

IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARD AS A TOOL FOR PERFORMANCE OF NIGERIAN INSURANCE COMPANIES

Abstract

Implementation of international financial reporting standard (IFRS) in terms of quality financial reporting, information disclosure pattern, transparency, auditing, reporting standards, regulatory control and flexibility, corporate governance, and financial scandals have influence on organizational performance. This study sought to investigate the influence of implementation of IFRS on organizational performance with specific reference to Nigerian insurance industry. Purposive sampling method was used to select the accountants and auditors of twenty nine (29) insurance companies listed on the Nigerian Stock Exchange (NSE) market, totaling 58 respondents. The data collection instruments for the study were structured questionnaires that designed for the study. Data analysis was performed with the aid of descriptive statistical tools such as frequencies, percentages and mean, and inferential statistical tools such as Pearson Product Moment Correlation Coefficient and Ordinary Least Squares (OLS) method of estimation. The finding revealed that there is strong relationship between financial performance and implementation of IFRS. The finding also indicated that implementation of IFRS has significant influence on investment decision making. This connotes that implementation of IFRS is a veritable tool to financial performance of Nigerian insurance companies. Subsequently, the study recommended that management of insurance companies should embrace and International Financial Reporting Standard (IFRS) with immediate so that the sector can attract both local and foreign investors. Also, National Insurance Commission (NAICOM) should sanction any insurance company fails to implement IFRS on or before year 2020.

Keywords: IFRS, Quality Financial Reporting, Information, Financial Performance, Insurance

Introduction

International Financial Reporting Standard (IFRS) came to being as a result of inconsistency in reporting and poorly structured accounting standard which eventually led to dramatic collapse of big American corporate like Enron, WorldCom and Tyco. These scandals left the accounting profession in a “deep traces” in the history. This situation turned the attention of entire world on accounting firms [1]. This menace make International Accounting Standards Board (IASB) to transit into the IFRS under the IASB to ensure full disclosure of matters concerning organizations operations so as to aid investors in making investment decisions and improve

organizational performance. In line with this assertion, Anaja and Onoja [2] postulated that organizations owe a duty to fully disclose matters concerning their operations so as to aid investors in making investment decisions. Both large and small organizations in addition to satisfying the legislating requirement tend to retain existing investors and to attract potential ones through the publication of their financial reporting where the capital stock of a corporation is widely held and its affairs are of interest to general public relations. Wallace [3] saw financial reporting as the communication of financial information to various users of accounting information to make an investment decision, obtaining credit facilities, and other financing decisions.

Studies in both developed and developing nations have documented that financial reporting methods in terms of information disclosure pattern, transparency, auditing, reporting standards, regulatory control and flexibility, corporate governance, and financial scandals have influence on organizational performance. Empirical studies affirmed that the adoption of IFRS makes easier to monitor and control subsidiaries from foreign countries, it reduces the amount of work, and it takes to remove errors, meets multiple regulations, and distributes the information effectively. Also, it would make it easier for all companies to do business in foreign countries [2, 4]. Having recognized the need for IFRS adoption in both public and private sector in Nigeria, Nigerian Stock Exchange (NSE) directed all companies that are quoted on the exchange to ensure they adopt the IFRSs by December 2011 while the Central Bank of Nigeria (CBN) also directed financial institutions to adopt the IFRS by December 2010 [5]. In spite of this directive, most of quoted organizations especially insurance companies still evade this regulation through fraudulent mechanisms [4]. Information gathered by Financial Vanguard reveals that most insurance companies have not commenced implementation of IFRS. This implies that most

insurance companies are still ignorant of the benefits of IFRS, thereby limiting their knowledge about their financial position and above all their ability to use IFRS to make important investment decisions. As a current situation in the society of Nigeria, investment decisions in the insurance companies have been very slow due to non-implementation of IFRS and other important financial records. Consequently, the sector has been experiencing distressed syndrome, while some are thinking of mergers and acquisitions. This is evidenced by Nigerian Stock Exchange (NSE) that about 14 insurance companies now under threat of hostile take-over in the Nigerian Stock Exchange. No wonder why the sector could only contribute 0.7% toward Gross Domestic Product (GDP), which is very low compared to other markets such as South Africa with penetration levels of around 12% [6].

