

## REPORTING OF NON-FINANCIAL INFORMATION BY VISEGRAD GROUP INSURANCE COMPANIES

Marzanna Lament

---

### Abstract

The objective of this paper is to examine causes and principles of reporting non-financial information and to evaluate its extent by insurance companies of Visegrad Group countries in 2000-2015, that is, before regulations obliging large entities to report non-financials were introduced. The theoretical section reviews literature and applicable legislation to indicate causes and principles of non-financial reporting by insurance companies. The degree of non-financial reporting by Visegrad Group insurers is explored in the empirical part. Impact of foreign insurers' participation in the insurance market on the level of non-financial reporting is examined as well. The following research hypothesis: foreign insurers' participation in the insurance market influences the level of non-financial reporting is posited on the basis of my study into the level of non-financial reporting in the Visegrad Group countries. Approximately 40% of the insurance companies covered have been found to report, although it was not compulsory. Not only foreign insurers' participation in the insurance market but also the degree of their reporting of non-financial information has impact on the level of non-financial reporting. Standardisation for the financial industry are a step forward and it might be an option to improve transparency and comparability of non-financial statements.

**Key words:** accounting of insurance companies, insurance market, Corporate Social Responsibility (CSR), non-financial reporting.

**JEL Code:** G22, M14, M41.

---

### Introduction

By force of Directive 2014/95/EU, large entities of public interest and parent entities in large groups with average headcounts of more than 500 have been obliged to disclose non-financial information since 1 January 2017. Thus, the reporting had not been obligatory and such information had mainly been compiled for image considerations before, since adequate

information policies help to build proper relationships with stakeholders while influencing perception and reliability of a given organisation.

Insurance companies are an example that, as entities of public trust, desire to be seen as reliable. Therefore, they treat publication of non-financial reports as an additional tool of improving or enhancing their image, which contributes to their competitive advantage in the long run. Attention must also be drawn to a number of legal regulations applicable to insurance companies with a view to assuring their financial security, obliging them to implement appropriate management systems. This adds up to the wide scope of information policies characteristic for financial institutions as entities of public trust. In effect, reporting of non-financial information is not necessarily a substantial burden, which becomes an extra incentive. Thus, the non-obligatory nature of non-financial reporting was a barrier to its development on the one hand while management systems of insurance companies could have driven development of non-financial reporting, on the other hand.

It is the objective of this study to explore causes and principles of non-financial reporting and to assess its extent in insurance companies of the Visegrad Group in 2000-2015, that is, prior to introduction of the regulations binding large entities to report non-financials. In this connection, regulations of non-financial reporting and of the insurance sector that affect management systems of insurance companies and the extent of non-financial reporting by Visegrad Group insurers are analysed. Impact of foreign insurers' participation in the insurance market on the level of non-financial reporting is examined as well.

Such an objective requires answers to the following research questions:

- What are objectives and causes of non-financial reporting?
- What is the degree of non-financial reporting by insurance companies in the Visegrad Group countries?
- Does foreign insurers' participation in the insurance market affect the level of non-financial reporting?

The following research hypothesis: foreign insurers' participation in the insurance market influences the level of non-financial reporting is posited on the basis of my study into the level of non-financial reporting in the Visegrad Group countries.

In search of the answers, literature and prevailing legislation have been analysed, deductive and inductive reasoning, analysis of contents of non-financial reports and financial statements, statistical analysis, as well as my own observations have been employed.

## **1 Causes of non-financial reporting by insurance companies**

Non-financial reporting by insurance companies is an underexplored area. B. Scholtens (2011) examined international insurance companies and demonstrated a diversity of non-financial reporting principles across types of insurers and across countries. The author believes social and ethical aspects of CSR are better integrated into the insurance business than environmental issues. F. Olowokudejo, S.A. Aduloju and S.A. Oke (2011) addressed the impact of CSR actions on efficiency of insurance companies and concluded insurers realising CSR strategies perform better financially. The authors claim CSR actions improve effectiveness of insurance companies by boosting their profitability. I. Lock and P. Seele (2013) surveyed principles of non-financial reporting by chemical, banking and insurance sectors, showing the need to standardise its principles. S. W. Ngatia (2014) examined impact of CSR actions on financial performance of 51 insurers active in Kenya in 2009-2013. The author found a negative correlation between CSR actions undertaken and financial results. N.V. Kavitha and T. Anuradha (2016) analysed good CSR practices employed by insurers in India. M. Lament (2017) explored principles of non-financial reporting by insurance companies in the Polish market. The study covered non-financial reports compiled in 2001-2015. They were found to be of varied quality. M. Lament (2018) addressed the impact of non-financial reporting on financial results of insurance companies and concluded return on equity (ROE) was higher in the group of insurance companies drafting non-financial reports than among those that fail to compile such reports.

