

Specifics of reporting on cash flows in insurance companies

Snežana Knežević^{1*}, Aleksandra Mitrović², Dušan Sretić³

¹ University of Belgrade, Faculty of Organizational Sciences

² University in Kragujevac, Faculty of Hotel Management and Tourism in Vrnjačka Banja

³ EuroAudit, Belgrade

Abstract: The activity of insurance and operation of insurance companies is very important in the context of development of financial organizations that operate in the territory of many countries, including the Republic of Serbia. A report that is of crucial importance for insurance companies in the context of an adequate cash flow management is a cash flow statement. Bearing in mind the specificity of the insurance industry, as well as the risks associated with it, cash flow is the basic focus of financial management. For insurance companies, it presents an overview of cash flows that occurred during the previous accounting period. The aim of the paper is to show the importance of efficient cash flow management in insurance companies from the aspect of their planning, and to this effect, the paper provides the simulation of the internal report on cash flows that is done monthly for domestic insurance companies in the function of efficient liquidity management of the insurance company.

Keywords: insurance companies, cash flow statement, liquidity

JEL classification: M41, G22, G17

Specifičnosti izveštavanja o novčanim tokovima u osiguravajućim kompanijama

Sažetak: Delatnost osiguranja i rada osiguravajućih kompanija je jako bitna u kontekstu razvoja finansijskih organizacija koje posluju na teritoriji mnogih zemalja, pa i Republike Srbije. Izveštaj koji je od presudne važnosti za osiguravajuće kompanije u kontekstu adekvatnog upravljanja novčanim tokovima je izveštaj o tokovima gotovine. Imajući u vidu specifičnost industrije osiguranja, kao i rizike koji su sa njom u vezi, novčani tok je osnovni fokus finansijskog upravljanja. Za osiguravajuće kompanije, on predstavlja pregled tokova gotovine koji su se dogodili tokom proteklog računovodstvenog perioda. Cilj rada je da prikaže važnost efikasnog upravljanja novčanim tokovima u osiguravajućim kompanijama sa aspekta njihovog planiranja, te u tu svrhu i simulacije internog izveštaja o novčanim tokovima koji se izrađuje mesečno za domaću osiguravajuću kompaniju, u funkciji efikasnog upravljanja likvidnošću osiguravajuće kompanije.

Ključne reči: osiguravajuće kompanije, izveštaj o tokovima gotovine, likvidnost

JEL klasifikacija: M41, G22, G17

* snezana.knezevic@fon.bg.ac.rs

1. Introduction

Insurance is a method of transferring social risks from the insured to another person, i.e. an insurance company, for various dangers ([Marcinko & Hetico, 2006](#)). Insurance is occasionally referred to as "business uncertainty". On the one hand, insurance is possible only in the presence of uncertainty, and on the other hand, insurance is provided by firms that seek to make a profit out of this ([Zweifel & Eisen, 2012](#)).

Insurance business in the Republic of Serbia consists of insurance activities, including co-insurance, reinsurance business, insurance brokerage and insurance advisory services. According to Article 138 of the [Insurance Act](#), insurance companies are obliged to keep accounts and prepare financial statements and annual report on their operations in accordance with the law and other regulations relating to the chart of accounts for insurance company and forms of financial reports and reports for statistical purposes.

Cash Flow Statement is a financial statement showing where cash is coming from (cash inflows) and where it goes away (cash outflows) for a particular accounting period, as well as what was the change in the cash balance during that period. The main element in the cash flow statement is cash, including cash equivalents as most liquid assets. Cash includes cash and sight deposits. Cash equivalents are short-term most liquid investments that can quickly turn into known amounts of cash and are not under the influence of a significant risk of a change in value. Enterprises hold cash equivalents to meet short-term cash obligations, not for investment or for some other purpose.

A cash flow statement is an overview of cash flows that occurred during the previous accounting period. IFRS (International Financial Reporting Standards) or GRP/US GAAP (Generally Accepted Accounting Principles) suggest three cash flow statement components: the cash provided from operating activities, cash provided from investment activities and cash provided through financing activities. Bearing the above mentioned in mind, there are three groups of company activities:

- (1) Operating activities - Represent the main source of enterprise profits and therefore should be the primary source of cash.
- (2) Investment activities - A profitable company aims to expand capacities or modernize the existing production capacities, which in the short term necessarily leads to cash outflows.
- (3) Financing activities - The result of the funding activities should increase the cash resources of the enterprise, which can be used in the business and for the investment of the company.

