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THE PIONEERING ACCOUNTING STANDARDISATION AND HARMONISATION PROCESS IN PORTUGAL: ACCOUNTING IN THE INSURANCE SECTOR BETWEEN 1907 AND 1999**Helena I. B. Saraiva**

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Abstract: This paper presents a historical analysis of insurance accounting during the twentieth century, when the main developments in terms of standardisation in this field of accounting science in the considered geography emerged.

The present analysis focused essentially on the legislative basis that can be taken as reference for the field of this branch of Accounting.

The results of this study indicate that the first successful attempt at accounting standardisation in Portugal, although of a sectoral nature, may be associated with this economic activity. The historical reasons for the existence of this branch of accounting are also presented.

Keywords: *Accounting, Insurance, Insurance companies, Standardisation, Legislation, Insurance history.*

O PROCESSO PIONEIRO DE NORMALIZAÇÃO E DE HARMONIZAÇÃO CONTABILÍSTICAS EM PORTUGAL: A CONTABILIDADE DO SECTOR DE SEGUROS ENTRE 1907 E 1999

Resumo: No presente trabalho apresenta-se uma análise histórica da temática da contabilidade de seguros, durante o século XX, altura em que surgiram as principais evoluções, em termos de normalização, nesta área da ciência contabilística na geografia considerada.



A presente análise incidiu essencialmente sobre a base legislativa que pode ser tomada como referência para a área deste ramo da Contabilidade.

Os resultados deste estudo indicam que pode ser associada a primeira tentativa bem-sucedida ao nível da normalização contabilística em Portugal, embora de carácter sectorial, a esta atividade económica. São também apresentadas as razões históricas da existência deste ramo da contabilidade.

Palavras-Chave: *Contabilidade, Seguros, Seguradoras, Normalização, Legislação.*

EL PROCESO PIONERO DE ESTANDARIZACIÓN Y ARMONIZACIÓN CONTABLE EN PORTUGAL: LA CONTABILIDAD DEL SECTOR DE SEGUROS ENTRE 1907 Y 1999

Resumen: En el presente trabajo se presenta un análisis histórico de la temática de la contabilidad de seguros, durante el siglo XX, cuando surgieron las principales evoluciones, en términos de normalización, en esta área de la ciencia contable en la geografía considerada.

El presente análisis se centró esencialmente en la base legislativa que puede ser tomada como referencia para el área de esta rama de la Contabilidad.

Los resultados de este estudio indican que esta actividad económica puede estar asociada con el primer intento exitoso a nivel de la introducción de normas de contabilidad en Portugal, aunque de ámbito sectorial. También se presentan las razones históricas de la existencia de esta rama de la contabilidad.

Palabras clave: *Contabilidad, Seguros, Empresas de Seguros, Normalización, Legislación.*

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Introduction

Although the notion that insurance accounting, as well as banking, is a differentiated solution, when accounting standardisation is considered in general terms, the reason for the difference in the standardisation process is little known.

Such differentiation in the normalization process of these branches of accounting is largely related to historical reasons and, indeed, the intention to control these economic activities, by the Government, at an early stage of the implementation of such standardisation initiatives, was a declared objective.

The research question considered in this paper is to understand why Insurance Accounting embarked on this path, and whether the relationship between the State and Accounting (Macve, 2002) was relevant in this context. An associated question is how the social and political organisation of the surrounding led to developments or setbacks in accounting in the field here considered. More specifically, the research question will correspond to the following: why did Insurance Accounting follow a different standardisation path from the other Accounting branches and which reasons justify and support that differentiation?

Regarding the considered subject, it seems evident that there is a huge gap identified in the historical accounting literature, since very few studies were identified on the subject, although the insurance accounting area is a field of accounting with specific solutions and tools (Horton & Macve, 2005; Macve, 2010; Gonçalves, 2011; Carqueja, 2011). The scarcity of the existing work in this perspective and subject is also mentioned by Prieto & Gutierrez (2018), in a broad analysis performed in publications in the Accounting History field, by authors of the Iberian Peninsula, during the last 20 years.

Thus, after identifying the research question and the literature gap, this paper will present the main stages that led to the origin of insurance accounting in Portugal, which occurred in the twentieth century, a time when the standardisation process (and later, the harmonisation one), of this accounting field started and was consolidated in Portugal. This output of the work developed is obtained as a consequence of the analysis completed in order to answer the research question: the theme of the difference in the paths led to a differentiated evolution relating to insurance accounting, when compared to other accounting branches.

The remainder of the paper is organised as follows. We will start with a first section, in which the main precedents associated to the analysed subject will be explained. Then, we will proceed to the definition of the methodology used and the reasoning of the theoretical framework of reference. After that, in the paper's third section, we will analyse the main moments which correspond to the legislative initiatives performed by the different regimes and governments, in the insurance activity and particularly in insurance accounting. These initiatives, conducted by Governments, had led to different solutions relating to the entities that regulated the activity and whose aim was to monitor them through inspecting functions. We will close with the conclusions drawn from the third section content analysis.

1. Theoretical and Methodological Framework

In Accounting History, the stages may be defined by the analysis of the professional practice and knowledge (Carqueja, 2011). However, in the absence of information on one of these elements - namely the professional practice, which is still largely unexplored in Portugal and which represents a wide opportunity for research -, it makes sense to resort to the element of which there is a greater amount of data available.

Therefore, this historical analysis is focused on the period between 1907 and 1999, regarding essentially the legislation that can be taken as a reference in this accounting branch. The definition of this precise period is related to the validity time of a formal element that has assumed high material importance in the matter of accounting standardisation in the insurance sector: the Insurance Bulletin. Although this publication only emerged, with the above mentioned function, from the year 1930, the foundations for its materialization arose in 1907, with the Basis Law on the sector. In fact, during the research conducted, we have found a first series of the publication, with differentiated characteristics, when compared to the second series. The second one is the one being analysed in the present paper.

