Risks in Conditions of Uncertainty

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Abstract

The category of "risk" and the associated concept of "uncertainty", the probability, the consequences of risk are used in the regulations on accounting. However, their content is largely undefined. The formation of accounting information occurs in conditions of uncertainty, which is related to objective external factors affecting all economic risks and factors, which arise directly from the accounting system. The consequences of such risks can have a strong impact on the performance of the accounting (financial) statements and, therefore, to make managerial decisions. The paper discusses the economic nature of the emergence of risks in the accounting of insurance companies as a result of transformation of financial statements under IFRS. The necessity of reserve funds under the accounting risks. Made recommendations to improve accounting and accounting (financial) statements of the insurer in terms of disclosure of accounting risks for the purpose of transparency to attract investors. Transparency reporting will allow investors to make their own decisions about their future investments with risks.

Keywords: *risks, uncertainties, accounting risks, reserves, internal control*

1. Introduction

Currently the financial regulator to compensate for damages to business entities is insurance. A characteristic feature of the insurance business is that, on the one hand, the insurance as the main form of services of an insurance company, acts as one of the methods of risk management, on the other hand, the insurance company as the entity itself is potentially subject to a number of risks (Fig.1).

In IFRS, great attention is paid to the issues governing the formation of insurance reserves. In the research process provisions under IFRS in this issue of questions revealed the following:

- In accordance with paragraph 15 of IFRS 4: insurance Contracts, an insurer shall at the end of each reporting period to assess whether its recognized insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. Thus, the standard obliges the insurer to the formation of insurance reserves. However, p. 18 obliges the insurer to form insurance reserves separately for each type (portfolio) risks;
- Given p. 36,37 IFRS 37: the amount recognized as a provision should reflect the best estimate of the expenditure required at the end of the reporting period to settle the present obligation. Best estimates of the expenditure required to settle the present obligation is the amount that a company is rational to spend for repayment of the obligation at the end of the reporting period or to transfer it to a third party at a specified time. Often to settle or transfer an obligation at the end of the reporting period is impossible or prohibitively expensive. However, the estimated amount that the company is rational to spend to settle or transfer the

obligation gives the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. In this case in relation to section 17 (b) 4: insurance Contracts, the insurer must determine whether the carrying amount of the relevant insurance liabilities less the carrying amount, less than the carrying amount that would have been required if the relevant insurance liabilities were included within the scope of IAS 37. If it is less, the insurer shall recognize the difference in full in profit or loss and reduce the carrying value of these deferred acquisition costs, or to increase the carrying cost of the related insurance liabilities;

