



**ELIT**

Economic Laboratory Transition  
Research Podgorica

# Montenegrin Journal of Economics

**For citation:**

Otavova, M., Glaserova, J., Hasikova, I. (2023), "Social Responsibility for Insurance Companies", *Montenegrin Journal of Economics*, Vol. 19, No. 2, pp. 129-140.

## Social Responsibility for Insurance Companies

MILENA OTAVOVA<sup>1</sup>, JANA GLASEROVA<sup>2</sup>, and IVA HASIKOVA<sup>3</sup>

<sup>1</sup> Assistant Professor, Mendel University in Brno, Faculty of Business and Economics, Brno, Czech Republic

<sup>2</sup> Assistant Professor, Mendel University in Brno, Faculty of Business and Economics, Brno, Czech Republic,  
e-mail: jana.glaserova@gmail.com

<sup>3</sup> Lecturer, Mendel University in Brno, Faculty of Business and Economics, Brno, Czech Republic

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### ARTICLE INFO

Received May 05, 2022  
Revised from June 04, 2022  
Accepted July 04, 2022  
Available online April 15, 2023

**JEL classification:** M40, M48, Q56

**DOI:** 10.14254/1800-5845/2023.19-2.11

**Keywords:**

Non-financial information,  
non-financial reporting,  
Directive 2014/95/EU,  
insurance companies.

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### ABSTRACT

*The aim of the paper is to verify the quantity and quality of reporting non-financial information disclosed by commercial insurance companies based in the Czech Republic and foreign commercial insurance companies with branches in the Czech Republic. The obligation to disclose non-financial information was introduced in 2017 by the implementation of Directive 2014/95/EU in Czech accounting legislation. To verify the quantity and quality of reporting non-financial information before and after the implementation of the Directive, a comparative analysis was used, examining the years 2016 and 2020. Key indicators from five main areas of non-financial reporting were identified and subsequently the level of their reporting by insurance companies was monitored. All insurance companies in the CR, divided into three main groups, were analysed. These are insurance companies obliged to disclose non-financial information, insurance companies defined as large entities under the Accounting Act, and a group of other insurance companies. The quality of the information reported was assessed using a scoring scale. At the same time the level of reporting non-financial information in the sector of financial institutions in the Czech Republic was compared with the level of reporting in the V4 countries, Germany, and France. Another part of the research was statistical modelling, which by means of correlation and regression analysis identified which factors influence the quality and the level of non-financial reporting. It was shown that gross written premiums and number of employees have the greatest influence. The research revealed that after the implementation of the Directive, there was an increase in non-financial reporting not only in the group of insurance companies obliged to report non-financial information but also in insurance companies with no obligation to do so. The increase in reporting was therefore not only caused by the implementation of the Directive in Czech accounting legislation but also by the growing trend of social responsibility.*

## INTRODUCTION

Until the end of 2016 non-financial reporting was on a voluntary basis. In 2014, Directive 2014/95/EU (Non-Financial Reporting Directive, hereafter referred to as NFRD) was adopted, replacing Directive 2013/34/EU. This Directive specifically concerns the reporting of non-financial information and introduces an obligation to report it. Under the NFRD only large companies and public interest entities are obliged to disclose non-financial information provided that the number of employees exceeds 500. Public interest entities include financial institutions and also insurance companies. Non-financial reporting under this Directive concerns information reported for the accounting period 2017. Since the Czech Republic is a member of the EU, non-financial reporting is mandatory. This obligation is given by the adoption of the NFRD and its subsequent implementation by all EU Member States. At the end of 2016 this Directive was implemented in Czech Law by an amendment to Accounting Act No. 563/1991 with effect from 2017.

### 1. LITERATURE REVIEW

The NFRD aims to get companies to integrate sustainability through their own targets, while the EU only monitors the behaviour of individual companies (Di Vaio et al., 2020). However, Trombetta et al. (2012) add that the targets are too general, and in their opinion the NFRD will not bring the desired effects. They also point out that the requirement of the Directive puts additional pressure on companies and increases their administrative load.

The basic legislative framework dealing with this area also includes the Taxonomy Regulation and non-binding guidelines for non-financial reporting issued by the European Commission. Non-financial reporting is further controlled by the Sustainable Finance Disclosure Regulation (hereafter referred to as the "SFDR"). This is part of the EU's plan to redirect capital flows towards sustainable investments. With effect from 1 January 2022 a new classification system with new disclosure requirements for investment products is introduced (Santamaria, 2021).