In this paper, we chose to pursue the traditional accounting history approach, as defined by Carmona *et al.* (2004), since the research is mainly focused on the origins and evolution of accounting, rather than the critical perspective of accounting history. On the other hand, we also decided to resort to the institutional theory, given the role assumed by the different

institutions that eventually had an impact on the evolution of the accounting practices in this sector, as well as the use of documentary analysis issued by the governing public entities. From the outset, we can verify that the solution pursued for this activity sector in Portugal follows a strategy similar to that subsequently adopted for most organisations that need to make accounting records and reports (Caria & Rodrigues, 2014; Guerreiro *et al.*, 2015; Saraiva *et al.*, 2015, 2017): accounting standardisation by legal means and by governmental initiative, which defines the continental accounting systems (Nobes, 1981).

It should also be emphasised that, according to the main identified sources which allowed to carry out this paper – the legal bases –, the perspective of the analysis would have to fit into the institutional theory, since those fall within the concept of *formal norms* (North, 1991). The analysis of the institutional forces is also relevant, since they influence actions and results. Hence, in this paper, the State agencies and their purposes are admitted as the main institutional force (Miller *et al.*, 1991).

The methodology pursued in this research consisted of a broad research on texts regarding the subject, as well as documentary analysis essentially found in texts and legal bases, and also on other available documents.

The scarce bibliography that was used resulted from a search in several databases, as a response to the expressions: “history of insurance accounting”, “insurance accounting”, and “insurance in Portugal”. The consulted databases, mainly related to academic literature, were mostly *B-on* and RCAAP (Open Access Scientific Repository of Portugal). *Google Scholar* and other more general search engines were also used to broaden the search scope.

Overall, within the scope of Insurance Accounting History, only one work was identified (Carrizo, 2013), on the subject in the publications of the area by authors of the Iberian Peninsula (Prieto & Gutierrez (2018). Nevertheless, this work is held on a theme related to Insurance: the Mutual Associations. This kind of associations can, however, be associated to the Insurance theme, because their aim is usually related to the protection of its associates against some sort of risk.

On the history of the insurance activity, in academic journals, some papers were identified: Vivian (1996), Laing (1988), Vivian (2002), Benfield & Vivian (2003). Most of these papers presented case studies on the History of some Insurance Companies. Still, the accounting perspective was not emphasised in these texts.

Taking into account the identified articles, it was noticed that the present study contributes to fill a relevant gap, in the sense that there is not, or has not been detected, any work carried out on this subject matter: the evolution of accounting standardisation in the Insurance sector. As for the structure of the work, the division of the period of analysis during the twentieth century, specifically between 1907 and 1999, into various subsections, is based on the type of entities that regulated the sector's operation, along with the identified standardizing initiatives, as well as the existence of periods of greater or lesser economic intensity, which in turn also contributed to the more or less accelerated development of activity itself.

For instance, the period of the early twentieth century was critical for slower economic growth and it was precisely during this time frame that the first standardisation initiative

associated with this branch of accounting emerged, due to the existence of numerous bankruptcies in the sector.

From about 1950, with the global evolution of the national economy, there was a great expansion in the insurance activity. This expansion had consequences for the activity regulators. Yet, in terms of accounting standardisation, there were only significant changes a few years after the country's integration into the European Economic Community.

2. Precedents of the insurance activity in Portugal

Usually, the first form of insurance is attributed to King Dinis, both nationally and globally, found in the Royal Charter of 1293, which contained the Regulation of the Oporto Merchant Society.

This first-dynasty king thus established in 1293 the earliest form of insurance, exclusively dedicated to maritime risks. He ordered that an agreement was celebrated between the merchants, which aimed the payment of certain amounts on the vessels. These sums were calculated according to the size of the vessel and its traffic and were used to cover the claim, due to loss of ships and cargo. The system did not anticipate the transfer of liability or risk to others, for a premium, but this liability was assumed by all the merchants who contributed to the common value, which would be used if a claim was made.

Later, in 1370, King Fernando I regulated the first insurance law, which was related to a mutual insurance for over fifty-ton cargo ships, hence a two-percent crown payment over the ship value was set by law; when any ship was lost or taken by the enemy, that loss would be shared among all ship-owners, if the funds in the Stock Market were insufficient. It should be noted that the same king ordered the constitution of the Oporto and Lisbon stock markets in 1377. This king also created in 1375, again by Royal Charter, the Royal Ships Company (Reis, 2000). In the following text box is shown an excerpt from the original text in which this initiative is mentioned.

"[...] E querendo tomar alguma providência por ser cada vez maior o número de navios, e para que os diversos perigos do mar não deitassem em perdição aqueles que suas naus perdessem, determinou fazer uma associação de todos os donos de naus [...]

Mandou que fossem registados [...] todos os navios de 50 tonéis para cima [...] Que de tudo quanto ganhassem de idas e vindas pagassem para a Bolsa desta Companhia dois por cento. Que fossem duas Bolsas, uma em Lisboa e outra no Porto. Com o dinheiro delas comprar-se-iam outros navios para substituir aqueles que se perdessem.

Quando algum navio se afundasse por tempestade ou outro acidente, ou fosse tomado por corsários, esta perda se repartisse por todos os donos dos outros navios. E mais mandou El-rei que as suas naus, que eram doze, entrassem em esta Companhia."