Prior studies [7, 8, 9, 10, 11, 12, 13] on implementation of IFRS in both developed and developing countries focused on banks and manufacturing companies. It is observed that, none of research work dealt with the effects of implementation of IFRS on the performance of insurance companies in Africa especially in Nigeria. The omission of this in literature, therefore, will form major gap in this study.

Research Questions

The study, therefore, intends to answer the following fundamental questions: **What is level of implementation of IFRS in Nigerian insurance companies?** To what extent does **implementation of IFRS** influence the performance of insurance companies? And does **implementation of IFRS** has influence on investment decision making by insurance companies?

Research Objectives

The main objectives are;

- i. **To determine the level of implementation of IFRS in Nigerian insurance companies.**

- ii. To examine the influence of **implementation of IFRS** on the performance of insurance companies.
- iii. To assess the influence of **implementation of IFRS** on investment decision making by insurance companies.

Conceptual Review

The introduction of quality financial reporting standards was initiated in 1973 when the international accounting standard committee (IASC) was formed by 16 professional bodies from different countries in Europe, America, Canada, Australia, and across the globe [14]. The process gained speed when the International Organization of Securities Commissions (IOSCO) endorsed the IASC standards for international listings in May 2000. It was further facilitated by a regulation approved in the European Union in 2002 required the preparation of consolidated (group) accounts of listed companies domiciled in the European Union in accordance with endorsed IFRS. In line with this quality financial reporting standards, Nigeria government through its agencies such as Central bank of Nigeria (CBN) and Nigerian Stock Exchange (NSE) directed all companies that are quoted on the exchange to ensure they adopt the IFRSs by December 2011 while the Central Bank of Nigeria (CBN) also directed financial institutions to adopt the IFRS by December 2010.

According to Alistair [15], IFRS is a series of accounting pronouncements published by the International Accounting Standard Board (IASB) to help prepare financial statements throughout the world, to provide and present high quality, transparent and comparable financial information. Essien-Akpan [16] argued that the components of IFRS financial statements includes fair representation, accounting policies, going concern, accrual basis of accounting, consistency, materiality, off-setting and comparatives. Fowokan [17] cited in Demaki [14]

identified the objectives of IFRS as follows: a) to work actively with the national setter to bring about convergence of national accounting standards, b) IFRSs are designed for adoption by profit oriented entities, c) IFRSs require that financial statements (FS) give a true and fair view of the financial health of entities, d) to develop a single set of high quality understandable and enforceable global accounting standard that requires transparent and comparable information in financial statements, e) and to help participants in various capital market across the globe to understand financial statements. Demaki [14] also argued that the implementation of IFRS will position Nigerian companies in the global market place as well as ensure transparency, accountability and integrity in financial reporting in Nigeria which is a prerequisite for the attraction of investment that will promote economic development. Studies revealed that financial statements prepared under IFRS have better quality, IFRS adoption attracted more investments from institutional shareholders and managers in IFRS-adopting countries voluntarily disclose more to meet the higher demand for transparency from these sophisticated investors [2, 4, 14, 15].

Empirical Review and Hypothesis Formulation

Relationship between implementation of IFRS and organizational performance

Osiorenoya [4] determined the relationship between the implementation of IFRS in terms of quality of financial reporting and profit after tax, return on asset, and return on equity. Data collections were both from primary and secondary sources. The study adopted the survey research and cross sectional research design. A well-structured questionnaire were used to collect data from 350 respondents. Both descriptive and inferential statistics were employed to analyse the data. The findings showed that there is a significant relationship between quality of financial

reporting and organizational performance measured by after tax, return on asset and return on asset of the quoted companies in Nigeria. In a similar study, Badavar and Taghizadeh [18] evaluated the relation between the quality of auditing and efficiency of investment in companies registered at Tehran Exchange market. 100 companies were selected as sample for the 2006-2011 period. The results showed that generally there is a positive and significant relation between quality of auditing and organizational performance measured by investment efficiency.