The value of cash flow statement is that it can be used to assess the quality of earnings (profit) and financial flexibility. In addition, it can significantly help predict cash flows. The creation and analysis of cash flow statements provides important information on the results of cash resources management, and the ability to overcome the risk of doing business through securing the liquidity and solvency of an insurance company. The assessment of the success of cash flow management in practice is usually performed on the basis of horizontal analysis and on the basis of the ratio of net cash flows and profits. The horizontal analysis means the comparison of net cash flows of the current period in relation to previous periods.

The cash flow, the lifeblood of a company, is the primary focus of a financial director, both in managing daily finances and in planning and making strategic decisions in order to create value for shareholders. From the accounting perspective, the cash flows of a company can be summarized in the cash flow statement in three sections: operating activities, investment activities and financing activities. Bearing in mind that profit-oriented insurance companies employ the accrual accounting concept in their accounting, it is necessary to point out the

well-known fact that it is necessary to monitor the flows of profitability and cash flows for efficient management of the assets of the insurance company. Quality forecasting of cash flows enables risk managers to determine the optimal amount of cash for short-term, mid-term and long-term investments. Having in mind that investments cause a lack of liquidity, it is important for the treasurer to have the availability of reliable information so that it can immobilize funds and reconcile the maturities with the planned commitments.

Given the importance of insurance for the financial system of a country, on the one hand, and the importance of efficient cash management, on the other hand, for maintaining liquidity, this paper outlines the importance of managing cash flows in insurance companies. At the beginning, a review of literature will be presented, and after that, taking into account the significance of the simulations, the simulation of the internal cash flow statement on a monthly basis for domestic insurance companies is provided.

2. Review of literature

[Mayers and Smith \(1981\)](#) predict that conflict control costs between owners and managers are higher for mutual insurers rather than for stock insurers, as there are fewer mechanisms for monitoring and controlling mutual organization. By examining the relationship between the organizational form and the free cash flow, it has been established that mutual insurers have a higher level of free cash flow from stock insurers. Other firm-specific variables, such as size and leverage also affect the level of free cash flow for firms in the analyzed dataset.

[Jensen \(1986\)](#) argues that the existence of free cash flow provides managers with the ability to lose money on non-profitable investments. These unprofitable investments represent an additional cost of conflict between owners and managers.

The study of [Wells et al. \(1995\)](#) examines the differences in free cash flow between stock and mutual insurance in the U.S. life insurance industry and the purpose is to examine whether the organizational form affects managerial behavior in relation to the holding of a free cash flow. Maximize cash in, minimize cash out and cash availability is the lifeblood of the organization ([Reider & Heyler, 2003](#)). Information contained in the cash flow statement can help investors, creditors and other users in assessing aspects of the financial position of the company, such as: (1) the ability of a company to create future cash flows and cash equivalents, (2) the ability of a company to pay dividends and meet its obligations, (3) the reasons for the resulting difference between net profit and net cash generated from operating activities and (4) investment and financing for a certain accounting period ([Knežević et al., 2012](#)).

According to [Knežević et al. \(2016\)](#), a cash flow statement is one of the key statements for a project or company and presents an overview of cash flows that is covered by an enterprise or project, and many users of financial statements in many industries even consider the cash flow statement to be a key financial statement.

Speaking of the simulation of the cash flow statement, which will, among other things, be presented in the paper, it is important to point out the work of [Daykin and Hey \(1991\)](#), which says that a cash flow model is proposed as a way of analyzing the uncertainty in the future development of a general insurance company. Also, a computer model is presented for the use in practical applications by actuaries advising the management of general insurance companies. Simulation methods are used to explore the consequences of uncertainty, particularly in regard to inflation and investments. Also, it should be borne in mind that the value of insurance company depends on the estimated operational cash flows, new investments and risks.