Fernão Lopes, "Crónica de D. Fernando"

(Adapted)

Source: http://www.ribatejo.com/hp/base/cgi-bin/ficha_documento.asp?cod_documento=50

The creation of the Royal Ships Company is usually ascribed in 1380; however, some

authors quote it earlier and integrate it into a series of related initiatives that ultimately led to its creation. The Portuguese monarchy had soon realised the importance of insurance for people, organisations and the economy of the kingdom. Thus, in 1383 the first National Law on insurance in Portugal is published, regulating every hitherto existing isolated single matter.

Since the 12th century, the country kept commercial relationships with other European regions, which were intensified in the 13th century, when the re-conquest ended. This trade was established both with the Northern Europe (England, Flanders and France) and with the Mediterranean regions (Southern Spain, Italy and Northern Africa).

In 1397, already in the reign of King João I, the Oporto city's "Council of good men" asks the king for help in recovering the collection owed to the merchants' stock market. Hence, King João I proclaims the Royal Charter of July 11th, 1397, in which the monarch again renews, confirms and widens the insurance institution created by the kings who preceded him.

The first document on the factual existence of insurance in Portugal is the Royal Charter of João III, from October 1529, which creates the position of Insurance Clerk (Mateus, 2007:42), being a first attempt to exercise some control, some supervision over insurance (Carvalho, 2007:17).

In 1554, Pedro de Santarém's work, *Tractatus Perutilis et Quotidianos de Asecuratosnitus et Sponsonibus Mercatorum*, was published in Antwerp. Later, this work is printed in Lyon in 1579 and 1585. It was also published in the miscellanea titled: *De Mercatura*, edition of Lyon, 1593; Venice, 1589; and Cologne, in 1609. Finally, it was published with Benvenuto Strach's, *Tractatus de Mercatura*, printed in Amsterdam, in 1669.

In this work, the author introduces several important definitions to the notion of insurance and argues that the insurance contract resembles a purchase and sale contract, where the price paid is due to the risk (Rossi, 2015).

This series of editions demonstrates the success of, what is often referred to as, the first treatise on insurance and that Pedro de Santarém was an authority on this subject.

According to Rossi (2015: 333): "(...) Santerna's treatise was however enormously influential". Here, the author refers to the fact that Pedro de Santarém (also known as Santerna) and this particular work played a very important role in the destruction of the anathema promoted by Canon Law regarding the usury question. The State's intervention remains and during the reign of King Sebastião the position of Insurance Broker is created, in 1578, through Royal Charter.

In 1648, the Insurance House is established, an institution that acquires the Insurance Broker role. As was already the case with regard to the need for validation by the broker, the effecting of insurance contracts outside the scope of the Insurance House presupposed their revocation.

Due to the circumstances related to the loss of independence in 1580, and the ensuing economic decay, the struggles for regaining independence and economic reconstruction led to the emergence, only in 1791, of the first private insurance company in Portugal.

This will not survive the Napoleonic invasions and the insurance activity in Portugal will continue being exercised by foreign insurance companies – usually English – until 1848, the year in which the *Fidelidade* Insurance Company was created (Guedes-Vieira, 2012).

Thus, according to Bohrer (2012:49), in the end of the 18th century, the creation of the first large insurance companies in Portugal was identified, however no specific documents were found on the bookkeeping of insurance policies.

3. The insurance sector between 1907 and 1999

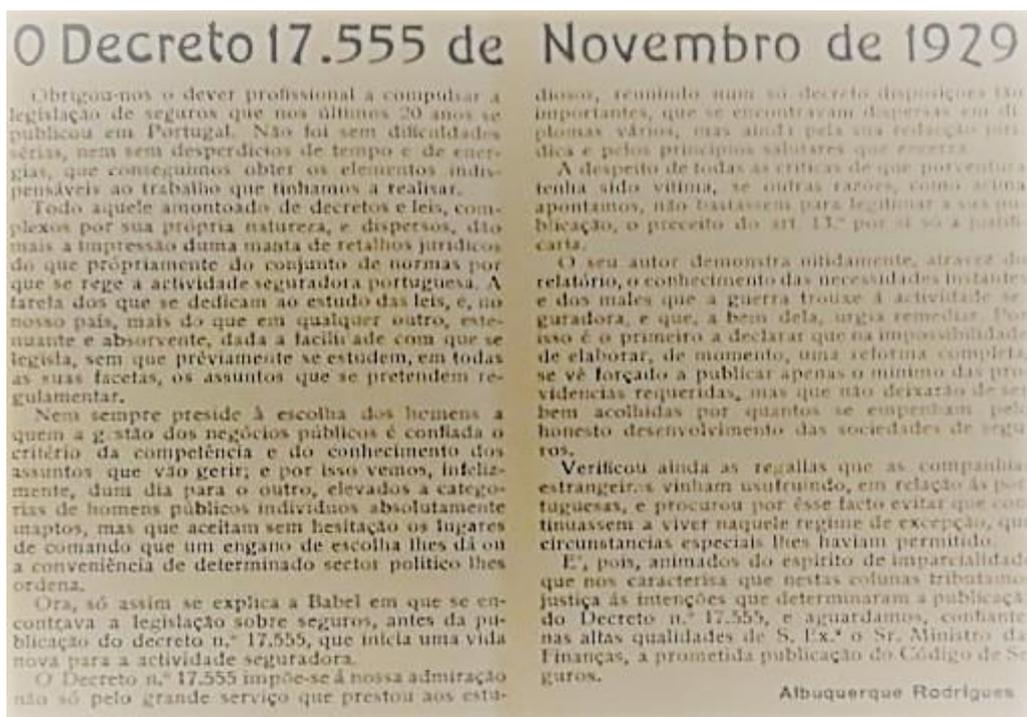
Accounting standardisation for the insurance industry has undergone some significant developments from the early years of the twentieth century until its end. These developments, usually substantiated by legal rules, will then be presented in chronological order, taking as reference for each sub period the entities regulating the activity and simultaneously monitoring them through inspection functions, which entities and functions were, in advance, defined in the legislation.