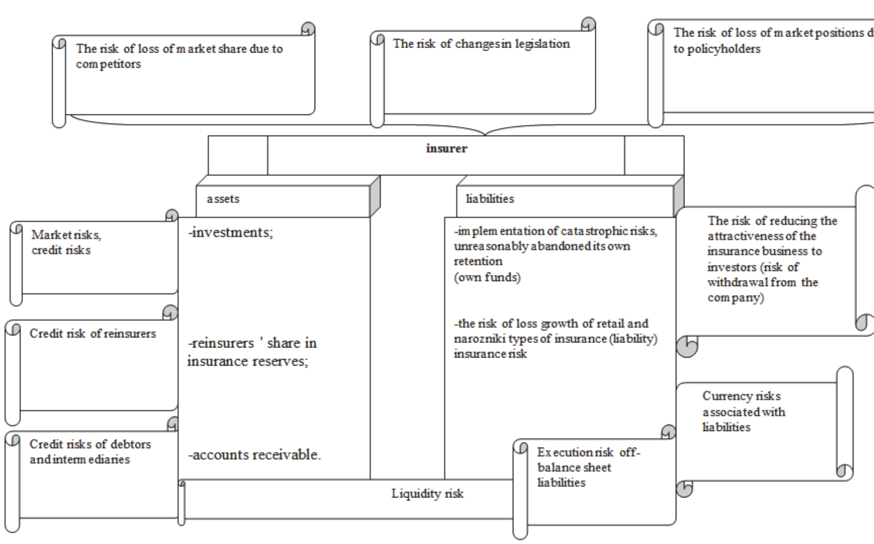

Figure 1 - Risks Insurance

- Given p. 66, 68 IFRS 37: if an entity has a contract that is onerous, the present obligation under the contract shall be recognized as a provision and evaluated. This standard defines an onerous contract as a contract in which the unavoidable costs of fulfilling obligations which exceed those expected from the contract of economic benefit. The unavoidable costs under a contract reflect the minimum net cost of exiting from the contract, corresponding to the lower of two values: the sum of the cost of its execution and amount of all compensation and fines arising from non-execution of the contract. Thus, the standard requires estimating a provision for onerous contracts is, therefore, to form an additional reserve for unexpired risk;
- According p. 9 of IAS 1: Financial statements are a structured representation of the financial position and financial performance of an entity. The purpose of financial reporting is to provide information about financial position, financial performance and cash flows of an enterprise that is useful to a wide range of users in making their economic decisions. Financial statements also show the results of the management of the resources and trusted leadership of a company. To achieve this, financial statements must contain information about the obligations. This will help the users of financial statements to predict future cash flows of the company and, in particular, the timing and the likelihood of their occurrence.

In accordance with p. 30 of IAS 1 the financial statements is the result of processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage of the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If any article is not in itself significant, it is aggregated with other items either in the financial statements or in the notes. The article, which is not material enough to warrant separate presentation in those statements, nevertheless, can be quite significant for separate presentation in the notes . In the Russian practice of insurance reserves should be created after receipt of the insurance premium. IFRS requires the creation of reserves under the following criteria:

1) If there is an obvious likelihood that the obligation exists, the company makes allowance;
2) If there is sufficient evidence to consider the current immaterial obligation at the reporting date, the entity discloses a contingent liability in the notes;
3) If a present obligation has not yet significantly and the prospect of its occurrence is very remote from the reporting date, the provision is not charged.

In the formation of insurance reserves calculation methods according to IFRS and RAS are significantly different. In respect of unearned premium calculated by RAS (gross premium minus Commission fees and charges in the cases stipulated by the current legislation), valuation of reserve upon transition to IFRS will be different (gross premiums and deferred acquisition costs as an asset). In respect of a reserve declared, but not settled losses according to IFRS methodology, the reserve is calculated on the basis of quantities reported but not settled losses on insured events. National standards suggest that the reserve is formed from the magnitudes of the reported but not settled losses relating to insurance claims, amounts outstanding awards under the terminated agreements, and increases in expenses on settlement of losses. In respect of the provision for life insurance there are also significant differences. In accordance with Russian accounting standards, the provision is net of the allowance increased by the value of future costs. Under IFRS, a provision is net of the reserve, i.e. the actuarial present value of future insurance payments, reduced by the actuarial present value of future net premiums. If in Russian accounting there are specific rules for the calculation of insurance reserves, IFRS is permitted to choose the method that most accurately estimate liabilities for insurance claims. In IFRS reserves are calculated on the basis of actuarial valuation. The main criterion for the quality of the actuarial valuation - the formation of the most accurate estimate of future payments. When this IFRS requires the mandatory analysis, namely, checking after a few years, how exactly the amount of payments for past liabilities of the company coincides with the initial value of the reserves. In the case of the regular lack of reserves for past periods, the insurer takes into account this when selecting actuarial methods for estimating reserves for the current date. IFRS requires the creation of a reserve under the company's obligations have already been sold policies that, in practice, means the absence of the stabilization reserve. Under RAS creates stability reserve calculated in accordance with established standards, - in those industries and types of insurance, which will most likely occurrence of large fluctuations.

Thus, considering the criteria for the establishment of insurance reserves, the comparative method of calculation, we conclude that the value of insurance reserves in the financial statements under IFRS will be significant less than the statements under RAS in the evaluation of reserves. Impact of current uncertainties can lead Russian insurer to the risk of lack of funds reserved to cover losses.

In recognition of income and expenses in accordance with IFRS and Russian accounting there is a fundamental difference. In Russian accounting recognition of income and expenditure is linked primarily to the receipt of documents, and in accordance with IFRS - to commit an operation spending. Acquisition costs and other costs of doing business are recognized and written off on the documents on the fact of the operation. In IFRS, this operation affects the entire period of the contract.