According to [Lukić \(2010\)](#), the liquidity policy of insurance companies is a product of the very nature of insurance, and it refers in the first place to the fulfillment of obligations towards insured persons (compensation from insurance of property and persons), and only then to other persons (suppliers, creditors, state authorities). The insurance company lacking short-term cash will not be able to settle short-term liabilities as they mature, and in the longer term, it may also have solvency problems. Therefore, cash flows in insurance companies must be monitored through reporting, at least on a monthly basis.

3. Simulation of cash flow statements in the practice of the Republic of Serbia

Therefore, observing where money is generated and spent is just as important as the assessment of the liquidity coefficient, the profitability coefficient and other financial indicators. Basically, the cash flow statement prepared in our country by a direct method contains the following information:

- cash flows from operating activities,
- cash flows from investment activities,
- cash flows from financing activities,
- total changes in net cash,
- cash at the beginning of the accounting period and
- cash at the end of the accounting period.

In addition to direct, an indirect method for compiling cash flow statements can also be applied. The indirect method begins with a net gain, which is then corrected for non-cash items. The difference between the direct and the indirect method is only in the part that relates to operating flows.

However, it should be kept in mind that the positions in the cash flow statement are specific to the business activity they are related to. Thus, for example, for insurance companies: Cash flows from operating activities include:

- Cash inflows from operating activities including: premium inflows (from insurance, coinsurance and reinsurance), inflows from participation in reimbursement (reinsurance and co-insurance) and
- Cash outflows from operating activities including: outflows from damage (from insurance, coinsurance and reinsurance), outflows from premiums (coinsurance and reinsurance, and commission on reinsurance and coinsurance).

Below is a simulation of the internal report on cash flows that is done monthly for domestic insurance companies. The example is followed by comments that point to the important points in the movement of cash flows (Figures 1, 2 and 3).

Due to the size of the report and the inability to present the entire report in one whole, the sections of the internal cash flow statement are shown in Tables 1, 2, 3, 4, 5 and 6, based on the operating activity, the investment activity, financing activity and “cash at the beginning of the day” (Cash flows of 11.12.2017 and 12.12.2017 included in 13.12.2017).

Table 1: Simulation of a segment of the cash flow statement (01.12.2017–05.12.2017)

Type of cash flow	Inflows/Outflows	Subtype	Data code	1.12.2017	2.12.2017	4.12.2017	5.12.2017
Operating activities	Cash inflows from operating activities	Premium inflows	111	110,580	2,162	85,551	85,729
		Inflows from participation in the damage compensation	112	9,832		315	213
		Inflows from other operating income	113	2,342	5	3,016	1,305
		Inflows from extraordinary income	114	506		433	156
	Cash outflows from operating activities	Outflows on account of damages	121	38,571		37,674	43,092
		Premium based outflows	122			58	9,021
		Outflow from gross wages, salaries, and other personal expenses	123	10		2	
		Outflows from taxes, contributions and other taxes	124	635		558	2,491
		Lease based outflows	125				
		Outflow based on commissions	126	5,375		592	
		Outflow from other operating expenses	127	7,665	249	33,157	10,338
		Outflow from other expenses	128				
		Net change in cash from operating activities				71,004	1,918
Investing activities	Inflows from investment activities	Inflows from the sale of securities	211				298
		Inflows from investing in securities	212				
		Inflows from sale of intangible assets and fixed assets	213				
		Lease inflows	214				
		Other inflows of cash from investment activities	215	355	36	621	555
	Outflows from Investing activities	Outflows from investments in securities issued / guaranteed by the Republic of Serbia / NBS	221				
		Outflows from investments in securities traded on a regulated market	222				
		Outflows for the purchase of intangible assets	223				
		Outflows from investments in other securities	224				
		Other outflows of cash from investment activities	225			1,067	200,052
Net change in cash from investment activity (211+212+213+214+215-221-222-223-224-225)		230	355	36	- 446	-199,199	
Financing activities	Inflows from financing activities	Inflows from capital payments made	311				
		Inflows from long-term loans	312				
		Inflows from short-term loans	313				
		Other inflows based on financing activities	314				
	Outflows from financing activities	Outflows from the purchase of own shares	321				
		Outflows from long-term loans	322				
		Outflows from short-term loans	323			13	26
		Other outflows from financing activities	324				
Net change in cash from financing activities		330	0	0	-13	-26	
Beginning of the day cash		500	1,642,181	1,713,540	1,715,494	1,732,335	