Thus, the research into CSR and principles of their reporting by insurance companies, just like by other businesses, encompasses two main lines: image considerations and their effect on insurers' reputation and impact of CSR actions on financial performance. Insurance companies draft non-financial reports as they are tools of image management and contribute to its strengthening or improvement and, in the longer run, may influence financial results. Image matters to insurers as the idea of insurance is founded on trust. Insurance companies want to be seen as reliable, therefore. In effect, CSR actions and their reporting can become major tools of improving or reasserting their image.

Causes of non-financial reporting by insurance companies can be assigned to three interrelated groups: (1) perception of insurers as institutions of public trust – image considerations, (2) management system of an insurance company, a function of its specific nature and fostering non-financial reporting, (3) legal regulations.

Perception of insurers as institutions of public trust arises from the very essence of insurance. By entering into a contract of insurance, an insurer agrees to provide insurance cover. Therefore, certain legal, organisational and institutional regulations of the insurance market are designed to assure that the cover is genuine by protecting all parties to a contract of insurance against potential consequences of the insurance system forfeiting its credibility. This derives from the care for interests of contract beneficiaries and for reputation of the entire insurance market, since each insolvency undermines public confidence and adversely affects its development. The specific view of insurers as institutions of public trust influences their corporate culture, operation strategies and management systems. In line with Directive 2009/138/EU, insurance companies are bound to take the following measures as a part of their management system:

- appropriate and commensurate systems, resources and procedures ensuring correct and cautious management of their operations as a going and regular concern (Article 41),
- assuring competences and reputations of managers or holders of other key functions (Article 42),
- effective risk management system including strategies, processes and reporting procedures required to define, measure and monitor risks they are or may be exposed to and relationships among such risks, ongoing management of and reporting on these risks, both on an individual and aggregated basis (Article 44),
- effective and proper integration of the risk management system into organisational structure and decision-making processes, including holders of key functions (Article 44),
- regular, independent risk and solvency assessments on a yearly basis as a minimum (Article 45),
- establishment of an effective internal control system (administrative and accounting procedures, organisation of internal control, principles of reporting at all levels of an organisation) and a compliance function (Article 46),
- effective and objective internal audit function that is independent from operational functions charged with evaluating adequacy and effectiveness of the internal control system and other parts of the management system (Article 47),
- effective actuarial function (Article 48).

The regulations imposing implementation of an appropriate management system are extensive and require a range of internal procedures. This contributes to identification of risks

to an insurance company, an effective system of their management and a broad scope of external and internal reporting. Thus, a management system enhances transparency and reliability of insurers and is a good foundation for implementation of CSR. As a result, insurance companies are anxious for their image, want to be perceived as reliable and pursue corresponding information policies which arise from the prevailing legislation to a substantial extent. Implementation of CSR and reporting on socially responsible actions reflects that care for the image (Wolak-Tuzimek, 2014). Owing to the wide scope of information policies, compilation of non-financial reports may not constitute a considerable burden in both organisational and financial terms, while it may contribute to improvement or strengthening of the image, an added incentive to report.

## **2 Assessment of the degree of non-financial reporting by insurance companies in the Visegrad Group countries**

Insurance companies active in countries of the Visegrad Group, namely, Poland, Slovakia, the Czech Republic and Hungary, in 2000-2015 have been examined, divided into domestic and international with regard to shares of foreign capital. The empirical study can be split into five stages, designed to establish: (1) numbers of insurance companies in the countries concerned in 2000-2015, (2) shares of foreign capital in the insurance companies examined in order to group them as domestic or international, (3) parent entities of the insurers in a given year, (4) numbers of insurance companies preparing non-financial reports, (5) degree of non-financial reporting in the countries analysed by all the insurers, by domestic and international insurance companies.