Muhammadi [19] investigated the relationship between financial reporting quality and investment efficiency and the factors affecting the firms listed in Tehran Stock Exchange from 2009 to 2012. His results of statistical analyses on 93 firms in Tehran Stock Exchange showed that, the financial reporting quality had a significant positive correlation with the investment efficiency. He also found that, there was a direct link between firm size, growth opportunities and cash holdings as well as tangibility of assets with investment efficiency. Adeyemi and Asaolu [20] also examined financial reporting practices among post consolidation banks in Nigeria and the subsequent stability of the banks. The study relies on secondary data collected through in-depth content analysis of published annual reports and accounts of 13 out of the 21 banks quoted on the Nigerian Stock Exchange between 2005 and 2009. Reporting practices by the banks were predicated on scores obtained from a Composite Disclosure Index (CDI) computed from a checklist from SASs and Prudential Guidelines' requirements. The results indicated a high level of compliance with the mandatory disclosure requirements for banks by scoring high on the CDI (mean in excess of 90%). In addition, the regression results showed that disclosure has a positive and significant influence on banks stability (as defined by ROA and liquidity). In a study of Chen et al. [21] who evaluated the relation between quality of financial reporting and investment efficiency in privately-owned companies of developing markets. They

analyze the data from 79 countries in 2002. The results showed that quality of financial reporting for fiscal year of 2005 is positively correlated to efficiency of investment. Evasion. In the same vein, Bushman and Smith [22] and Lambert et al. [23] inspected the connection between financial related reporting quality and investment and found that expansion in the financial reporting quality prompted increment in business proficiency.

However, the finding of Biddle, Hilary and Verdit [24] showed a negative association between financial reporting quality and performance. In the same vein, Francis et al. [25] also found out that the relation between organizational performance measured by physical capital efficiency coefficient and quality of financial reporting is statistically insignificant. Also, the results of Verdi's studies [26] showed that the index of quality of financial reporting that is named the quality of accruals has correlation to low investment and highly aggregated investment in negative ways. The study of Negash [27] also affirmed that negative relationship exists between financial reporting and organizational performance.

In view of these conflicting and inconclusive results, it is therefore hypothesized that:

H₀₁: there is no significant influence of **implementation of IFRS** on organizational performance.

Relationship between **implementation of IFRS** and organizational performance

Bamidele, Ibrahim and Omole [7] investigated the effects of financial reporting quality proxy by **implementation of IFRS** on investment decision making by Deposit Money Banks in reference to Zenith Bank Plc, Nigeria. Data obtained from the audited annual reports of Zenith Bank Plc that covered period of 2009 – 2016. The study utilised both Descriptive and inferential statistics were employed to analyse the data. Results indicated that there is strong relationship between Financial Reporting Quality and investment decision. Kapellas and Siougle [8] also summarized evidence on literature about the effect of financial reporting practices on investment

179 decisions. They also affirmed that there is strong relationship between Financial Reporting
180 Quality and investment decision. In another study, Zayol et al [9] investigated the effect of
181 financial information on investment decision of shareholders of five selected banks in Nigeria
182 from 2009 to 2015. Results revealed that, there is a positive relationship between financial
183 information and investment decision of shareholders of banks in Nigeria. Mahmoud [11] also
184 investigated the relevance of financial reporting quality reported by oil Listed firms in Nigeria
185 covered (2011- 2016). Results indicated that financial reporting quality of listed oil firms in
186 Nigeria has significant relevance to the users of the information.

