Understanding the New International Financial Reporting Standards: The Case of IFRS 17

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DECLARATION

I, Desire Takudzwa Jinga, declare that the research reported in this dissertation is my own, unless otherwise stated and acknowledged. It has been submitted for the degree of Masters of Management in Finance and Investment at the University of the Witwatersrand, Johannesburg. This thesis has not been submitted in whole or in part for a degree or diploma at any other university.

Signature of candidate:______________________ Date: 01/07/2021

DEDICATION

This dissertation is dedicated to my wonderful and supportive wife, Thabani Mashava and our daughter Kupakwashe Eliona Jinga.

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I would like to express my intense appreciation to all the persons who helped me in completing this thesis/dissertation for the assistance given to me in completing this dissertation. First and foremost, I owe my gratitude to Almighty God for making everything possible. A special thanks to Dr. Blessing Mudavanhu, my supervisor, whose patience and encouragement was unparalleled and whose advice was frank and gratifying. I would also like to thank all the lecturers who saw me through to graduation and imparted their expertise to the course. I would also like to thank all the respondents who participated in the study. Finally, I would like to thank my entire family for their unfailing encouragement and support.

ABSTRACT

The main objective of this study was to provide an exploratory basis for understanding the application of IFRS 17 by stakeholders in the insurance sector. The objectives of the study were to identify possible, effects of the implementation of IFRS 17 on the eminence of financial reporting in the insurance sector, loopholes that need to be monitored in the implementation of IFRS 17, and adjustments and adaptations to IFRS 17 to perfect financial reporting in the insurance sector. The study adopted an interpretivist philosophy and qualitative approach. An exploratory research design was used. Structured interviews were used to collect data from insurance professionals who were purposively selected for the sample. Thematic content analysis of the responses received revealed that IFRS 17 improves the quality of financial reporting through stable capital requirements for insurers, better transparency and disclosure of insurance liabilities. It also aims to make financial reporting in the insurance sector consistent and more comparable within groups. The study, which is a qualitative study based on a questionnaire, found that the main gaps are in the effectiveness of technological investments in insurers' financial reporting systems, reporting for insurance contracts paid or received before recognition, and inconsistency in the recognition of insurance income and income tax payments. The most significant adjustments relate to the initial calculation of the contractual performance margin, the recognition of insurance proceeds and related income tax charged to the policy holder, and the expansion of the definition of liabilities to cover all obligations. The study concluded that IFRS 17 improves the transparency, uniformity, comparability and consistency of financial reporting by insurance companies. It was recommended that insurance companies implement IFRS 17, conduct staff training to improve staff skills, and advocate for the implementation of adjustments to the new standard. A further study using quantitative methods covering the entire insurance sector was proposed.

Keywords: IFRS 17, loopholes, financial reporting, insurance sector

ABBREVIATIONS AND ACRONYMS

IFRS – International Financial Reporting Standards

IAS – International Accounting Standards

IASB - International Accounting Standards Board

IASC - International Accounting Standards Committee

DSP – Data, Systems and Processes

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CHAPTER 1

INTRODUCTION

1.1Background Literature

The various International Financial Reporting Standards (IFRS) used in different sectors of the economies are characterized by improvements in the quality of financial reporting. However, these improvements and other benefits and advantages associated with the quality of financial reporting depend not only on the inspiration within their application, but also the context in which they are applied matters in general, as Florina (2019:5) suggests, "depending on the inspiration behind their application, but also the local context in which they are applied."

Currently, the insurance industry The insurance industry, which currently uses IFRS 4, is however expected to soon use the advanced IFRS 17, which is an evolution of the latter (Dalai, 2018). Compared to IFRS 4, this new standard, IFRS 17, will introduce new advances in the quality of financial reporting for insurance contracts and I therefore foreseen a pragmatic shift in which analyst and stake holders within the industry would be expected to have an insight of the new frame. This therefore requires a better understanding of the new standard by both analysts and other stakeholders and interest groups within the insurance industry. To date, however, there has been little research on the understanding of IFRS 17 among stakeholders in the insurance industry. However, in order to avoid possible manipulation of financial data by insurance contract managers, one need to understand very well how IFRS 17 will be applied. In addition, one needs to monitor various loopholes and have an overview of which loopholes need to be monitored and how best to gain a better understanding of the financial position of insurance contract issuers. The possibility of adjustments to IFRS 17 is another dimension that needs to be examined to maximize the quality of financial reporting in the insurance industry. If these outstanding gaps remain unresolved, the impact of the insurance sector on the global economy could diminish, despite the fact that the insurance sector is an important driver of investment in domestic and international markets, as noted by (Florina, (2019). A good understanding of IFRS 17 promotes professional management of insurance contracts and stimulates increased adoption of insurance contracts.

The adoption of IFRS was a necessity to accommodate the increasing internationalization of monetary transactions and globalization of organizations (Gyasi, Adoption of International Financial Reporting Standards in Developing Countries - The Case of Ghana, 2009). As a result, financial statements prepared on the basis of the accounting system resident in one country may hardly meet the requirements of stakeholders who are familiar with international standards. Further, Gyasi (2009) asserts that it is also emphasized that the creation and development of business sectors are the objectives of the prominent industries of the world that function in the flooded western countries. Zeghal and Mhedhbi (2006) postulate that it is necessary for emerging nations to adopt global accounting standards that are in line with international requirements and that adopting global accounting standards that are in line with needs should be a necessity to improve their ventures in emerging economies. The argument for adopting global accounting standards is based on the fact that external risk is inevitable (Zeghal & and Mhedhbi, (2006)). In fact, external risk is considered as the force behind the development of emerging economies based on their financial prudence and they can request financial information in this regard. Furthermore, it is emphasized that emerging countries must adopt Global Accounting Standards due to the fact that since external risk is a main aid to their financial prudence, venture capitalists can request intensive and coherent financial information.

In 1973, IASC was founded by a gathering of accounting professionals. The main objective was to have a universal accounting system. This could be accordingly in an effort to articulate identical and international accounting standards that would aim to reduce inconsistencies in global accounting standards by linking and commenting on practices as well as a link between different accounting standards among member countries. To this end, IASs were proposed and they have been vehement in promoting consistency and normalization of accounting standards (Carlson, 1997). Nomenclature characterized these bodies, for example, there was the renaming of IAS to IASB and later to IFRS. However, Ismail (2007) argues that the main purpose was to develop internationally agreed standards that defined the industry. The IASB then discontinued the definition of IAS in April 2001.