Negri (2018) argues that insurance companies are one of the main actors that should disclose non-financial reporting and should also require the same from their clients. The reason is the assumption of risk on behalf of clients, which should be minimal and which could just be helped by non-financial reporting by clients. Another reason given by Diacon and O'Sullivan (1995) is that the premiums collected from clients are further invested and appreciated by insurance companies. Negri (2018) states that the aforementioned non-financial reporting can help them get better conditions and improve market position. However, insurance companies may only see non-financial reporting as a tool for presenting themselves as responsible companies and thus improve their image in front of clients and shareholders. However, these actions do not motivate other entities to provide high-quality reporting of all facts and comply with rules. On the other hand, despite the criticism of some insurance companies, there were insurance companies that voluntarily disclosed non-financial information even before the NFRD came into force.

To assess the quality and level of reporting, the so-called ESG rating, which is based on environmental, social and transparency factors, is also used (ESG data, 2022). Its advantage is that it is always compiled for a specific sector of the economy (e.g., agriculture, chemical industry, financial institutions) (Zehetmayr and Brandau, 2021). ESG ratings are especially crucial for investors and also for insurance companies themselves that can use them predominantly for assessing risk and other sub-factors that can help give an idea of the company (ESG Risk Ratings, 2022). In recent years, the ISSB (International Sustainability Standards Board) was established to develop uniform standards and indicators for non-financial reporting, which could lead to reporting of comparable data. (KPMG, 2021).

KPMG's international survey (2020) "KPMG Survey of Sustainability Reporting" conducts international comparisons of the level and quality of non-financial reporting in over 52 countries, providing thus a comprehensive view of this field (, 2021). Despite the potential negatives (e.g., inconsistent methodology) that non-financial reporting entails, there has been an increase in non-financial reporting by businesses in recent years (Threlfall, 2021). The results also show that companies are trying to disclose their non-financial information in line with the sustainable development goals. It was also confirmed that non-financial

reporting is more important for large companies and companies with high financial leverage. (Andrikopoulos, 2014).

On a sample of insurance companies, Lament (2018) examined the effect of non-financial disclosure on the return on equity (ROE). His research showed that insurance companies willing to produce and disclose non-financial reports had higher ROE than those insurers that did not disclose such information. It should be noted that this research was conducted on data from 2011–2016, i.e., before the introduction of the obligation to report non-financial information. Research by Schönborn (2019) reveals that financially successful companies report non-financial information to a greater extent. The above results are also confirmed by a study carried out by Malik (2015). Casey and Grenier (2014) add that the reason for this is that the market perceives such firms as less risky, which affects the financial performance of the company and the view of investors.

The willingness to disclose non-financial information was influenced by many factors, which were examined, for example, by Lament (2018), Lament and Jarolímová (2021), who conducted research into factors affecting the level of non-financial reporting in the Visegrad Four countries. They found that the most influential factor is the size of the insurance market, especially the number of insurance companies, followed by the development of the insurance market, and the market share of foreign companies. Interesting are also the results of the survey conducted by the company Flagship (2021d) for the Czech market, which analysed the factors influencing the level of non-financial reporting for 50 companies in the Czech Republic. The results show that about 70% of the entities obliged to prepare non-financial reports do not know the legal regulation of this area. Nevertheless, most of the participating companies see advantages in reporting and view financial reporting positively. Among the main motives that lead companies to reporting non-financial information are reputation, PR and competition. Furthermore, pressures from parent companies, clients and investors are also included. Most financial institutions view the whole system as a competitive advantage they can offer to customers. In the Czech Republic, only the number of companies operating in the insurance market was shown to have a significant effect. Dropulic and Cular, (2019) state that the general level of disclosure of non-financial information by insurance companies in Croatia is very low, however, a positive correlation between the level of disclosure and the number of employees, profit value and other variables was also confirmed.

Before the NFRD came into force, the European Union was not unanimous on non-financial reporting. Some countries such as France, the UK, Sweden, Denmark, Spain and Finland already had similar regulations in place at national level before the Directive came into force (Caputo et al., 2020). On the contrary, the Polish government was against the introduction of the NFRD and wanted non-financial reporting to be done on a voluntary basis (Krasodomska and Godawska, 2020). In general, Western European countries are more advanced in non-financial reporting than other European countries (Dumitru et al., 2017). Belal et al. (2013) added that the reasons why Eastern countries are lagging behind may be due to low enforceability of reporting, and especially the historical economic structure. However, in recent years the awareness of sustainability has increased greatly within all European countries (Schönborn et al., 2019).