Source: Authors

Table 2: Simulation of a segment of the cash flow statement (06.12.2017–09.12.2017)

Type of cash flow	Inflows/Outflows	Subtype	Data code	6.12.2017	7.12.2017	8.12.2017	9.12.2017
Operating activities	Cash inflows from operating activities	Premium inflows	111	88,081	56,347	93,275	3,326
		Inflows from participation in the damage compensation	112	445	344	830	
		Inflows from other operating income	113	1,792	1,612	1,005	
		Inflows from extraordinary income	114	98	50	1	
	Cash outflows from operating activities	Outflows on account of damages	121	24,240	59,515	34,033	
		Premium based outflows	122		2,353	283	
		Outflow from gross wages, salaries, and other personal expenses	123		219		
		Outflows from taxes, contributions and other taxes	124	247	312	39,568	
		Lease based outflows	125				
		Outflow based on commissions	126	3,897	34	306	
		Outflow from other operating expenses	127	8,653	13,808	41,678	565
		Outflow from other expenses	128				
Net change in cash from operating activities				53,379	-17,888	-20,757	2,761
Investing activities	Inflows from investment activities	Inflows from the sale of securities	211				
		Inflows from investing in securities	212				
		Inflows from sale of intangible assets and fixed assets	213				
		Lease inflows	214				
		Other inflows of cash from investment activities	215	145	138	281	
	Outflows from Investing activities	Outflows from investments in securities issued / guaranteed by the Republic of Serbia / NBS	221		148,399	359,719	
		Outflows from investments in securities traded on a regulated market	222				
		Outflows for the purchase of intangible assets	223				
		Outflows from investments in other securities	224				
		Other outflows of cash from investment activities	225	448	388	715	4
Net change in cash from investment activity (211+212+213+214+215-221-222-223-224-225)		230	355	-303	-148,649	-360,153	
Financing activities	Inflows from financing activities	Inflows from capital payments made	311				
		Inflows from long-term loans	312				
		Inflows from short-term loans	313				
		Other inflows based on financing activities	314				
	Outflows from financing activities	Outflows from the purchase of own shares	321				
		Outflows from long-term loans	322				
		Outflows from short-term loans	323				
		Other outflows from financing activities	324				
Net change in cash from financing activities		330	0	0	0	0	
Beginning of the day cash		500	1,642,181	1,552,633	1,605,709	1,439,112	

Source: Authors

Table 3: Simulation of a segment of the cash flow statement (13.12.2017–16.12.2017)

Type of cash flow	Inflows/ Outflows	Subtype	Data code	13.12.2017	14.12.2017	15.12.2017	16.12.2017
Operating activities	Cash inflows from operating activities	Premium inflows	111	50,874	65,889	77,997	1,888
		Inflows from participation in the damage compensation	112	1,361	922	593	
		Inflows from other operating income	113	1,328	1,570	2,755	10
		Inflows from extraordinary income	114	163	446	12,460	
	Cash outflows from operating activities	Outflows on account of damages	121	35,782	44,153	39,105	
		Premium based outflows	122	64,928	130	3,927	
		Outflow from gross wages, salaries, and other personal expenses	123				
		Outflows from taxes, contributions and other taxes	124	270	638	530	
		Lease based outflows	125				
		Outflow based on commissions	126	119	931	302	
		Outflow from other operating expenses	127	23,512	10,907	34,619	169
		Outflow from other expenses	128				
	Net change in cash from operating activities		-70,885	12,068	15,322	1,729	
Investing activities	Inflows from investment activities	Inflows from the sale of securities	211				
		Inflows from investing in securities	212				
		Inflows from sale of intangible assets and fixed assets	213				
		Lease inflows	214				
		Other inflows of cash from investment activities	215	89	84	1,098	41
	Outflows from Investing activities	Outflows from investments in securities issued / guaranteed by the Republic of Serbia / NBS	221				
		Outflows from investments in securities traded on a regulated market	222				
		Outflows for the purchase of intangible assets	223				
		Outflows from investments in other securities	224			14	
		Other outflows of cash from investment activities	225	2,262		528	
	Net change in cash from investment activity (211+212+213+214+215-221-222-223-224-225)	230	355	-2,173	84	556	
Financing activities	Inflows from financing activities	Inflows from capital payments made	311				
		Inflows from long-term loans	312				
		Inflows from short-term loans	313				
		Other inflows based on financing activities	314				
	Outflows from financing activities	Outflows from the purchase of own shares	321				
		Outflows from long-term loans	322				
		Outflows from short-term loans	323				
		Other outflows from financing activities	324				
	Net change in cash from financing activities	330	0	0	0	0	
	Beginning of the day cash	500	1,642,181	50,874	65,889	77,997	

