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The necessity for monitoring insurance companies and the reasons for developing Iranian accounting standard No. 28

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Abstract

Nowadays, it is essential for Iranian insurance companies to provide monthly online reports on the performance, including the issued insurance policies and paid losses to the Central Insurance. The purpose of sending reports is to ensure compliance with the approved rates from insurance companies as well as other relevant regulations (see tariff control). All insurance companies are required to use the approved rates issuing the insurance contracts based on tariff control. In these circumstances there will be no possibility of competition between insurance companies. To attract more customers, adjustment of rates to change the contents of the contract is not possible. On the other hand, as the increase in market size happens, the insurance regulatory body oversees tariff uses and it is not able to monitor individually the rates of the insurance companies. Therefore, it is forced to limit their monitoring to the insurance rates which are high. Therefore, the secret violations and errors of insurance companies grow. To address the above problem, the Audit Organization of Iran with the help of Central Insurance issued accounting standard No. 28 in 2006. The standard financial control has been replaced by a tariff control. This paper attempts to review the literature related to the current control of the insurance industry. The Iranian Accounting Standard No. 28 will also be extensively analysed.

Keywords: Financial solvency, tariff control, Financial Control Iranian Accounting Standard No. 28

Introduction

Almost all relevant activities are under the supervision of the insurance industry. Provisions in insurance policies, rates, estimated costs, assets and liabilities, investment funds and other resellers' conditions are usually set by the government. The type of monitoring and its degree in each country will depend on the nature of its regulatory system.

In many countries, in addition to the legal requirements for establishing and maintaining insurance companies, financial conditions will be seriously considered. Compared to other countries, in Iran, the insurance companies are financially monitored (financial monitoring) and its provisions have not been seriously considered. The reason for this could be due to the fact that monitoring other aspects of insurance operations and the monopoly of public sector insurance companies has diminished the importance of monitoring their financial abilities. However, in most countries, some measures have been taken. Using online information systems, continuous monitoring of financial operations and supervision of the insurance companies focusing on financial supervision and financial condition of insurers have been carried out.

Due to the presence of private sector activities in the field of insurance, the regulatory system should strengthen its oversight role in this sector. Basically, the regulatory authorities are confident that the unique circumstances and insurance rates are high enough to sufficiently limited. Thus the probability of financial failure or bankruptcy of state-owned enterprises is very low. With the liberalization and competitive business environment, enterprises have to increase the efficiency of insurance and financial risks to earn higher returns. In the competitive market, the insurance companies require regulatory authorities to limit the risk of insolvency and protection of policyholders in order to provide more flexible financial structure. Hence, paying attention

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to financial supervision and regulation of financial prosperity are extremely important in a competitive situation (Mirzaei and Mirzakhani, 2000, p. 74).

The need to monitor the activities of insurance

Technical supervision on the financial institutions, especially insurance companies, is a matter of interest into all levels of management. Because of high turnover and a great number of Insurance policies and a very large volume of their obligations (obligations of the future is unknown and there is now a wide range of people whoare interested in it), there is a need for efficient monitoring system on these activities. Monitoring the activities of the insurance enhances the operations of insurance companies and consequently will bring economic growth of any country.

In addition to the traditional role of monitoring (i.e. protection of policyholders), it is necessary that the economic, social, political and national coordination of investment activities, such as insurance companies are regarded along with macro-economic policies and the prevention of the outflow of foreign exchange through reinsurance should be seriously considered.

Many experts believe that, in developing countries, besides the duties of the regulatory system and providing a platform for the creation and empowerment of financial markets ,their important task is providing necessary foundations and enhancement of financial markets.

There is a potential for discrimination and abuse many customers because the insurance company's obligations undertake future complex liabilities. The social benefits of insurance companies are important for social advantages which makes the monitoring on such companies highly remarkable. Today, insurance companies and the economy act as political and economic tools, not only for services but also for purposes such as employment insurance, financing, investments or increasing current earnings used by governments (Mirzayi and Mirzakhani, 2000, p.75) .

