

# Reporting of Gross Written Premium in the Selected European Countries<sup>#</sup>

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## Introduction

The main goal of this article is to compare the content of gross written premium in the selected European countries. The insurance system is an exceedingly important branch of every free market economy and its function is non-fungible in a modern state with a free market economy. All changes in the society directly reflect into the insurance industry as well. New risks appear hence new insurance products appear as well.

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The insurance system represents a specific branch of economics that provide a financial elimination of risks that influence activity of an individual economic entity. In conditions of the Czech Republic under the term insurance system is understood a branch of economics that deals with insurance, security and intermediary activity in area of commercial insurance and connected activities. For the summary of risks covered by an appropriate insurance as they are undertaken by the insurance company is used a term insured risk. The insured risk is always determined by the insurance law scope, the insurance time validity is mentioned – period of coverage and local definition. The activity of

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<sup>#</sup> The article is one of the research outputs of *Institutional Support for Long-Term Strategic Development of Research, Development and Innovation* at the Faculty of Finance and Accounting, University of Economics Prague in 2013.

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insurance companies is at the present time controlled by laws, public notices, stipulations and by-laws of insurance companies that represent so-called insurance terms and conditions, extension of the contribution (including introduction and conclusion) (Banks, 2004).

## **Gross written Premium**

### **Definitions and types of premium**

Premium represents a pre-paid hire for assignment of negative financial implications of accidentality from the enterprise and other economic entities to the insurance company. The insurance payment represents a compensation for damage by the insurance company on the insured property, compensations from the casualty, life, retirement income insurances or the insurance payment with the liability insurance.

Insurance companies can't be considered only as companies providing insurance protection for their clients but also as significant investors that as a result of their activity temporarily dispose with available financial assets of their clients. From the financial assets received for taken insurance premium, the insurance companies create so-called „monetary reserve“(technical reserves that are financially placed) that in case the insured event occurs are used for payment of indemnification. Whereas one of insurance essential features is the time disagreement between the premium payment (with a financial service – premium purchasing) and Insurance payment providing (the insurance payment can occur many years after the premium payment) the insurance companies carry business with these assets.

The insurance system branch analogous to the banking system, carry business with a relatively low operating of the original capital and manage financial assets of their clients. That is why banking and insurance systems belong among most regulated branches in developed economies. The necessity of regulation comes out of the insurance service character. The goal of the state regulation is above all the protection of clients that have made an insurance contract, providing the insurance system branch stability, providing the transparency with running the insurance and covering activity.

The insurance market in EU is a matchless world example of integrated insurance area. In EU is from the second half of 90's exercised a system of one permission (one license - European passport) form insurance activity running. To the insurance company founded and

registered in one of the EU member countries is provided to sell its products via offices in another EU country or sell them directly from its head office via borders in all EU area by virtue of this only license. In the host state is the license made up only by a notification procedure. A pertinent agency of the state authority is than responsible for the insurance company financial health monitoring and this authority is mutually accepted within EU.

Basic classification of premium is for the non-life insurance – above all represented by property insurance, liability insurance, casualty insurance and private health insurance and for life insurance – above all represented by insurance of persons (Daňhel, 2006; Meluchová, 2004). Among basic differences in accounting of insurance companies and business entities belong:

- different asset classification for financial placement and other property of the insurance company,
- creating technical reserves,
- valuating by the fair value at financial placement and technical reserves to the date of final accounts or to another moment when the final accounts is made,
- separated monitoring of life and non-life insurance,
- costs and profits are divided in accordance with activities on a servicing account for the life insurance and a non-servicing account,
- accounting about reinsurance,
- insurance company solvency declaring.

### **Gross written premium in the Czech Republic**

Premium represents a price of insurance. Insurance serves in the insurance company for coverage of insurance risk, acquisition costs, costs of management, saving items and insurance company margin. In the Czech Republic is the written insurance defined as: „specified insurance includes all due amounts payable during the accounting period in accordance with insurance agreements independently of the fact if these amounts are related to the later accounting periods“ (Bokšová, 2004). Written premium includes premium from new insurance agreements, from renewed insurance agreements, changes of existing agreements and received reinsurance premium. Specified premium represents a profit for the insurance company and simultaneously appears a receivable account behind the client (Huleš – Hornigová, 2009). Receivable from gross

written premium does not arise from legal insurance and life unit link. In these cases is account on the cash basis.

