

Directive 91/674/EEC

on the annual accounts and consolidated accounts of insurance undertakings

Dominique THIENPONT
DG MARKT, Insurance and Pensions Unit

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Objectives of the Directive 91/674/EEC

- **The Fourth Directive on annual accounts (1978) and the Seventh Directive on consolidated accounts (1983) allowed MS not to apply them to financial institutions, pending the adoption of provisions specific to financial sectors.**
- **In this context, the Insurance Accounts Directive (IAD) is intended to facilitate the comparison of annual and consolidated accounts of insurers and reinsurers in the EU, for supervisory authorities and other interested parties. Increased transparency is also to promote competition.**
- **To this end, the IAD harmonises national rules on the presentation and publication of annual and consolidated accounts of EU insurers and reinsurers. Variations from the general accounting directives only occur where necessary.**

Key Contents of Directive 91/674/EEC

- **Applies to all “insurance undertakings” as defined in the Directive, and makes numerous references to the general accounting directives.**
- **Lays down the structure of the balance sheet and determines precisely the contents of various balance sheet items.**
- **Determines the structure of the profit and loss account and defines precisely certain items in it.**
- **Defines a limited number of valuation rules specific to insurance undertakings (in particular on investments and technical provisions).**
- **Ensures that specific information (on premiums and claims) is provided in the notes.**
- **Confirms the requirement for consolidated accounts, and defines the rules applicable to the publication of accounts and reports.**

Provisions of Directive 91/674/EEC

Preliminary provisions and scope (Art 1 to 4)

- Reference is made to many articles of the general accounting directives, which must be applied mutatis mutandis;
- IAD applies to “insurance undertakings”, defined as the undertakings covered by life and non-life directives and the reinsurance undertakings;
- Assets acquired in the name and on behalf of third parties must not be shown in the balance sheet.

General provisions concerning B/S and P/L (Art 5)

- Combination of items is allowed under the conditions of the Fourth Directive;
- Exceptions for specific items in B/S (technical provisions) and P/L (earned premiums, claims incurred).

Layout of the balance sheet (Art 6 and 7)

- Assets - main captions: investments, debtors, other assets;
- Liabilities - main captions : capital and reserves, subordinated liabilities, technical provisions, creditors.

Provisions of Directive 91/674/EEC

Special provisions relating to certain B/S items (Art 8 to 32)

- Reinsurance : deposits with ceding undertakings may not be set off against amounts owed by the reinsurer (no compensation);
- Life-insurance policyholders who bear the risk : separate presentation (for both investments and provisions);
- Technical provisions : reinsurers' share of TP are deducted from liabilities (MS may require or permit them to be shown as assets).

Layout of the profit and loss account (Art 33 and 34)

- Separation between Technical account (normally divided into Non-life and Life) and Non-technical account;
- Main captions : earned premiums, claims incurred, changes in technical provisions, investment income and investment charges.

Special provisions relating to certain P/L items (Art 35 to 44)

- All amounts are presented net of reinsurance;
- Distinction between acquisition costs and administrative expenses.

Provisions of Directive 91/674/EEC

Valuation rules (Art 45 to 62)

- **Investments: principle = purchase price, but current value is possible (caption C) or required (caption D), with disclosure;**
- **Technical provisions: sufficient to meet any reasonably foreseeable liabilities / in principle computed separately for each contract / NL: discounting permitted if explicit / 2 approximations methods allowed when insufficient information on premiums and/or claims.**

Contents of the notes (Art 63 and 64)

- **Premiums and claims: information broken down between direct insurance and reinsurance acceptances / between groups of classes (NL) or categories (L) / between places where contracts were concluded;**
- **Commissions: total amount of all commissions for direct insurance.**

Consolidated accounts (Art 65 to 67)

- **Principle: insurance undertakings shall draw up consolidated accounts and consolidated annual reports in accordance with 7th Company Law Directive;**

Amendments to Directive 91/674/EEC

Consolidated accounts (continued)

- IAD introduces a limited number of specificities (e.g. “unified management” may consist of important and durable reinsurance links).
- Investments: option to disclose all income and charges in non-technical account.

Publication (Art 68)

- Annual accounts: approved accounts must be published in accordance with 1st Company Law Directive, together with management and audit reports (exception possible for management report, then available at head office);
- Consolidated accounts: same rules apply;
- Insurance undertakings not covered by 1st Company Law Directive: all documents to be available at head office;
- MS must provide for appropriate sanctions.

Amendments to IAD (Directive 2003/51/EC - Fair Value)

- introduced Article 46a, allowing fair value to be applied, instead of current value, for investments (system similar to Article 46).

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For further information:

- European Commission

(http://europa.eu.int/comm/internal_market/insurance/accounting_en.htm)

- CEIOPS (<http://www.ceiops.org/>)

*** Working Group on Pillar III / Accounting (Solv. II)**