In view of the foregoing, it can be concluded that serious and effective supervision of insurance activities is an important point and undeniable, which can expand and improve the quality of insurance services. The specialization of insurance industries will double the importance of supervising insurance companies.

Financial supervision

In developed countries, monitoring the performance of insurance companies is in line with developments in the insurance industry in these countries. In Iran, monitoring insurance companies only include overseeing financial operations. Yet the focus of the activities of insurance companies is specified in the agreement. However, the insurance companies are free in terms of activities, staffing selection, tariff free (Financial Supervisory insurance market, 2007).

In most countries, the tariff advisory is based on a counselling system and there is not much control over how it is determined. Insurance companies have a lot of freedom in this area. Monitoring the financial abilities of the insurance companies to fulfil their commitments is of serious consideration. In discussing financial monitoring, the indicators of financial regulatory systems (mainly the text of the attached financial statements and notes) are used to assess and control the insurance companies.

If the financial condition of insurance companies is not proper, it can be deduced that the company may face problems in terms of liquidity to meet its obligations. Therefore, surveillance systems may issue precautions necessary to exit this mode.

As for the issue of financial supervision, monitoring systems have the ability to limit the financial solvency of insurance companies for timely payment of interest and commitment for being competitive in the market operations and tariff details are not given much importance.

In other words, instead of monitoring the tariffs, technical supervision is done. Also, monitoring systems are used to control general terms and conditions of insurance policies and set tariffs and accessories to protect the rights of the insurer and insured adequately (Karimifar, 2007, p. 22).

In this way, despite the freedom in determining tariffs, insurance companies are required to follow rules that ensure the interests of the society in a free and fair competition. Therefore, in this way the direct supervision will be deleted. This means that instead of controlling companies calculating the financial indicators of corporate, their performance is analysed in management report.

The establishment of non-tariff monitoring systems and regulatory functions, a much broader and deeper scope of monitoring will be possible. In an ideal business environment of non-tariff monitoring, in addition to ensuring the health insurance market, having a full authority monitoring to issue or revoke the license of an insurance company (more difficult to be achieved), the three main tasks of the monitoring systems of the insurance companies would be :

- Developing, approving and delivering standards -related insurance products, services offered by insurance companies, which are useful for the insured (customers).
- The accreditation of technical managers of the insurance companies with the aim of ensuring sufficient technical expertise to perform their duties.
- Monitoring the financial strength of insurance companies from various aspects such as saving and investing to ensure they are able to fulfil the commitments which are made.

Regarding the third task, it should be noted that insurance companies in exchange for the premium received from policyholders, are obliged to pay potential losses which are in harmony with the frequency and severity of incidents with the potential for credit-related insurance. Therefore, it is not possible to easily determine the exact obligations of the insured primarily based on forecasts. Anticipated future liabilities in the financial statements are shown as in the technical reserves of the insurance companies are limited. Technical reserves of insurance companies make a lot of funds that can be invested. It also requires insurers to fulfil their obligations. The investments of insurance companies can be seen as the main activity of the insurance companies (PourMohammadi,2007:17).

Marginal financial prosperity is one of the most common and efficient indicators used in many countries for financial supervision in the insurance industry, which will be examined in more detail.

The evaluation of financial regulation on the insurance industry

Financial supervision can be associated with many positive outcomes; some of them are as follows (Heidarzadeh, 2007, p.17):

1 –The efficient use of staff empowerment in the Central Insurance. This means that instead of engaging in economic activities, the personnel will be involved in insurance regulation, identifying indicators of wealth and the insurance companies will continue to operate.

2 - A competitive insurance market will appear resulting innovation, initiative acts and creativity in the field of activity and tariffs. In fact, the technical and professional skills will increase.

3 –People (the insured)will benefit from a balanced variety of services and rates created by a competitive market

4 - Gradually the obstacles to broaden culture of insurance will be eliminated and the insurance industry in the national economy will expand.

5 - Due to financial supervision and transparency in the functioning of insurance companies, evaluating the performance of managers will be possible. This will inturnlead to accountability and meritocracy in the selection of a competent manager.

6 - Gaining necessary ability for insurance companies to enter the domestic market.