Source: Authors

Table 4: Simulation of a segment of the cash flow statement (18.12.2017–21.12.2017)

Type of cash flow	Inflows/ Outflows	Subtype	Data code	18.12.2017	19.12.2017	20.12.2017	21.12.2017
Operating activities	Cash inflows from operating activities	Premium inflows	111	83,932	63,718	50,816	64,272
		Inflows from participation in the damage compensation	112	17,404	458	388	300
		Inflows from other operating income	113	2,337	1,759	1,388	13,598
		Inflows from extraordinary income	114	107	1	1	115
	Cash outflows from operating activities	Outflows on account of damages	121	51,597	22,251	12,590	53,559
		Premium based outflows	122	3,212		4,590	49
		Outflow from gross wages, salaries, and other personal expenses	123				
		Outflows from taxes, contributions and other taxes	124	192	91	29,001	39
		Lease based outflows	125				
		Outflow based on commissions	126	50	952	3,890	1,051
		Outflow from other operating expenses	127	8,414	14,646	8,036	6,936
		Outflow from other expenses	128				
	Net change in cash from operating activities		40,315	27,996	-5,514	16,651	
Investing activities	Inflows from investment activities	Inflows from the sale of securities	211				
		Inflows from investing in securities	212				
		Inflows from sale of intangible assets and fixed assets	213				
		Lease inflows	214				
		Other inflows of cash from investment activities	215		128	81	1,452
	Outflows from Investing activities	Outflows from investments in securities issued / guaranteed by the Republic of Serbia / NBS	221				
		Outflows from investments in securities traded on a regulated market	222				
		Outflows for the purchase of intangible assets	223				
		Outflows from investments in other securities	224				
		Other outflows of cash from investment activities	225	105,545	378		1,000
	Net change in cash from investment activity (211+212+213+214+215-221-222-223-224-225)	230	355	-105,545	-250	81	
Financing activities	Inflows from financing activities	Inflows from capital payments made	311				
		Inflows from long-term loans	312				
		Inflows from short-term loans	313				
		Other inflows based on financing activities	314				
	Outflows from financing activities	Outflows from the purchase of own shares	321				
		Outflows from long-term loans	322				
		Outflows from short-term loans	323				
		Other outflows from financing activities	324				
	Net change in cash from financing activities	330	0	0	0	0	
	Beginning of the day cash	500	1,642,181	1,059,404	2,748,703	2,775,909	

Source: Authors

Table 5: Simulation of a segment of the cash flow statement (22.12.2017–26.12.2017)

