

ACCOUNTING POLICIES AS A TOOL TO
ENSURE SOLVENCY IN THE GENERAL
INSURANCE BUSINESS

by

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TABLE OF CONTENTS

	Page
ACKNOWLEDGEMENTS	
LIST OF TABLES	
LIST OF CHARTS	
 Chapter	
1 INTRODUCTION	1
2 REVIEW OF LITERATURE	5
3 RESEARCH METHOD	8
4 FINDINGS	
Insurance Solvency Margin	
- Calculation of Solvency Margin	10
- Valuation of Assets and Liabilities....	11
Accounting For Premium	
- Unearned Premium Reserve	13
- Premium Performance	18
Accounting For Claims	
- IBNR Claims	24
- Claims Performance	25
Accounting For Investment	27
The Current Investment Policies and Practices in the Insurance Industry	
- Types of Investment	28
- How Insurance Companies Invest	32
- Special Role	33
- Policyholder Related Investment.....	34
- Emerging Problems	34
 5. CONCLUSIONS	 36
BIBLIOGRAPHY	38
APPENDIXES	

The objectives of this paper are :-

- To discuss the various bases and methods for recognising claims and the unearned premium reserves. The practical difficulties in accounting for the two will also be argued upon.
- To analyse the performances of premiums and claims in the general insurance business.
- To highlight the current investment policies and practices in the general insurance industry.
- To state on the solvency requirement for insurance companies as stipulated by the Insurance Act.

"Accounting", according to the "Accounting Terms Dictionary" is the process of identifying, measuring and communicating economic information about an entity to permit informed judgements and decision by user of the information.

"Policies" are the principles in which any measure or cost of action is based.

"Accounting Policies" are those specific accounting bases selected and consistently followed by a business enterprise as being, in the opinion of the management, appropriate to its circumstances and best suited to present fairly its results and financial position.

"A Tool To Ensure" is a way to secure something.

"Solvency" can be defined as being financially able to pay all debts.

"General Insurance Business" are companies in the insurance industry than conduct business other than life insurance.

From the definitions above it can be summarised that "Insurance Policies as a tool to ensure solvency in the general insurance business", is actually how the application of the normal accounting policies assist in securing the liquidity position of the non-life insurers.

The insurance industry differs from other manufacturing concerns in the aspect where its sales are contracted a long time before the insurer, that is the insurance company, can quantify its "Cost Of Production" (i.e. claims). If compared to other businesses, a larger degree of estimation must be employed to calculate the expected cost of claims. In order to set prices for their products (premiums) the insurer also needs to estimate its cost of production.

Liabilities for general insurers are composed of the unearned premium reserves and the claims reserves. It is very significant for insurers to properly account for those liabilities as their financial responsibility arises as a result of being accountable to the policyholders and shareholders investments.