Henceforth, the IASB restructured the IASs and designated them as IFRSs with the aim that these standards could be applied on an all-round consistent premise to enable stakeholders to analyze the financial presentation of listed companies on a comparable premise with their global counterparts (Ismail, 2007).

Worldwide, many countries have already adopted a number of IFRS standards. Yurisandi and Puspitasari (2015) urge many countries to improve their quality of monetary commentary in line with IFRS. In the context of IFRS compliance with international standards is the acceptance express that the main objective for many countries to promote the acceptance of IFRS is to improve the quality of monetary commentary as a result of changes in accounting and disclosure of information for many companies and also to upgrading the comparability and transparency of financial information.

Considering that the insurance industry makes a significant contribution in the international economy. This significant contribution is probably due to the fact that there is a great need for proper accounting within the industry. For example, in relation to insurance contracts, which are defined by the IASB as "contracts in which one party (the insurer) assumes significant insurance risk from another party (the policyholder) by agreeing to indemnify the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder." Another example, as cited in Deloittee (2020), in March 2004, is the IASB issued IFRS 4 ISSUSE (as cited in Deloittee, 2020), which emphasizes the need for disclosures for insurance contracts and improves recognition and measurement practices. The standard is effective for annual periods beginning on or after 1 January 2005, up to the present date. This standard applies to all insurance contracts that an entity issues and reinsurance contracts that it holds.

However, the standard provides a temporary exemption from the requirements of certain other IFRSs, such as the requirement to consider IAS 8 changes in Accounting Estimates, errors and accounting policies when considering the selection of accounting pronouncements for insurance contracts. In addition, IFRS 4 has some weaknesses, such as the inability to identify key profit drivers, the inability to provide a comparison between insurance and non-insurance entities, the use of different accounting methods for different insurance contracts, the setting of the discount rate on investments, and the retention of estimates, which will be remedied by the introduction of IFRS 17 (ifrs17explained, 2020).

IFRS 17 Insurance Contract was placed on the IASB's agenda in September 2001 and issued on 18 May 2017. It governs the recognition, measurement, adoption and disclosure of insurance contracts under the standard (Deloit, 2020). IFRS 17 aims to ensure that an entity provides significant evidence that realistically describes those contracts. These facts are intended to serve as a basis for consumers of financial reports to evaluate the impact of insurance contracts on the entity's cash flows, fiscal performance and fiscal position. However, IFRS 17 applies to annual announcement periods beginning on or after January 1, 2021. However, it is also important to note that its changing aspects will not only have an impact on insurers' financial reports, but will also include intense functional influences on all facets of businesses (Ey, 2020).

One of the main reasons that contributed to the emergence of IFRS 17 is the improvement of financial information provided by IFRS 4 (Yoah, 2017). IFRS (2017) expresses that IFRS 4, the current standard used by insurers, contains a number of shortcomings that will be addressed by the introduction of IFRS 17. These include the mandatory transparent and timely presentation of the impact of economic fluctuations in their financial statements. Youh (2020) also highlighted that these improvements include addressing the lack of transparency around profitability, the lack of useful information about insurance liabilities, inconsistent reporting within groups, the lack of comparability between insurers and inconsistency with other industries. This is also supported by PwC (2019), which expresses that insurers' transition to IFRS 17 will have an impact on both financial reporting and key performance metrics.

Most accounting firms have conducted a number of analyses to date to prepare or encourage insurers to transition to IFRS 17. Dalai (2018) examined the requirements, technology, budget, and some of the anticipated impacts that will accompany the adoption of IFRS 17 in Asia, Europe Canada and the US. Ey (2020) also conducted their analysis based on the support provided to insurers in the implementation of IFRS 17. They have highlighted the challenges that most insurers face in relation to understanding the operational impact on data, systems and processes.

1.2 Motivation of the Study.

The various IFRSs used in different sectors of the economy have excelled in improving the quality of financial reporting. However, as Florina (2019) suggests, these improvements and other benefits in general "depend on the motivation behind their application, but also on the local context in which they are applied."

The insurance industry, which currently applies IFRS 4, will soon apply IFRS 17, which is an evolution of the latter. This new standard, IFRS 17, will introduce new advances that will impact the quality of financial reporting of insurance contracts and require a better understanding of the standard by analysts and other stakeholders in the insurance industry (Dalai, 2018). To date, however, there has been little research on the understanding of IFRS 17 among insurance industry stakeholders. However, in order to identify potential manipulation of financial data by insurance contract managers, there is a strong need to understand how IFRS 17 will be applied, what loopholes need to be monitored, and how best to gain a better understanding of the financial position of insurance contract issuers. There may also be potential adjustments to IFRS 17 that can be made to maximize the quality of financial reporting in the insurance industry. If these open gaps remain unresolved, the influence of the insurance sector in the global economy could diminish, despite the sector being a key driver of investment in domestic and international markets. A good understanding of IFRS 17 promotes the professional management of insurance contracts and encourages the increased use of insurance contracts (Corperate Finance & Accounting, 2020). This study therefore aims to provide an exploratory basis for understanding the application of IFRS 17 by stakeholders in the insurance sector. To this end, the researcher aims to address the following research objectives.

1.3 Problem Statement of the Study

The motivation behind this exploratory study is to provide insight into the exploratory basis for understanding the application of IFRS 17 within insurance industry stakeholders. The study aims specifically, to explore the loopholes that are likely to be experienced by the insurance industry. The study also aims to explore the probable managers, benefits related to which are highly likely due to the implementation of IFRS 17. This study is underpinned by the following critical research questions. Investigation plans to answer the accompanying critical questions every stakeholder of the insurance sector should not only be aware but watch out for any abuse that may be experienced due to their exploitation.

i. What are the possible implications of the implementation of IFRS 17 on the nature of monetary disclosure in the insurance sector?

ii. What are the potential gaps that need to be monitored in the implementation of IFRS 17?

iii. What are the possible improvements to IFRS 17 to perfect financial reporting in the insurance sector?

1.4 Contribution of the Study

The study may be important for theory and practice. For practice, the study will provide insurance companies with invaluable knowledge and a better understanding of IFRS 17. This may help to effectively improve their future implementation of the framework in the industry. The study also aims to provide clarity to policy makers and regulators in the financial and insurance markets on how they should proceed in operationalising IFRS 17. Theoretically, the study may also generate new insights into the impact of the adoption of IFRS 17 on the nature of financial reporting for the benefit of academic institutions such as the University of Witwatersrand and other research colleagues to add to the existing body of knowledge. The study will benefit the researcher by developing better critical thinking, logic and basic speculation skills during the time spent conducting this study.