Often discussed question is whether account about the premium in a set year in accordance with its maturity or account about the year's premium without the connection to particular payments (Bokšová, 2010; Bokšová, 2004). I think that written premium originates without a connection to particular payments because the payments themselves are not a specification but only a way of payment.

Example: In the agreement is set down a year's insurance 2,800 CZK from 1. 4. 200X (payable in quarters at value 700 CZK to 2.4, 2.7, 2.10 in a current year, 2.1. in the following year). Of the day 1. 4. 200X arises a receivable account behind the client and a profit from a financial bargain at value 2.100 CZK that would be paid in quarters. In practice we meet with a situation that the insurance companies account the year's premium in accordance with their maturity, in our example would account 3x a specification in a current year (a receivable account behind the client and profit at high 700 CZK) and their payment. This is not in accordance with a true and honest picture of the insurance company activity. This situation would be possible in a case the insurance company made an agreement with the client for a quarter of the year that will be prolonged repeatedly than will arise a receivable account behind the client and profit always to 1.4, 1.7 a 1.10 in a current year at value 700 CZK.

Another opened question is, if it is possibly right that arises a written premium only at value of payable premium in the current year? Isn't it more true to define the premium in accordance with the validity of the contract (as it is valid in some Anglo – Saxon countries)? Doesn't arise to the insurance company from a made agreement a claim for the premium minimally for a period when the agreement is from the client's party non-callable?

Ex: An insurance agreement for 5 years is made. The client can terminate the premium at first after 18 months of premium duration. Into the written premium is caught a written premium for the 18 months because for this time the insurance company can be sure that will receive the premium. Within EU there is no a high profile to this dilemma (Swiss Re, 1986).

Even for insurance companies is valid that profits and costs must be declared at the moment of their occurrence and in a period they are objectively and time connected with, it means keeping the accrual

principle of accounting. Part of the specified premium that is in the insurance company payable in the current year is related to following accounting periods must be time distinguished with help of the technical reserve for unearned premium, separately for life and non-life insurance, i.e. on the technical account of the non-life insurance or to the technical account of the life insurance. Technical insurance reserves are created into cost and are payable into insurance company profits. Direction of EU make possible to use several methods for the calculation of unearned premium reserve (method with linear risk distribution - pro rata temporis, twenty-fourth, twelfth or methods with non-linear risk distribution).

Ex: Made insurance contract for household insurance from 1. 5. 2006 to 30. 4. 2007, year premium 1,200 CZK. Semi-annual payments with issuing date 1. May and 1. November agreed.

Written premium in year 2006 amounts 1,200 CZK, unearned premium reserve 400 CZK, earned premium in year 2006 amounts 800 CZK.

### **Problem formulation and methodology**

The object of the research was to compare the reporting of gross written premium in selected countries of Central and Eastern Europe. Firstly it was necessary to define a set of questions which were addressed to insurance companies in particular countries. The data collection from individual insurance companies in selected countries has been conducted by Mencl (2012).

The define set of question is:

1. If there are contracts in NL insurance with less than annual installments (quarterly, monthly), does the GWP for the year contain only the installments that are due in this year or the whole contacted amount?
2. If there are contracts with life insurance, is the GWP counted on paid premiums during the year or a different method is used?
3. If there are contracts with several installments in the year, how big is the receivable for the client? i.e. Is the receivable created in the amount of the installment or the amount counted on an annual base?
4. If there are taxes connected to the premium, are these taxes part of the GWP and then deducted as cost, or are they accounted separately?

The main aim of this set of question was to find whether the gross written premium is reported in all selected countries in the same way and how many of these countries are in favour of the procedures used in the Czech Republic. The authors of the research believe that the methodology of reporting of the written premium in the Czech Republic is not quite true picture of reality during the year, as the gross written premium in most of the insurance companies in the Czech Republic is charged under the payment method set in the contract (1x annually, quarterly, monthly, etc.), but revenues for the accounting period from gross written premium are always showed in the correct amount.

## **Problem solution**

Responses were collected in scope of the survey from 13 states, including the Czech Republic. Based on the analysis it was found that there is no same methodology of reporting of gross written premium in these countries.

### **1. Non – life Gross written premium**

There are currently following options for non-life insurance:

#### **A. Gross written premium is charged on the basis of annual premium.**

This version is factually correct according to the authors. It is used in the following countries: Bulgaria, Croatia, Poland, Romania and Ukraine.

#### **B. Gross written premium is charged on the basis of installments (set method of payment).**

This variant is used, including the Czech Republic, in the following countries: Hungary, Serbia, Slovakia and Slovenia.

