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An assessment of the adoption of IFRS 17 by short term insurance Companies in Zimbabwe

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Abstract
The paper assessed the adoption of International Financial Reporting Standard (IFRS) 17 by short-term insurance companies in Zimbabwe. This study used a descriptive research design, and questionnaires were used to collect data from 18 registered short-term insurance companies in Zimbabwe. Data was collected from key stakeholders in the short-term insurance sector, including insurance executives, accountants, and regulators. A random sampling technique was used to select research participants from insurance companies. SPSS version 20.0 was used to analyse quantitative data, and qualitative data was analysed using content analysis. The study revealed that there is moderate adoption of IFRS 17 by short-term insurance companies in Zimbabwe. The findings also showed that short-term insurance companies in Zimbabwe were financially and technologically incapacitated to effectively implement such a demanding project as IFRS 17. In light of the findings, the study recommends that regulators and policymakers in the industry revisit local regulations and make awareness campaigns that promote the adoption of IFRS 17. The study also recommends that regulators, top management, and external auditors should be key players in the implementation of IFRS 17.

JEL Classification:M410
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I. Introduction

There is significant growth in the short-term insurance sector in Zimbabwe; this sector plays a vital role in the country's economy, even though the economic environment is harsh and competitive (Musiiwa, Chinorwadza, &Dzingai, 2020). According to the Insurance and Pension Commission [IPEC] (2020), in Zimbabwe, the short-term insurance sector provides coverage for various risks such as fire, motor, and travel insurance, serving both individuals and businesses (Musiiwa&Dzingai, 2021). The absence of a uniform accounting standard for insurance contracts has resulted in inconsistencies in financial reporting practices among companies, limiting stakeholders' ability to assess and compare their performance. Furthermore, the lack of consistent accounting standards has hindered comparability and transparency in financial reporting.

Across the globe, an exceptional wave of new reporting and regulatory requirements is driving changes that are considerably impacting the way insurance companies administer their business (Nguyen & Molinari, 2013). The International Accounting Standard Board (IASB) introduced IFRS 17 in May 2017, and this standard represents a significant change in the accounting practices for insurance contracts worldwide. IFRS 17 aims to enhance transparency, comparability, and consistency in the financial reporting of insurance companies (IASB, 2017a). Deloitte (2018) asserted that the dynamics of IFRS 17 will not only have implications for financial reporting excellence for insurers but will also have profound operational implications and impacts on all aspects of the industry. According to IASB (2017c), IFRS 17 provides a comprehensive framework for measuring, recognizing, and disclosing insurance contracts. As global financial markets continue to evolve, the adoption of IFRS 17 has become a crucial issue for insurance companies, including those operating in Zimbabwe's short-term insurance sector.

The adoption of IFRS 17 has several implications for short-term insurance companies in Zimbabwe. Firstly, it introduces a more principles-based approach, shifting from the previous rule-based framework (IASB, 2017b). This change requires companies to reassess their financial reporting processes and adapt them to the new standard, promoting greater transparency and comparability. Secondly, IFRS 17 introduces more stringent requirements for the measurement of insurance liabilities, emphasizing the use of updated estimates and reflecting the time value of money (IASB, 2017a). Al-Kubaiji (2018) posits that these changes enhance the accuracy of valuations, improve the reliability of financial statements, and support better decision-making for both internal and external stakeholders. However, the adoption of IFRS 17 also opens up opportunities for improved risk management practices and enhanced investor confidence. The standard promotes greater disclosure and transparency, enabling stakeholders to assess an insurer's financial health and risk profile more accurately (Nguyen & Molinari, 2013). Moreover, the adoption of IFRS 17 aligns Zimbabwe's short-term insurance sector with international best practices, potentially attracting foreign investment and fostering competitiveness in the global insurance market (Armstrong et al., 2010).

The objective of this study is to assess the level of adoption of IFRS 17 by short-term insurance companies in Zimbabwe and explore the challenges and opportunities associated with its implementation. The findings of this study will contribute to the existing literature on the adoption of IFRS 17 in emerging markets. The study will provide insight that will assist policymakers, regulators, and industry practitioners in understanding the challenges and opportunities associated with IFRS 17 implementation. The recommendations from this will provide valuable guidance to insurance companies navigating the transition process, ultimately leading to improved financial reporting practices and enhanced transparency within the sector. The organisation of this study is as follows: the next section will present the methodology that underpinned this study, and the penultimate section of the paper will discuss the findings of the study. The final section of the paper culminates the study by presenting the conclusion of the study with recommendations.