Currently, there is a proposal for a new CSRD (*Corporate Sustainability Reporting Directive*) that will mandate non-financial reporting to an additional group of companies. These will be companies with more than 250 employees and a turnover of more than 50 million euros. This proposal should set predominantly a European standard for non-financial reporting, which should be done in a digital machine-readable format. The new directive aims to establish a uniform reporting methodology and to define different factors which should be assessed. The validity of the directive is not definitively determined.

## 2. METHODOLOGY

The impact and evaluation of the implementation of the NFRD in Czech accounting legislation is examined using analyses of annual reports of insurance companies. These are all commercial insurance companies with headquarters in the Czech Republic and foreign insurance companies with branches in the Czech Republic, according to the list of regulated and registered financial market participants that is maintained by the Czech National Bank. To verify the quantity and quality of non-financial reporting before

and after the implementation of the NFRD, a comparative analysis was used, comparing the years 2016 and 2020. The year 2016 represents the period before the implementation of the NFRD and the year 2020 provides the most up to date information for the period after the implementation of the NFRD. Key indicators from five core areas of non-financial reporting were identified and their level of reporting by insurance companies was subsequently monitored. These include environmental issues, social issues, employees, respect for human rights, and anti-corruption and anti-bribery matters. A total of 42 insurance companies were analysed and subsequently divided into three main groups. Group 1 includes insurance companies obliged to disclose non-financial information, Group 2 are insurance companies that are defined as large entities under the Accounting Act, and Group 3 includes other insurance companies. Subsequently, the quantity and quality of the reported non-financial information provided by these insurance companies was assessed on the basis of the criteria given in Table 1. The choice of these criteria was inspired by the Guidelines on non-financial reporting (2017), prepared by the European Commission as well as guided interviews with experts from audit firms. The quality of the reported information is assessed using a scoring scale. Each insurance company could be awarded a maximum of 25 points in total for all areas examined. The specific scores are shown in Table 1. Individual scores were also consulted with experts from auditing firms.

**Table 1.** Criteria for non-financial reporting and their scoring

<i>Area</i>	<i>Criteria</i>	<i>Points</i>
Environmental issues	Reduction in negative environmental impact	1-3
	Reduction in investment in the coal sector	2
	Commitment to the Paris Climate Agreement	2
	Employee motivation to protect the environment	2
Social issues	Educational courses and awareness raising	1
	Charity work	1
	Investment in innovation	1
Employees	Motivation of employees for charity and volunteering	2
	Employee training	1
	Employee discounts on insurance products	1
	Employee benefits	1
Respect for human rights	Code of ethics	2
	Zero tolerance to discrimination	1
	Promotion of inclusion programs for the disadvantaged	2
Anti-corruption and anti-bribery issues	Code of ethics	1
	Employee training	1
	Implementation of EP Regulation	1

The paper also compared the level of non-financial reporting in the Czech Republic with the level of reporting in the V4 countries, Germany and France. The data for this comparison was obtained from the EUKI 2020 and 2019 database, specifically for the sector of financial institutions. The V4 countries were selected because of their similar historical development, all being open economies. Germany was chosen as a country which is a major export partner of the V4 countries and France as one of the first countries to introduce mandatory non-financial reporting at national level. In the paper, statistical modelling was carried out to identify, using correlation analysis, which factors influence the quality and level of non-financial disclosure. The correlation coefficients were tested at the 5% significance level. Using these coefficients, the relationships between the variables and their dependence on the scores obtained and the level of reporting were investigated. Subsequently, a regression model was constructed using the ordinary least squares (OLS) method to complement and confirm the results of the correlation analysis. Correlation and regression analysis was performed for Group 1 and Group 2 of insurance companies. Group 3 is insignificant for this investigation. The dependent variable in this model was the score, which will be explained by the explanatory variables: profit after tax, net assets, ROE, gross written premiums, equity and number of employees. The regression model used the data to determine the variables that best explain the score earned.

### 3. RESULTS

The following section presents the findings of the research in three parts. The first part focuses on the evaluation of the impact of the implementation of the NFRD in Czech accounting legislation through the analysis of annual reports of insurance companies before and after implementation. The second part presents the results on the basis of the established evaluation criteria of non-financial reporting in specified groups of insurance companies. The third part presents the results from statistical modelling using correlation and regression analysis, where the dependence of the specified variables on the level of disclosure of non-financial information is examined.