Another interesting aspect of the concept of "insurance contracts". For insurers of particular importance is the application of international financial reporting standard (IFRS) 4, "insurance Contracts", where there are issues of disclosure in respect of contracts of insurance and reinsurance. Under this standard, an insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified future event, the occurrence of which is uncertain (the insured event) adversely affect the policyholder. At the same time policies that do not involve the transfer of significant insurance risk are classified as financial instruments and are subject to, regardless of their legal form under the scope of IAS 39 "Financial instruments". Transmission it is significant insurance risk (when there is the obligation to pay additional consideration in connection with the insured event) is a major recognition of an insurance contract under IFRS.

Insurance practice under IFRS is focused on the satisfaction and protection of consumers of insurance services. In this regard, statutory guaranteed compensation, but that the insurer has an unconditional right that is not dependent on the discretionary rights of the liable party under the contract. The second point in promoting the interests of users is guaranteed element, defined as the obligation to pay the guaranteed compensation provided for by the contract with the discretionary element of participation.

In insurance practice in Russia risk is defined as the potential undesirable or less desirable results in the present or the future.

A distinctive feature of international practice is the fact that the insurer may assume significant insurance risk of the client only if the insurer is separate from the client organization. The significance of risk is assessed for each individual contract, so the contracts concluded simultaneously with a single customer or contract interconnected by other characteristics, are treated as one contract. If the contract provides for payment in the event of occurrence of specific uncertain events regardless of the presence of damage for the insured, it is not an insurance contract.

Considering this aspect, we can conclude that the criteria for recognition of an insurance contract affect the estimation of the amount of insurance reserves.

In General, looking at us, perspective issues, characterizes the risks arising from legislative regulation of accounting and reporting in the insurance business. This group arises from a situation of uncertainty in the application of standards to IFRS and RAS.

Consider the risks involved in the organization of accounting. These risks are that the established system of accounting and reporting is not possible to produce financial information that meets the requirements of continuity of the insurer. It is about the functioning of the system of accounting and reporting as the business process of the insurer, the efficiency of which will be determined on the basis of the quality of outgoing information, i.e. the quality of the accounting statements of the insurer. The quality of the accounting statements of the insurer, it is advisable to understand "the degree of compliance with regulatory requirements and the ability to satisfy the interests of users from the point of view of analyticity and reliability" [1]. At the same time there is the possibility of discrepancies in the reporting of regulatory requirements. This aspect is a consequence of the accounting policies risks and risks of formation and reporting.

According to RAS 1/2008 "Accounting policy of organization" for insurers should meet the following requirements:

- The organization must disclose adopted in the formation of accounting policies, methods of accounting, which significantly affect the evaluation and decision making by interested users of the accounting reporting;
- The organization must indicate the significant uncertainty related to events or conditions that may cast doubt on the assumptions used for the continuity of the insurance activity;
- The effects of changes in accounting policies caused by changes in legislation Russian Federation and (or) normative legal acts on accounting, is reflected in accounting and reporting in the manner prescribed by the relevant legislation of the Russian Federation and (or) normative legal acts on accounting.

According to paragraph 22 of IFRS 4, "insurance Contracts, the insurer may change its accounting policy in respect of insurance contracts in the case if this change makes the financial statements more relevant to meet the information needs of users of financial statements when making their economic decisions, without reducing its reliability, or makes it more reliable, reducing the appropriateness of its use for these purposes. Accounting policy provides for such changes only for some, but not all insurance liabilities. RAS 1/2008 "Accounting policy" allows to change the economic conditions of the insurance company in connection with the reorganization, change of activities, etc. not considered as changing the application of the methods of accounting for business facts, from different in substance from earlier.

From the proper organization of accounting depends on the quality of accounting information. Under-qualified staff or their deliberate actions lead to the risk of distortion of accounting information of the insurer. In any case, the risk of the "human factor" is inevitable.

Of particular importance is the disclosure in the financial statements. According to IFRS 4, "insurance Contracts, the insurer is obliged to provide information on its accounting policy in respect of insurance contracts and related assets, liabilities, income and expenses; the reflected assets, liabilities, income and expenditure cash flows arising from insurance contracts. We believe that, as there is no method of transformation of the accounting statements under RAS into IFRS required insurers to develop internal registers and reporting forms accounting of insurance reserves, which would have given enough information about the insurer's reserves for its subsequent transformation into IFRS.

The transition to IFRS on insurance contracts requires insurers large investments with a view to hiring highly qualified staff and training opportunities, involvement of certified auditors, is able to verify the statements prepared according to IFRS standards, as well as in the development of information technologies.