II. Methodology

The study adopted a pragmatic research philosophy, and to achieve the research objectives, a mixed-methods research design was employed. A mixed study design aids in portraying an accurate profile of a phenomenon, person, or situation, and in this study we sought to establish the level of adoption of IFRS 17 by short-term insurance entities in Zimbabwe (Hawal&Alokdeh, 2018). Five-point Likert scale questionnaires and semi-structured interviews were used to collect data. Data was collected from key stakeholders in the short-term insurance sector, including insurance executives, accountants, and regulators. To triangulate the data, financial reports, industry publications, and regulatory documents were analysed to supplement the primary data.

The study only considered all operating short-term insurance companies in Zimbabwe. According to the 2021 second quarter IPEC report (IPEC, 2021), there were twenty-one registered and operational short-term insurance companies in Zimbabwe. In this study, insurance companies that are suspended and those under curatorship or judicial management were excluded since they operate under controlled processes. A random sampling technique was used to select research participants from insurance companies; this was also used by Wadesango et al. (2017) in their study. SPSS version 20.0 was used to analyse quantitative data, and qualitative data was analysed using content analysis.

III. Results

Both qualitative and quantitative data were analysed, and the profiles of the respondents are presented in Table 1.

Table 1: Profile of respondents

	PERCENTAGE (%)
JOB POSITIONS	
Finance Managers	61.11%
Technical Accountants	22.22%
Financial Accountants	16.67%
	100%
YEARS OF EXPERIENCE	
Less than 5 years	22.22%
5 to 10 years	50.00%

More than 10 years	33.33% 100%
HIGHEST EDUCATIONAL LEVEL	
Diploma	0.00%
Undergraduate Degree	22.22%
Masters Degree	66.67%
PhD	11.11% 100%

Source: Own formulation

The demographic information of the participants for the current study was collected in Part A of the research instruments. Data was collected from 21 Short-term insurance companies in Zimbabwe. The respondents had sufficient experience and educational qualifications, as 78% of the participants had more than five years of experience and 77% were Masters and PhD degree holders.

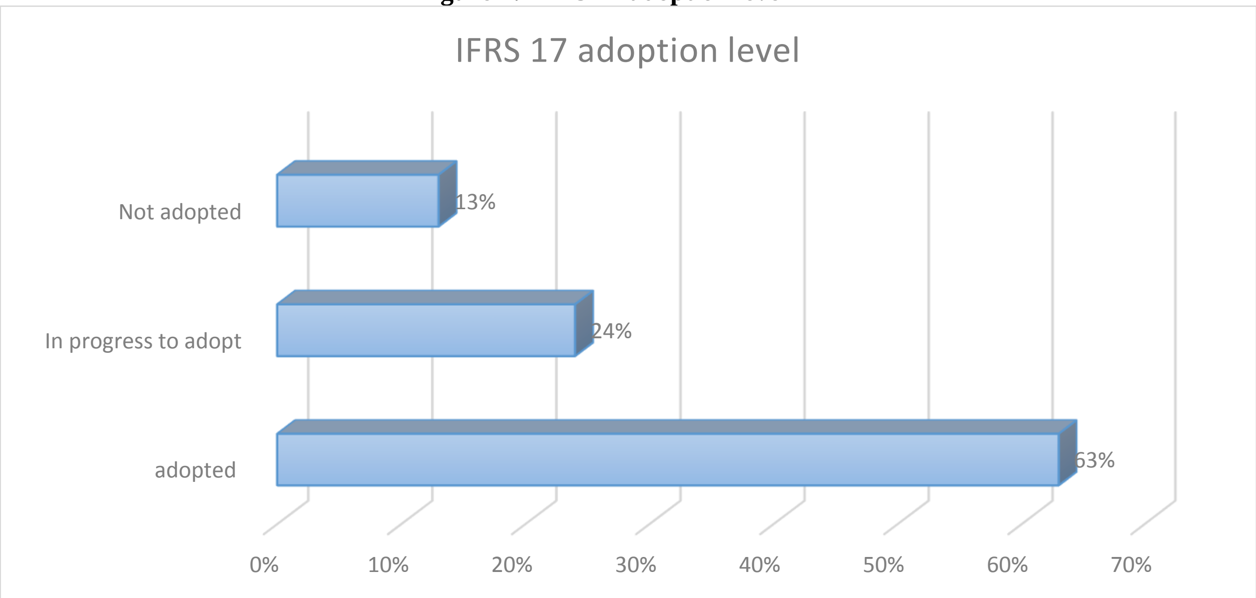
Table 2: Alignment to accounting policies

