

Implementation Difficulties & Merits of International Financial Reporting Standard 17 Adoption in Ghana

Ansong Michael
Valley View University

Abstract:- The study examines the impact of IFRS 17 implementation and adoption in the Insurance Industry, specifically, a case of the Life Insurance companies. The objective of the paper is to highlight some key critical areas of the implementation of IFRS 17 reference to the difficulties and merits that will arise from its full adoption while ensuring the life insurance companies also align their distribution strategies towards its implementation.

I. INTRODUCTION

The IASB is an autonomous, non-governmental organization responsible for creating and endorsing International Financial Reporting Standards (IFRS). The IASB was established in 2001 with the specific aim of supplanting the International Accounting Standards Committee (IASC). The IASB is in charge of making and releasing IFRSs and exposure drafts, as well as approving and releasing interpretations from the IFRS interpretations committee and creating a single set of high-quality, clear, enforceable, and globally accepted financial reporting standards based on clear principles (IAS Plus, Deloitte, 2023; and IFRS Foundation, 2014).

Effective January 2023, IFRS 17 has taken the place of insurance contracts (IFRS 4). The IASB issued the new International Financial Reporting Standard 17 (“Insurance Contracts”) dated 18th May 2017. The deadline for implementation was January 2021, but it was later postponed to January 2023. The purpose of the migration to IFRS 17 is attributable to a lack of equity in the reporting and recognition of assets and liabilities in terms of fair and historical valuation in insurance contracts. According to the IASB, to ensure standardization in insurance contract reporting and achieve a higher degree of fairness and transparency in the quality of financial reports, there is a need to implement IFRS 17.

In the past decades, many countries have adopted the International Financial Reporting Standards as their basis for reporting. The European Union set the pace in 2015 by mandating all listed companies within their sub-region to start the adoption and implementation of IFRS in their financial reporting. Currently, over 144 countries have adopted or converged with IFRS.

Many developed and developing nations have adopted IFRS as an important tool for standardizing international accounting principles (Ramanna & Sletten, 2014). According to Price Waterhouse Coopers (2019), Ghana is among the first fifteen countries in Africa to adopt or converge on IFRS.

The global financial and business environment has witnessed rapid development, leading to economic globalization, and linking worldwide markets. As a result of this challenge, it has become very difficult to ensure transparency in financial reporting and therefore aid economic decisions for stakeholders. The impact of the global financial crisis, coupled with the COVID-19 impact on global business, affected almost all sectors of the economy worldwide. In Ghana, the financial sector reforms resulted in the 2017 banking reforms, where the Bank of Ghana embarked on a comprehensive reform agenda to clean up the banking industry and strengthen the regulatory and supervisory framework for a more resilient banking sector. The impact of the banking sector resulted in the need to undertake significant process and system changes, expand the capital base, and invest significantly in technology over the medium term, which is crucial to meeting customer demands and being profitable in the long run (Price Waterhouse Coopers report, 2019).

Considering the impact of the banking sector reforms coupled with the increase in minimum capital leading to mergers, acquisitions, and collapses of some banks, it is realized that the National Insurance Commission initially postponed the IFRS 17 implementation from 2023 to 2025; however, the Commission has brought the date forward after consultation with the Institute of Chartered Accountants Ghana. Given these challenges, the effect of the debt restructuring on the bottom line of most insurance companies, and the time factor, it is expedient that the researcher investigates the challenges to be encountered by most insurance companies in Ghana due to the IFRS 17 adoption.

II. STATEMENT OF THE PROBLEM

Insurance companies play an important role in the economy. Even though the insurance sector has low coverage, in recent times, it has witnessed tremendous development concerning product development encompassing savings and risk components. Financial reporting aims to provide high-quality financial information based on qualitative characteristics that will help various stakeholders make appropriate decisions. There have been some studies on IFRS adoption that include studies that focused on compliance and disclosures in African countries (Zakari, 2014), compliance with IFRS by business entities in Ghana (Yiadom & Atsunyo, 2014), and the extent of application of IFRS in India (Kapoor & Ruhela, 2013). Mbawuni, J. (2018), attempted to examine the perceived benefits and challenges of IFRS adoption in Ghana; however, the study focused on broad IFRS adoption

and limited it to the views of Institute of Chartered Accountants Ghana (ICAG) members.

The National Insurance Commission postponed the adoption of IFRS 17 due to economic challenges (inflation and debt exchange) in the last quarter of 2022 to make it effective in January 2025. However, after deliberation with the Institute of Chartered Accountants of Ghana (ICAG), the effective date has been brought forward to January 2023. It is therefore important to critically examine the difficulty and merit of IFRS 17 adoption by insurance companies from the perspective of an insurance company with specific data to review the impact considering the economic challenges encountered as a result of the financial crises, resulting in a higher impairment of the company's investment income (IFRS 9).