Features such as increase in interest expense, efficiency, effectiveness, protection of assets, are considered as common features of monitoring systems. For financial regulatory mechanisms of the insurance industry, creating a financial information system is required to explain the exact tasks and workflows of financial information. Under the accounting standards, measuring and evaluating the storage requirements formulation and development assets at current prices in financial supervision of insurance companies are necessary (Mirzaei and Mirzakhani, 2000, p. 81).

Therefore, before applying any type of financial monitoring, it is advisable to redefine the regulatory policy objectives in accordance with the purpose of financial information systems so as to prepare necessary reports.

From the internal and international viewpoint, the exact explanation of monitoring system components and proper designing is of considerable importance. Therefore, implementation of the financial regulatory system should be tailored to the country's economic and social conditions. Financial prosperity margin requirements and related standards, including effective mechanisms for monitoring the financial industry is considered to be effective in insurance industry.

What is financial strength?

The insurance industry is passing through a system of direct supervision to an indirect regulatory system with more freedom. Thus, at this point, the importance of risk control and risk management systems will be crucial. Appropriate regulatory systems to control the insurance companies require enhanced techniques. Since insurance companies invest significant contribution to the national economy, their enhancement strengthens the financial markets. In this new space, the main criterion for assessing an insurance company's ability is to fulfil commitments (Financial health and solidity are synonyms for the term'financial strength).

According to Benjamin (1977), financial strength is in the possession of sufficient cash to pay all debt payments. The definition for the concept of financial strength includes a range of possibilities until their dissolution:

On the one hand, it is claimed that the liquidation or debt may include immediate treatment for any of the companies. This comment refers to the approach of dissolution or suspension.

On the other hand, (as described in www.investordictionary.com) when a company has financial strength, it is able to pay its debts in due time. This comment refers to the approach of continuing activities or Booing –concern Approach.

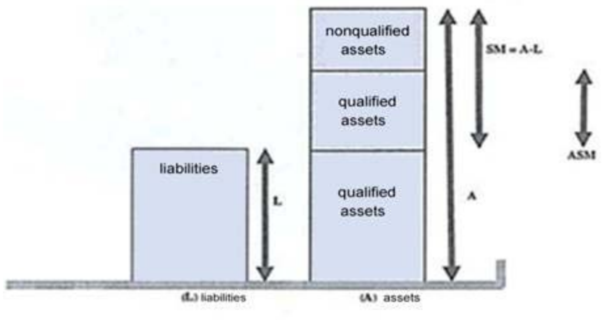
In the normal activities of insurance companies, estimated financial strength should be marginally higher than the specified minimum amount. The company should have the ability to perform additional costs that may occur in the event of liquidation. This comment refers to the approach of dissolution or suspension.

When a company is in violation of these limits, intervention and monitoring systems interfere and make decisions about how predictable compensation is made. This is usually calculated using statistical methods and probability of error in them. To protect policyholders and ensure financial stability, maintaining a certain amount of additional funds required by insurance companies as a protective shield which can be seen as the margins of financial prosperity.

According to Webster's Dictionary, financial strength is an old term and its origin dates back to the year 1727 which means the concept of "quality or state without debt". Its current meaning, goes back to hundred years ago and today means "the ability to pay all legal debts" (Sandstorm, 2006, p. 7).

Financial strength is a shield that borders the property to cover the debt that a company uses. It can be mathematically equal to the fraction of a firm's assets and its liabilities. The restrictions on the use of margin create financial wealth which is an asset that will be described later.

According to the above graph, SM margin represents the difference between assets and liabilities in the financial prosperity of a company. If the low quality of financial prosperity is deducted from the financial strength margin of the company, the cash investment or ASM is achieved.



(Sandström, 2006)

Figure 1. An image of a brief border financial wealth and financial prosperity margin.

In addition to the above two approaches, there are other ways for financial prosperity. For example Penikann (1967) suggested two other ways to review the concept of financial prosperity:

1 - Point of Contact Management: The continuity of operations of the company must be maintained.

2 - From the point of view of the observer: the interests of the policyholders and creditors must be protected.