#### 3.1 Impact of the implementation of the NFRD on non-financial reporting by insurance companies

On the basis of the NFRD, which was implemented in Czech accounting legislation with effect from 2017, insurance companies are obliged to disclose information on environmental, social issues, employees, human rights and fight against corruption. In each area, certain sub-criteria were assessed (Table 1). The resulting data of non-financial reporting in the examined areas of Czech insurance companies are presented in Table 2. It shows data for 2016, when the EU Non-Financial Disclosure Directive had not yet come into force, and for 2020, which represents the most recent information about the situation in the area of corporate social responsibility. It shows what percentage of insurance companies report non-financial information about a particular area out of the total number of insurance companies in each group, see Methodology.

**Table 2.** Reporting of non-financial information by insurance companies in 2016 and 2020 in %

Factors	Group 1		Group 2		Group 3	
	2016	2020	2016	2020	2016	2020
Environmental issues	31.25	46.88	19.64	28.57	11.25	11.25
Social issues	56.25	62.50	32.14	35.71	5	11.25
Employees	50	50	23.81	24.05	23.33	23.84
Human rights	20.83	33.33	7.08	7.98	3.33	6.67
Anti-corruption issues	12.50	20.83	5.24	6.05	1.67	3.33

Source: Authors' own work based on annual reports

The information about environmental issues is reported to the highest extent by Group 1, which also shows a marked increase in reporting. In Group 2 there is also an increase in non-financial reporting, but this is not true for Group 3 where there is no change observed, compared to 2016. Another area of non-financial reporting is social issues, where there is an increase in reporting for all groups of insurance companies. Another area is employee care where the level of reporting remained almost unchanged for all groups. It is interesting to observe its stagnation because in recent years there has been a trend to support employees and internal operations of the company. Another area of non-financial reporting is respect for human rights. This area is most frequently reported by Group 1. There has also been observed a significant increase, which is also true for Group 3. Only a slight increase is visible in Group 2. A similar trend is seen in reporting non-financial information on corruption, bribery and money laundering. The area of corruption, bribery and money laundering is one of the most important areas for financial institutions. The study also compares the level and quality of non-financial reporting in the Czech Republic with non-financial reporting in other V4 countries, France and Germany. Data from individual countries, including the Czech Republic, were obtained from EUKI 2020 and 2019 database, specifically for the sector of financial institutions. The V4 countries were selected on the basis of the similar historical context and the same date of EU accession. Germany was selected as the most important economic partner of the Czech Republic and due to the significant share of foreign trade in GDP, and France as the first EU country to introduce non-financial reporting at national level. Table 3 presents the results of each area arranged in two columns. Column B

indicates the percentage of entities reporting on the area, Column A indicates how many entities report full information. This is always a percentage of the total number of entities.

**Table 3.** Comparison of the level of non-financial reporting in the CR and some EU countries in %

Area	Environment		Employees		Human rights		Fight against corruption	
	A	B	A	B	A	B	A	B
Czech Republic	14.3	28.6	13.3	66.7	6.7	26.7	6.7	60
Hungary	0	66.7	11.1	55.3	3.7	22.2	11.1	59.3
Poland	26.7	62.2	16.6	50	0	16.7	33.3	50
Slovakia	40	46.7	16.7	22.2	0	16.7	0	57.2
Average of V4	26.7	51.1	14.4	48.6	2.6	20.6	12.8	56.6
Germany	27.8	63.8	30.6	77.8	11.1	61.1	22.2	57.6
France	37.8	88.9	37.8	91.1	13.3	51.1	11.1	68.9