III. PURPOSE OF THE STUDY

The purpose of the study is to assess the implementation difficulties and merits of IFRS 17 adoption in Ghana. The merit of the study is vital since every insurance company must apply the standard within a relatively short period. The study will use descriptive research methods to systematically explain the information obtained in describing the phenomena. Moreover, secondary data (product mix for the first quarter of 2023 from the National Insurance Commission) will be used in analysing the risk and savings impact of IFRS 17 adoption in the industry.

A. Research Objectives

The objective of this study is to examine the difficulties and merits of implementing International Financial Reporting Standards (IFRS) 17 for insurance companies in Ghana, with a focus on the life insurance industry.

B. Variables

The independent variables will be facets of the difficulties and merits, and the dependent variable will be the IFRS 17 implementation in Ghana.

C. Definition of Terms

The IFRS Foundation and the IASB have issued IFRS, a set of accounting and financial reporting guidelines that the majority of businesses use when preparing financial statements.

The IFRS Foundation is a non-profit organization that oversees financial reporting standards. Its main objectives include the development and promotion of IFRS.

IASB is an independent, private sector body (a group of experts with an appropriate mix of recent practical experience) that develops and approves IFRS.

Data quality is the measure of data conditions, relying on factors useful for a specific purpose, such as completeness, accuracy, and timeliness.

The risk policy covers the insured only for the risk of the occurrence of the event.

Savings product, depending on the rules of the product; the premium always remains the insured's property.

The insured is the person or organization covered by insurance.

Historical cost is the acquisition price or the transaction price at which an asset is acquired or a transaction is done. It is the cash or cash equivalent value of an asset at the time of acquisition.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The parties involved act independently of each other. It refers to the market value of an asset or liability agreed upon between parties.

D. Significance of the Study

The study will contribute to the literature on International Financial Reporting Standards by providing the difficulties and merits of IFRS 17 adoption in Ghana. The purpose of this study is to examine the views from the insurance companies' perspective regarding the implementation of IFRS 17. The research will also help stakeholders become aware of the data quality challenges and cost impact of IFRS 17 implementation. Moreover, the study will inform most insurance companies on the product mix to adopt to be profitable in the long run.

IV. LIMITATIONS OF THE STUDY

In descriptive research, it will be challenging to maintain control over the variables because the questionnaire's wording has an impact. Descriptive research offers a static view of the present circumstances and is unable to determine causal linkages.

A. Delimitations

The study will be limited to the technical units of specific life insurance companies.

➤ Theoretical Framework

IFRS 17 aims to provide accurate and uniform information that truthfully reflects the impact of insurance contracts on an entity's financial status, operations, and cash movements. IFRS 4 defines insurance contracts as agreements in which an insurance firm assumes the insurance risk of the policyholder (IFRS Foundation, 2020). IFRS 17 will take the place of IFRS 4, and it will go into effect in January 2023. The original implementation date of January 2021 was postponed to January 2023. IFRS 17 is centered on establishing guidelines for how insurance contracts should be acknowledged, assessed, and displayed, as well as developing an accounting framework specifically for insurance contracts. According to Al-Mashhadan (2020), "IFRS 4 does not require that the assets and liabilities are evaluated in insurance contracts in this way, as the assets are evaluated at their fair value while liabilities are evaluated based on their historical value." However, IFRS 17 brings in the standardization of unifying assets and liabilities at fair value.

IFRS 4 lacks specific criteria for the initial valuation of insurance contracts, leading to varying approaches and inconsistencies between subsidiaries and the parent company regarding the use of historical value and fair value (Longoni, 2019). IFRS 17 deals with this issue by mandating the first recognition of group contracts based on groups within a portfolio. Groups of contracts are acknowledged based on the earliest occurrence of the commencement date of the coverage term, the due date of the first payment from the policyholder, and when a group contract becomes burdensome. The implementation of IFRS 17 is anticipated to enhance transparency regarding both present and future profitability. This will establish comparability by establishing a standardised framework for all insurance contracts, thereby reflecting current information on all cash flows generated from contracts (Swiss Re., 2018).

Agyei-Mensah (2013) said that implementing international financial reporting standards in Ghana will improve the quality of financial statement disclosures. The author examined the financial reporting quality in Ghana before and after implementing IFRS. The study revealed that adopting IFRS improves the quality of financial disclosures and demonstrates adherence to International Financial Reporting Standards by listed companies.

In general, the adoption of IFRS 17 is important for comparability, accountability, and promoting transparency in the insurance sector, enhancing risk management practices, facilitating global harmonization of accounting standards, and strengthening investor confidence.

