category1.year2023.html.

Whether IFRS 17 applies to smaller or non-listed insurers depends on if they are required to use IFRS for their financial reporting. If the small insurer is not required to use it, it can choose to apply IFRS 17 voluntarily, or continue to use their local GAAP. (In the UK, the reporting is set out in Financial Reporting Standard 103.) However, it may face some challenges accessing capital markets or attracting investors if it does not use IFRS 17. This is because it will reduce the comparability and transparency of its financial statements.

Where an insurer is part of an insurance group that does apply IFRS, it will need to report IFRS figures and other information for consolidation purposes. It is, therefore, also subject to IFRS 17 so it will have to implement it and comply with its requirements. This may entail significant cost and effort.

On the Web

www.ifrs.org/issued-standards/list-of-standards/ifrs-17-insurance-contracts/.

Corporate management decision: Reporting using IFRS 17

What are the advantages and disadvantages of reporting voluntarily under IFRS 17?

D Regulatory reporting

Refer to

Chapter 8 provides more information on regulation.

Insurance is a highly regulated industry. A key thing regulators want to know is that insurance companies have enough money to fulfil their current and future insurance obligations to policyholders. As such, regulators require insurance companies to produce financial regulatory reporting on an ongoing basis. Finance functions are responsible for the production of this financial regulatory reporting.

All EU insurance companies above certain size thresholds must follow the **Solvency II Directive**. Solvency II requires insurers to produce a Solvency and Financial Condition Report. This report includes a balance sheet showing the current financial position of the company and whether it meets its solvency capital requirements. It also includes a large amount of information and analysis on the insurance company and how it has developed in the reporting period.

The recognition and measurement principles of financial items recorded in the Solvency II balance sheet are not consistent with normal accounting standards. They are also relatively complex. They require finance functions to work closely with actuarial functions.

In addition, most larger insurers are required to provide quarterly Solvency II balance sheets to their regulators.