During the twentieth century, in the first half of the analysed period, along with the identified standardisation initiatives, a period of a lower economic intensity occurred, which in turn did not contribute to the full development of the activity itself. Nonetheless, in this period, the first standardisation initiative associated with this accounting field emerged.

In the first half of the referenced century two important Decrees arose in 1929, namely 17.555 and 17.556, concerning to the insurance activity. The 17.555 Decree, with the general aim of defining the rules that insurance companies had to meet, taking into account the operation of that specific market, was one of the basis of an overall change regarding the way in which these Companies operate.

In figure 1 is presented an article, published in *Arquivo Financeiro e Segurador*, a professional publication on themes related to Insurances and Finance, that refers to the 17.555 Decree as precursor of a "new life" for the sector in Portugal (Rodrigues, 1934).

Figure 1 – Article in a Professional publication on the effect of 17555 Decree in the Insurance sector



Source: *Arquivo Financeiro e Segurador*, No.1, May 1934, p.3.

From about 1950, with the global evolution of the national economy, there was a great expansion in the insurance activity. That expansion had consequences for the activity's regulatory entities. However, in terms of accounting standardisation, there were only significant changes a few years later, namely in 1994 and 1998.

3.1. The Insurance Council: 1907-1929

In the early twentieth century, there were several legislative initiatives related to the commercial activity, namely the publication of the Limited Companies' Law, of April 11th, 1901, the publication of legislation that framed the insurance activity, including the fundamental aspects of this activity – Decree of October 21st 1907, which establishes the *Insurance Council*, which was composed, among other elements, of professors of the Industrial and Commercial Institute of Lisbon, specifically in the accounting and financial operations fields.

With regards to this Decree, “it can be said that this diploma was the matrix of the insurance activity in Portugal until 1975, notwithstanding the changes and additions introduced by subsequent legislation. Indeed, the decree addressed the fundamental aspects of insurance activity” (Mendes, 2014:19).

In Portugal, the emergence of this legislation followed a legislative movement that occurred in several European countries and in Brazil. Then, in 1907, the Decree with force of law of October 21st 1907 establishes a *State's direct supervision over the constitution and operation* of the insurance entities.

Therefore, as already mentioned, in 1907, by the Government Decree of October 21st, the Insurance Council is established and its attributions are defined in article 38 of Chapter VII. These assignments include examining or inspecting the bookkeeping (no. 3, article 58).

Regarding the functioning and supervision of the insurance companies, article 36 of this decree reads:

“In the first six months of each business year, the insurance companies shall submit to the Council, regarding the immediately preceding management:

- 1) The assets and liabilities inventory;
- 2) The gains and losses account;
- 3) The report on the commercial, financial and economic situation of the company.”

Article 38 adds: “the insurance companies shall provide the Council, within eight days, all the information and copies requested, and shall provide it, or its appointed experts, and within the same period of time, the bookkeeping analysis and any documents concerning their social operations. The Minister of Finance shall order inspections of the bookkeeping and documents of the various insurance companies and at least one inspection shall be performed in each company every five years.”

It is then clear, according to this 1907 legislation analysis excerpt, that it was already required, regarding the activity of the insurance companies, to present accounts in an organised and systematic way, namely the balance sheet and income, complemented by an economic and financial report. It is also noted that, in addition to the presentation of the accounts, inspections were required in a sustained way, every five years, by a State agency.

Overall, during the first half of the twentieth century, the 1888 Commercial Code provisions remained in force. Regarding the accounting information, there was an obligation under that legal basis for traders to keep books which allowed to clearly and precisely know their commercial operations and assets. According to Carqueja, in 1924 and 1928, the legislative activity expanded to the milling industry and occasionally accounting information norms were imposed on certain activities, for inspection or promotion purposes (Carqueja, 2011).

Insurance activities, as well as banking activities, were among those targeted by specific legislation, originating what we believe to correspond to the first successful attempts at accounting standardisation in Portugal.

3.2. The Insurance Inspectorate: 1929 to 1949

After World War I (1914-1918) and due to the bankruptcies verified in the insurance sector, the existing legislation at the time was reformulated, through the publication of the Decree 17555 and Decree 17556 of November 5th 1929, aiming to ensure a greater control in the constitution of such companies, the reinforcement of the technical reserves and the activity's supervision. The decree-law No. 17556 created the *Insurance Inspectorate*, in the Ministry of Finance, which replaced the *Insurance Council*, established by the decree of 1907.

This new entity was empowered with competences to define accounting norms, in order to create the conditions to a more effective supervision of the insurance companies' financial situation.

The insurance decree 17556, established the periodicity inspection, in three-year periods, as opposed to the five-year periods established by the previous diploma (Government Decree of October 21st, 1907). At the accounting level, it had the competence to define the models of balance sheets, as well as gains and losses accounts to be adopted by the insurance companies, along with the norms that framed the accounts record. The regulations for the formulation of these documents will be issued later, in 1930, through the *Circulars* No. 5, of January 16th 1930, and No. 40, of December 15th of the same year, published in the *Insurance Bulletin*, II series. From this time onwards (1929/30), the publication of this *Insurance Bulletin* started precisely, as stipulated in the Article 11 of the Decree 17556, of November 5th 1929.

The insurance companies' reports, balance sheets and gains and losses accounts were published in the first part of this Bulletin, while in the second the reports and accounts of foreign companies, authorised in Portugal, were presented.