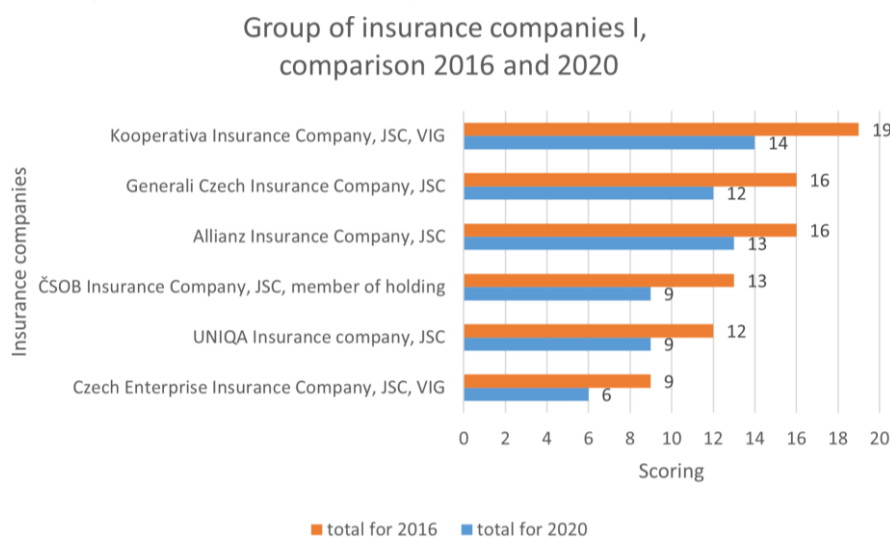
Source: EUKI 2020 and 2019

As evident from Table 3, the Czech Republic exceeds the average of the V4 countries except for environment. Compared to the average of the V4 countries, Germany and France show higher values with regard to the quality and level of non-financial reporting. In the area of anti-corruption issues, the Czech Republic exceeds not only the average of the V4 countries but also Germany in the level of reporting non-financial information, but as for the quality the Czech Republic lags even behind the average of the V4 countries. The best results of all countries are achieved in France, which can be attributed to the mandatory reporting of non-financial information on the basis of their national legal regulation, introduced already before the mandatory implementation of the NFRD.

### 3.2 Evaluation of non-financial reporting by insurance companies in the Czech Republic

This part assesses each group of insurance companies on the basis of the established criteria (see Methodology). The graphs below illustrate the total score of insurance companies for the years 2016 and 2020. The graphs show only insurance companies that scored at least 3 points. Group 1 consists of 8 insurance companies, and the highest score in this group was achieved by Kooperativa Insurance Company.

**Graph 1.** Level of reporting non-financial information by insurance companies - Group 1

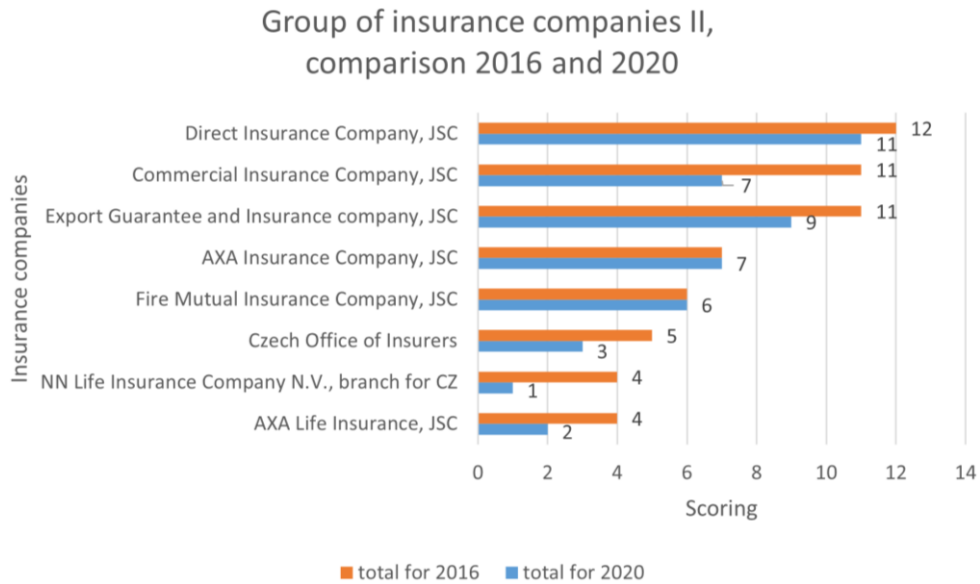


Source: Authors' own work based on annual reports

Graph 1 shows an increase in the level of reporting non-financial information, compared to 2016. At the same time, it should be noted that two of the insurance companies surveyed did not reach the minimum threshold of three points and hardly ever disclose any non-financial information although they are obliged to do so.

In Group 2 there were 14 insurance companies. Graph 2 shows only eight of them, because six insurance companies did not reach the minimum number of points.

