

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 an influence on organizational performance. This study sought to investigate the influence of implementation of IFRS on organizational performance with specific reference to the 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 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 a strong relationship between financial performance and implementation of IFRS. The finding also indicated that implementation of IFRS has a significant influence on investment decision making. This connotes that the implementation of IFRS is a veritable tool to financial performance of Nigerian insurance companies. Subsequently, the study recommended that the management of insurance companies should embrace International Financial Reporting Standard (IFRS) with immediate effect 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 the 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 corporations like Enron, WorldCom and Tyco. These scandals left the accounting profession in a “deep traces” in history. This situation turned the attention of the entire world on accounting firms [1]. This menace makes International Accounting Standards Board (IASB) to transit into the IFRS under the IASB to ensure full disclosure of matters concerning organization 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 an influence on organizational performance. Empirical studies affirmed that the adoption of IFRS makes it easier to monitor and control subsidiaries from foreign countries, it reduces the amount of work, and it takes to remove errors, meet 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 the 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 the 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 the 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 the 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 the implementation of IFRS in both developed and developing countries focused on banks and manufacturing companies. It is observed that none of the research work dealt with the effects of the implementation of IFRS on the performance of insurance companies in Africa, especially in Nigeria. The omission of this in literature, therefore, will form a major gap in this study.

Research Questions

The study, therefore, intends to answer the following fundamental questions: **What is the level of implementation of IFRS in Nigerian insurance companies?** To what extent does **the implementation of IFRS** influence the performance of insurance companies? And does the **implementation of IFRS** has an 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 include fair representation, accounting policies, going concern, the 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 the 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 forms primary and secondary sources. The study adopted the survey research and cross-sectional research design. A well-structured questionnaire was 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 relationship between the 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 and 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 the 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 bank stability (as defined by ROA and liquidity). In a study of Chen et al. [21] 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 the quality of financial reporting for the fiscal year of 2005 is positively correlated to the 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 relationship 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 a correlation to low investment and highly aggregated investment in negative ways. The study of Negash [27] also affirmed that a 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 the **implementation of IFRS** on organizational performance.

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

Bamidele, Ibrahim and Omole [7] investigated the effects of financial reporting quality proxy by **the 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 a period of 2009 – 2016. The study utilised both descriptive and inferential statistics to analyse the data. Results indicated that there is a 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 decisions. They also affirmed that there is strong relationship between Financial Reporting Quality and investment decision. In another study, Zayol et al [9] investigated the effect of financial information on investment decision of shareholders of five selected banks in Nigeria from 2009 to 2015. Results revealed that there is a positive relationship between financial information and investment decision of shareholders of banks in Nigeria. Mahmoud [11] also investigated the relevance of financial reporting quality reported by oil Listed firms in Nigeria covered (2011- 2016). Results indicated that the financial reporting quality of listed oil firms in Nigeria has a significant relevance to the users of the information.

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

However, Keyvan and Parastoo [12] evaluated the relationship between the quality of reporting and efficiency of investment in companies registered at Tehran Stock Exchange Market 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 a negative and significant relationship between the 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 the implementation of IFRS on investment decision making.

Methodology

This study adopted a 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 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 were 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 Product Moment Correlation Coefficient and Ordinary Least Squares (OLS) method of estimation.

Model Specification

Mathematically, the models are expressed as follows:

$$Y_1 = f(X_1)$$

$$Y_2 = f(X_1)$$

$$Y_1 = \beta_0 + \beta_1 X_1 + \mu_i \text{ -----(1)}$$

$$Y_2 = \beta_0 + \beta_1 X_1 + \mu_i \text{ ----- (2)}$$

Where:

Y_1 = Financial Performance

Y_2 = Investment Decision

X_1 = Implementation of IFRS

β_0 = intercept

β_1 = regression coefficient

μ_i = stochastic error term

Results and Discussion

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	

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 the 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 the 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

264 attain the best position in insurance markets in the world by the year 2030, then they must adopt
 265 and implement IFRS.

266 Table: 2 Descriptive Statistics of financial reporting

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

267 Source: Field Survey

268 Table 2 depicts that most fraud in insurance companies is caused by lack of the implementation
 269 of IFRS which was ranked first with highest mean value of 4.21, followed by the implementation
 270 of IFRS always ensures user of the financial performance do not take the wrong investment and
 271 economic decision, Prepares of the financial reports often resolve to manipulate financial reports
 272 because the IFRS is too rigid, the financial reports do not usually satisfy all class of shareholders,
 273 and disciplinary action by most regulatory bodies has not been able to completely eliminate the
 274 financial scandal in insurance companies with mean value of 4.01, 3.98, 3.89, 3.87 and 3.03
 275 respectively. Falsification in the financial reports can cause the liquidation of the company was
 276 ranked last with mean value of 2.80. This indicates that the implementation of the international

financial reporting standard in insurance companies is the 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 insurance companies.	58	4.31	1 st
Compliance with IFRS and other professional auditing standards often guarantee profitability of the insurance companies	58	2.96	7 th
The financial performance of Nigerian insurance companies has a direct relationship with the implementation of IFRS.	58	3.95	5 th
Auditor's report helps to enhance financial performance and the value of return on asset.	58	4.02	4 th
Implementation of IFRS can lead to an 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

Source: Field Survey

From table 3, the implementation of IFRS can help investors determine the return on asset of their investment in Nigerian insurance companies was ranked first among the respondents with the highest mean value of 4.31. Respondents also affirmed that the implementation of IFRS can lead to the improvement of return on asset with mean value of 4.24 which was ranked second, followed by presence of reliable accounting and internal control system can help to strengthen the value of return on equity, auditor's report helps to enhance the financial performance and the value of return on asset, financial performance of Nigerian insurance companies has direct relationship with the implementation of IFRS , most insurance companies often present financial statement that are understandable to all equity holders, and compliance with IFRS and other

professional auditing standards often guarantee profitability of the insurance companies with mean values of 4.09, 4.02, 3.95, 3.76 and 2.96 respectively. Deduction to be made from this finding is that the implementation of IFRS is an alternative paradigm to Nigerian insurance performance.

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 a significant correlation with financial performance. This indicates that implementation of IFRS has a significant relationship with financial performance. The study corroborates [7], [8], [9], [10] and [29] findings, that the **implementation of IFRS** has a 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 effect 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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