Numbers of insurance companies were determined by analysing statements of supervision authorities and associations of insurers in the countries concerned. The information about shares of foreign capital and parent companies was derived from financial statements of the insurers for 2000-2015. Characteristics of the group studied are summarised in Tab. 1.

**Tab. 1: Numbers of insurance companies examined**

Number of insurance companies	Years															
	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15
Poland:																
• Total	68	71	72	74	72	69	67	68	66	64	63	61	59	58	55	55
• Domestic	25	22	21	25	24	22	21	23	21	20	20	18	16	16	17	17
• Foreign	43	49	51	49	48	47	46	45	45	44	43	43	43	42	38	38
Czech Republic:																
• Total	33	35	33	33	32	33	32	36	38	38	39	39	39	39	37	37
• Domestic	13	12	10	12	11	12	11	12	13	12	12	12	12	12	11	11
• Foreign	20	23	23	21	21	21	21	24	25	26	27	27	27	27	26	26
Slovakia:																
• Total	29	28	28	28	27	27	26	25	23	22	23	23	23	22	22	22
• Domestic	11	10	8	6	4	4	4	4	3	3	2	2	2	2	2	2
• Foreign	18	18	20	22	23	23	22	21	20	19	21	21	21	20	20	20
Hungary:																
• Total	33	39	41	46	49	51	55	64	68	61	61	61	61	59	57	57
• Domestic	15	19	19	20	24	26	25	27	29	29	28	28	30	30	30	30
• Foreign	18	20	22	26	25	25	30	37	39	32	33	33	31	29	27	27

Source: The author own research on the basis of: MNB, CNB, NBS, PIU.

The study proceeded to assess numbers of insurance companies drafting non-financial reports using the GRI report database. Non-financial reports of not only the insurers but also of their parent companies were reviewed. Consequently, if a parent entity drafted non-financial reports, an insurer was considered a reporting entity. Numbers of insurance companies preparing non-financial reports are shown in Tab. 2.

**Tab. 2: Insurance companies drafting non-financial reports in the Visegrad Group countries**

Number of insurance companies	Years															
	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15
Poland:																
• Total	-	1	1	-	1	2	4	5	6	10	11	14	15	20	21	23
• Domestic	-	-	-	-	-	-	-	-	-	-	-	3	1	4	3	6
• Foreign	-	1	1	-	1	2	4	5	6	10	11	11	14	16	18	17
Czech Republic:																
• Total	1	2	1	1	2	5	5	7	6	8	11	10	15	16	18	15
• Domestic	-	-	-	-	-	-	-	-	-	-	-	-	1	2	2	2
• Foreign	1	2	1	1	2	5	5	7	6	8	11	10	14	14	16	13
Slovakia:																
• Total	-	1	1	-	2	3	4	7	5	6	8	7	10	10	10	12
• Domestic	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
• Foreign	-	1	1	-	2	3	4	7	5	6	8	7	0	0	0	12
Hungary:																
• Total	-	1	1	-	1	4	6	8	7	13	13	16	15	13	17	22
• Domestic	-	-	-	-	-	-	-	-	-	1	1	3	1	1	1	2
• Foreign	-	1	1	-	1	4	6	8	7	12	12	13	14	12	16	20