1.5 Methodology

In this study, the philosophy of interpretivism was applied along with qualitative methods of data collection, analysis, and interpretation. The target population was insurance sector experts in South Africa. Structured interviews were used to collect information from a sample of ten (10) respondents who were selected using purposive sampling. Thematic content analysis was used to qualitatively analyze the data.

1.6 Research assumptions

The following assumptions were made in conducting the study;

i. The respondents had a good understanding of IFRS 17 and financial reporting in the insurance industry.
ii. Respondents would find the topic of the study interesting and would voluntarily participate in the study.
iii. Respondents would provide truthful inputs to the best of their knowledge

1.7 Limitations of the study

This study was compromised by Covid-19 limitations at a time when the researcher needed to conduct interviews with respondents. To ensure data collection and participation, respondents were included both by telephone and electronically through Zoom meetings.

1.8 Delimitations of the study

This study was theoretically limited to IFRS in the insurance sector. The respondents of the study were insurance sector experts from regulatory bodies and insurance companies. The study was geographically limited to South Africa. The study covered the period between 2017 and 2021 when IFRS 17 was proposed and developed.

1.9Definition of terms

1.9.1 International Financial Reporting Standards (IFRS)

The categorization of accounting standards, interpretation and structure in the preparation of financial statements (Yurisandi&Puspitasari, 2015).

1.9.2 International Financial Reporting Standard 17 (IFRS 17)

One of the categorization of accounting standards, interpretation and structure in the construction of financial statements that focuses on insurance contracts (Yurisandi&Puspitasari, 2015).

1.9.3 International Accounting Standards (IAS)

A group of mutual values and processes that explain financial accounting strategies and practices for businesses (Corperate Finance & Accounting, 2020).

1.9.4 Insurance contract

A contract under which one party (the insurer) assumes a significant insurance risk from another party (the policyholder) by agreeing to indemnify the policyholder if a specified, uncertain future event (the insured event) adversely affects the policyholder. (Ey, 2020).

1.10 Outline of Study

The study consists of 5 chapters. Chapter 1 outlines the research problem to be investigated and presents the framework of the study. Chapter 2 covers the theoretical literature on IFRS in line with the conceptual framework and objectives of the study. This chapter also covers areas of disagreement or agreement between different authors. Chapter 3 outlines the research procedures and processes that were used during the study. This is done by covering the research theory, research approach, research configuration, target population, testing method, research instruments, information selection, introduction and research strategies. Chapter 4 presents and analyses the findings of the study. Finally, Chapter 5 provides the conclusions and recommendations of the study.

1.11 Chapter Summary

The chapter introduced the research problem. It provided the problem statement, objectives, and background literature. Definitions of key terms, a brief methodology, and an outline of the study were also covered. The next chapter provided the literature relevant to the research objectives

CHAPTER 2

LITERATURE REVIEW

2.1 Discussion of Topic

The insurance industry is a significant contributor to the global economy and for this reason there is a great need for proper accounting within the industry. Specifically, with respect to insurance contracts, which are defined by the IASB as "contracts in which one party (the insurer) assumes significant insurance risk from another party (the policyholder) by agreeing to indemnify the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder." As cited in Deloite (2020), the IASB issued IFRS 4 in March 2004 to address the need for disclosures for insurance contracts and to improve the recognition and estimation tests. The standard applies to annual periods beginning on or after the first of January 2005. The standard applies to all insurance contracts issued by an entity to protect contracts it covers.

However, the standard provides a provisional exemption from the necessities of some other IFRSs, such as the requirement to consider IAS 8's changes in Accounting Estimates, errors and accounting policies, while selecting accounting strategies for insurance contracts. In addition, IFRS 4 has some weaknesses, such as the inability to reveal the key profit drivers, the inability to provide a comparison between insurance and non-insurance entities, the use of different accounting methods for different insurance contracts, the setting of the discount rate on investments, and the retention of estimates, which will be addressed by the introduction of IFRS 17 (ifrs17explained, 2020).

IFRS 17 Insurance Contracts was placed on the IASB's agenda in September 2001 and issued on 18 May 2017. It introduces the standards for recognition, estimation, adoption and exposure of protection contracts within the scope of the standard (Deloit, 2020). IFRS 17 aims to ensure that an entity provides significant evidence that realistically describes such contracts. This evidence is intended to serve as a basis for consumers of financial reports to assess the intensity of the impact of insurance contracts on the entity's cash flows, financial position and results of operations. However, IFRS 17 relates to annual reporting periods beginning on or after January 1, 2021, but it is also important to note that its changing aspects will not only impact insurers' financial reports, but will furthermore have intense functional influences on all facets of businesses (Ey, 2020).

One of the main reasons that contributed to the emergence of IFRS 17 is the improvement in financial information provided by IFRS 4 (Yoah, 2017). IFRS (2017) expresses that IFRS 4, which is the current standard used by insurers, contains a number of shortcomings that will be addressed by the introduction of IFRS 17. These include the mandatory transparent and timely presentation of the impact of economic fluctuations in their financial statements. Youh (2020) also highlighted that these improvements include addressing the lack of transparency on profitability, lack of useful information on insurance liabilities, inconsistent reporting within groups, lack of comparability between insurers and inconsistency with other industries. This is also supported by PwC (2019), which expresses that insurers' transition to IFRS 17 will have an impact on financial reporting as well as critical performance indicators.

To date, most accounting firms have conducted a number of analyses to prepare and encourage insurers to transition to IFRS 17. Dalai (2018) examined the requirements, technology, budget, and some of the anticipated impacts that will accompany the adoption of IFRS 17 in Asia, Europe, Canada and the US. Ey (2020) also conducted their analysis based on the support provided to insurers in the implementation of IFRS 17. They have highlighted the challenges that most insurers face in relation to understanding the operational impact on data, systems and processes.