This species is subject to risks qualitative risk assessment and subsequent disclosure in the financial statements.

2. Method

Using the methods of empirical knowledge are studied and summarized the economic substance of the risks in conditions of uncertainty, detailed accounting category "risks" in the accounting of economic entities. Using comparison methods identified the main causes of accounting risks.

3. Results and Discussion

The system of accounting and reporting according to Russian accounting standards differ significantly from IFRS. Their main differences in our opinion see:

- In the evaluation of the acquired business;
- In the classification of insurance contracts;
- In the definition of acquisition costs;
- In accounting for financial assets, including disclosures for financial assets in the financial statements;
- In testing assets for impairment;
- In the calculation of insurance reserves, including the disclosure of information on insurance reserves in the

financial statements;

- In accounting for the reinsurance.

Insurance reserves are a guarantee of execution taken by the insurer of obligations under insurance contracts, which determines the need for their further study. In the balance sheet of insurers have to display information about the amount of insurance reserves with the division on their insurance reserves for life insurance (line 2210) and insurance reserves for insurance other than life insurance (line 2220) section III of the balance sheet liabilities and reinsurers ' share in these reserves (line 1230,1240) section I of the asset balance. Overall, in the forms of statements of the insurer prepared in accordance with RAS rules disclosed only General information on the reserves (reserve for life insurance reserve for insurance other than life insurance), but does not reveal information on the types of reserves required for disclosure in the financial statements according to IFRS requirements, namely:

- Unearned premium reserve and the formation of deferred acquisition costs;
- Loss reserves (reserve for incurred but not reported claims; reserve declared, but not settled losses);
- Provision for life insurance.

If we consider external reporting from the perspective of the "consumer information", then statements prepared in accordance with IFRS is aimed at the interests of investors, not regulators.

If we consider external reporting from the perspective of the "consumer information", then statements prepared in accordance with IFRS is aimed at the interests of investors, not regulators. Reporting reflects the fair value of the company, efficiency implemented in such investment company, provides business transparency for owners. As to any insurer the important flow of investment, domestic accountability should be focused on convenience and relevance, primarily investors. In our opinion, the opacity of the reflection data in reporting, it is necessary to Supplement section III liabilities, namely to enter additional lines:

- Line 2221 "unearned premium";
- Line 2222 "reserve for reported but not settled losses";
- Line 2223 "reserve for incurred but not reported claims." Accordingly, it is necessary to Supplement section I of the asset balance with these lines:
- Line 1241 "reinsurers' share in reserves for unearned premium";
- Line 1242 "share of reinsurers in a reserve declared, but not settled losses";
- Line 1243 "reinsurers' share in reserve for incurred but not reported losses".

In general, any risks, whatever their nature, are reflected in accounting information and have a definite component part, which we may call accounting. This part should be considered as accounting risk. Violation or non-compliance of accounting principles leads to uncertainty in accounting and, as a consequence, the distortion of accounting information. Therefore, the uncertainty of accounting information is the main cause of the emergence of accounting risks (Fig.2).

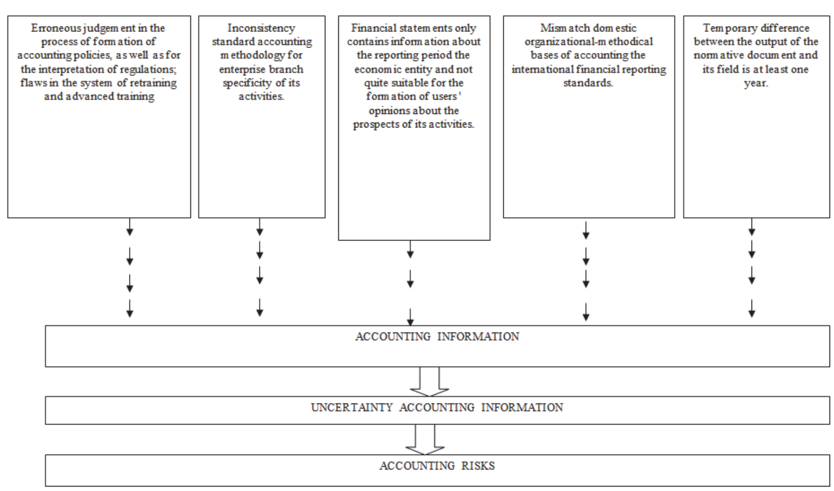

Figure 2 - Diagram of the sequence of occurrence accounting risk (the author).