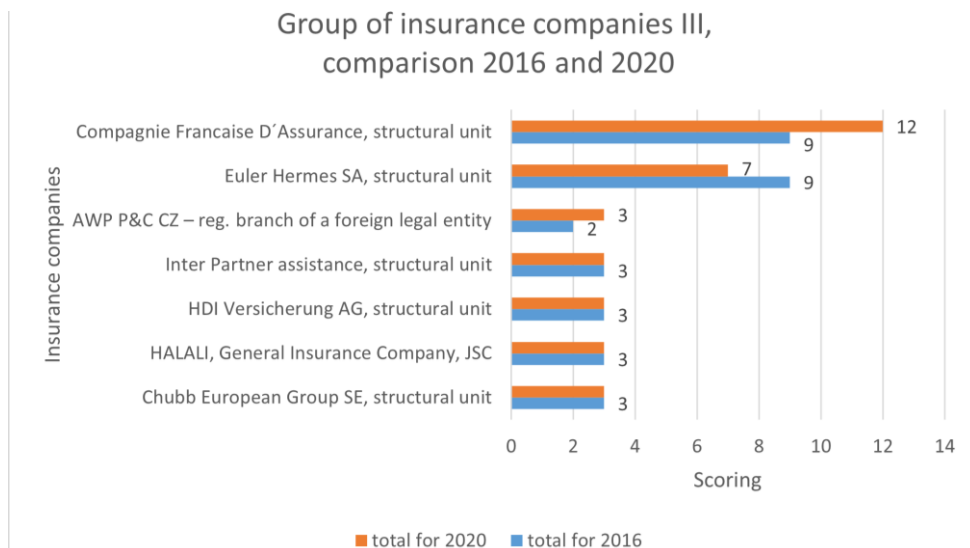
**Graph 2.** Level of reporting of non-financial information by insurance companies – Group 2



Source: Authors' own work based on annual reports

In comparison with Group 1, there is a significant decrease in the points scored and the maximum score. Again, what can be observed is an increase in the level of reporting non-financial information compared to 2016. In Group 3 there were a total of 20 insurance companies. Graph 3 shows only 7 of them because 13 insurance companies did not reach the minimum score required.

**Graph 3.** Level of reporting non-financial information by insurance companies - Group 3

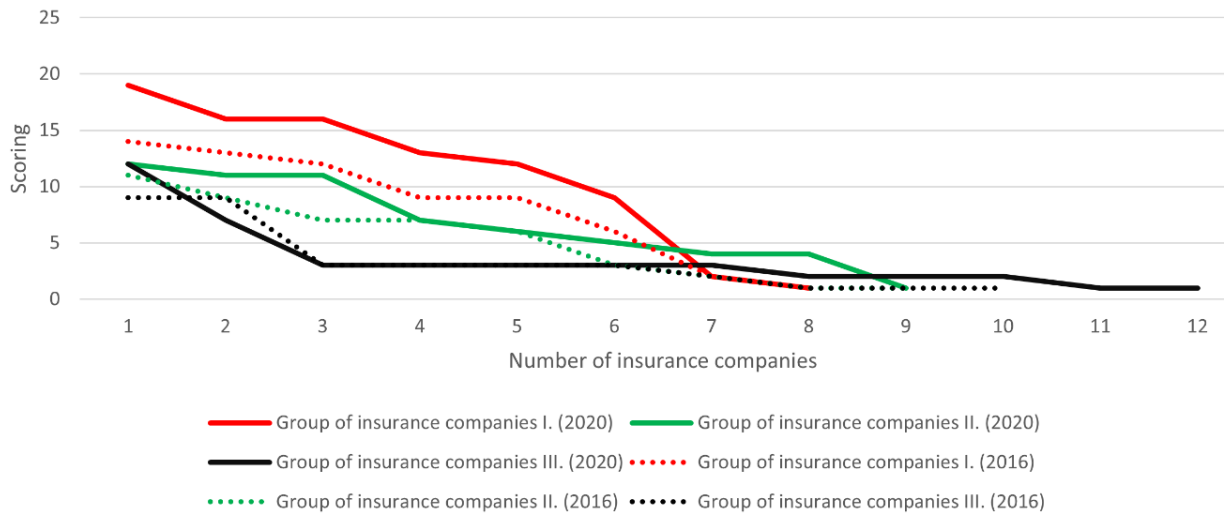


Source: Authors' own work based on annual reports

Except for one insurance company in this group, which reached a similar score as the best insurance companies in Group 2, the other insurance companies in Group 3 report minimum non-financial information (scoring only 3 points) or none at all. With the exception of two insurance companies where there was an increase in the score, the other insurance companies did not show a higher level of non-financial reporting.

Graph 4 shows a comparison of the three groups of insurance companies on the basis of the scores of the criteria. As evident, each of the groups of insurance companies showed an increase in the level of non-financial reporting compared to 2016. Therefore, the positive impact of the implementation of the NFRD in the Czech accounting regulation can be confirmed.