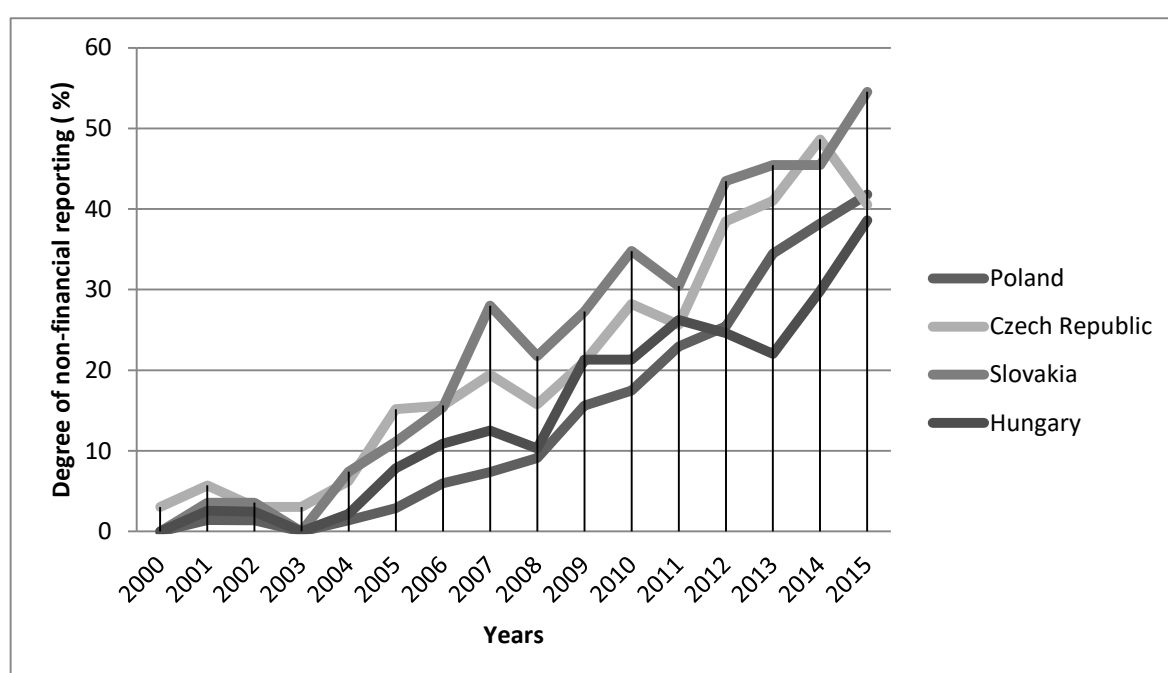
Source: The author own research on the basis of: GRI Database.

At the next stage, the extent of non-financial reporting by insurers of the Visegrad Group countries was established by referring the number of insurance companies submitting non-financial reports to numbers of insurance companies active in a given year.

The research demonstrates:

1. The degree of non-financial reporting by insurers in all the countries studied has been on the increase. In 2015, it was approximately 40% of all the insurers. Detailed results are contained in Fig. 1.

**Fig. 1: Degree of non-financial reporting by all the insurance companies in countries of the Visegrad Group in 2000-2015 (%)**