According to the above two approaches, it can be inferred that the second definition is more precise. In this definition, although it does not directly consider the continuation of the company's operations, it is allowed to continue. The interests of the policyholders of insurance companies depend on efficient operations. This definition can be used as the basis for the legal system. The supervisory authorities are expected to define the minimum level of legal security standards - even just to protect the interests of the insured. They should be kept at the minimum level - even just to protect the interests of the insured -. On the other hand, each company should be free as it wants to expand its operations.

The concept of financial prosperity from the viewpoint of the International Association of Insurance Supervisors:

International Association of Insurance Supervisors (IAIS) defines financial strength as follows: "When a company is able to pay all obligations of financial prosperity in all contracts and the terms are reasonably foreseeable" (IAIS, 2002). This definition was later slightly modified:"the ability of an insurer to meet its obligations in the contracts at any time » (IAIS, 2003).This definition is also stated as:" Because of the nature of insurance activities, financial prosperity with certainty is impossible. A scientific definition is necessary to clarify under what conditions it should be investigated and appropriate assets cover the debt. For example, if current business operations should be considered (foundation of liquidation or cessation), or the next business (continuing operations basis) should also be considered. In addition to questions about the size and nature of business of an insurance company, the time horizon is considered; the inability to pay debts as well as a reasonable level of risk must also be considered (Sandstorm, 2006, p.11).

The concept of financial prosperity from the perspective of European guidelines

Europe Union guidelines published some guidelines in the form of life insurance and non-life ones provides. The Member States are required to comply with the requirements and conditions set forth in these guidelines. The concept of financial strength has developed insurance margin in Europe. The edge of financial prosperity has been seen as a supplementary reserve from the start. Instruction in the non-financial guideline as a tool was defined primarily which served as a protective shield.

In the 1973's first non-life insurance guidelines, it was stated that “it is necessary for supplementary reserves to have more at their disposal than insurance payment obligations or the Technical reserves"(with additional reserves). A similar statement was issued in 1979, "when the first life insurance guidelines were issued." (1973, EEC).

The third instructions about insurance as non-life had changes in Chapter 16, and emphasized that “marginal economic prosperity for all commercial activities “should be examined . This had not been considered in the Guidelines. The chapter introduction tells the story already. “Europe member states should require all insurance companies to ensure that all business activities are in accordance with appropriate margins to create financial strength .

The margin must equalize assets of insurance companies minus liabilities which are predictable and intangible » (1992, EEC). Such restrictions on assets are because border financial prosperity should be available and there is high liquidity to be used in critical condition as a scaffold.

In non-life insurance guideline, , the marginal financial wealth was not defined as a tool, like a protective shield against adverse market fluctuations. The guideline states that “the insurance companies must have more money than most of the technical reserves to afford to pay the debt. A marginal financial prosperity as a shield against adverse market fluctuations may act an important part of a regulatory system for the protection of persons insured and insurer". The guidelines should define the time horizon covering all times. In other words, on the basis of continuing operations, a similar approach was presented (Sandstorm, 2006, p.11).

There are many synonymous terms for financial strength. For example, Kamin (1961) used relevant terms such as Dynamic Solvency as equivalent to the term which can continue the approach and activities of the obligations and the term Static Solvency for the breakup situation.

Also Kastlijn et al. (1986) used other related concepts. Guarantee funds used in the financial strength of the EU is equivalent to a minimum of margin and minimum capital that a company's financial wealth at work can have.

The term Minimum Free Reserve can also mean the financial strength which is guaranteed. Some studies have used the term financial strength. For more information about the terms , the study by Kastlijn et al. (1986) is recommended.

How to determine a company's wealth (financial wealth margin)

Financial wealth is the margin of a company's assets minus its liabilities related to asset restrictions. In other words, the margin is the excess reserves of conventional financial strength that an insurance company is holding for future obligations.