We believe that the effects considered should be considered in risk through the mechanism of reservation and accounting. The presence of negative situations in the organization always likely. The damage from risks in the absence of a provision for his coverage can lead to a sharp deterioration of the financial situation. Considering the risks of using a backup system and reflect the information in the accounting (financial) statements reveals its principles of "reliability" and "validity" and performs the function of the planned savings. In our opinion, the reserves is planned accumulation of own resources to cover possible adverse consequences of the risks.

IAS 37 defines provisions as liabilities of uncertain timing or liabilities of uncertain quantities. A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to lead to an outflow from the enterprise of resources containing economic benefits (Borodovsky,2000).

Due to the fact that reserves are not homogeneous, there are differences in the rules of their presentation in the financial statements. It is necessary to distinguish the reserves created under insured risks and reserves, created under the financial risks. According to IFRS 4 IFRS 4 "insurance Contracts", the definition of insurance risk refers to the risk that the insurer accepts from the policyholder. Insurance risk is a pre - existing risk transferred from the policyholder to the insurer. Therefore, a new risk created by the contract (for example, the minimum yield of the holder of the policy by the life insurance contract) is not insurance risk. Insurance risk is the alleged event, in case of occurrence, which insurance is provided. The definition of IFRS drew attention to the economic meaning of the insurance transaction. Under IFRS, the financial risk is seen as the risk of possible changes in the future one or several factors: the price of a financial instrument, index of prices or rates, credit index or other variable, provided that in the case of a nonfinancial variable that the variable is not specific to a party to this agreement. Under insurance liabilities under IFRS are understood to be net of the contractual obligations of the insurer under the contract of insurance, i.e. liability is recognized for the full amount of the insurer's liability is not reduced by the amount of counter-claims by the payment of insurance premiums and other assets relating to insurance. According to IFRS 4 "insurance Contracts" stability reserve recognized insurance liabilities (a component of capital), as the insurer should not recognize as a liability any insurance provisions for possible future claims, if those claims arise under insurance contracts that do not exist at the reporting date. Policy IFRS does not impose any requirements on the part of insurance reserves or to the format of reporting, but, however, requires that financial statements present fairly presented the financial position and cash flows. Consequently, the approaches and methods of redundancy should be considered as recommendations to the insurer when assessing insurance liabilities and their reporting, actuarial practice. In the process of calculation of insurance contract provisions other than life insurance in the list of internal documentation it is recommended that the introduction of the working paper "Analytical maps for the formation of insurance reserves on insurance to other, than life insurance" for the purpose of clarity of description, evaluation and recording of information on insurance reserves. On the basis of this document are requested to refer detailed information in the statement of financial position of the insurer (Stafievskaya, 2015).

To summarize the information on the insurance reserves formed by insurance company in accordance with applicable law on the basis of the provisions on the procedure of formation of insurance reserves, approved in the prescribed manner, the share of reinsurers in insurance reserves and the results of changes in insurance reserves account is 95 "Insurance reserves" in the context of sub-accounts for each organization formed in reserve. Analyzing the methods of calculation of insurance reserves and the requirements of IFRS, we believe that, first of all: this account much cluttered information orientation in the context of a large number of subaccounts, secondly, consider the reserves can be reallocated according to the criterion of purpose. In this regard, the reserves for life insurance and the reinsurers ' share in insurance reserves for life insurance we recommend to consider them separately in a separate account as a mathematical reserves.

Along with insurance provisions for insurance risks are of great interest financial reserves. Due to the nature of the insurer's activity formed a reserve of precautionary measures to prevent insurance claims. This reserve is not directly related to the insurance liabilities and, therefore, not an insurance reserve. On the other hand the need for the establishment of this reserve insurers also due to insurance risks. The formation of this reserve is made on account 96 "Reserves of forthcoming expenses", the subaccount "the Reserve of preventive measures." The amount of the deductions from premiums (contributions) on preventive measures reflected in credit of account 96 "Reserves of forthcoming expenses" sub-account "Provisions for preventive measures" in correspondence with the debit of account 99 of "Profit and loss". The insurer needs in the formation of this reserve is to reduce the probability of consequences risk insurance forms and at its discretion, providing a component in the tariff rate. Therefore, between the policyholder who accept this bet and the insurer "agreed" with this aspect. Hence it is more logical and easier to understand would be to reflect the accrual of the reserve through insurance premiums (contributions) with the use of the account 92 "Insurance premium", the subaccount "the Share of insurance premiums (contributions) in terms of the funds plan for preventive measures". We offer correspondence accounts on formation of a reserve of precautionary actions will have the following form:

