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

39 performance. In line with this assertion, Anaja and Onoja [2] postulated that organizations owe a

40 duty to fully disclose matters concerning their operations so as to aid investors in making

41 investment decisions. Both large and small organizations in addition to satisfying the legislating

42 requirement tend to retain existing investors and to attract potential ones through the publication

43 of their financial reporting where the capital stock of a corporation is widely held and its affairs

44 are of interest to general public relations. Wallace [3] saw financial reporting as the

45 communication of financial information to various users of accounting information to make an

46 investment decision, obtaining credit facilities, and other financing decisions.

47 Studies in both developed and developing nations have documented that financial

48 reporting methods in terms of information disclosure pattern, transparency, auditing, reporting

49 standards, regulatory control and flexibility, corporate governance, and financial scandals have

50 an influence on organizational performance. Empirical studies affirmed that the adoption of

51 IFRS makes it easier to monitor and control subsidiaries from foreign countries, as it reduces the

52 amount of work, including that of removing errors, meeting multiple regulations, and distributing

53 the information more effectively. This would greatly assist companies to do business in foreign

54 countries [2, 4]. Having recognized the need for IFRS adoption in both public and private sector

55 in Nigeria, Nigerian Stock Exchange (NSE) directed all companies that are quoted on the

56 exchange to ensure they adopt the IFRSs by December 2011 while the Central Bank of Nigeria

57 (CBN) also directed financial institutions to adopt the IFRS by December 2010 [5]. In spite of

58 this directive, most of the quoted organizations especially insurance companies still evade this

59 regulation through fraudulent mechanisms [4]. Information gathered by Financial Vanguard

60 reveals that most insurance companies have not commenced the implementation of IFRS. This

61 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.

85   ii. To examine the influence of implementation of IFRS on the performance of insurance
86   companies.

87   iii. To assess the influence of implementation of IFRS on investment decision making by
88   insurance companies.

89 Conceptual Review
90
91 The introduction of quality financial reporting standards was initiated in 1973 when the

92 international accounting standard committee (IASC) was formed by 16 professional bodies from

93 different countries in Europe, America, Canada, Australia, and across the globe [14]. The process

94 gained speed when the International Organization of Securities Commissions (IOSCO) endorsed

95 the IASC standards for international listings in May 2000. It was further facilitated by a

96 regulation approved in the European Union in 2002 required the preparation of consolidated

97 (group) accounts of listed companies domiciled in the European Union in accordance with

98 endorsed IFRS. In line with this quality financial reporting standards, Nigeria government

99 through its agencies such as Central bank of Nigeria (CBN) and Nigerian Stock Exchange (NSE)

100 directed all companies that are quoted on the exchange to ensure they adopt the IFRSs by

101 December 2011 while the Central Bank of Nigeria (CBN) also directed financial institutions to

102 adopt the IFRS by December 2010.

103   According to Alistair [15], IFRS is a series of accounting pronouncements published by

104 the International Accounting Standard Board (IASB) to help prepare financial statements

105 throughout the world, to provide and present high quality, transparent and comparable financial

106 information. Essien-Akpan [16] argued that the components of IFRS financial statements

107 include fair representation, accounting policies, going concern, the accrual basis of accounting,

108 consistency, materiality, off-setting, and comparatives. Fowokan [17] cited in Demaki [14]

109 identified the objectives of IFRS as follows: a) to work actively with the national setter to bring

110 about convergence of national accounting standards, b) IFRSs are designed for adoption by profit

111 oriented entities, c) IFRSs require that financial statements (FS) give a true and fair view of the

112 financial health of entities, d) to develop a single set of high quality understandable and

113 enforceable global accounting standard that requires transparent and comparable information in

114 financial statements, e) and to help participants in various capital market across the globe to

115 understand financial statements. Demaki [14] also argued that the implementation of IFRS will

116 position Nigerian companies in the global market place as well as ensure transparency,

117 accountability, and integrity in financial reporting in Nigeria which is a prerequisite for the

118 attraction of investment that will promote economic development. Studies revealed that

119 financial statements prepared under IFRS have better quality reporting. IFRS adoption also

120 attracted more investments from institutional shareholders and, managers in IFRS-adopting

121 countries tend to voluntarily disclose more to meet the higher demand for transparency from

122 these sophisticated investors [2, 4, 14, 15].

123

124 Empirical Review and Hypothesis Formulation

125 Relationship between the implementation of IFRS and organizational performance
126
127   Osiorenoya [4] determined the relationship between the implementation of IFRS in terms

128 of quality of financial reporting and profit after tax, return on asset, and return on equity. Data

129 collections were both forms primary and secondary sources. The study adopted the survey

130 research and cross-sectional research design. A well-structured questionnaire was used to collect

131 data from 350 respondents. Both descriptive and inferential statistics were employed to analyse

132 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:

H_{01}: 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

180 between financial reporting quality and investment decision. Kapellas and Siougle [8] also

181 summarized evidence on literature about the effect of financial reporting practices on investment

182 decisions. They also affirmed that there is strong relationship between Financial Reporting