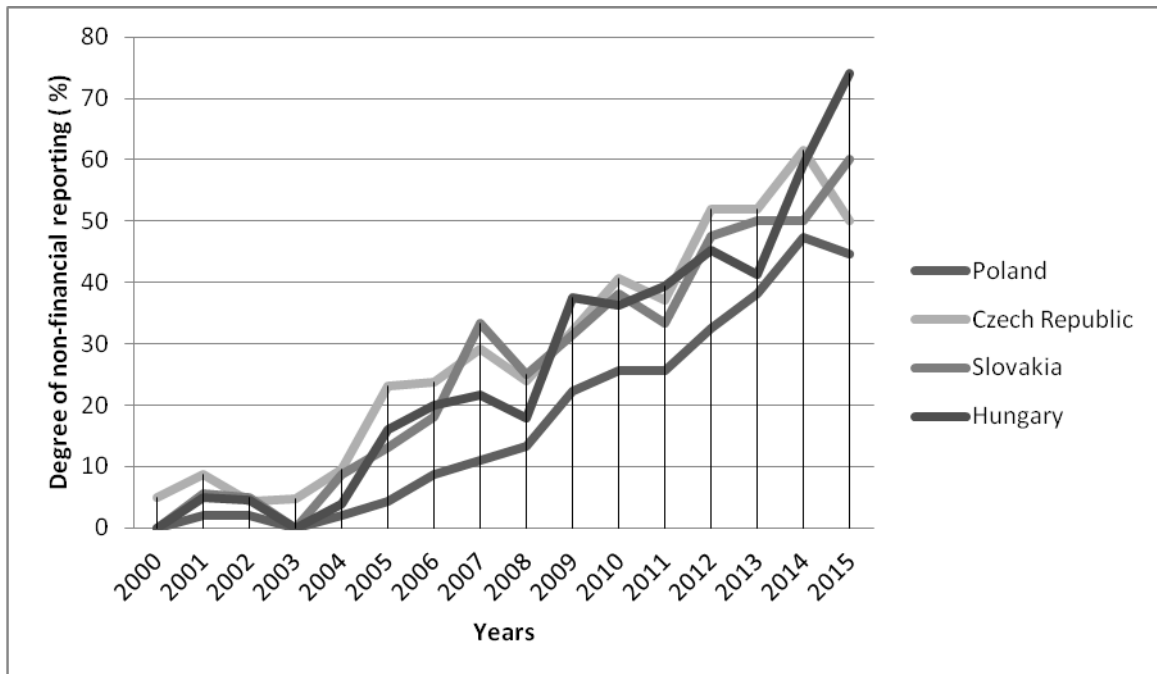


Source: own research.

2. Degrees of non-financial reporting in the particular countries vary in respect of both all the insurance companies and the insurers as divided into domestic and international entities. This is shown, for instance, by analysing the year 2015. Insurers with a prevalence of domestic capital are concerned: in Poland – 35.29%, the Czech Republic – 18.18%, in Slovakia – 0%, Hungary – 6.66%, whereas in respect of the insurance companies with majorities of international capital: in Poland – 44.73%, in the Czech Republic – 50%, in Slovakia – 60%, and in Hungary – 74.07%. The insurers in Slovakia compiled non-financial reports to the greatest extent as far as all the insurance entities are concerned. If the insurance companies with majorities of international capital are taken into account, Hungary comes top in 2015, though analysis of the entire period studied

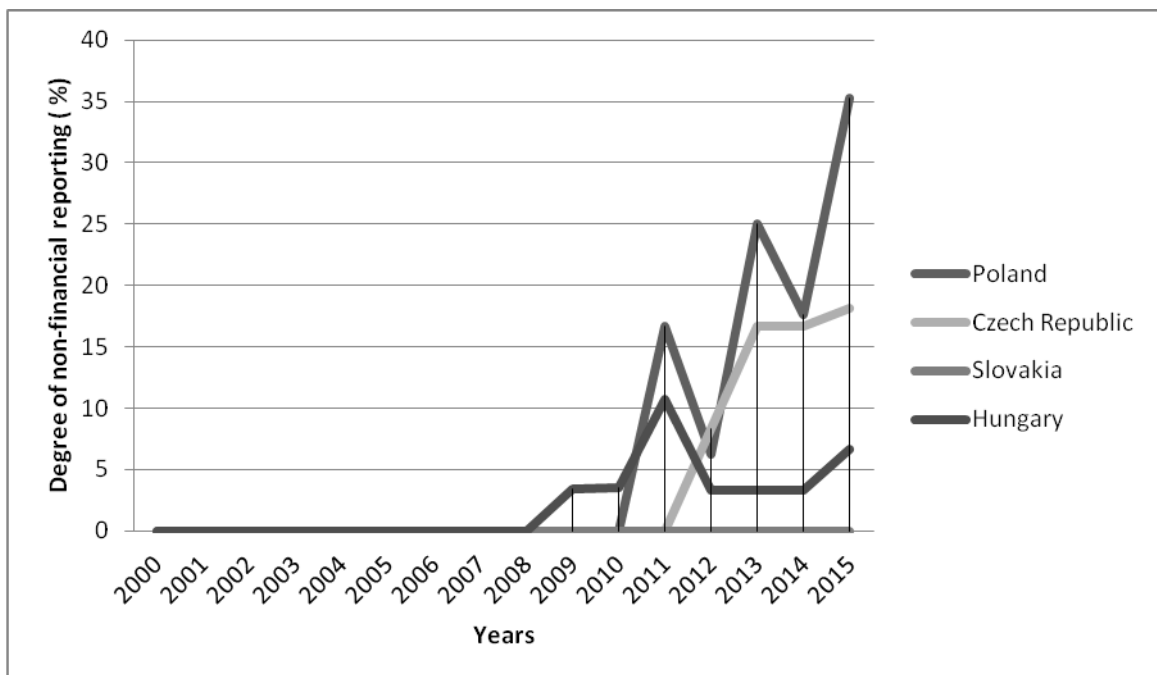
indicates the Czech Republic does (Fig. 2). The broadest scope of non-financial reporting by insurers with prevailing domestic capital can be noted in Poland (Fig. 3).