Type of cash flow	Inflows/Outflows	Subtype	Data code	22.12.2017	23.12.2017	25.12.2017	26.12.2017
Operating activities	Cash inflows from operating activities	Premium inflows	111	74,245	2,688	131,134	62,332
		Inflows from participation in the damage compensation	112	1,940		221	8,729
		Inflows from other operating income	113	6,160		2,547	1,799
		Inflows from extraordinary income	114	121		52	2
	Cash outflows from operating activities	Outflows on account of damages	121	31,521		23,439	45,204
		Premium based outflows	122	8,899		9	7,098
		Outflow from gross wages, salaries, and other personal expenses	123				
		Outflows from taxes, contributions and other taxes	124	530		303	508
		Lease based outflows	125				
		Outflow based on commissions	126	658		377	7,471
		Outflow from other operating expenses	127	9,232	104	5,330	9,672
		Outflow from other expenses	128				
			Net change in cash from operating activities		31,626	2,584	104,496
Investing activities	Inflows from investment activities	Inflows from the sale of securities	211				
		Inflows from investing in securities	212				
		Inflows from sale of intangible assets and fixed assets	213				
		Lease inflows	214				
		Other inflows of cash from investment activities	215	262		411	
	Outflows from Investing activities	Outflows from investments in securities issued / guaranteed by the Republic of Serbia / NBS	221				
		Outflows from investments in securities traded on a regulated market	222				
		Outflows for the purchase of intangible assets	223				
		Outflows from investments in other securities	224				
		Other outflows of cash from investment activities	225	647		3,969	267,080
		Net change in cash from investment activity (211+212+213+214+215-221-222-223-224-225)	230	355	-385		-3,558
Financing activities	Inflows from financing activities	Inflows from capital payments made	311				
		Inflows from long-term loans	312				
		Inflows from short-term loans	313				
		Other inflows based on financing activities	314				
	Outflows from financing activities	Outflows from the purchase of own shares	321				
		Outflows from long-term loans	322				
		Outflows from short-term loans	323				
		Other outflows from financing activities	324				
		Net change in cash from financing activities	330	0	0	0	0
		Beginning of the day cash	500	1,642,181	1,057,414	1,088,675	1,091,259

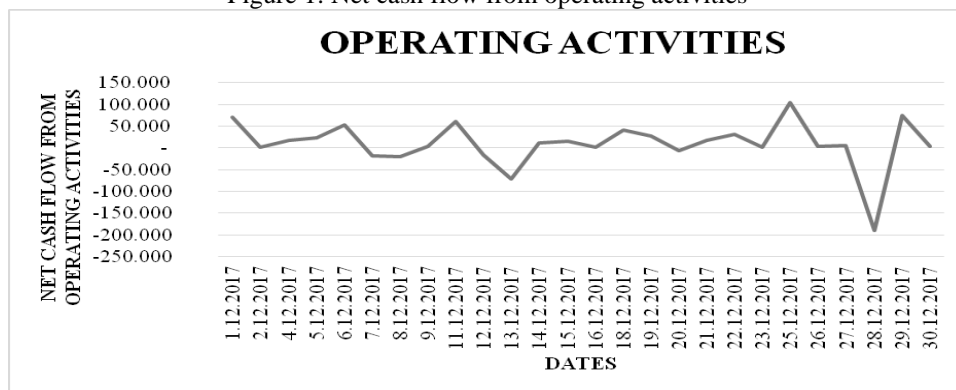
Source: Authors

Table 6: Simulation of a segment of the cash flow statement (27.12.2017–31.12.2017)

Type of cash flow	Inflows/Outflows	Subtype	27.12.2017	28.12.2017	29.12.2017	30.12.2017	31.12.2017
Operating activities	Cash inflows from operating activities	Premium inflows	84,990	96,410	106,022	3,967	1,765,027
		Inflows from participation in the damage compensation	1,516	1,912	3,899		53,331
		Inflows from other operating income	1,776	6,249	2,305		61,321
		Inflows from extraordinary income	481	101	103		15,401
	Cash outflows from operating activities	Outflows on account of damages	65,991	46,689	2,544		856,264
		Premium based outflows	1,339	528	447		109,601
		Outflow from gross wages, salaries, and other personal expenses		228,534			229,890
		Outflows from taxes, contributions and other taxes	660	249	123	8	78,331
		Lease based outflows					
		Outflow based on commissions	2,250	814	10,886	33	40,383
		Outflow from other operating expenses	12,252	17,249	23,499	190	330,573
		Outflow from other expenses					
		Net change in cash from operating activities	6,271	-189,391	74,830	3,736	9,617
Investing activities	Inflows from investment activities	Inflows from the sale of securities					298
		Inflows from investing in securities					
		Inflows from sale of intangible assets and fixed assets					
		Lease inflows					
		Other inflows of cash from investment activities	715	384	967	392	8,744
	Outflows from Investing activities	Outflows from investments in securities issued / guaranteed by the Republic of Serbia / NBS					508,118
		Outflows from investments in securities traded on a regulated market					
		Outflows for the purchase of intangible assets					
		Outflows from investments in other securities					14
		Other outflows of cash from investment activities	87				588,378
	Net change in cash from investment activity (211+212+213+214+215-221-222-223-224-225)	628	384	967	392		
Financing activities	Inflows from financing activities	Inflows from capital payments made					
		Inflows from long-term loans					
		Inflows from short-term loans					
		Other inflows based on financing activities					
	Outflows from financing activities	Outflows from the purchase of own shares					
		Outflows from long-term loans					
		Outflows from short-term loans					
		Other outflows from financing activities					
	Net change in cash from financing activities	0	0	0	0	0	
	Beginning of the day cash	1,194,167	1,201,066	1,012,059	1,087,856	35,804,673	

