Comparison Standard No. 28 Accounting in Public and Private Insurance Companies

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Abstract. Before Standards No. 28 28 accounting, insurance companies in Iran in order to financial reporting their general insurance activities in cases where regulations of the High Council of Insurance given certain procedures follow the regulations and in other cases, the accounting standards used. According to the explanations given, the purpose of this study was to compare the effect of standards 28 accounting in the public and private insurance companies in Iran. In this research central parameters such as median, mean and dispersion parameters such as standard deviation, skewness and elongation and correlation coefficients were used. Notable thing is that in this study time proportional method \( \frac{1}{n} \) was used that he reason is that most insurance companies use this method and lack of access to information and the diversion of other methods. The results showed that Standard No. 28 Accounting for income and rate of profit growth in public and private insurance companies are the same and has a positive and significant impact.

Keywords: Profit, Profit growth, Standard No. 28 Accounting

1. INTRODUCTION

The insurance industry has always been considered one of the financial institutions in terms of economic and social has important effects. The most obvious effect of insurance activities is ensure and relief for the owners of capital. Insurance companies offer a variety of insurance services and potential compensation, support investors against various events, so that the owners can pay the amount that is low than the total capital of insurance coverage, benefit from insurance coverage service and in connection with preserving their capital to be comfort.

The insurance industry as one of the financial institutions in terms of economic and social dimensions has important impact. The most obvious effect of insurance is confidence and peace of mind for owners of capital. Insurance companies offer a variety of insurance services and potential compensation, support investors against various events, so that the owners can pay the amount that is low than the total capital of insurance coverage, benefit from insurance coverage service and in connection with preserving their capital to be comfort. Comprehensive social and economic consequences of insurance companies’ performance at the macro and micro level requires the information required by the users of the financial reports of these companies, especially in the case of performance and the financial situation they are related, it is important to provide support and comparability. Such information should be provided in accordance with the accounting standards of each country. At present, the general insurance activities in the scope of performance of the standard No. 28 accounting, the standard but in some cases conflicts with regulations of the High Council of Insurance, in particular Regulation No 58 (Regulation of technical save of insurance companies). According to the explanations given in this study compare the effect of Standard 28 Accounting in public and private insurers in Iran.

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2. THEORETICAL FOUNDATION AND RESEARCH BACKGROUND

Standard no. 28 accounting, the objective of this standard is prescribing accounting practices premiums, losses and expenses, obtain direct public insurance and reinsurance as well as the disclosure of information of this type of activity in the corporate financial statements and insurance institutions that at first April 2007 is applicable but actually after January 2008 was used.

1.2. Independent variable

1.1.2. Unearned premium income (Save Premium)

Part of the premiums relating to insurance policies issued during a fiscal period that is attributable to risk coverage after the end of the fiscal period is recognized as unearned premium and estimation method of unearned premium to be selected in such a way that the estimated amount has no significant difference with the actual debt on the balance sheet data (Committee "Accounting organization Accounting Standards Publications). For calculating the premium save in accordance with Regulation 22, the net share maintenance with earn reinsurance premiums from issued premiums should be calculated. Then, for all fields of insurance, except for car insurance 40% premium (premium issued during the year after deducting the reinsurance cession) in the field of cars 45% premium (premium issued during the year, after deducting reinsurance premium save assignment) is identified.

Standard 28 accounting is part of the premium associated with the insurance policies issued during the financial period attributable to the risk cover after the end of the fiscal period is not recognized as unearned premium. Estimation method of unearned premium to be selected in such a way the estimated amount has no significant difference with the actual debt on the balance sheet date. In cases where the pattern of risk over the course of insurance almost is uniform and using time-proportional method to calculate the unearned premium and methods of calculation of the unearned premium in time-proportional method for the yearly insurance include daily \( \left( \frac{1}{365} \right) \) monthly \( \left( \frac{1}{24} \right) \) seasonal \( \left( \frac{1}{8} \right) \) and annual \( \left( \frac{1}{2} \right) \). In daily practice, unearned premium, including total unearned premium at the end of the fiscal period due to the unexpired period of insurance is calculated. In the seasonal approach assumes that the issuance of insurance policies during the season evenly, while the monthly approach assumes that the issuance of insurance policies during the month is uniform.

If the issuance of insurance policies is not uniform during the financial period if the length of the desired period to calculate unearned premium to be less, it lead to increases the level of accuracy. In cases where the premium in proportion to time is recognized as income, time-proportional method should be selected and used such way that its accuracy is not less than seasonal \( \left( \frac{1}{8} \right) \) method. If the insurance policy is more than a year, time-proportional for annual premium is considered in the calculation and a premium in excess of one year, have not been fully considered as unearned premium (Committee on Accounting Standards, 2009).