➤ *Conceptual Framework*

The conceptual framework below shows the link between the difficulties and merits of the implementation of IFRS 17 by life insurance companies in Ghana.

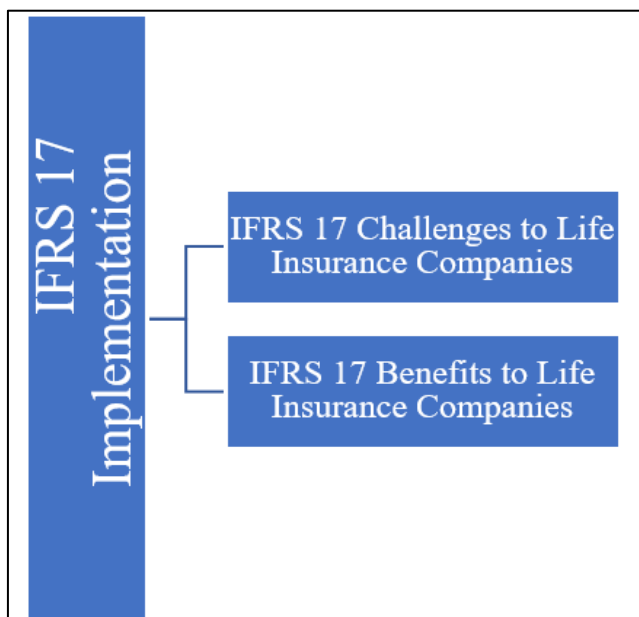


Fig 1: IFRS 17 Implementation (Michael Ansong)

V. METHOD

The research was conducted in Koforidua, Ghana, during the IFRS meeting held for Chief Finance Officers in Ghana for Insurance Companies by the National Insurance Commission and in Accra, Ghana. The conference for the meeting was the right time since the Institute of Chartered Accountants of Ghana had mandated that all insurance companies should be compliant by 2023. Due to the global relevance of IFRS 17 adoption, it was prudent to examine the difficulties and merits of IFRS 17 adoption and implementation in Ghana.

A. Population and Research Design

The population for the study was 50 people in the technical and finance departments of various life insurance companies in Ghana. This included chartered accountants and actuarial analysts, who are projected to be impacted by IFRS 17 implementation and adoption. It was easier to collect data from the respondents because they were all gathered at one point in time. A cross-sectional survey was used to get data on the challenges and difficulties of the IFRS 17 implementation.

Respondents’ evaluation of the difficulties of IFRS 17 adoption and implementation in Ghana.

Table 1: The Table below Shows the Perceived Difficulties of the 50 Respondents

Indicator	Overall Mean
Data Quality	3.88
IT Infrastructure	3.81
Resource Allocation	3.75
Complexity of Contracts	3.72
Regulatory requirement	3.70
Actuarial Assumptions	3.65
Consistency of Accounting methods	3.64
External Market Factors	3.61

Source Data: 2023/4 scale: strongly agree 5, agree – 4, neutral – 3, disagree – 2, strongly disagree – 1.

From Table 1, it is realized that data quality is ranked as the highest challenge with a mean of 3.88, followed by IT infrastructure (mean of 3.81), resource allocation (mean of 3.75), complexity of contracts (mean of 3.72), regulatory requirements (mean of 3.70), actuarial assumptions (mean of 3.65), consistency of accounting methods (mean of 3.64), and external market factors (mean of 3.61).

Respondents’ evaluation of the benefits of IFRS 17 implementation in Ghana.

Table 2: The 50 Respondents will Receive Benefits, as Shown in the Table Below

Indicator	Overall Mean
Improved transparency and comparability	4.22
Enhanced Risk Management	4.13
Improved Investor Confidence	4.01
Consistent Global Standards	3.89
Regulatory oversight	3.78
Market Efficiency	3.59

Source Data: 2023/4 scale: strongly agree 5, agree – 4, neutral – 3, disagree – 2, strongly disagree – 1.

From Table 2, it is realized that improved transparency and comparability are ranked as the highest benefit with a mean of 4.22, followed by enhanced risk management (mean of 4.13), improved investor confidence (mean of 4.01), consistent global standards (mean of 3.89), regulatory oversight (mean of 3.78), and market efficiency (mean of 3.59).

VI. DISCUSSION AND FINDINGS

The purpose of this study is to examine the implementation difficulties and merits of IFRS 17 in Ghana, specifically in the insurance industry (life businesses). The discussion is divided into two parts: the difficulties and the benefits afterwards.