- debit 78 "Calculations on insurance, co-insurance and reinsurance", the subaccount "Calculations on insurance premiums (contributions) with insurers, credit accounts 92" Insurance premiums (contributions)" subaccount "Insurance premiums (payments) under insurance contracts (basic) - reflected the amount of accrued insurance premiums (contributions) receivable from policyholders during the reporting period under insurance contracts relating to types of insurance other than life insurance minus the ratio of premiums plan on preventive measures;

- debit 78 "Calculations on insurance, co-insurance and reinsurance", the subaccount "Calculations on insurance premiums (contributions) with insurers, credit accounts 92 "Insurance premium", the subaccount "the Share of insurance premiums (contributions) in terms of the funds plan to preventive measures" - reflected the amount of accrued insurance premiums (contributions) receivable from policyholders during the reporting period in the amount of the share premiums, plan on preventive measures for insurance contracts relating to types of insurance other than life insurance;
- debit 92 "Insurance premium", the subaccount "the Share of insurance premiums (contributions) in terms of the funds plan to precautionary measures," the credit of account 96 "Reserves of forthcoming expenses", sub: "provision of preventive measures" - the assignment of a share of insurance premiums (contributions) in terms of the funds plan for preventive measures in the composition of the provision for preventive measures.
- To financial reserves in the national system include:
- Provisions for liabilities and charges (account 96 "Reserves of forthcoming expenses");
- Statutory reserves (account 82 "Reserve capital");
- Valuation reserves (account 14 "Reserves under the reduction in the cost of material assets", 59 "Reserves under depreciation of financial investments", 63 "Reserves on doubtful debts").

In the balance sheet of the insurer information about capital reserve (reserves to cover possible losses, contingencies and circumstances) will be shown in section II of "Capital and reserves" on the line 2150 "Reserve capital". Provisions for liabilities and charges in part of the provision of preventive measures are reflected in section III of the "Obligations" (line 2290). The estimated reserves in the balance sheet are not included. Their balance is taken in reduction of performance of the asset balance (Woods, M., Kajuter, P., Linsley, P., 2007).

We must recognize that all are evaluating the reserves to some extent arbitrary, since they are uncertain in term of its magnitude. Accounting of financial and economic activity of the insurance organization involves the principle of prudence (conservatism) influencing the evaluation of articles of the balance sheet and the amounts of income and expenses of the insurer. Occupy a special place characterized by the facts that originated in prior periods, but taken to accounting and is included in the accounting statements for the reporting period. The essence of these operations can be evaluated in the future the current reporting period, the full amount of damages in the preparation of the accounting statements cannot be determined. Therefore, assessing such effects in the preparation of the accounting statements must comply with a certain caution, which determines the principle of prudence (conservatism), in which accounting information is sent to the uncertainty factor. The latter is formed in real conditions in the form of economic facts, and manifests itself on the date of accounting recognition of income and expenditure, valuing assets, when the decision on the establishment of valuation allowances. Included in the accounts of the income and expenses of the reporting period can be recognized by their rating, because it is based on the available information of a financial nature. Taking into account the amount of income and expenses required adjustments to the initial estimates of the reporting period. As a result of the influence of accounting risks initial assessment of the financial result is not equal to its real accounting of the money. Therefore, in accordance with the principle of prudence (conservatism) the amount of the resulting difference in the formation of the accounting reporting should be recognized as expense. This implies the inevitable formation of reserves under accounting risks for the reimbursement of their possible consequences and maintaining sustainable, thus, of the financial condition of the insurer.

Russian and international standards do not provide for the establishment of reserves for accounting risks. To eliminate this gap, it is expedient to amend the chart of accounts of insurance companies" 93 "Provisions to remedy the effects of accounting risks", the subaccount "Provision for accounting risks, and develop a toolkit of information and analytical support of accounting risk insurers (Stafievskaya, 2014).

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