2.2 Understanding IFRS 17 in Relation to its Possible Contributions and Impact.

Literature relating to the main research questions is addressed in the following subsections;

2.2.1 Possible Effects of Implementing IFRS 17 on the Quality of Financial Reporting.

There is an investigation of the possible effects that come with the implementation of IFRS 17 specifically on accounting. Among the existing studies on this topic is the report by Ey (2020), which highlights a possible significant change in insurance accounting requirements that will come with the implementation of IFRS 17. This significant change will not only extend to the actuarial and financial functions of insurers, but will also have a major impact on data, systems and processes (DSP). Ey (2020) argued that it is not necessarily just the transition to IFRS 17 that will positively contribute to insurers' ability to meet future challenges, but rather a truly cohesive solution that carefully links the DSP environment between actuarial and financial functions. In their argument, they also highlighted three valuation approaches that they used to argue the granularity of the potential impact specifically on the variation in profit generation patterns, the increase in speed of capturing losses from contracts that are forecast to be troublesome, and the weight on the complexity of data requirements, valuation processes, assumptions, analysis and communication of results. Not only that, IFRS 17 will require insurers to undertake a deep review when it comes to governance, leverage and transparency across the reporting chain. This is due to the need to establish good data flow, systems analysis and the development of excellent data management skills.

Another report by Dalai (2018) shows the expectations of introducing a variation of key financial ratios that may have an impact on how an insurer's business strategies are represented by its financial reporting results. This was also supported by GPPC (2020) in their report on the implementation of IFRS 17 Insurance Contracts as they noted the possible significant difference between the old reporting standard and IFRS 17 that chief financial officers need to be aware of as this can have a major impact on securing investor support. In the same report, they also conducted a survey on the potential impact of IFRS 17 adoption on both capital requirements and financial statements. The report showed a decrease in the percentage of correspondents in the 2013 and 2018 surveys, from 45% to 27%, who expressed expectations about the potential for increased capital volatility and/or earnings enhancement as key concerns with IFRS 17 adoption. In addition, Dalai (2018) also expressed the existence of clarity on expectations regarding the change in reported profits, with most insurers expecting lower profits in the first year and only 11% of respondents expecting them to be higher in the first year. On the other hand, however, concern was highlighted about new expected calculations and requirements for the presentation of income and expenses, particularly for life insurance contracts (Dalai, 2018).

IFRS 17 is intended to increase the comparability of insurance contracts worldwide. The new standard introduces a risk adjustment (RA) to reflect the reimbursement that a person or entity needs to bear the uncertainty arising from a non-financial threat (Mignolet, 2017).IFRS 17 does not prescribe a calculation method for the RA and thus leaves it to insurers to decide on the methods, including tail value-at-risk, value-at-risk and proportional hazard transformation and the cost of capital approach. However, Cruz (2019) notes that for both non-life and life products, insurance contracts with more volatile cash flow trends have broader probability distributions of future losses, leading to higher RA estimates due to greater uncertainty.

2.2.2 Possible Loopholes to Be Monitored in the Implementation of IFRS 17

The complexity of IFRS 17 will also require stakeholders in the insurance industry, including auditors, to react to the subjective, complex and perceived improbability of IFRS 17, hence the need to investigate possible loopholes that need to be monitored.

Existing studies show that while IFRS 17 will have significant transparency on insurers' financial performance and profitability, senior management of insurance companies will need to educate investors and analysts on the key concerns and likely influences of IFRS 17 in order to reduce the time required for investors and analysts to gain a full understanding of the financial statements (GPPC, 2020). In addition, the complexity of IFRS 17 will also require auditors to respond to the subjectivity, complexity and assessment of improbability presented by IFRS 17. IFRS (2017) also expresses that the substantial success of IFRS 17 will depend on the position of the insurer in terms of its technological advancement, e.g. how computerised it is in performing financial, economic, indicator, fundamental analysis, etc. to support its reporting process. In addition, IFRS 17 will have some impact on the insurance market, as noted by IFRS (2017), but only on insurance products designed and priced based on an inaccurate assessment of their underlying economics. Therefore, the need to cover this requires a close look, especially to get an accurate and clear picture of the insurer.

2.2.3 Possible Improvements to the IFRS 17 to Perfect the Financial Reporting.

Many reports on IFRS 17 have so far focused on the potential impacts associated with the introduction of this new standard. However, with the potential solutions, we would like to conduct another study, but focusing on the potential impacts and loopholes. We would also like to explore how the potential negative impacts and loopholes can be addressed through an analysis of the possible adjustments to IFRS 17 that could drive the perfection of the insurance industry's financial reporting.

2.3 Empirical studies

Longoni (2019) investigated the impact of IFRS 17 insurance contracts on enterprise value. It was hypothesized that IFRS 17 generally worsens firm value. The study used the stock returns of 427 insurers around sixteen events that affect the chance that IFRS 17 will be adopted. Longoni (2019) found that the implementation of IFRS 17 is associated with negative abnormal returns for IFRS insurers when compared to safety net providers that publish under other accounting standards. Ordinary least squares regression showed that abnormal event returns are negatively associated with insurer size. IFRS 17 was found to be excessively expensive for large insurers due to the huge implementation costs.

Yanik and Ece (2017) evaluated the standard IFRS 17 Insurance Contracts for Insurance Companies and the considerations of the amendments to IFRS 4, which is replaced by the new standard. The study used the qualitative tactics and implemented a case study scheme. The study found that IFRS 17 will be valuable to both funders and insurance agencies as it requires reliable recognition of all insurance contracts and addresses the audit issues caused by IFRS 4. It was found that IFRS 17 uses a contemporary valuation model where approximations are measured repeatedly in each reporting cycle. The estimation depends on the structure squares of the limited probability-weighted incomes, a hazard remedy and a legally binding auxiliary edge that addresses the unearned benefit of the arrangement. It was found that IFRS 17 will supersede insurance contracts standard IFRS 4 and lead to the production of a predictable estimation model that meets the enhanced disclosure necessities planned for expanding simplicity in the reporting system

The study by Cruz (2019) examined specific designs of insurance contracts under IFRS 17. The study also sought to understand potential accounting implications arising from the adoption of IFRS 17. The study found that IFRS 17 is built on a principles-based framework and is therefore associated with uncertainties in ensuring the level playing field. Cruz (2019) also found that the implementation of IFRS 17 poses challenges for insurers due to some loopholes in some areas. A key concern was the subjectivity underlying some key components for estimating insurance contracts, such as discount rates and risk change for non-monetary risks. These were assumed to lead to differences in the financial reporting of insurance companies. It was concluded that the implementation of IFRS 17 will tend to improve the transparency, comparability and consistency of insurance reporting.

2.4 Research gap

This study notes that studies have been conducted on IFRS and its impact on financial reporting in the insurance sector in developed and developing countries (Yanik and Ece, 2017; Cruz, 2019; Longoni, 2019). However, there are few studies that focus specifically on the new IFRS 17 and its likely impact on financial reporting in the insurance segment. This study aims to fill this gap and provide the exploratory basis for further research in this regard.