#### **C. Gross written premium is charged at the time of acceptance of the cash payment.**

This method is used only in: Belarus and Kazakhstan. There is a high probability of failure to pay the claim from the insurance contract in these states, and therefore the revenues are showed at the moment when the payment is credited.

#### **D. Gross written premium is charged at one time for the entire contract.**

This method is used in Russia. It is also used in some Anglo-Saxon countries.

## **2. Life classic Gross written premium**

There are currently following options for the life classic insurance:

**A. Gross written premium is charged on the basis of annual premium.**

This version is factually correct according to the authors. It is used in the following countries: Bulgaria, Romania.

**B. Gross written premium is charged on the basis of installments (set method of payment).**

This variant is used, including the Czech Republic, in the following countries: Hungary, Poland, Russia, Slovakia, Slovenia and Ukraine.

**C. Gross written premium is charged at the time of acceptance of the cash payment.**

This method is used only in: Kazakhstan and Serbia.

**D. Gross written premium is charged at one time for the entire contract.**

This method is used in none of the selected countries.

## **3. Life Unit linked Gross written premium**

It failed to find the necessary data in 6 countries in the area of life unit linked insurance contracts. There are currently following options for life unit linked insurance:

**A. Gross written premium is charged on the basis of annual premium.**

This version is factually correct according to the authors. It is used in the following countries: Bulgaria.

**B. Gross written premium is charged on the basis of installments (set method of payment).**

This variant is used in the following countries: Poland, Romania.

**C. Gross written premium is charged at the time of acceptance of the cash payment.**

This method is used in: Croatia, Czech Republic, Hungary, Slovakia and Slovenia.

**D. Gross written premium is charged at one time for the entire contract.**

This method is used in none of the selected countries.

The following Tab. 1 illustratively summarizes the various options of reporting of gross written premium in particular countries, divided into non-life insurance, life classic insurance and life unit linked insurance.

**Tab. 1: Methods of reporting of Gross written premium (GWP).**

Country	Non-life	Life classic	Life unit linked
<b>Belarus</b>	cash	/	/
<b>Bulgaria</b>	annual	annual	annual
<b>Croatia</b>	annual	cash	cash
<b>Czech</b>	installments	installments	cash
<b>Hungary</b>	installments	installments	cash
<b>Kazakhstan</b>	cash	cash	
<b>Poland</b>	annual	installments*	installments
<b>Romania</b>	annual	annual	installments
<b>Russia</b>	contract	installments	/
<b>Serbia</b>	installments	cash	/
<b>Slovakia</b>	installments	installments	cash
<b>Slovenia</b>	installments	installments	cash
<b>Ukraine</b>	annual	installments	/

Source: Mencl (2012).

Legends: \* = in Group business based on collection, A = annual (posting GWP at once based on contractual amount – annual amount), B = installments (posting GWP based on invoice (installment) frequency – not annual amount), C = cash (posting GWP based on collection of premium), D = contract (GWP is charged on the basis of the entire contract – even multi-year), / = the information was not found.

## Conclusion

The main goal of this article was to compare the content of gross written premium in the selected European countries. The research clearly confirmed that the published information about revenues of commercial insurance companies (GWP) in particular countries are based on different foundations and methodologies, thus statistical information provided from each region (Central Europe, Eastern bloc, etc.), types of insurance (non-life, life classic, life unit linked) and the like are biased and in many cases they cannot be aggregated.



The authors of the article dare to claim that in case of overall data about gross written premium in particular European regions there is a census of an incomparable (disparate) data, which can lead in many cases to erroneous conclusions when evaluating the level of insurance in individual countries and regions.

Research has shown that for comparability of data and its information capability it is necessary to establish a precise definition of gross written premium. Only in this way will be possible to ensure the credibility of statistical data.

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### **ABSTRACT**

The goal of this article is to compare the content of gross written premium in the selected European countries. The subject of insurance companies is to provide insurance protection based on commercial principles. All changes in the society are directly reflected in the insurance activity. New risks appear and therefore new insurance products appear as well. Insurance activities are divided into non-life insurance, life insurance, and in recent years increase also a share of life unit linked insurance. Yield in the form of gross written premium arises to the insurance company under insurance contracts and then must be adjusted about so called unearned premiums. The article deals with outputs of research of gross written premium in particular insurance companies in different states of Central and Eastern Europe.

**Key words:** Insurance; Gross written premium; Non-life insurance; Life insurance; Unit linked.

**JEL classification:** M41.