183 Quality and investment decision. In another study, Zayol et al [9] investigated the effect of

184 financial information on investment decision of shareholders of five selected banks in Nigeria

185 from 2009 to 2015. Results revealed that there is a positive relationship between financial

186 information and investment decision of shareholders of banks in Nigeria. Mahmoud [11] also

187 investigated the relevance of financial reporting quality reported by oil Listed firms in Nigeria

188 covered (2011- 2016). Results indicated that the financial reporting quality of listed oil firms in

189 Nigeria has a significant relevance to the users of the information.

190 Fariba and Mehran [13] examined the effect of financial reporting quality and investment

191 opportunities and dividend based on the decision making of insurance companies in Iran. They

192 found that, investment opportunities and quality of corporate financial reporting has a significant

193 relationship with dividend policy and investment decisions. In same vein, Nwaobia, et al [28]

194 explored financial reporting quality on investors' decisions using 10 selected manufacturing

195 companies listed on the Nigerian Stock Exchange Market covered a period of 2010-2014.

196 Correlation matrix, Vector auto regressive estimation, and Pooled OLS model were employed for

197 the analysis. They found that there was a positive association between investors' decision and

198 financial reporting quality. Anaja and Onoja [2] also analyzed the role of financial statements on

199 investment decision making in reference to United Bank for Africa Plc in Nigeria covered the

200 period of 10 years. They revealed that the transparency of financial statements of the bank has a

201 significant influence on the investment decision making of the users of financial statements.

202   However, Keyvan and Parastoo [12] evaluated the relationship between the quality of

203   reporting and efficiency of investment in companies registered at Tehran Stock Exchange Market

204   during 2010-2014. The population consists of manufacturing firms registered at Tehran Stock

205   Exchange and the statistical sample includes 126 companies. Results showed that there is a

206   negative and significant relationship between the quality of financial reporting and investment

207   decision. In a similar study, Chan-jane , Tawei and Chao-jung [29] investigated the association

208   between investment decisions and financial reporting quality in the context of family firms

209   versus non-family firms using a sample of listed firms in Taiwan from 1996 to 2011. Their

210   findings indicated that financial reporting quality is more negatively associated with family

211   firms' under-investment behavior.

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

213    $H_{02:}$ there is no significant influence of the implementation of IFRS on investment decision

214   making.

215   Methodology

216   This study adopted a survey descriptive research design which was concerned with determining

217   the frequency with which something occurs or the relationship between variables. Purposive

218   sampling method was used to select accountants and auditors of twenty-nine (29) insurance

219   companies listed on the Nigerian Stock Exchange (NSE) market, totaling 58 respondents. The

220   total population was used as a sample size since all of them can be reached. The data collection

221   instruments for the study were structured questionnaires designed for the study. To ensure

222   validity and reliability of the research instrument, the researcher ensured that the questions that

223   are asked are in conformity with the research objectives of the study and a pilot test of the

224   research instrument was conducted.

225   The research data were statistically analyzed by means of the Statistical Package for

226   Social Science (SPSS). Data analysis was performed with the aid of descriptive statistical tools

227   such as frequencies, percentages and mean, and inferential statistical tools such as Pearson

228   Product Moment Correlation Coefficient and Ordinary Least Squares (OLS) method of

229   estimation.

230   Model Specification

231   Mathematically, the models are expressed as follows:

232       $Y_1 = f(X_1,)$

233       $Y_2 = f(X_1,)$

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

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

236   *Where:*

237   Y_1 = Financial Performance

238   Y_2 = Investment Decision

239   X_1 = Implementation of IFRS

240   β_0 = intercept

241   β_1 = regression coefficient

242   μ_i = stochastic error term

243
244   Results and Discussion

245   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	

246 Source: Author's Computation

247   Table 1 reveals that twenty nine (50%) respondents agreed that the level of IFRS

248 implementation in Nigerian insurance companies is very low. Twenty (34.5%) of respondents

249 agreed that the level of IFRS implementation in Nigerian insurance companies is low.   Five

250 (8.7%) of respondents agreed that the level of IFRS implementation in Nigerian insurance

251 companies is high, while only four (6.8%) of respondents agreed that the level of IFRS

252 implementation in Nigerian insurance companies is very high. The mean IFRS implementation

253 score of the respondents was 31.12 and standard deviation was 7.98. From this, it is clear that the

254 majority of Nigerian insurance companies did not implement IFRS. This implies that most

255 insurance companies are still ignorant of the benefits of IFRS, thereby limiting their knowledge

256 about their financial position and above all their ability to use IFRS to make important

257 investment decisions. This may the reason why the sector is not attracting both local and foreign

258 investors.   This is evidenced by EFiNA [30] that Nigerian insurance industry is still

259 underdeveloped and penetration of insurance is very low, with over 86.6 million Nigerians have

260 no form of insurance.