2.5 Conceptual Framework

This examination was directed by the conceptual framework shown in Figure 2.1.

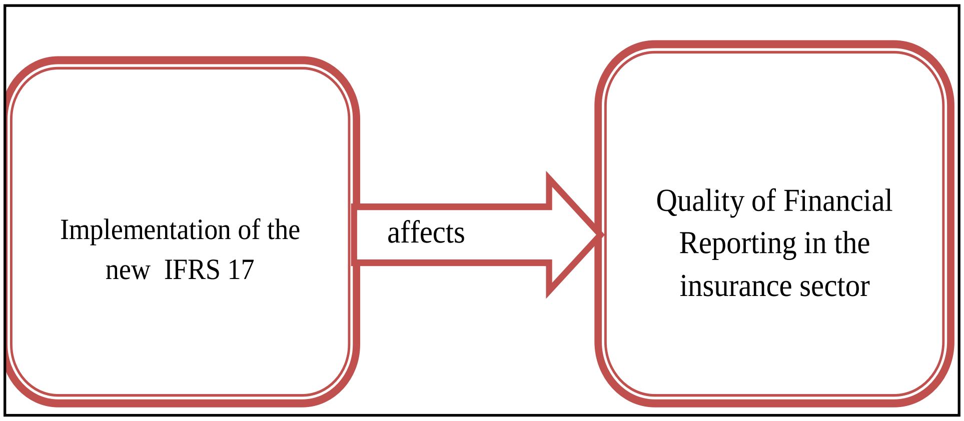

Figure 1.1: Study conceptual model

This study proposes that the implementation of IFRS 17 is expected to influence or promote financial reporting excellence in the insurance sector through a better understanding of the monetary situation of insurance contract issuers and better reporting of revenues and profits.

2.6 Chapter Summary

This chapter provided other authors' views on IFRS 17 and its application in the insurance industry. The following chapter describes the research methodology used in this research to understand IFRS 17 in the insurance sector.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Research Philosophy.

A research philosophy is a set of beliefs held by a researcher that determine how to collect, present, analyze and interpret the data in a study (Bryman and Bell, 2015). In this study, the philosophy of interpretivism was adopted. Interpretivism philosophy assumes the existence of multiple truths that can be established in a subjective manner (Ryen, 2002). Interpretivism assumes that the world is socially evolved and the observer is essential to what is perceived and science is driven by human interests (Fellows and Liu, 2015). Interpretivism philosophy was appropriate for the study as it allowed the investigator to tap into the sentiments and views of insurance professionals on the extent to which IFRS 17 improves financial reporting for insurance companies. A better understanding of IFRS 17 requires inductive reasoning, which has its roots in the philosophy of interpretivism. This enabled us to consider the views, attitudes and perceptions of the respondents on the appropriateness of IFRS 17. This did not require extensive mathematical statistical calculations, but rather a consideration and critical review of how IFRS 17 affects financial reporting in the insurance sector. In this study, it was crucial that the subjective interpretation of the impact of IFRS17 on the quality of financial reporting was taken into account.

3.2 Research Approach

This study adopted a qualitative tactic in line with the philosophy of interpretivism. In a qualitative approach, the focus is on obtaining and interpreting the subjects' assessments, using negligible numerical and factual strategies or various measurement methods (Holloway and Galvin, 2016).The qualitative approach focuses on words and usually answers "why" and "how" questions (Bryman and Bell, 2015). The qualitative approach was suitable to allow the use of open-ended question interviews to enable insurance sector experts to provide detailed input or descriptions of how IFRS 17 improves the excellence of financial commentary in the insurance segment. The study therefore used minimum mathematical techniques as its focus was to gain insights on how IFRS 17 improves financial reporting in the insurance sector.

3.3 Research Design

A research design is an outline or fantastic arrangement or methodology that comprises an investigation to address research questions (Hair, 2015). In this study, an exploratory survey research design was used. An exploratory design is used in cases where there are few studies in a field and the aim is to lay the groundwork for subsequent studies (Punch and Oancea, 2014). This was appropriate for the current study as limited efforts have been made to understand the impact of IFRS 17 on financial reporting excellence of insurance companies. It was hoped that the current study would provide the exploratory basis for future studies in this regard. This survey strategy was chosen to ensure that respondents were reached in a cost-effective manner and in a shorter time frame.

3.4 Target Population and Sample Size

As shown in Table 3.1, the target population for the study consisted of managers of selected insurance companies and the insurance regulators in South Africa namely the Prudential Authority (PA) which runs under the South African Reserve Bank (SARB) and the Financial Sector Conduct Authority (FSCA) (businesswire, 2019).

Table 3.1: Profile of Respondents

Respondent Category	**Sample Size**	**Sampling Method**
Insurance Managers	5	Purposive Sampling
Insurance Regulators Managers	5	Purposive Sampling
Total	**10**	

Source: Researcher (2021)

A sample size of 10 was targeted for the study. Since the study is largely qualitative in nature, issues of representativeness of the sample did not matter. The focus of the study was to collect in-depth data on the usefulness of IFRS 17.

3.5 Purposive Sampling

All respondents were selected using purposive sampling. Purposive sampling allows the researcher to use their own judgment in selecting research subjects for a study (Mackey and Gass, 2015). In this study, respondents were selected based on their knowledge, experience or exposure to IFRS in general and their involvement in financial reporting in the insurance sector. It should be noted that the sample selection allowed the researcher to benefit from the rich insurance expertise of the respondents, which helped to improve the validity of the input provided by the respondents

3.6 Data Sources

Both secondary and primary data were used in this study. The primary data was collected from the respondents through interviews. The interview guide was specifically designed in accordance with the research objectives so that original and authentic data directly related to IFRS 17 and financial reporting in the insurance sector could be collected. Primary data ensured that the researcher remained focused on the objectives. Secondary data was collected from previous works of other authors. Online accessible journals and textbooks were used that deal with IFRS 17 and financial reporting in the insurance sector. The secondary data enhanced the understanding of IFRS in general and financial reporting. The secondary data also complemented the primary data as the findings from this study were compared with the existing literature.