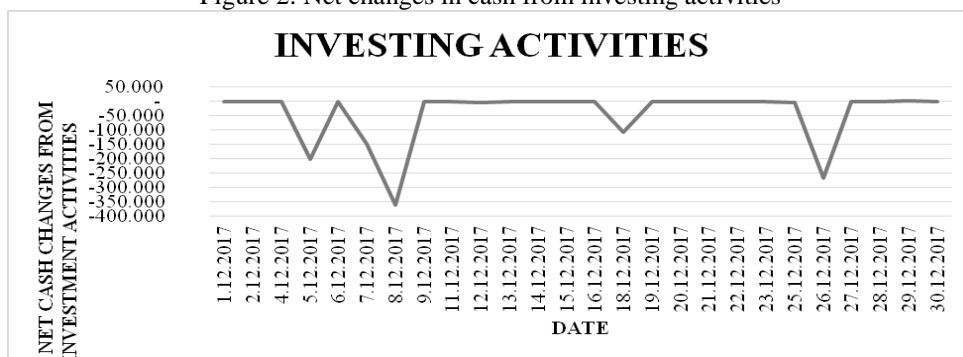
Source: Authors

Figure 1: Net cash flow from operating activities



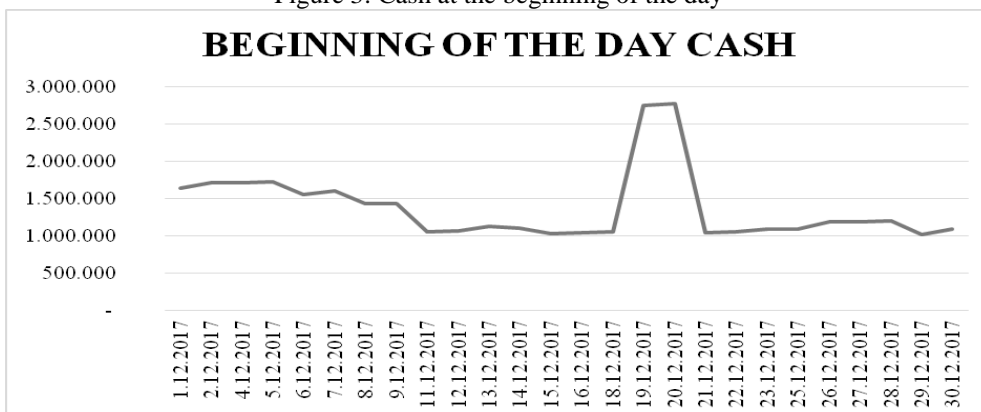
Source: Authors

Figure 2: Net changes in cash from investing activities



Source: Authors

Figure 3: Cash at the beginning of the day



Source: Authors

1. The graph of operating activities shows that net cash changes from business activities deviated from the limit value of 9,617 m. u. until 27.12. 2017 when large cash outflows occurred. The bulk of the inflows from operating activities belongs to insurance premiums, while a large part of the outflows from operating activities are outflows from damage.

2. The investment activities are at an even level, while large outflows of cash flows from investment activities are present, mainly related to outflows from investments in securities. Inflows from investment activities are mostly provided from income from the sale of securities.
3. Regarding monetary changes from financing activities, they did not exist, except on 4.12.2017 and 5.12.2017 when there was an outflow from short-term loans.
4. Cash at the beginning of the period has a declining trend until 16.12.2017 when it records the growth which continues until 21.12.2017. After this period, it continues to oscillate a small degree around its main value.