**Fig. 2: Degree of non-financial reporting by the insurance companies with a majority of international capital in countries of the Visegrad Group in 2000-2015 (%)**



Source: own research.

**Fig. 3: Degree of non-financial reporting by the insurance companies with a majority of domestic capital in countries of the Visegrad Group in 2000-2015 (%)**



Source: own research.



## Conclusion

The author's review of literature and studies have helped to answer the research question and to verify the hypothesis posited: foreign insurers' participation in the insurance market influences the level of non-financial reporting.

This research into the degree of non-financial reporting by insurers in the Visegrad Group countries shows the reporting was quite common, though voluntary, during the period analysed. Non-financial information was reported to a maximum degree in Slovakia – 54.54% of insurers compiled non-financial reports. It was broader in companies with majorities of international than of domestic capital in all the countries examined. This confirms the impact of management systems on reporting of non-financial information. Parent entities are large capital groups with at least European reach. Their operations are frequently broader not only in the territorial dimension, they encounter fewer financial restraints and have extensive structures. This drives the search for new ways of gaining competitive advantage. CSR and reporting on socially responsible actions, that is, non-financial information, may be one of such ways.

## References

- CNB. Czech National Bank. [www.cnb.cz](http://www.cnb.cz). [Accessed: 15 January 2019].
- Directive 2014/95/EU of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups, Official Journal of the European Union L330/1.
- Directive 2009/138/EU of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), Official Journal of the European Union L335/1.
- GRI. Sustainability Disclosure Database. <http://database.globalreporting.org>. [Accessed: 15 January 2019].
- Kavitha, N.V., & Anuradha, T. (2016). Corporate Social Responsibility in insurance sector in India. *International Journal of Innovative Research & Development*, 5(2), 137-143.
- Lament, M. (2018). *Impact of non-financial reporting on return on equity of insurance companies in the Polish market*. In T. Löster, T. Pavelka (Eds.), Conference Proceedings The 12th International Days of Statistics and Economics, Prague, 1021-1030.
- Lament, M. (2017). Raportowanie informacji niefinansowych w zakładach ubezpieczeń w Polsce. *Zeszyty Teoretyczne Rachunkowości*, 91 (147), 63-86.

Lock, I., & Seele, P. (2013). Analyzing Sector-Specific CSR Reporting: Social and Environmental Disclosure to Investors in the Chemicals and Banking and Insurance Industry. *Corporate Social Responsibility Environmental Management*, 22(2), 113-128.

MNB. Magyar Nemzeti Bank. [www.mnb.hu](http://www.mnb.hu). [Accessed: 15 January 2019].

NBS. Národná Banka Slovenska. [www.nbs.sk](http://www.nbs.sk). [Accessed: 15 January 2019].

Ngatia, S.W. (2014). *The effect of Corporate Social Responsibility on financial performance of insurance companies in Kenya*, Nairobi: University of Nairobi.

Olowokudejo, F., Aduloju, S.A., & Oke, S.A. (2011). Corporate social responsibility and organizational effectiveness of insurance companies in Nigeria. *The Journal of Risk Finance*, 11(1), 143-152.

PIU. Polish Chamber of Insurance. [www.piu.org.pl](http://www.piu.org.pl). [Accessed: 15 January 2019].

Scholtens, B. (2011). Corporate social responsibility in the international insurance industry. *Sustainable Development*, 19(2), 143-156.

Wolak-Tuzimek, A. (2014). *Corporate Social Responsibility as a contemporary concept of business management*. In The International Conference Hradec Economic Days 2014. Hradec Králové: Univerzita Hradec Králové, Fakulta informatiky a managementu, part V, 446-453.

## Contact

Marzanna Lament

Kazimierz Pulaski University of Technology and Humanities in Radom

31 Chrobrego Street, 26-600 Radom, Poland

[m.lament@uthrad.pl](mailto:m.lament@uthrad.pl)