3.7 Measuring Instrument

Key informant interviews were used to collect data from participants. Flick (2015) defines an interview as a research tool that involves the collection of data through direct verbal interaction between individuals. In this study, a total of 10 structured interviews were conducted with 5 managers from participating insurance companies and 5 managers from insurance sector regulators. An interview guide (see Appendix 1) was prepared in line with the research objectives. Accordingly, the interview guide contained four main sections. The first section collected data on the socio-demographic profiles of the participants. The second section included questions on the impact of IFRS 17 implementation on financial reporting excellence in the insurance industry. The third section addressed the gaps that need to be monitored in the implementation of IFRS 17. The fourth section contained questions on possible adjustments to IFRS 17 to perfect financial reporting in the insurance sector. The interview guide contained structured questions prepared in advance by the researcher. Most of the questions were open-ended and some questions asked respondents to provide answers on specific topics related to IFRS 17 and financial reporting in the insurance sector

Interviews were used in this study because they can tap into respondents' wealth of experience in the insurance sector and in the application of IFRS. Interviews ensure that the respondents use their framework of values and beliefs in their natural environment. They also enabled the researcher to provide clarity or further explore areas that needed such clarity. This ensured that IFRS 17 and financial reporting in the insurance sector could be explored further.

3.8 Data Collection Procedure

In order to collect data from the respondents, the researcher had to make prior telephone arrangements with them. In accordance with the restrictions of COVID 19, the researcher booked times that were convenient for the respondent so that interviews could be conducted over the telephone or through a Zoom video conferencing system. In the structured interviews, similar questions were asked in the same query to ensure that responses could be reliably collected to establish sound correlations. Furthermore, normalizing the query in which the questions were asked reduced context effects (Park and Park, 2016) where the appropriate responses to a study question might actually depend on the idea that preceded the questions. The researcher took notes during the interviews and also recorded the interviews with the permission of the interviewees.

3.9 Data Presentation and Analysis.

In this study, the data were presented in tabular and textual form. In terms of analysis, the demographic profiles of the respondents were analyzed using percentages and frequencies. Data related to the objectives were analyzed qualitatively using the technique of thematic content analysis. In this regard, respondents' answers were scanned by themes. This was done by grouping responses that related to similar constructs and searching for terms that collectively described the responses. Respondents were assigned codes and, where necessary, specific interviewee contributions were quoted verbatim to support emerging themes.

3.10 Ethical Considerations.

In this study, the four key dimensions of ethics were considered. Firstly, the researcher sought consent from the participants as they have the right to know that they are taking part in a research study and have been informed of the nature and purpose of the research (Barnham, 2015). This was achieved by sending participants information letters and consent forms (see Appendix 2) requesting their participation.

The second dimension is anonymity. In this study, respondents were assured that no identifying information would be collected and pseudonyms would be used. It was ideal to guarantee anonymity because subjects are likely to participate and be honest when they know the results will not be associated with them individually (Brannen, 2017). The researcher confirmed anonymity by sending the interview protocol to the participants before conducting the research. In addition, the subjects were labelled with letters and numbers from R1 to R8 in the data analysis section.

Confidentiality implies that researchers have an obligation to protect the identity of the participants, the sites and location of the research (Bryman, 2017). This refers to the safe keeping of data to avoid access by unauthorized persons. The issue of confidentiality was addressed by assuring participants that the data generated will only be used for the purpose of this research and only the supervisors and the researcher will have access to the data.

The fourth dimension considered was the right to withdraw, which means that participants are informed that their participation is voluntary and can be terminated at any stage of the study without any penalty. The researcher sent information letters to the participants prior to the interviews to inform them that their participation and the results of the research would not cause any harm to both the participants and the researcher. The participants' right to withdraw and voluntary participation was also reiterated during the interviews.

3.11 Chapter Summary

The chapter discussed the research process and procedures used. The chapter explained the philosophy of interpretivism, qualitative approach, exploratory design, and survey strategy used in this study. The target population, sample size and purposive sampling used were clarified. The chapter also explained the design, implementation and rationale for using interviews. Data presentation and analysis techniques and ethical considerations were also covered in the chapter. The following chapter presents and analyses the data collected from the interviewees.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

4.1 Interview response rate

In this study, a total of 10 interviews were targeted. The researcher was able to effectively conduct a total of 8 interviews, representing a response rate of 80%. The other 2 respondents who were to be interviewed could not be reached due to their busy schedules. The response rate of 80% was largely attributed to the researcher's persistent follow up with the respondents regarding the interviews.

4.2 Socio-demographic characteristics

Respondents were asked to indicate their age, designation, gender, and highest level of education. The responses obtained were categorised for better presentation and analysis. The demographic profiles of the respondents with frequency and percentage for the categories are presented in Table 4.1.

Table 4.1: Demographic profiles of the respondents

Demographic characteristic	**Categories**	**Frequency**	**Percentage**
Gender	Male	5	62.5%
	Female	3	37.5%
Age	25- 34 years	2	25%
	35 – 44years	3	37.5%
	45-54 years	2	25%
	55 years and above	1	12.5%
Designation	Junior manager	2	25%
	Middle manager	4	50%
	Senior manager	2	25%
Education	Degree	2	25%
	Postgraduate degree	6	75%

Source: Primary Data

In terms of gender, the results show that the majority (62.5%) of the respondents were male and 37.5% were female. Although the findings suggest that the insurance sector in South Africa is still dominated by males, both females and males were represented in the study. This ensured that the different perceptions on the new IFRS 17 in the insurance sector were adequately reflected.

Table 4.1 shows that 25% of the participants were in the age group 25-34 years, 37.5% were in the category 35-44 years, 25% were between 45 and 54 years and the remaining 12.5% were 55 years or older. This shows that young and mature people were included in the study to ensure a balance of ages to minimize potential differences in perceptions and attitudes towards change due to the introduction of IFSR 17.

In terms of designation, the results show that 25% of the respondents were junior managers, 50% were middle managers and 25% were senior managers. This distribution showed that managers responsible for implementing change as well as those responsible for setting policies and frameworks in the insurance sector were represented so that the researcher could benefit from their rich experiences in their daily work.

With regard to the highest level of education, it was revealed that 25% of the respondents had a university degree and 75% had a postgraduate degree. This shows that the respondents were well educated to understand IFRS in the insurance industry and its likely challenges or implications in terms of financial reporting. This helped to improve the quality of responses received from the respondents.

4.3 Effects of implementing IFRS 17 on the quality of financial reporting.

The first objective was to determine the impact of the implementation of IFRS 17 on the quality of financial reporting in the insurance sector. There was general agreement that the new IFRS 17 for insurance contracts significantly reshapes financial reporting for insurers, as it proposes many changes from the existing reporting standard. In this regard, a notable response from R3 was that:

The new IFRS 17 will radically change the financial reporting of all insurers that enter into insurance contracts and investment contracts, replacing IFRS 4, which is currently in use.