In Figure 2, we can find part of the contents of the presentation of a Balance Sheet in the first issue of the Insurance Bulletin, which began to be published in 1930, the year after its referral in the legal basis that gave rise to it - Decree 17556 of November 5th, 1929.

Figure 2 – An insurance company's balance sheet, Insurance Bulletin No. 1, dated 1930

ACTIVO		PASSIVO	
Títulos depositados na Caixa Geral dos Depósitos	275.000\$00	Capital social	1:568.000\$00
Papéis de crédito	1:116.320\$08	Fundo de reserva estatutário	1:118.000\$00
Prédio na Rua Aurea, 100	1:580.920\$00	Fundo de reserva de garantia	650.000\$00
Mobiliária	400\$00		1:768.000\$00
Depósitos à ordem:		Rendimentos adiantados	6.698\$89
Banco Comercial de Lisboa	399.091\$41	Devedores e credores (saldos credores).	36\$48
Banco Lisboa & Açores	195.116\$26	Credores por depósito	30.000\$00
Banco Nacional Ultramarino	2.971\$61	Credores por caução	8.000\$00
Banco de Angola, sucursal de Loanda	4.177\$80	Dividendos atrasados	37.913\$20
José Henriques Tota, Limitada	48.272\$01	Selos de apólices	9.167\$45
José Henriques Tota, Limitada, c/ pesetas, 161,91.	485\$73	Companhias resseguradoras	94.370\$34
Westminster Bank Limited, de Londres, £ 500.7.6	49.536\$90	Agências	208\$47
Comptoir National d'Escompte de Paris, Fra. 8.499,15	6.798\$31	Contribuições a pagar	250.000\$00
Montepio Geral	439\$75	Reserva de seguros vencidos	30.462\$20
Caixa Geral dos Depósitos, c/ depósito	8.988\$92	Imposto s/aplicação de capitais	28\$98
Caixa	715.878\$70	Ganhos e perdas	510.262\$56
Encargos adiantados	1.355\$49		
Valores depositados	1.400\$00		
Valores em caução	30.000\$00		
Segurados terrestres de Lisboa	6.000\$00		
Companhias resseguradas	40.112\$79		
Delegação no Porto e agências	17.280\$37		
Devedores e credores (saldos devedores).	498.785\$49		
Liquidações em suspenso	2.546\$79		
	27.148\$36		
	4:313.148\$07		4:313.148\$07

Source: Boletim de Seguros, nº 1, II série, 1930

Apparently, this is the first structured form of presentation of accounts implemented in Portugal, in which the Insurance Bulletin *Circular* No. 40 even presents norms for the insurance companies' accounts and a balance sheet model, which will be effective as of 1930.

This standardisation activity was the first experience at this level, in national terms, establishing a first step in accounting standardisation in Portugal, as previously mentioned. It is also noteworthy that the accounting regime that resulted from this activity was systematised in provisions issued until 1943. This accounting regime remained in force, albeit with some changes, until 1994, the year in which European Community norms were introduced in the national legislation, enabling the implementation of the single insurance market, through the transposition of Directive 91/674/EEC.

Thus, from 1930, the Insurance Bulletin – Figure 3 – started being published, in which the reports and accounts of insurance companies were included, assessing the comparability between the various insurance companies' accounts.

Figure 3 – Insurance Bulletin, No. 1 and 2 dated 1930, and No. 3, dated 1931



Source: Boletim de Seguros, nº 1 and 2 1930, nº 3, 1931.

The competences of the Insurance Inspectorate are later regulated in Decree-Law No. 21977, of December 13th, 1932 – “Insurance Inspectorate Regulation”.

In this period, insurance companies came to be under a tighter control, integrating in the corporate system of the *Estado Novo* (Mendes, 2014). Thus, in 1934, the Insurers' Guild (whose activity was regulated by Decree-Law No. 26484 of March 31st, 1936) was created, being extinguished in 1975, only after the change in regime, by Decree-Law 306/75, and, in its replacement, the National Insurance Institute was created, in 1976 (Decree-Law No. 11-B/76, of January 13th).

Hence, summing up this first half of the twentieth century, the entities associated to the definition of the Insurance Accounting practices are also confused with the entities that

supervise them and all of which are state-owned. These entities, their duration, and main legal instruments associated to which of them are presented in Table 1.

Table 1 – Entities that regulated the insurance companies' activity and their accounts presentation – first half of the twentieth century:

Entities	Insurance Council	Insurance Inspectorate
Period	1907-1929	1929-1949
Main legal instruments	Decree-Law of October 21, 1907	Decree-Law n.º 17556, of November 5, 1929

Source: The author's own elaboration

Very important was also the emergence of Insurance Bulletin, which remains until the age of ninety, although its normalizing role was being changed over time. More specifically, this publication - which brought together not only the issuance of technical aspects (in the form of legal Circulars) related to the directives for accountability and financial reporting, but also the presentation of the accounts themselves and their reporting - had a long duration: nearly 69 years, from 1930 to 1999. At an early stage, this publication took on an extremely important role in shaping accounting and reporting practices in the sector.

3.3. The Credit and Insurance General Inspectorate - 1949 to 1975

The previous entity – Insurance Inspectorate – was later replaced by the *Credit and Insurance General Inspectorate*, through the publication of Decree-Law No. 37470, of July 6th, 1949. This decree stipulates that, from that date, this General Inspectorate now encompasses both the Credit Inspectorate and the Insurance Inspectorate, thus reuniting these two entities under the same aegis. The question of the reunification of both types of services had already been considered before, and was even foreseen in Decree-Law No. 36542, of October 15th, 1947, where the announcement of this intent is mentioned. From this reunification, a regulatory process begins, leading to an advance in the national accounting standardisation.