2.2. Dependent variable

1.2.2. Profit growth rate

Profit growth rate used in the Gordon model, is continuous and suitable growth rate. With EPS Financial Statements of public and private insurance companies, EPS annual growth rate as the initial estimate of growth rate for each year for 5 years and prior periods were calculated in order
to limit the impact of volatility and negative numbers in annual growth rate of EPS, the estimated continuous growth rate is as the following: (4). The percent increase in profit per year compared with the previous year profit growth rate as a result, factors such as the investment rate from the effective interest rate are decisive. However, in this study, such as interest rate, rate matching and continuous growth is estimated (5).

In three steps to adjusted growth rates were calculated:

A) an annual growth rate of zero to negative; b) an annual growth rate between zero and 50% were considered identical; c) an annual growth rate of more than 50%, 50% was placed.

It is noteworthy that the profit used in the Gordon model, is continuous and suitable growth rate. With regard to the first annual profit growth rate of fluctuations great majority of companies in Tehran Stock Exchange and second, an annual growth rate of some negative observations, and accurate estimation of continuous growth rate is difficult and requires great care.

B) Particularly in the latter case, if a negative annual growth rate in a given year can be problematic eps, the result of this continuous negative growth rate of extraction is questionable; for continuous negative growth rate is not acceptable that means smaller companies continued and economically superior to closing the economic entity on its continuation. Continuous growth rate in each of the phases was calculated using the following formula:

$$g_{tc} = \sqrt[5]{(1 + g_t)(1 + g_{t-1})(1 + g_{t-2})(1 + g_{t-3})(1 + g_{t-4}) - 1}$$

gt a continuous annual growth rate for year t
gtc continuous growth rate in year t

2.2.2. Profit

Excess of revenues over expenses for a given accounting period, which represents a net increase in equity and profit from ongoing business activities and operations, accidents and other ancillary operations, events and circumstances affecting the entity is identified and measured in accordance with GAAP. (Accounting Standards Committee)

3.2. Background research

Daniel Zieling, Antje Mahayni, Sven Balder (6) conducted a study sought to examine the evaluation of the performance optimization portfolio insurance strategies. The researchers optimize portfolio performance index 500 insurance companies in the period 1985 to 2013 were reviewed. The study sought to answer the following questions, if the constant proportion portfolio insurance strategies (CPPI) can be modified by means since the different variables associated with fluctuations in estimated future can be improved.

David L. Fullera, Marianna Kudlyakc, Damba Lkhagvasuren. (7) a comparison of common standards for general insurers in the UK and America concluded general insurance companies of these two countries do not comply with accounting standards and there are loopholes to pay.

Chien-Chiang Lee, Yi-Bin Chiu (8) in a study to examine the impact of real income was at a premium. The results shows, life insurance premiums are due to real income are considered as luxury goods. The results suggest that with time stretching insurance premium income would have increased similarly. On the other hand the use of economic and financial variables in the investigation, the premium increases more important than ever.
3. RESEARCH METHODOLOGY

This research in term of purpose is applied research. According to this study, in terms of the purpose of the application, in terms of collecting data is a correlation. In addition to collecting data through observation insurance company’s financial statements and other reports and other private insurance companies with extensive study of literature and history of research in this area, we take action. The effect of the independent variables related to the use of regression analysis was made to evaluate the linear relationship between the dependent and independent variables of the regression coefficient test will be used. For normally distributed variables and the remaining kolmogorov-Smirnov test will be used. T-test for equality of variances will be used. For tends toward a determination coefficient Pearson will be used and for linear independence variables chi-square test will be used.

1.3. Hypotheses

Effect of Standard No. 28 Accounting in the interest of public and private insurance companies is the same.

Effect of Standard No. 28 Accounting in the rate of profit growth of public and private insurance companies is the same.

2.3. The Research Model

\[ \text{Save premium} = \alpha_0 + \alpha_1 g_{tc} + \alpha_2 \text{Profit}_t + \varepsilon_t \]

Save Premium
\( g \): profit growth rate
Profit: Net income

4. EXPERIMENTAL RESULTS

1.4. Hypothesis Test

In order to test this hypothesis (variables factor) of the t-statistic and its significance level used. If the absolute value calculated t is greater than t table, the null hypothesis is rejected and the significant factor would otherwise null hypothesis cannot be rejected. The significant level indicate at least likely to confirm the null hypothesis based on desired coefficient is zero states that if the probability is greater than 5%, null hypothesis can be rejected otherwise, the coefficient is significant.

- The first sub-hypothesis: Effect of Standard No. 28 Accounting in the interest of public and private insurance companies is the same

Table 1.4. The results of the first hypothesis test for Iran Insurance Company.