When asked in what ways they believe IFRS 17 improves the quality of financial reporting in the insurance sector, the majority of respondents stated that IFRS 17 stabilizes capital requirements for insurance companies. It was stated that insurance companies should expect a reduction in the volatility of capital requirements set by insurance regulators. There was a consensus that the implementation of IFRS 17 can specifically improve the earnings of insurance companies. One of the respondents R5 made the following comments:

"*IFRS 17 is designed to increase transparency about profitability in the insurance sector, and this is a critical requirement for the sector to receive premiums from customers. Companies that implement the new standard immediately will experience growth in business due to better transparency in profit reporting.*

The results support GPPC's (2020) claims that IFRS 17 will have significant transparency on insurer financial performance and profitability.

More than half (50%) of respondents thought that the adoption of IFRS 17 would have a significant impact on improving disclosure of insurance liabilities. Respondents said that under IFRS 17, insurance companies are expected to disclose all liabilities and obligations on their balance sheet so that the investing public or customers can assess the extent to which insurance companies are exposed or obligated. A notable response from R1 was as follows:

IFRS 17 ensures that insurance liabilities are recognized at updated values rather than historical cost, providing readers of financial statements with more effective and accurate information

Respondents agreed that the application of IFRS 17 will lead to a standardisation of financial reporting within groups. This related to the general view that IFRS 17 will lead to improved comparability between insurers. In this regard, respondent R2 said that "the implementation of IFRS 17 will ensure that insurers' financial reporting is treated in the same way as other entities." The result was largely in line with the study by Yanik and Ece (2017) who also stated that the purpose of IFRS 17 is to increase comparability between insurance contracts globally.

Regarding the main reason for which insurance companies should adopt IFRS 17, it was noted that IFRS 17 allows risk diversification through the composition of insurance contracts and the management of portfolios with negative risk ratios. On the other hand, it was noted that the new IFRS 17 imposes strict calculations and requirements on the presentation of income and expenses compared to IFRS 4. This is in line with Dalai's (2018) concerns that the calculation of income and expenses for life insurance contracts is more complicated under the new IFRS 17.

4.4 Loopholes to be monitored in the implementation of IFRS 17

The second objective examined loopholes to monitor when implementing IFRS 17 in the insurance sector. The main loopholes highlighted were that the effectiveness of IFRS 17 is highly dependent on the level of technological investment made by insurance companies in their financial reporting system. The financial controls and reporting requirements embodied in IFRS 17 can best be implemented if a company has robust financial systems and technologies that effectively operationalize the new standard. Respondents felt that without adequate technology, it would be difficult for insurance companies to take full advantage of IFRS 17. This was consistent with IFRS (2017)'s view that the position of the insurer in terms of its technological advancement and reporting process has a strong influence on the success of IFRS in the insurance sector.

A significant number of respondents indicated that IFRS 17 does not consider other income identified with a group of hedging contracts that was paid or received before the group was recognized. Contributions paid before they are due were cited as a notable example. This finding is consistent with the contribution of Longoni (2019) that IFRS 17 is quiet in accounting for other cash flows associated with insurance business. To this end, R4 said that "IFRS 17 does not consider other cash flows when calculating the contractual performance margin at initial recognition".

It was also noted that IFRS 17 has inconsistencies in the recognition of insurance revenue and income tax payments. It was suggested that an entity recognizes insurance revenue for amounts paid by the policyholder for personal obligations predictably with recognition of insurance revenue for other costs incurred.

More than 50% of respondents felt that IFRS 17 contains a limited definition of accountability for outstanding coverage and accountability for continuing claims. There was general criticism that IFRS 17 focuses more on the interests of shareholders and does not consider the interests of policyholders as suggested, as is the case with other accounting standards. Other gaps cited by respondents that need to be monitored in the implementation of IFRS 17 include the separation of components that are intended to make insurance business comparable to other businesses. It was noted that the separation of investment components into “Distinct" and "Non-Distinct" is very difficult to extract from insurance businesses.

Respondents agreed that organizations are making efforts to communicate the changes introduced by IFRS 17 to employees at all levels so that they can understand and implement them effectively. Some respondents indicated that they encourage their staff to communicate to clients how IFRS 17 affects client policies.

4.5 Possible improvements to the IFRS 17 to perfect the financial reporting.

The third objective examined possible adjustments to IFRS 17 to perfect financial reporting in the insurance industry. The majority of respondents considered it necessary for IFRS 17 to ensure that the initial calculation of the legally binding performance margin of a group of insurance contracts takes into account the consequence of de-recognition of any resources or obligations paid or received before the recognition of revenue identified with that group. This would ensure that the financial statements of insurance entities reflect the true financial position of insurers. With respect to the treatment of insurance revenue and income taxes, some respondents thought that IFRS 17 should adjust the recognition of insurance revenue to ensure that insurers perceive amounts in the benefit or misfortune that are identified with personal expenses that are explicitly attributable to the policyholder under the terms and conditions of the protection contract. Respondents also agreed that

IFRS 17 should be adjusted in its definition of liability for remaining coverage to capture all obligations under insurance contracts that an entity has entered into.

4.6 Chapters summary

This chapter provided the results on the objectives discussed in Chapter 1. The chapter presented and analyzed the impact of the implementation of IFRS 17 on the quality of financial reporting in the insurance sector; gaps that need to be monitored in the implementation of IFRS 17; and possible adjustments to IFRS 17 to perfect financial reporting in the insurance sector. The findings were discussed in relation to the existing literature. The following chapter presents the conclusions and recommendations for the study.

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The purpose of this study was to provide an exploratory basis for understanding the application of IFRS 17 by stakeholders in the insurance sector. The objectives of the study were to identify the potential impact of the implementation of IFRS 17 on the quality of financial reporting in the insurance sector; gaps that need to be monitored in the implementation of IFRS 17; and adjustments to IFRS 17 to perfect financial reporting in the insurance sector. The study followed the philosophy of interpretivism and adopted a qualitative approach. An exploratory research design was used. Structured interviews were used to collect data from insurance professionals who were purposively included in the sample. Thematic content analysis of the responses obtained revealed the following key findings;

With regard to the potential impact of the implementation of IFRS 17 on the quality of financial reporting in the insurance sector, it has been noted that the new standard stabilizes capital requirements for insurance companies and also improves insurers' earnings. This is said to result from improved transparency in reporting, which increases profitability, which in turn is expected to have a positive impact on premiums written. The study further noted that IFRS 17 improves disclosure of insurance obligations and increases consistency and comparability of financial reporting within groups. The study also found that IFRS 17 improves risk diversification by assembling portfolios of insurance contracts.