According to the preamble of Decree-Law 37470, of July 6th, 1949, “by Decree-Law 36542, of October 15th, 1947, the framework of the *Banking Trade Inspectorate* was approved, and it is foreseen in its report that the *Insurance Inspectorate* services would be timely integrated. In fact, it appeared to be necessary that those two services form a single organisation, with *General Inspectorate* category, not only to afford them the matching category to the importance of the roles they play, but also by the connection of the roles they exercise and the interests they supervise.”

Banking and insurance have worked independently until then, justifying this segregation on tradition reasons, as money and hedging transaction businesses were considered to have distinct specific characteristics, which should not be confused. By the end of the 1940s, it appeared necessary that these two areas should be supervised by a single entity, with a general inspectorate category, the *Credits and Insurance General Inspectorate*, hence joining the two, but keeping their services separate (Mateus, 2007).

Moreover, the already existing differences between the two activities, both in accounting, economy and business operation terms, meant that in practice the differentiation persisted until it was formally separated again, after the change in political regime.

From the fifties to the early seventies of the twentieth century, the insurance activity experienced a strong growth and new companies and important insurance groups were born in Portugal, benefiting from the context of the so-called *golden years* of the Portuguese economy (Mendes, 2014; Mateus, 2007).

In 1954, the regulatory process, originated by the Decree-Law 37470, of July 6th, 1949, led to the establishment of the models of balance sheets, balance trials and gains and losses accounts for the banking activity, through the Decree-Law No. 39525, of February 2nd, 1954. The latter authorises the Credit and Insurance General Inspectorate to establish the above-mentioned official models which the credit institutes are required to forward to the mentioned institution. According to this decree, the accounting standardisation should be efficient and flexible, nullifying the possibility of being limited by taxation concerns. Subsequently, Ordinance No. 18178, of December 31st, 1960, presents the models that the banking institutions would have to submit to the Credit and Insurance General Inspectorate. This thus reinforces the existence of a sectoral standardisation associated with the banking activity, by defining the models for the presentation of accounts and, curiously, for the first time, with the main goal of evaluating the entities' performance and not so much the concern with the purposes associated with taxation. This is, apparently, the second successful legal standardisation initiative in Portugal.

In this context, from the mid-fifties of the twentieth century, some authors identify the existence of pressures leading to the implementation of standardised practices at the public and private accounting level, aiming, not only the accounting standardisation itself, but also its relationship with the tax system (Caria & Rodrigues, 2014). Apparently the standardisation question in the banking activity will be one of the few, if not the only one, which in this regard differs from other initiatives.

This initiative appears to have been implemented in order to stimulate the standardisation in the banking sector, similarly to the existing scenario in the insurance sector. The Insurance Inspectorate had been staffed and effectively operating since 1929, while in the banking sector the Inspectorate activity was extremely incipient. In fact, the Insurance Inspectorate board was integrated into this new Directorate-General, and in practice the General Director acted as the coordinator of two differentiated general inspectorates, developing his activity independently and with different forms of intervention.

The Credit and Insurance General Inspectorate was reorganised in 1965, through the Decree-Law 46493, of August 18th. On this legislative basis, the growth at the time was recognised, namely the "marked activity expansion in the monetary, financial and insurance markets, verified in the last years, matched the assignment of new roles to the Inspectorate General, whose means became, not only insufficient, but also inadequate to respond to the needs raised by the new economic and financial constraints" (second paragraph of the introduction to the Decree-Law 46493, 1965).

Therefore, the staff of the General-Directorate is reinforced, in which the positions of superior supervisor were reserved to those graduated by the Higher Institute of Economic and

Financial Sciences, the Faculty of Economics of Oporto, and the position of legal auditor among Law graduates. For the Credit Inspectorate's positions, the second-class technical inspectors should also be recruited among graduates of the Higher Institute of Economic and Financial Sciences or the Faculty of Economics of Oporto. As for the Insurance Inspectorate, the second-class technical inspectors were required to be licensed by the Higher Institute of Economic and Financial Sciences, having completed the four sections or the Finance degree, however two of the first and second-class technical inspectors may be graduated in Economics or be licensed by the Faculty of Economics of Oporto and one of them in Law.

That is, the structures of the General-Directorate and the General-Inspectorate would have to remain being provided by staff educated in the economic sciences field and in schools with a tradition in accounting education.

Hence, until the seventies, when the general standardisation initiatives started in Portugal, only the insurance companies and banks were required to use a general accounting system, accounting rules, clearance of accounts and of financial statements' publication criteria.

3.4. The National Insurance Institute - 1976 to 1979

In the post-April 25th of 1974 period, when a political revolution took place in the country, that led to a regime change, two distinct stages are highlighted, characterised by nationalisations and re-privatisations; these stages promoted the companies' concentration (Mendes, 2014).

Nationalisations emerged with the publication of the Decree-Law 135-A/75, which proceeds with the nationalisation of the Portuguese-capital insurance companies. Thus, in replacement of the Insurers' Guild, the National Insurance Institute was established by Decree-Law No. 11-B/76, of January 13th, which aimed the technical and administrative coordination and standardisation of every insurance activity (Article 9, subparagraph m).

Article 7 states that "until the National Insurance Institute becomes operational, the (nationalised, mixed, foreign or mutual) insurance companies shall retain the rights and obligations referred to in Article 7 of the Decree-Law 306/75, of June 21st". That is, the previous regulation remained in force.

Later, the Decree-Law 72/76, of January 27th, establishes the supervision norms of the, now nationalised, insurance companies. Article 27 of Chapter VII, entitled "Budget, Balance sheet and accounts", states the following procedures:

"1) By March 31st, referencing the last day of the previous year, the companies will forward the report, balance sheet and the annual management accounts to the Minister of Finance, for approval, after being discussed and reviewed by the management board and including the supervision committee's feedback.