Alignment to accounting policies	**Percentage**
Level of aggregation	88.7%
Embedded guarantees	7%
Financial guarantees	52%
Transition	67%
Contractual service margin	35%
Risk adjustment	43%
Future cash flows	83%
Discount rates	56%
Premium allocation approach measurement	22%
Deferred acquisition costs	66.67%

Source: Own formulation

The study assessed the level of alignment of the accounting policies with respect to IFRS 17. The results revealed that 88.7% of short-term insurance companies had aligned their accounting policies in respect of level of aggregation, 83% in respect of estimate of future cash flows, 56% in respect of discount rates, 43% in respect of risk adjustment, and 35% in respect of contractual service margin.The findings further revealed that only 7% of short-term insurance companies had completed aligning their accounting policies to IFRS 17 in terms of embedded guarantees and 52% with respect to accounting for financial guarantees. Furthermore, 66.67% of the respondents indicated that they had completed the exercise of aligning the accounting policies to deferred acquisition costs, 22% with respect to premium allocation approach measurement as well as direct participation features, and 67% with respect to transition.

Figure 1: IFRS 17 adoption level



Source: Own formulation

The study found that 63% of short-term insurance companies in Zimbabwe had adopted IFRS 17, 24% had laid down complete project plans for the adoption of the standard, and 13% had not started the adoption process. The study revealed that there is moderate adoption of IFRS 17 among short-term insurance companies in Zimbabwe. The Insurance and Pension Commission (IPEC) indicated that all insurance companies in Zimbabwe should adopt IFRS, and that could be the reason for the good response in respect of accounting policies. The results from the finding are similar to those found by Li (2010) in their study of companies in the European Union, mainly because IFRS that are mandatory are compulsorily adopted. The results were similar to those by Zéghal et al. (2011), who found out that the mandatory adoption of IFRSs by Asian firms was met by the compulsory introduction of project plans. The findings also revealed that all short-term insurance companies had not done an impact analysis of IFRS 9 on IFRS 17 in terms of classification and measurement of financial instruments, which most insurance assets fall under. Research by EY (2018) showed that Australian insurance companies had aligned IFRS 9 to IFRS 17. The difference in the results could have been that most Australian insurance companies had mandatorily adopted IFRS 9 before the introduction of IFRS 17, whereas very few insurance companies were implementing the provisions of IFRS 9. In Zimbabwe, nothing much was done in the implementation of IFRS 9, hence no such analysis. Furthermore, the study also found that the insurance companies in Zimbabwe were financially and technologically incapacitated to effectively implement such a demanding project as IFRS 17. This finding is almost similar to the results obtained by Wadesango et al. (2016), who found that most listed companies in developing countries were struggling to adopt mandatory IFRSs because of the high costs associated with such projects. This is consistent with literature that suggests that technology-intensive projects like those of implementing IFRSs are more challenging to implement in developing countries (Deloitte, 2017). The study also discovered that most short-term insurance companies did not involve relevant stakeholders, who may include policyholders as investors, shareholders, regulators, and external auditors, in the implementation of the standard.

IV. Conclusion

The study assessed the adoption of IFRS 17 by short-term insurance companies in Zimbabwe. The study revealed that there is moderate adoption of IFRS 17 among short-term insurance companies in Zimbabwe. The survey also revealed that the level of alignment of the accounting policies with respect to various elements of IFRS 17 was applied at different levels by short-term insurance companies. IPEC has played a leading role in the adoption of IFRS 17 among short-term insurance companies in Zimbabwe. The study also revealed that short-term insurance companies in Zimbabwe were financially and technologically incapacitated to effectively implement such a demanding project as IFRS 17. The study also recommends that regulators, top management, and external auditors should be key players in the implementation of IFRS 17. The Insurance Institute of Zimbabwe, a block responsible for training and educating the insurance industry, should consider the inclusion of accounting and information technology in their curriculum. This may help in coming up with an inclusive and integrated accounting solution to IFRS.

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