187 Fariba and Mehran [13] examined the effect of financial reporting quality and investment
188 opportunities and dividend based on decision making of Insurance companies in Iran. They
189 found that, investment opportunities and quality of corporate financial reporting has a significant
190 relationship with dividend policy and investment decisions. In same veien, Nwaobia, et al [28]
191 explored financial reporting quality on investors' decisions using 10 selected manufacturing
192 companies listed on the Nigerian Stock Exchange Market covered period of 2010-2014.
193 Correlation matrix, Vector auto regressive estimation and Pooled OLS model were employed for
194 the analysis. They found that there was a positive association between investors' decision and
195 financial reporting quality. Anaja and Onoja [2] also analyzed the role of financial statements on
196 investment decision making in reference to United Bank for Africa Plc in Nigeria covered the
197 period of 10 years. They revealed that, the transparency of financial statements of the bank has
198 significant influence on the investment decision making of the users of financial statements.

199 However, Keyvan and Parastoo [12] evaluated the relationship between the quality of
200 reporting and efficiency of investment in companies registered at Tehran Stock Exchange Market
201 during 2010-2014. The population consists of manufacturing firms registered at Tehran Stock

Exchange and the statistical sample includes 126 companies. Results showed that there is negative and significant relation between quality of financial reporting and investment decision. In a similar study, Chan-jane , Tawei and Chao-jung [29] investigated the association between investment decisions and financial reporting quality in the context of family firms versus non-family firms using a sample of listed firms in Taiwan from 1996 to 2011. Their findings indicated that financial reporting quality is more negatively associated with family firms' under-investment behavior.

Based on the above empirical studies, it is therefore hypothesized that:

H₀₂: there is no significant influence of **implementation of IFRS** on investment decision making.

Methodology

This study adopted survey descriptive research design which was concerned with determining the frequency with which something occurs or the relationship between variables. Purposive sampling method was used to select accountants and auditors of twenty nine (29) insurance companies listed on the Nigerian Stock Exchange (NSE) market, totaling 58 respondents. The total population was used as a sample size since all of them can be reached. The data collection instruments for the study were structured questionnaires that designed for the study. To ensure validity and reliability of the research instrument, the researcher ensured that the questions that are asked are in conformity with the research objectives of the study and a pilot test of the research instrument was conducted.

The research data was statistically analyzed by means of the Statistical Package for Social Science (SPSS). Data analysis was performed with the aid of descriptive statistical tools such as frequencies, percentages and mean, and inferential statistical tools such as Pearson

224 Product Moment Correlation Coefficient and Ordinary Least Squares (OLS) method of
225 estimation.

226 Model Specification

227 Mathematically, the models are expressed as follows:

228 $Y_1 = f(X_1)$

229 $Y_2 = f(X_1)$

230 $Y_1 = \beta_0 + \beta_1 X_1 + \mu_i$ -----(1)

231 $Y_2 = \beta_0 + \beta_1 X_1 + \mu_i$ ----- (2)

232 *Where:*

233 Y_1 = Financial Performance

234 Y_2 = Investment Decision

235 X_1 = Implementation of IFRS

236 β_0 = intercept

237 β_1 = regression coefficient

238 μ_i = stochastic error term

239

240 Results and Discussion

241 Table 1. Level of IFRS Implementation

Level of IFRS Implementation	Frequency	Percentage
Very high	4	6.8
High	5	8.7
Low	20	34.5
Very low	29	50
Total	58	100
Mean	31.12	

Standard Deviation	7.98
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Source: Author's Computation

Table 1 reveals that twenty nine (50%) respondents agreed that the level of IFRS implementation in Nigerian insurance companies is very low. Twenty (34.5%) of respondents agreed that level of IFRS implementation in Nigerian insurance companies is low. Five (8.7%) of respondents agreed that the level of IFRS implementation in Nigerian insurance companies is high, while only four (6.8%) of respondents agreed that the level of IFRS implementation in Nigerian insurance companies is very high. The mean IFRS implementation score of the respondents was 31.12 and standard deviation was 7.98. From this, it is clear that majority of Nigerian insurance companies did not implement IFRS. This implies that most insurance companies are still ignorant of the benefits of IFRS, thereby limiting their knowledge about their financial position and above all their ability to use IFRS to make important investment decisions. This may be the reason why the sector is not attracting both local and foreign investors. This is evidenced by EFiNA [30] that Nigerian insurance industry is still underdeveloped and penetration of insurance is very low, with over 86.6 million Nigerians have no form of insurance.