4. Conclusion

Insurance is gaining in importance, in particular with an ever more challenging environment and increased risk, and insurance is understood as a means of risk management in a risky environment. Insurance companies, bearing in mind the foregoing, must take into account cash flows in order to lead the decisions to the achievement of objectives, and in doing so, there would be no problems with the liquidity of the insurance companies. Cash flow planning is one of the most difficult and vulnerable areas in business management, especially in the insurance industry where many risks are immanent. When talking about insurance companies, it is necessary to suggest that cash is the lifeblood of the firm and that insurance company's cash planning practices can be a critical early warning device of impending financial problems, especially in the segment of investing funds in financial investments (long-term and short-term). From a risk perspective, a particularly sensitive item is long-term financial placements.

The cash flow statement of an entity is a basic choice of information used to make operational decisions regarding the management of cash flows, to control the financial solvency of the entity, and to interpret the differences between financial results and changes in the amount of cash. Bearing in mind the significance of cash flow statements for insurance companies, it can be concluded that, in addition to using them for the assessment of the quality of earnings and financial flexibility, they can greatly assist in forecasting cash flows. In addition, they provide us with key information for assessing the quality of earnings, the degree of reproducibility of business resources, as well as the level of competitiveness in the insurance market in which the insurance company is operating.

The monthly simulation of the internal report on cash flows for domestic insurance companies is of great importance to insurance companies. Information on cash changes is useful in order to assess its investments, financial and operational activities during the accounting period. This information gives different stakeholders the basis to assess the ability of the company to generate cash and its equivalents, as well as the needs of business to use these flows appropriately. Cash management is a process of planning, controlling and accounting monitoring of cash transactions and balances in order to prevent the loss of money and maintain its adequate level.

References

1. Daykin, C. D., & Hey, G. B. (1991). A stochastic cash-flow model of a general insurance company. In *Presentado a AFIR Colloquium*, 4, 113-137.
2. Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *The American Economic Review*, 76(2), 323-329.
<http://dx.doi.org/10.2139/ssrn.99580>

3. Knežević, S., Dmitrović, V., Stanković, A., & Mitrić, M. (2012). Poslovno-financijsko odlučivanje na osnovu dobiti ili gotovine [Business financial decision-making based on profit or cash], *13. Međunarodna znanstvena i stručna konferencija „Računovodstvo i menadžment“*, 14-16. jun 2012. godine, Zagreb, Hrvatski računovođa, Neovisna Udruga računovođa, poreznih savjetnika i financijskih dejelatnika, 258-270.
4. Knežević, S., Mitrović, A., & Ilić, Z. (2016). Pogled na izveštavanje o tokovima gotovine iz različitih perspektiva [Different perspectives on the cash flow statement]. *Menadžment u hotelijerstvu i turizmu*, 4(2), 36-47.
5. Lukić, R. (2010). *Računovodstvo osiguravajućih kompanija [Accounting of Insurance Companies]*, Beograd: Ekonomski fakultet, Univerzitet u Beogradu.
6. Marcinko, D. E., & Hetico, H. R. (2006). *Dictionary of health insurance and managed care*. Springer Publishing Company, Inc.
7. Mayers, D., & Smith Jr, C. W. (1981). Contractual provisions, organizational structure, and conflict control in insurance markets. *Journal of Business*, 54(3), 407-434. <http://dx.doi.org/10.1086/296138>
8. Reider, R., & Heyler, P. B. (2003). *Managing cash flow: An operational focus*. John Wiley & Sons.
9. Wells, B. P., Cox, L. A., & Gaver, K. M. (1995). Free cash flow in the life insurance industry. *Journal of Risk and Insurance*, 62(1), 50-66. <http://dx.doi.org/10.2307/253692>
10. Zakon o osiguranju, *Službeni glasnik RS*, br. 139/2014 [Insurance Act, *Official Gazette of RS*, no. 139/2014].
11. Zweifel, P., & Eisen, R. (2012). *Insurance economics*. Springer Science & Business Media.