Although the overall structure of marginal wealth funds of the insurance companies are alike, it is calculated differently in different countries and its constituents are determined bythe experts in the field of accounting and the insurance industry. In this section, several different ways of calculating this measure are:

Method of Organization for Economic Co-operation and Development (OECD)

The method of calculating the available solvency margin which introduced by OECD comprises elements that are posted to firm’s balance sheet, accounting data that for various regulatory reasons are not posted to the balance sheet, and non-accounting data. In some cases, reserves are reclassified as provisions and vice versa. Lastly, certain types of “quasi-equity” are in some cases taken into account.

Hence the formula: $Avail.SM = (L-Q) + Ds - I \pm R + CG + H$

[1] L is the firm's total balance sheet liabilities (including owners' equity). Q is committed liabilities, which include technical provisions and equivalents, other provisions for risks, expenses and doubtful debts of all sorts, including dividends to be distributed. (L-Q) measures shareholders'' equity, constituted by all elements of capital free of any foreseeable commitment, i.e. not corresponding to any commitments or debts: share capital, initial capital (for mutual associations), reserves (retained earnings-neither distributed to shareholders nor refunded to members, and net of any applicable profit tax).

[2] Subordinated debt (Ds) is considered quasi-equity if the rights attaching thereto are subordinate, in the event of liquidation, to the claims of other creditors, including the insured. Such debt therefore gives policyholders an additional guarantee, provided that the firm is not able to redeem the debt early if it runs into difficulty. Some countries do not debt to count towards the available solvency margin unless the redemption thereof is always (and not just in a crisis situation) subject to prior authorization from the supervisory authority.

[3] I represent assets to be deducted, even though their inclusion on the balance sheet is consistent with general accounting standards, even as specifically applicable to insurance.

1. In all countries, balance sheet loss carry-forwards are deducted, along with any assets that are considered fictitious because they cannot be realized.
   - Non depreciable incorporation expenses,
   - Non depreciable contract acquisition costs,
   - Intangible assets such as goodwill,
   - Tangible operating assets.
2. The unpaid-in portion of the capital subscribed by shareholders is deducted in full or in part (e.g., 50% is deducted in the European Union).
3. In some countries, the value of shares in financial subsidiaries and shareholdings in domestic or forging insurance companies must be excluded or reduced. Elsewhere, such investments are deemed to present an additional risk which is factored into the required solvency margin.

[4] R can be either positive or negative, depending on whether provisions are classified as reserves or vice versa. Depending on the applicable accounting standards certain provisions become reserves, pursuant to local regulations (tax regulations in particular), while various kinds of reserves are reclassified as provisions, to the satisfactions of insurers and supervisors. This results in distortions of the list of elements eligible to constitute the solvency margin in the various countries. Such is the case, inter alia, for equalization or risk fluctuation provisions (or reserves) and for certain provisions (or reserves) arising from the methods companies use to value investments on their balanced sheet.

[5] Unrealized capital gains (CG) on investments are equal to the aggregate difference between the market value of investments and their book value.

Of relevance primarily to firms in countries that require investments to be carried on the balance sheet at historical cost, or that require discounts from their market value, this eliminates all distortions vis-à-vis firms that carry investments at their market value.

Some jurisdictions include all unrealized capital gains, others reduce them by the amount of expenses and taxes that insurer would have to pay if it disposed of the investments in question.

Others deduct a hypothetical provision corresponding to the amount that would be needed to cover the effects of a significant drop in stock market prices and of rise financial market interest rates. In these countries, the supervisory authorities indicate how such resilience tests should be calculated.

[6] H is a sum of non-accounting data that are implicit or even only potential. It may comprise the following values from list that varies from one country to another:

1. Potential supplementary contributions for which a mutual association may assess its members, if the by-laws allow it.
2. Future profits from a portfolio of policies written by a life insurance company.

Accounting Standards No. 28, Iran and some of its related issues

In line with Article 10 of the President addressing the Minister of Economic Affairs and Finance, In September 2007, some working groups on reform of the country's insurance industry were formed. Five working groups specialized in the field of "information technology, governance and international relations," "legal, reinsurance and insurance-industry interaction," "administrative, networking, sales, interacting insurance market, money and capital", "Structure and Organization education, insurance and family balance, "and" domestic surveillance, health insurance and life insurance non-life insurance which interact with the service insurance ". The formation of these working groups was under the liability of the Central Insurance of Iran, insurance companies and government and in cooperation with private insurers. Some insurance industry experts were involved and a development plan was prepared in the insurance industry (Abrar Eqtesadi Daily Newspaper, 2008).