2) In the absence of an order from the Minister of Finance, the report, balance sheet and accounts shall be deemed approved, thirty days after the date of their reception.

3) The publication of the report, balance sheet and accounts shall be performed in the Insurance Bulletin, within thirty days of their approval.

4) The remaining obligations on insurance companies in this subject shall remain in force."

The National Insurance Institute was however established as a summit body of the insurance companies, from a statist perspective. The conversion to a market economy required the re-creation of a regulatory body, rather than a body promoting a centralised system management (Mateus, 2007).

3.5 The Insurance General-Inspectorate - 1979 to 1982

In 1979, the *Insurance General-Inspectorate* is created, through the Decree-Law No. 513-B1/79, of December 27th. Its duties include performing accounting audits of insurance and reinsurance companies (Article 2, subparagraph a). These audits are further defined in Article 10, number 1: “The insurance and reinsurance companies’ accounting audit and the supervision of the insurance and reinsurance sector activities, their mediation and their associated activities shall be systematically performed with the entities or people concerned, and in the presence of the available documentation or other elements which must be produced or forwarded to the General-Inspectorate, or upon request, and upon supervision”.

The eighties were characterised by the updating of the institutional framework, the increase in private initiative associated with privatisations and Portugal’s accession to the European Union (Mendes, 2014).

3.6. The Portuguese Insurance Institute - after 1982

It was not until 1982, and with the extinction of the Insurance General-Inspectorate and the National Insurance Institute, that the current *Portuguese Insurance Institute* was established by the Decree-Law No. 302/82, of July 30th. Among the various *Portuguese Insurance Institute*’s competences, Article 4, subparagraph g) emphasises: “To assess and issue an opinion on the accounts of the insurance and reinsurance companies”.

Table 2 presents the regulatory entities of the insurance companies’ activity, in the second half of the twentieth century.

Table 2 – Entities that regulated the insurance companies’ activity and their accounts’ presentation – second half of the twentieth century

Entities	Credit and Insurance Inspectorate General	National Insurance Institute	Insurance Inspectorate-General	Portuguese Insurance Institute
Period	1949-1975	1975/76-1979	1979-1981	1981/82-2015
Main legal instruments	Decree-Law no. 37470, July 6th, 1949	Decree-Law no. 301/75, June 20th, 1975; Decree-Law no. 11-B/76, January 13th, 1976	Decree-Law no. 513-B1/79, December 27th, 1979	Decree-Law no. 302/82, July 30th, 1982

Source: The author’s own elaboration

Aiming Portugal's accession to the European Economic Community, and considering the need to adapt the Portuguese legislation to the Community Directives, the Decree-Law No. 98/82, of April 7th, was published. This legal norm requires the insurance companies to determine technical provisions that, according to Article 4, "in Portugal-based insurance companies, they shall correspond to the set of liabilities assumed in the exercise of their activity in Portugal and abroad and, in the general agencies of foreign insurance companies, to the accountabilities arising from the exercise of their activity in Portugal". It was also issued the Ordinance 683/85, of September 12th, which establishes the form of constitution of the assets, representative of the insurance companies' technical provisions, since that constitution must be dynamic, corresponding to the various forms of investments that may be performed by the insurance companies.

Decree-Law No. 85/86, of May 7th, and Decree-Law No. 125/86, of June 2nd, allow the harmonisation of the legal provisions in force in the insurance sector with the Community legislation. At this moment, the harmonisation process begins, albeit incipiently, concerning the practices established in the European Union countries (then, the European Economic Community).

Until 1994, when the *Insurance Companies' Account Plan* was approved and published by the Regulatory Norm No. 07/94, of April 27th, there was no real plan of accounts for this activity sector. Legal Circular No. 10/96, of February 12th, publishes the Balance Sheet and the Gains and Losses Account models. From then on (1994), the second stage of the accounting standardisation in the insurance sector in Portugal clearly emerges.

Decree-Law No. 94-B/98, of April 17th, which regulates the access and exercise conditions of the insurance and reinsurance activity in the European Community region, establishes, in its Article 242 titled "Accounting Norms", that "it is the Portuguese Insurance Institute's responsibility, without prejudice to the competences of the Accounting Standardisation Committee, to establish the accounting rules applicable to the insurance and reinsurance companies under its supervision, as well as to define the elements these companies must deliver and those which are required to publish them, by which, until their publication, the current rules on accounting, presentation and publication of accounts remain in force". Hence, the solution remains that of direct regulation of the *Portuguese Insurance Institute*, regarding the Accounting Norms applicable to the sector, despite the exception of the reference to the Accounting Standardisation Committee. According to Mateus (2007), this decree "constitutes the first important statute that establishes the access conditions to the exercise of the insurance and reinsurance activity, throughout the European Union" (Mateus, 2007:51).

During this period, the supervision reinforcement was accompanied by the logic of enhanced accounts' comparability, transposing the Directive No. 91/674/EEC on annual and consolidated accounts, and the publication of the *Insurance Companies' Account Plan*, and the corresponding changes in reporting, with the purpose of prudential supervision, to be referred to the *Portuguese Insurance Institute* (Henriques, 2007).

The Insurance Bulletin has its epilogue around this time. The publication of the second series of the Insurance Bulletin began in 1930 by the Insurance Inspectorate, based on Decree 17556 of November 5, 1929, and continued its edition, in two volumes per year, until the creation of the *Portuguese Insurance Institute*.