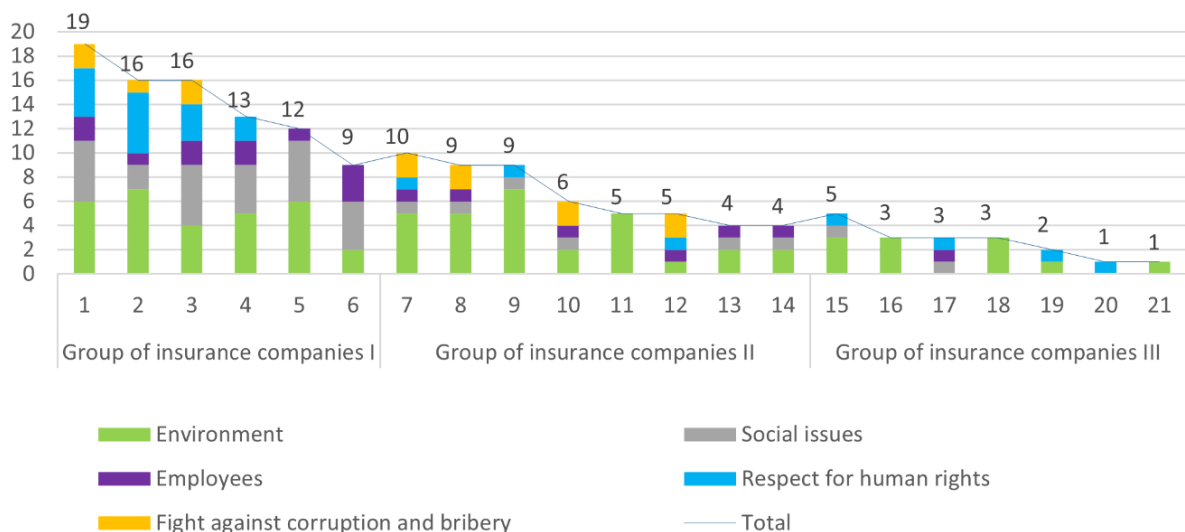
**Graph 4.** Comparison of insurance companies for 2016 and 2020



Source: Authors' own work based on annual reports

A more detailed distribution of scores within each of the areas examined (see Methodology) can be seen in Graph 5. The graph shows that environmental information is disclosed most. All insurance companies from Group 1 also disclose information about employees and social issues.

**Graph 5.** Scoring of all groups of insurance companies (2020)



Source: Authors' own work based on annual reports



### 3.3 Statistical modelling of dependency

For the statistical modelling, variables that may have an effect on the final scores of insurance companies were identified. Correlation analysis will be used to assess the occurrence and strength of the relationship between the scores and the selected variables, which included profit after tax, net assets, ROE, gross written premiums, equity and number of employees. Regression analysis uses dependent variables that are significant for explaining the scores. The dependent variable in this model is the score, which will be explained by the explanatory variables: profit after tax, net assets, ROE, gross written premiums, equity, and number of employees.

The correlation matrix below explains the relationship between the scores and the selected explanatory variables and their dependence. The correlation matrix was constructed for Groups 1 and 2 of insurance companies, where we can observe a positive relationship between the variables examined. The increasing number of employees, amount of gross written premiums, equity, and profit and loss are statistically significantly associated with the increasing scores. It can be said that the number of employees and gross written premiums have the strongest relationship among the explanatory variables, as they show the highest correlation coefficient values. In contrast, net assets together with ROE do not have a statistically significant effect on the scores. All correlation coefficients are positive. This means that the higher the values of the variables, the higher the score of the insurance company.

Correlation coefficients, using observations 1–22  
5% critical value (two-sided) = 0.4227 for n = 22

Scores		
	0.38	Net assets
	0.58	Equity
	0.38	ROE
	0.57	Profit after tax
	0.64	Gross written premium
	0.71	Number of employees
	1.0000	Point valuation

The individual correlation coefficients are tested at the 5% significance level. Table 4 shows individual coefficients. The regression model complements the information derived from the correlation analysis.

**Table 4.** Significance of correlation coefficients

	<i>Correlation coefficient</i>	<i>Test statistics</i>	<i>P-value</i>	<i>Significance at the 5% level</i>
Net assets	0.38	1.84	0.081	No
Equity	0.58	3.21	0.004	Yes
ROE	0.38	1.86	0.077	No
Profit after tax	0.57	3.13	0.005	Yes
Gross written premiums	0.64	3.73	0.001	Yes
Number of employees	0.71	4.57	0.000	Yes

The regression analysis complements the results of the correlation analysis and helps identify variables that may affect the score. The model works with one-sided dependence, which means that the explanatory variable “score” is determined by individual explanatory variables, but the reciprocal is not true. The variable “number of employees” is significant at the 5% level, while the other variables are significant at the 1% level, which suggests a larger dependence – profit after tax, ROE, gross written premiums. This resulting model explains a total of 76.17% of data variability.