In terms of possible loopholes that need to be monitored in the implementation of IFRS 17, the study found that the effectiveness of IFRS 17 depends on the level of technological investment by insurance companies in their accounting systems, which most insurers cannot muster, especially in developing and emerging economies. Concerns were raised that IFRS 17 does not adequately cover the accounting for insurance contracts paid or received before the group is recognized. Respondents also felt that there was inconsistency in the recognition of insurance revenue and income tax payments. Other gaps identified included limited definition of responsibility for residual inclusion and liability for losses caused, and a general bias towards shareholder interests as opposed to policyholder interests.

Regarding possible adjustments to IFRS 17 to perfect financial reporting in the insurance sector, the main suggestions that emerged were that the initial calculation of the legally binding support margin of a group of insurance contracts should take into account the impact of de-recognition of any resources or risks recently perceived for revenue. Respondents also suggested that the recognition of insurance income and the associated income tax charged to the policyholder should be adjusted in the terms of the insurance contract. It was also noted that a broader definition of liability for remaining coverage should be included to cover all liabilities.

5.2 Conclusions

In line with the above key findings, the following conclusions have been drawn in relation to each of the research objectives set out in Chapter 1:

Effects of IFRS 17 on the quality of financial reporting

The study concluded that IFRS 17 promotes excellence in financial reporting by ensuring stability of capital requirements for insurers, better transparency and accountability, including disclosure of insurance liabilities. Financial reporting in the insurance sector is also expected to be consistent and more comparable within groups. It was also noted that IFRS 17 improves risk diversification for insurers through the grouping of insurance contracts.

5.2.1 Loopholes to be monitored in the implementation of IFRS 17

The study concluded that the main gaps that need to be monitored in the implementation of IFRS 17 are the effectiveness of technological investments in the accounting system, reporting for insurance contracts paid or received before recognition, and inconsistency in the recognition of insurance revenue and income tax payments. The study concluded that the focus of some IFRS on shareholder interests as opposed to policyholder interests needs attention, as does the expansion of the classification of accountability for outstanding claims and accountability for continuing claims.

5.2.3 Adjustments to the IFRS 17 to perfect financial reporting

The study concluded that the main adjustments relate to the initial calculation of the contractual performance margin to appropriately reflect the recognition and derecognition of assets or liabilities, the recognition of insurance income and related income tax attributable to the policyholder, and the expansion of the definition of liabilities to cover all obligations. It was also noted that IFRS 17 should find some kind of harmony between the interests of shareholders and policy makers.

5.3 Recommendations

Based on the above key findings and derivations, the study made the following recommendations:

5.3.1 Adopt IFRS 17

Given the positive impact on the quality of financial reporting, this study recommends that insurers implement IFRS 17 to benefit from transparency, comparability and consistency, among other advantages associated with the new standard.

5.3.2 Conduct staff training

To reap the full benefits of implementing IFRS 17, this study recommends that insurers train all employees to understand the new financial reporting requirements under the new standard. Such training workshops should cover the loopholes in IFRS 17 and migration measures that can be implemented during the transition periods.

5.3.3 Lobby for the implementation of adjustments

The study recommends that insurers actively lobby for the implementation of the proposed amendments to IFRS 17. This could be achieved by developing industry position papers to influence policymakers and other stakeholders to address the shortcomings of IFRS 17.

5.4 Suggestions for further studies

This study adopted a qualitative methodology and was limited to a few insurance professionals, allowing for the collection and analysis of detailed and in-depth data on the application of IFRS 17 and its impact on financial reporting in the insurance industry. In the future, another study could be conducted with a quantitative methodology using a larger sample and allowing generalization of the study results to the broader insurance sector.

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APPENDICES

Appendix 1: Structured Interview Guide

Instruction: Please fill in all the sections below. **Do not** write your name on this form.

Section A [Socio demographic Characteristics]

1. Gender

   ……………………………………………………………………………………..
2. Age

   ……………………………………………………………………………………...
3. Designation

   ……………………………………………………………………………..
4. Highest Educational Level…………………………………………………………………

Section B: Effects of implementing IFRS 17 on the quality of financial reporting.

5. In what ways do you think IFRS17 improves the quality of financial reporting in the insurance sector?

6. Please comment on the effects of implementing IFRS 17 on the following elements of financial reporting:

   a) Improved transparency on profitability;
   b) Better disclosure of insurance obligations;
   c) Uniformity in financial reporting within groups; and
   d) Improved comparability among insurers.

7. In your own understanding, how else do you expect IFRS 17 to impact on the quality of financial statements?

8. What according to you is the single most important reason for which insurance firms should embrace IFRS 17?

Section C: Loopholes to be monitored in the implementation of IFRS 17.

9. What loopholes do you think need to be monitored in the implementation of IFRS 17?
10. How adequately is your organization communicating the impacts of IFRS 17 to all relevant stakeholders?
11. In your view, what is the single most vital reason for which insurance firms may have challenges in the implementation of IFRS 17?

Section D: Possible adjustments to the IFRS 17 to perfect the financial reporting.

12. Based on your experience in the insurance sector, what possible adjustments to the IFRS may be necessary to further improve financial reporting?
13. May you please provide any additional observations or comments with respect to the adoption of IFRS 17 by insurance firms you may have?

Appendix 2: Consent Form

Understanding the New International Financial Reporting Standards: The Case of IFRS 17.

Name of Researcher: Desire Takudzwa Jinga

I, ……………………………………….., agree to participate in this research project. The research has been explained to me and I understand what my participation will involve. I agree to the following:
(Please circle the relevant options below).

I agree that my participation will remain anonymous	YES	NO
I agree that the researcher may use anonymous quotes in his / her research report	YES	NO
I agree that the interview may be audio recorded	YES	NO
I agree that the information I provide may be used anonymously after this project has ended, for academic purposes by other researchers, subject to their own ethics clearance being obtained.	YES	NO

…………………………………… (Signature)
…………………………………… (Name of Participant)
…………………………………… (Date)

…………………………………… (Signature)
…………………………………… (Name of Person Seeking Consent)
…………………………………… (Date)