<table>
<thead>
<tr>
<th>Dependent Independent</th>
<th>Description</th>
<th>Y₁</th>
<th>X₁</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unearned premium</td>
<td>The coefficient of determination</td>
<td>0.176</td>
<td>0.264</td>
</tr>
<tr>
<td></td>
<td>T-statistics</td>
<td>4.579</td>
<td>5.923</td>
</tr>
<tr>
<td></td>
<td>0.0000</td>
<td>0.0000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Test scores</td>
<td>reject</td>
<td>reject</td>
</tr>
<tr>
<td></td>
<td>Watson camera</td>
<td>2.048</td>
<td>2.333</td>
</tr>
</tbody>
</table>
Review the t-statistic for Iran Insurance Company (4.579) unearned premium at the 5% error level has a significant positive effect on the dependent variable Y2 (profit), thus it can be stated hypothesis H0 is rejected at the confidence level higher than 95% and there is a correlation between unearned premium and profits. The value of the t-statistic for private companies (5.923) unearned premium at error level 5% has a positive and significant effect on the dependent variable Y2 (profit), thus it can be stated hypothesis H0 is rejected at the confidence level higher than 95% and there is a correlation between unearned premium and profits. Based on the analysis table shows, that unearned premium for with profit growth rate for Iran Insurance Company is higher than that for private companies. However, given the significance of each variable, hypothesis confirmed the positive correlation between unearned premiums with profit determined.

- The second sub-hypothesis - Effect of Standard No. 28 Accounting in the rate of profit growth of public and private insurance companies is the same.

**Table 2.4.** The results of the first hypothesis test for Iran Insurance Company.

<table>
<thead>
<tr>
<th>Dependent Independent</th>
<th>Description</th>
<th>Y2</th>
<th>X2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intellectual Capital</td>
<td>The coefficient of determination</td>
<td>0.176</td>
<td>0.314</td>
</tr>
<tr>
<td></td>
<td>T-statistics</td>
<td>4.579</td>
<td>4.433</td>
</tr>
<tr>
<td></td>
<td>Test scores</td>
<td>reject</td>
<td>reject</td>
</tr>
<tr>
<td></td>
<td>Watson camera</td>
<td>2.048</td>
<td>2.018</td>
</tr>
</tbody>
</table>

Review the t-statistic for Iran Insurance Company (4.579) unearned premium at the 5% error level has a significant positive effect on the dependent variable Y3 (profit growth rate), thus it can be stated hypothesis H0 is rejected at the confidence level higher than 95% and there is a correlation between unearned premium and profits. The value of the t-statistic for private companies (4.433) unearned premium at error level 5% has a positive and significant effect on the dependent variable Y3 (profit growth rate), thus it can be stated hypothesis H0 is rejected at the confidence level higher than 95% and there is a correlation between unearned premium and profits. Based on the analysis table shows, that unearned premium for with profit growth rate for Iran Insurance Company is higher than that for private companies. However, given the significance of each variable, hypothesis confirmed the positive correlation between unearned premiums with profit determined.

5. CONCLUSION

Since the unique characteristics of insurance activities, the need to develop a separate accounting standard was necessary; Standard No. 28 Accounting (general insurance activities) prepared and has been in force since the beginning of 2007 and now the general insurance activities in the scope of this standard. However, the standard in some cases by the Supreme Council of Insurance Regulations, particularly Regulation No 58 (technical reserves of insurance companies) those insurance companies is based on founded Central Insurance of Iran and Insurance Act are required to follow it. (Stability, 2008: 23) is different. Based on the assumptions described in the study results are summarized as follows:

1. The first sub-hypothesis Effect of Standard No. 28 Accounting in the interest of public and private insurance companies is the same

According to the results obtained in the analysis of this hypothesis should be expressed, not by increasing premiums to income, which refers to the part of the premiums relating to insurance
policies issued during the financial period attributable to the risk cover after the end of the financial period as the premiums are not income to be identified, interest income resulting from the difference between the insurance company increases its cost. Perhaps it can say the insurance companies on the date that the contract of insurance accepted risks and the amount of the premium can be reliably measured and how to identify them by looking to increase their profits. On the other hand it is a risk cover. The result of this research is consistent with study of Hasas Yeganeh and Doost Mohammadi (11).

2. Second hypothesis Effect of Standard No. 28 Accounting in the rate of profit growth of public and private insurance companies is the same.

As a result of the assumption that the increase in unearned premium, which refers to the part of the premiums relating to insurance policies issued during the financial period attributable to the risk cover after the end of the financial period as the unearned premium is identified, profit growth rate, the percentage increase in profit per year compared to last year increased. The reason for this is that in most cases insurance policies covering the distribution of risk over the period of risk (for insurance) has large fluctuations, at least in Iran, in these circumstances, a premium or a premium save increases to be recognized through income. According to Standard No. 28 Accounting, which it admits, and the result of this assumption can be expected, the rate of profit growth over the previous year due to the foresight of insurance companies increased. The result of this research is consistent study of Hasas Yeganeh and Doost Mohammadi (11). As well as research is consistent study of Kohlbeck, M & Warfield, T (9) 30 years of accounting standards has been published and do not observed significant differences in accounting standards, is corresponded.

REFERENCES