Model 1: OLS, using observations 1-22  
Dependent variables: scores

	Coefficient	Standard deviation	t-score	p-value	
Profit after tax	-1.34555e-05	2.22371e-06	-6.051	<0.0001	***
ROE	0.120017	0.0335378	3.579	0.0021	***
Gross written premiums	1.69278e-06	2.79010e-07	6.067	<0.0001	***
Number of employees	0.00367645	0.00143593	2.560	0.0197	**
Mean of dependent variable	6.772727	Standard deviation of dependent variable		6.140667	
Sum of squares of residuals	188.6837	Standard error of the regression		3.237658	
Uncentered coefficient of determination	0.895234	Centered coefficient of determination		0.761722	
F (4, 18)	38.45283	P-value (F)		1.38e-08	
Logarithm of plausibility	-54.85598	Akaike criterion		117.7120	
Schwarz criterion	122.0761	Hannan-Quinn criterion		118.7400	

## 4. DISCUSSION AND CONCLUSION

On the basis of the objectives of the paper, namely the assessment of the level of reporting of non-financial information disclosed by insurance companies based in the Czech Republic with respect to its quantity and quality, the impact of the implementation of the NFRD in Czech accounting legislation was assessed. The level of non-financial reporting before and after the implementation of the NFRD was assessed in insurance companies within specific groups, i.e., insurance companies obliged to report non-financial information, insurance companies classified as large entities, and other insurance companies. The research conducted shows that after the implementation of the NFRD there was an increase in reporting this information not only in the insurance companies obliged to report non-financial information but also in insurance companies that have no obligation in the areas surveyed. The increase in reporting was not therefore only the result of the implementation of the NFRD in Czech accounting legislation but also the growing trend in social responsibility. Part of the research was the comparison of the level and quality of non-financial reporting in the Czech Republic and other V4 countries, France, and Germany using data from the EUKI 2020 and 2019 databases. Reporting in the Czech Republic is above average in most of the areas studied compared to other V4 countries. However, it is surprising that the Czech Republic is lagging behind in the area of environment. Compared to the Czech Republic, non-financial reporting in France and Germany is done extensively and in good quality.

The evaluation of quantity and quality of non-financial reporting in the Czech Republic was also based on the scores of the criteria within the areas of non-financial reporting in the defined groups of insurance companies. It can be seen that the insurance companies predominantly disclose non-financial information about the environment, social issues and employees. However, it is interesting that not all insurance companies report non-financial information. This is alarming for the group of insurance companies that are obliged to disclose such information.

On the basis of statistical modelling using correlation analysis where the dependence of the variables on the level of disclosure of non-financial information was examined, it can be concluded that the larger the insurance company is in terms of gross premiums and number of employees, the more it discloses non-financial information. This conclusion is evident from the correlation matrix and the regression model. If the variables such as gross written premiums and number of employees grow year on year, then the assumption that the scores will grow is true. This is mainly due to the high values of correlation coefficients of these variables. The smallest impact on the growth of the scores is exerted by net assets, which is also evident from the correlation coefficients.

In the research, a significant difference was observed not only in the quantity but also in the quality of non-financial information reported by individual insurance companies. This is a consequence of the lack of a uniform methodology of reporting. Therefore, it seems logical to introduce a new directive which will

harmonize the requirements for non-financial reporting. It can be assumed that this will increase comparability of non-financial reporting. At the same time, it would be advisable to have a uniform system for reporting, integrated into the annual report. Non-financial information should be as important as financial information. Also, an emphasis should be placed on diversity and investment in green projects, which is closely linked to social responsibility and non-financial reporting. For this reason, an increase in the quantity and quality of non-financial information can be expected in the future.

The introduction of a uniform reporting methodology and the definition of individual indicators should be supported by the NFR standards, which are expected to enter into force from 2023. Also, the newly prepared directive with the obligation to report non-financial information in a comprehensive form could provide a more complex and detailed view of this area. Another aspect that may have an impact on the level of reporting is the EU Taxonomy Regulation, whose main theme is meeting environmental objectives. Thus, an increased interest of insurance companies in this area of reporting can be expected. At the same time, financial institutions should place more emphasis on corporate responsibility, greater transparency and better data for the quantification of risks in lending and investing.

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