Deduction to be made from this finding is that, for Nigerian insurance industry to attract both local and foreign investors, to achieve the vision to be the insurance industry of choice among emerging markets, noted for high market capacity, transparency, efficiency and safety, to attain the best position in insurance markets in the world by the year 2030, then they must adopt and implement IFRS.

Table: 2 Descriptive Statistics of financial reporting

Statement	Observation	Mean	Ranked
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The financial report of most insurance companies always complies with international financial reporting standard.	58	2.80	7 th
Most fraud in insurance companies is caused by lack of implementation of IFRS	58	4.21	1 st
Implementation of IFRS always ensure user of financial performance do not take wrong investment and economic decision.	58	4.01	2 nd
Prepares of financial report often resolve to manipulate financial report because the IFRS is too rigid.	58	3.98	3 rd
Disciplinary action by most regulatory bodies has not been able to completely eliminate financial scandal in quoted insurance companies	58	3.87	5 th
Falsification in financial report can cause liquidation of the company	58	3.03	6 th
Financial report do not usually satisfy all class of shareholders	58	3.89	4 th

Source: Field Survey

Table 2 depicts that most fraud in insurance companies is caused by lack of **implementation of IFRS** which was ranked first with highest mean value of 4.21, followed by **implementation of IFRS** always ensure user of financial performance do not take wrong investment and economic decision, Prepares of financial report often resolve to manipulate financial report because the **IFRS** is too rigid, financial report do not usually satisfy all class of shareholders, and disciplinary action by most regulatory bodies has not been able to completely eliminate financial scandal in insurance companies with mean value of 4.01, 3.98, 3.89, 3.87 and 3.03 respectively. Falsification in financial report can cause liquidation of the company was ranked last with mean value of 2.80. This indicates that the implementation of international financial reporting standard in insurance companies is only solution to the impediment facing the sector.

Table 3: Descriptive Statistics of perceived finance Performance

Statement	Observation	Mean	Ranked
Implementation of IFRS can help investors determine the return on asset of their investment in Nigerian	58	4.31	1 st

insurance companies.			
Compliance with IFRS and other professional auditing standard often guarantee profitability of the insurance companies	58	2.96	7 th
Financial performance of Nigerian insurance companies has direct relationship with the implementation of IFRS.	58	3.95	5 th
Auditor's report helps to enhance the financial performance and the value of return on asset.	58	4.02	4 th
Implementation of IFRS can lead to improvement in the return on equity	58	4.24	2 nd
Most insurance companies often present financial statement that are understandable to all equity holders	58	3.76	6 ^h
Presence of reliable accounting and internal control system can help to strengthen the value of return on equity.	58	4.09	3 rd

274 Source: Field Survey

275 From table 3, the **implementation of IFRS** can help investors determine the return on asset of
276 their investment in Nigerian insurance companies was ranked first among the respondents with
277 highest mean value of 4.31. Respondents also affirmed that the **implementation of IFRS** can lead
278 to the improvement of return on asset with mean value of 4.24 which was ranked second,
279 followed by presence of reliable accounting and internal control system can help to strengthen
280 the value of return on equity, auditor's report helps to enhance the financial performance and the
281 value of return on asset, financial performance of Nigerian insurance companies has direct
282 relationship with the implementation of IFRS , most insurance companies often present financial
283 statement that are understandable to all equity holders, and compliance with **IFRS** and other
284 professional auditing standard often guarantee profitability of the insurance companies with
285 mean values of 4.09, 4.02, 3.95, 3.76 and 2.96 respectively. Deduction to be made from this
286 finding is that the implementation of IFRS is an alternative paradigm to Nigerian insurance
287 performance.