Financial-Administrative working group and administrative and sales network interacted with the insurance money and capital market development plan, which was one of the five working groups under the supervision and with the participation of representatives from Asia Insurance, Central Insurance, Iran Insurance, Alborz Insurance, Dana Insurance, Razi Insurance , Melli Insurance and Moalem Insurance. The final report of the working group, financial challenges were one of the main challenges for insurers. Some of the financial challenges included: lack of transparency in the financial statements, adequacy of internal controls, inadequate funding, high cost of services, lack of coordination in the preparation of budgets and financial regulation. The aforementioned challenges confirm the General Inspection Office that financial issues are major challenges in the area of privatization of insurance companies (World Economy 24.02.2008).

The working group on transparency of financial statements is one of the main challenges for the insurance industry in Iran. The Iranian insurance companies have pointed out that by virtue of paragraph 2 of Article 17 of the Insurance Act 1970 of the Central Insurance of Iran, the financial statements are prepared and reported based on High Council of insurance. In late 2004, the Draft of Accounting Standard 28 as general insurance activities , was adopted by the Audit Committee Accounting Standards Organization (Hshy and Hassanzadeh, 2006).

From the viewpoint of the Corporate Audit, the Accounting Standards Publication No. 28 aims at prescribing accounting methods for the calculation of premiums, losses, expenses, insurance, public education, direct and reinsurance, and related disclosure of this type of activity in the financial statements of insurance companies. From the viewpoint of Corporate Audit the scope of standard was for the general and life insurance and other insurance does not apply. Despite the high standards required by the Standard Number 28 in 2007, it was enforced in 2007 (World Economy: 02.05.2009).

Accounting methods used by Accounting Standard 28 issued by the insurance company faced much criticism. Annual income is used to calculate and store the result in non-compliance with the realized premium income and was one of the main weaknesses of the insurance companies accounting methods.

On the other hand, the reflection of the technical reserves of insurance companies as the accumulated debt in the balance sheet will lead to the financial statements swell of the insurance companies and consequently lacked the transparency of financial statements. Previously, the financial statements of insurance companies are not provided uniformly and differences were observed in the financial statements of these companies.

The new accounting standard has many strong points that its use can lead to a lot of positive results including: Full compliance with accounting principles, financial transparency matched with the financial statements of insurance companies.

There are different ways to calculate premiums and premium income (not obtained insurance income) including a year or half, or season or one-eighth approach, monthly techniques, or one twenty- fourth and daily technique.

The shorter the time period used in the calculation basis, further accuracy and consequently less costs will result. Therefore, the calculation of the premium based on the selection and storage of premium and economy should be considered carefully.

Prior to the enforcement of standard28, the annual method was used to calculate income premium and annual premium income methods. In this method, it is assumed that the date of issuance and renewal of all insurance policies is mid- year. This method is used, even in cases where insurance policies are issued in the end of year.

The method used in chapter 28 of the mandated standard assumes that all insurances issued in the middle of each quarter or three month extension have been extended or issued.

Therefore, in this method only half the amount of the premium obtained from the division of the quarter (year's final quarter)on the annual amount of the premium is recognized as the revenue and the rest is known as non-achieved premium. The insurance policies issued for the four quarters of the year are calculated as follows: for the first quarter of the year, seven-eighths of the obtained premium and one-eighth of non-obtained premium income; for the second quarter, five-eighths of obtained premium and three-eighths of non-obtained premium;

the third quarter three-eighths of obtained premium and five-eighths of non-obtained premium; the fourth one-eighths of obtained premium and seven-eighths of non-obtained premium. (Karimi, 2007, p. 139). Obviously, the accuracy of the standard method proposed by Accounting Standard 28 is much more accurate and compatible with the principles of accounting.

But as for the category of technical reserves as liabilities cumulative debt, it should be noted that the theoretical concepts include "obligation to transfer economic benefits by the entity arising from past transactions or other events".