A. Anticipated Difficulties of IFRS 17 Implementation and Adoption in Ghana

The results of this paper reveal, referring to the technical and financial teams of the selected life insurance companies, that IFRS 17 has brought extensive challenges that call for stakeholder consultations for resolution. It was shown that the most prominent challenge is data quality. Data integrity, consistency, and reliability, according to the respondents, have a significant impact on data quality. The quality, accuracy, and completeness of data available to insurance companies play a significant role in implementing IFRS 17. Data quality is integral to the successful implementation of IFRS 17 and has far-reaching implications for insurers' financial responsibility, risk management, decision-making, compliance, operational efficiency, and stakeholder relationships. From the review and responses, it was noted that all life insurers must prioritize data quality initiatives to ensure accurate, reliable, and transparent financial information under the IFRS 17 standard.

The paper also found other major problems related to IFRS 17 besides the quality of the data. These include IT infrastructure and the training of different stakeholders through resource allocation. This will lead to the challenge of determining how well users of the financial statements understand the standards and have experience with them. The other challenges found in this study are the complexity of contracts (this has to do with the various measurements used), regulatory requirements (which embody cost and penalty for non-compliance), actuarial assumptions, consistency of accounting methods, and external markets. The impact of

external market forces is consistent with the studies of Yiadom and Atsunyo (2014).

B. Benefits of IFRS 17 Implementation and Adoption in Ghana

The results revealed that the implementation and timely adoption of IFRS 17 in Ghana will result in enormous benefits to the insurance industry. The study shows that classification will lead to easier comparability of financial data across borders and enhance transparency. The respondents were of the view that IFRS 17 introduces a comprehensive accounting standard for insurance contracts, which will allow investors and other stakeholders to make informed decisions. They further stated that IFRS 17 promotes better understanding and effective management of insurance risks by requiring insurers to provide more detailed information about insurance liabilities and assumptions.

Moreover, the adoption of IFRS 17 enhances investor confidence through the provision of greater transparency and reliability of financial information, which will result in improved access to capital at a lower cost. Other benefits include consistent global standardization of contracts, facilitation of regulatory oversight, and enhanced market efficiency.

VII. CONCLUSION

Implementation and adoption of IFRS 17 show great achievement in the insurance industry. IFRS 17 aims to enhance comparability across insurers worldwide and provide various stakeholders with better insights into financial performance and risk exposure. However, its full adoption and implementation pose a lot of challenges for the insurance industry, comprising data management, actuarial assumptions, substantial investment in technology and systems, training of staff, and stakeholder awareness through robust communication with stakeholders and intensive collaboration across various departments within the insurance companies.

Even though there are various difficulties, the merits of IFRS 17 cannot be underestimated. Apart from improving transparency and enhancing comparability, IFRS 17 can help stakeholders make better and more informed business decisions, boost investor confidence, and strengthen the regulator's position.

REFERENCES

- [1]. Al-Mashhadani, B. N. A. (2020). Challenges of applying IFRS 17 "Insurance Contracts" in the Iraqi Environment. *Tikrit Journal of Administration and Economics Science*, 16 (49 par 1), 77-96.
- [2]. International Accounting Standards Board (2018). Conceptual Framework for Financial Reporting 2018. Available at <https://www.iasplus.com/en/standards/other/framework>. Access date 21/08/2023
- [3]. International Financial Reporting Standards (IFRS) Foundation, 2014.

- [4]. International Financial Reporting Standards (IFRS) Foundation, 2020.
- [5]. Kapoor, B. & Ruhela, J. (2013). IFRS Implementation – Issues and challenges in India. *International Journal of Business and Management Research*, 3(2), 103 – 106.
- [6]. Longoni, P. (2019). IFRS 17 Insurance Contracts and Firm Value.
- [7]. Mbawun, J. (2018). Perceived Benefits and Challenges of IFRS Adoption in Ghana: Views of Member of Institute of Chartered Accountants, Ghana. *International Journal of Financial Research*. 9(1).
- [8]. Price Waterhouse Coopers Report (2019). An overview of IFRS, available at IFRS overview 2019 (pwc.com), access date 21/08/2023
- [9]. Ramanna K. & Sletten E. (2013). *Network effects in countries' adoption of IFRS*. International Trade Journal.
- [10]. Swiss Re (2018). The impact of IFRS 17, An outside view, available at: Asia+CFO+Leadership+Forum+-+IFRS+17+-+Impact+of+IFRS+17.pdf (swissre.com), access date 21/08/2023.
- [11]. Yiadom, E. M. & Atsunyo, W. (2014). Compliance with International Financial Reporting Standards by Listed Companies in Ghana. *International Journal of Business and Management*, 9 (10), 87 – 100.
- [12]. Zakari, M. A. (2014). Challenges of International Financial Reporting Standards Adoption in Libya. *International Journal of Accounting and Financial Reporting*, 4(2), 390-412.