In 1983 this bulletin began to be edited by the *Portuguese Insurance Institute*, in compliance with Article 5 (2) (o) of its Statute, approved by Decree-Law 302/82 of 30 July. This legal basis provided for the existence of a publication on the insurance sector, which necessarily contained the reports and accounts of insurance and reinsurance companies, replacing for the legal purposes their publication in the *Diário da República* (the official publication of the Portuguese Government).

In 1984 it was decided to restart its numbering at number one and stop publishing the volume of the bulletin, which included studies and other information, and then only the accounts were released. In 1999, its last issue was published, containing the reports and accounts of insurance companies for the 1996 financial year. From this year on, insurers were exempted from publishing their accounts in this bulletin.

Until the issuance of Regulation (EC) No. 1606/2002, of the European Parliament and Council, there were no other relevant changes in the sector. However, from this legislative basis of a European nature, as of now it is possible to identify a differentiated phase, comparing to the one initiated by the 1994 legislation.

This latter legislative change, which only begins in the following century, already lays beyond the period under analysis. There is however another standardising wave clearly emerging in insurance accounting in Portugal, by that time.

Discussion and Conclusions

Regarding the main contributions of this paper, we can emphasise that traditionally, in Accounting History, both the discovery of new facts and the identification of the dates in which the initial practices of new accounting techniques emerged are considered contributions (Miller *et al.*, 1991). In this context, we highlight the clear identification of the first two successful initiatives of accounting standardisation in Portugal, in Insurance Accounting and Bank Accounting respectively. Interestingly, the second initiative seems to have been inspired by the first, as it tried to reunite the two activities under the same General Inspectorate, from the mid-twentieth century. Apparently this reunification had good results, in terms of the intended goals.

The possibility that the standardisation of the banking activity was perhaps one of the few (or the only) situations in which tax collection-related goals were not among the most relevant was also identified. This possibility still needs further development in future research on accounting standardisation in the banking sector.

Another important contribution is the identification of three different stages in accounting standardisation in the insurance sector:

- The first stage, that starts in 1907, but in reality consolidates in 1929 and 1930 (associate to the pre-*Estado Novo* phase); at this stage, the solvency question was extremely important, as was already the case in other countries (Preamble of the Decree of October 21st 1907), namely in the United Kingdom (Horton & Macve, 2005; Preamble of the Decree of October 21st 1907), as well as purposes related with a taxation nature;

- The second stage, corresponding to the adjustments and changes applied as a result of Portugal's accession to the European Economic Community and which had an effect on the national accounting legislation in 1994;
- Finally, a third stage, which was not examined in the present paper, but which concerns the adoption of the Social Support Indexation by the European Union and the entry into force of the European Parliament and Council's Regulation 1606/2002. This last stage will also be one of the identified future research opportunities.

Another contribution to be considered is the identification of the accounting harmonisation stages, either regionally, converging with the practices of the European Union (EU), at an early stage, or globally, in a later phase:

- First harmonisation stage – incipient convergence with the EU practices – based on the Decree-Laws No. 85/86, of May 7th, and 125/86, of June 2nd;
- Second harmonisation stage – broader convergence with accounting standards, through the strategy implemented in the EU, by the Decree-Law No. 94-B/98, of April 17th. The harmonisation process, in a stricter sense, is subsequently conducted during the following period – the twenty-first century.

Carrying out a general assessment, attention should be given to the fact that, since the early twentieth century, in Anglo-Saxon systems, a private supervision has been performed, though in Portugal a public supervision (Insurance Council) has been the norm. Thus, we can consider that, since the beginning of the initiatives to the sector's organisation and the subsequent accounting standardisation process, as in the standardisation process of global characteristics, in Portugal, a preponderance of the system of Roman Law and of continental influence on accounting, presides also in the insurance accounting sector. This finding is a contribution to the literature gap identified in the introduction of this paper.

Supervision eventually develops the accounting practices – since, for many years, senior management is initially appointed among the graduates of the Higher Institute of Economics and Financial Sciences (one of the schools where Accounting was traditionally part of the subjects studied), and later extended to the Faculty of Economics of the University of Oporto (a school with the same characteristics). That is, staff with knowledge in the accounting field was required, which contributes to the sustenance and development of accounting practices within the sector.

Another contribution of this work is the clarification of the essential role played by the obligatory publication of the Insurance Bulletin assumed from the beginning to the end of the twentieth century. It was through this publication that the accounts and reporting of insurance entities began and were systematically and continuously consolidated.

Overall, it can be stated that the development of insurance accounting in Portugal was associated to the issue of the public's trust in a sector that was in crisis. This was an essential sector to the country's economic development, but the bankruptcy crisis of many insurance companies led to government initiatives (the laws issued on the sector's activity in the early twentieth century), which created a legal system aimed at restoring the public trust in the insurance sector. Indeed, in this context, the development of standardised practices and reporting has contributed to the promotion of an economic assessment that provides and

introduces confidence, which enables the creation of sophisticated organisations and market development (Waymire & Basu, 2008).

So, as considered in theoretical and methodological framework section, the analysis of the institutional forces was central to the development of accounting standardisation in this sector, in Portugal. Institutional forces such as the introduction of accounting practices based on formal norms and by law enforcement, the creation of both a government publication for the disclosure of company accounts and of a regulatory body that made the presentation and disclosing of accounting information mandatory and, finally, making accounting education an indispensable factor in gaining a position in regulatory entities were the means used to achieve successfully this end by the State agencies. The purposes of these agencies in controlling the activity of the insurance companies led to the definition of rules to publish and disclose the accounts of companies in the sector and, as a result of these, the accounting practices and the disclosure instruments underwent a standardisation process.

One last contribution we highlight is that this paper contributes to fill the gap in the historical process of accounting standardisation in the insurance sector, as the scarcity of works on this issue, and even in the insurance sector, when totally considered, requires a solid response from accounting researchers.

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