According to this definition, the obligation to transfer economic benefits arising from past transactions or other events dedicated to the business unit and the transfer of economic benefits is subject to the occurrence of a series of events.

Therefore, in this case there is a commitment on the debt. Technical reserves of insurance companies are calculated according to regulations, some additional technical resources such as storage capacities and storage of natural disasters are reflected in the financial statements while some parts are related to the on-going commitment of resources and some to the related liabilities which have already expired and the entity has no obligation. Therefore, as defined above, liabilities should not be reported in the financial statements of debt.

It should be noted that the maintenance of such reserves, in the event of disasters ,no change is created in technical reserves because in case of paying for damages, the whole time span of the contract and in the event of non-payment ,the date of the financial statements produced will affect the storage losses due and will have no effect on the supply of technical capacities. Therefore, the occurrence of such incidents will affect the profit and loss of the performance period.

On the other, if the profit or loss (excluding the deposit) and the dividend will be calculated and disclosed, in the event of such incidents, the company will periodically suffer and the total losses is in excess of capital which is 50% of the firm's capital. Necessary measures should be taken in accordance with Article 141 of the Commercial Code in this regard to address concerns created by the company's financial strength.

Setting Accounting Standard for general insurance activities

The main reasons for the necessity of formulating Accounting Standards No. 28 from the viewpoint of the Accounting StandardsBoard are as follows (Accounting Standards Committee, 2007, p.610):

- Unique features of different general insurance activities,
- Excluding the scope of insurance activities Accounting Standard No. 3 entitled " Operating Income "
- Using different methods of accounting by insurers for similar transactions and events ,
- The need for greater transparency in financial reporting by insurance companies.

Besides the reasons provided by Accounting Standards Committee, the following additional reasons can justify the publication of such standards as outlined by (Heshy and Hassanzadeh, 2006) .

1 - Some of the common procedures and practice in the insurance industry have no strong theoretical basis and clearly can cause distortion of the basic financial statements. Reflection on how the technical reserves in the context of profit and loss , cost, damage being confined to financial compensation during the reporting period , the lack of clear and accurate breakdown of premium and determination and calculation of technical reserves are examples in this regard.

2 - Telecommunications in the international insurance industry, much of the current connection and communication of the future will require the preparation of financial reports by insurance companies to be more consistent with benchmarks and standards.

3 –Today, there is a consensus among scholars and administrators in the insurance industry and capital markets regarding strengthening financial supervision. Accomplishing this goal without accounting standards codified in principle is not possible.

4 –The status quo of insurance accounting from the viewpoints of auditors need review and reflection. For example, due to lack of statutory standards, auditors have to express disagreements with the insurance company managers under the terms of the agreement and an explanatory paragraph in the audit report. Therefore, this condition will not apply in respect of insurance matters. Anyway, developing insurance accounting standards will have positive effects on the freelance auditors and will be considered as useful work.

5 –It is likely to remove the barriers for public insurance companies in the near future to offer its

shares on the Stock Exchange. Therefore, using a standard preparation of financial statements for accurate reporting will become an undeniable necessity.

Given the above, one can expect to achieve the desired objectives in formulating Accounting Standards No. 28 suitable for financial supervision of insurance companies. This standard also makes use of more transparent financial statements of insurance companies and therefore it would remove one of the main obstacles to the privatization of the insurance industry.

Conclusions

Unlike other industries, the insurance industry is not seen as a bargain sale end, but it is seen as the beginning of a commitment. This is an undeniable fact that the insurance industry should be taken into account and make a distinction between the industry and other industries. In other words, in the most productive industry and commerce, after a series of key actions associated with, accounting sales time as the best time to calculate income. It is believed that at this time the risks associated with the goods is transferred to the customer. However, for the insurance industry the customer's insurance policy insured principal obligation begins after the sale and delivery of the insurance policy.

On the other hand, issues such as mismatch between premiums received and claims paid by insurance companies, the future commitments arising from the unexpired portion of premiums and investment are of considerable importance to monitor the location of the insurance and limited resources which makes the accounting of insurance industry different from other industries.

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