261   Deduction to be made from this finding is that, for Nigerian insurance industry to attract

262 both local and foreign investors, to achieve the vision to be the insurance industry of choice

263 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	7th
Most fraud in insurance companies is caused by a lack of implementation of IFRS	58	4.21	1st
Implementation of IFRS always ensures user of financial performance do not take the wrong investment and economic decision.	58	4.01	2nd
Prepares of the financial reports often resolve to manipulate financial reports because the IFRS is too rigid.	58	3.98	3rd
Disciplinary action by most regulatory bodies has not been able to completely eliminate the financial scandal in quoted insurance companies	58	3.87	5th
Falsification in the financial report can cause the liquidation of the company	58	3.03	6th
Financial reports do not usually satisfy all class of shareholders	58	3.89	4th

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

277 financial reporting standard in insurance companies is the only solution to the impediment facing

278 the sector.

279 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	1st
Compliance with IFRS and other professional auditing standards often guarantee profitability of the insurance companies	58	2.96	7th
The financial performance of Nigerian insurance companies has a direct relationship with the implementation of IFRS.	58	3.95	5th
Auditor's report helps to enhance financial performance and the value of return on asset.	58	4.02	4th
Implementation of IFRS can lead to an improvement in the return on equity	58	4.24	2nd
Most insurance companies often present financial statement that are understandable to all equity holders	58	3.76	6h
Presence of reliable accounting and internal control system can help to strengthen the value of return on equity.	58	4.09	3rd

280 Source: Field Survey

281 From table 3, the implementation of IFRS can help investors determine the return on asset of

282 their investment in Nigerian insurance companies was ranked first among the respondents with

283 the highest mean value of 4.31. Respondents also affirmed that the implementation of IFRS can

284 lead to the improvement of return on asset with mean value of 4.24 which was ranked second,

285 followed by presence of reliable accounting and internal control system can help to strengthen

286 the value of return on equity, auditor's report helps to enhance the financial performance and the

287 value of return on asset, financial performance of Nigerian insurance companies has direct

288 relationship with the implementation of IFRS , most insurance companies often present financial

289 statement that are understandable to all equity holders, and compliance with IFRS and other

290 professional auditing standards often guarantee profitability of the insurance companies with

291 mean values of 4.09, 4.02, 3.95, 3.76 and 2.96 respectively. Deduction to be made from this

292 finding is that the implementation of IFRS is an alternative paradigm to Nigerian insurance

293 performance.

294

295 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	2nd
Implementation of IFRS plays a significant role in investment decision making	58	4.31	1st
It is appropriate to relay on the ability of IFRS in forecasting future performance	58	3.95	4th
Implementation of IFRS by companies predict the future financial stand of companies	58	4.08	3rd
Implementation of IFRS helps users to know the state of affairs of the companies	58	2.96	5th

296 Source: Field Survey

297 Table 4 depicts that implementation of IFRS plays a significant role in investment decision

298 making was ranked highest with mean value of 4.3, followed by implementation of IFRS reveals

299 the competence of management of the company, implementation of IFRS by companies predict

300 the future financial stand of companies, it is appropriate to relay on the ability of IFRS in

301 forecasting future performance and implementation of IFRS helps users to know the state of

302 affairs of the companies with mean values of 4.2.4, 4.08, 3.95 and 2.96 respectively. This implies

303 that effective and efficient investment decision making is a determinant of IFRS implementation.

304 Testing of hypothesis

305 Hypothesis One

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

307 performance.

308   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).			

309

310   Table 5 indicates that implementation of IFRS (r = 0.90**; p <.05) has a positive and a

311 significant correlation with financial performance. This indicates that implementation of IFRS

312 has a significant relationship with financial performance. The study corroborates [7], [8], [9],

313 [10] and [29] findings, that the implementation of IFRS has a significant relationship with

314 financial performance. Therefore, null hypothesis is rejected while the alternative hypothesis is

315 accepted.

316 Hypothesis Two

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

318 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

319

320   Table 6 depicts that the implementation of IFRS (F = (1, 57) = 13.673; t = 3.698; P =

321   0.000) has a positive and significant influence on the investment decision making. This implies

322   that the implementation of IFRS is a major determinant of investment decision making. The

323   study is consistent with prior studies [7, 8, 9, 10, 11, 19] that the implementation of IFRS had a

324   significant and positive correlation with investment decision making. Therefore, the null

325   hypothesis is rejected while the alternative hypothesis is accepted.

326   Conclusion and Recommendations

327   Based on the findings, the study established that the level of IFRS implementation in Nigerian

328   insurance companies is very low. This implies that most insurance companies are still ignorant of

329   the benefits of IFRS, thereby limiting their knowledge about their financial position and above

330   all their ability to use IFRS to make important investment decisions. The study also confirmed

331   that a positive relationship exists between the implementation of IFRS and financial

332   performance. The study also affirmed that the implementation of IFRS has a significant influence

333   on the investment decision making. The study finally concluded that the implementation of IFRS

334   is a veritable tool to the performance of Nigerian insurance companies. Subsequently, the study

335   recommended that management of insurance companies should embrace and implement IFRS

336   with immediate effect so that the sector can attract both local and foreign investors. Also,

337   National Insurance Commission (NAICOM) should sanction any insurance company fails to

338   implement IFRS on or before year 2020.

339   Ethical: NA

340   Consent: NA

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