288
289 Table 4: Descriptive Statistics of Investment Decision Making

Statement	Observation	Mean	Ranked
Implementation of IFRS reveals the competence of management of the company	58	4.24	2 nd
Implementation of IFRS plays a significant role in investment decision making	58	4.31	1 st
It is appropriate to relay on the ability of IFRS in forecasting future performance	58	3.95	4 th
Implementation of IFRS by companies predict the future financial stand of companies	58	4.08	3 rd
Implementation of IFRS helps users to know the state of affairs of the companies	58	2.96	5 th

Source: Field Survey

Table 4 depicts that implementation of IFRS plays a significant role in investment decision making was ranked highest with mean value of 4.3, followed by implementation of IFRS reveals the competence of management of the company, implementation of IFRS by companies predict the future financial stand of companies, it is appropriate to relay on the ability of IFRS in forecasting future performance and implementation of IFRS helps users to know the state of affairs of the companies with mean values of 4.24, 4.08, 3.95 and 2.96 respectively. This implies that effective and efficient investment decision making is a determinant of IFRS implementation.

Testing of hypothesis

Hypothesis One

H01: There is no significant relationship between the quality of financial reporting and financial performance.

Table 5: Relationship between the implementation of IFRS and financial performance

		IFRS	Performance
IFRS	Pearson Correlation	1	.900 ^{**}
	Sig. (2-tailed)		.000
	N	59	59
Financial performance	Pearson Correlation	.900 ^{**}	1
	Sig. (2-tailed)	.000	

	N	59	59
**. Correlation is significant at the 0.01 level (2-tailed).			

Table 5 indicates that **implementation of IFRS** ($r = 0.90^{**}$; $p < .05$) has a positive and significant correlation with financial performance. This indicates that implementation of IFRS has significant relationship with financial performance. The study corroborates [7], [8], [9], [10] and [29] findings, that **implementation of IFRS** has significant relationship with financial performance. Therefore, null hypothesis is rejected while the alternative hypothesis is accepted.

Hypothesis Two

H02: **Implementation of IFRS** has no influence on investment decision making.

Table 6: Influence of quality financial reporting on investment decision making

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	2.787	1	2.787	13.673	.000 ^b
Residual	11.620	57	.204		
Total	14.407	58			
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.522	.559		4.513	.000
IFRS	.446	.121	.440	3.698	.000

a. Dependent Variable: Investment Decision

Table 6 depicts that the **implementation of IFRS** ($F = (1, 57) = 13.673$; $t = 3.698$; $P = 0.000$) has a positive and significant influence on the investment decision making. This implies that the **implementation of IFRS** is a major determinant of investment decision making. The study is consistent with prior studies [7, 8, 9, 10, 11, 19] that the **implementation of IFRS** had a significant and positive correlation with investment decision making. Therefore, the null hypothesis is rejected while the alternative hypothesis is accepted.

Conclusion and Recommendations

Based on the findings, the study established that the level of IFRS implementation in Nigerian insurance companies is very low. This implies that most insurance companies are still ignorant of the benefits of IFRS, thereby limiting their knowledge about their financial position and above all their ability to use IFRS to make important investment decisions. The study also confirmed that a positive relationship exists between the implementation of IFRS and financial performance. The study also affirmed that the implementation of IFRS has a significant influence on the investment decision making. The study finally concluded that the implementation of IFRS is a veritable tool to the performance of Nigerian insurance companies. Subsequently, the study recommended that management of insurance companies should embrace and implement IFRS with immediate so that the sector can attract both local and foreign investors. Also, National Insurance Commission (NAICOM) should sanction any insurance company fails to implement IFRS on or before year 2020.

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