The Impact of Implementing the International Financial Reporting Standard for Insurance Contracts (IFRS 17) On the Financial Performance of Insurance Companies Listed on the Amman Stock Exchange (Jordan)

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Abstract:

This study aimed to identify the impact of implementing the International Financial Reporting Standard for Insurance Contracts (IFRS 17) on the financial performance of insurance companies listed on the Amman Stock Exchange (Jordan).**

To achieve this objective, the study adopted a descriptive-analytical approach, which aligned with the nature of the research. Financial statement data from insurance companies was analyzed both before and after the implementation of IFRS 17, with a comparative analysis conducted between the two periods.

The researchers utilized appropriate statistical methods through STATA software. The results demonstrated that the independent variable—the implementation of IFRS 17—had a positive impact on the financial performance of insurance companies listed on the Amman Stock Exchange.

The study concluded that IFRS 17 represents one of the most significant developments in Jordan's insurance sector. To ensure its continued successful implementation, greater preparation, planning, and execution of the standard are required. Jordanian insurance companies must monitor the effects of this new standard on their financial data, related systems, controls, processes, and outputs. Necessary improvements should be made to enhance the quality of these companies' financial performance and the reliability of their financial reports and statements. This, in turn, will positively impact users of financial statements in particular and investment activities in general.

Keywords: IFRS 17, The Financial Performance, Insurance Companies Listed on The Amman Stock Exchange, Return on Assets, Return on, Profitability

International Financial Reporting Standard for Insurance Contracts (IFRS 17), Financial Performance, Insurance Companies

1. Introduction

With the development witnessed in the insurance sector at the international level, which has reflected on the accounting aspects of insurance companies in terms of recognition, measurement and disclosure principles, as well as the difference in accounting procedures for insurance contracts compared to other sectors, the International Accounting Standards Board (IASB) issued the Insurance Contracts Standard (IFRS 4). The purpose of its issuance was to find appropriate accounting methods for dealing with insurance contracts for insurance companies. However, it created problems related to the comparability of accounting information concerning insurance contracts, as there are differences between countries and companies within the same country in accounting treatments. This prompted the International Accounting Standards Board to issue a new standard (Insurance Contracts - IFRS 17) specifically for insurance contracts, which was supposed to be implemented starting from 1/1/2021.

However, the effective date was postponed for two years, and it will come into effect as of 1/1/2023. The purpose of this postponement was to allow time for the amended International Financial Reporting Standard (IFRS 17) to be systematically prepared in various jurisdictions around the world, which would enable more insurance companies to implement the new standard simultaneously (IASCA, 2020).

The application of the new Financial Reporting Standard (IFRS 17) for insurance contracts came to address the weaknesses of insurance companies in addition to unifying accounting procedures for insurance contracts.

1.1 Study Problem and Research Question**

The insurance sector in Jordan faces numerous challenges related to financial performance and consecutive losses due to discrepancies between the value of claim payouts for certain insurance contracts and the premiums collected from these contracts. This situation has placed ten insurance companies in critical financial distress, putting them at risk of bankruptcy. The potential exit of such a significant number of companies—from a market consisting of only 20 insurers listed on the Amman Stock Exchange—could severely disrupt Jordan's economy (*Jordan Insurance Federation*).

Insurance companies are among the key pillars of Jordan’s economy. The implementation of the new **International Financial Reporting Standard for Insurance Contracts (IFRS 17)** is expected to increase pressure on management and intensify competitive dynamics. To adapt, companies must enhance their capabilities in **pricing, distribution, and promotion** of services, aiming to reduce costs, allocate liabilities more efficiently, attract new customers, and boost sales and profitability. Proper application of IFRS 17 may mitigate these financial instabilities and support the sector’s recovery.

Core Research Question:

*What is the impact of implementing IFRS 17 on the financial performance of insurance companies listed on the Amman Stock Exchange?

2.1 Importance of the Study

The significance of this study stems from the fundamental differences between the two insurance contract standards (IFRS 4) and (IFRS 17). The primary objective of developing the new standard is to address the gaps and shortcomings present in IFRS 4, while providing unified accounting foundations for insurance companies to recognize their profits and the obligations resulting from implementing the new standard. This enhances the accuracy, reliability, and relevance of the accounting information disclosed in insurance companies' reports for stakeholders.

1.2.1 Academic Significance

There is growing interest in improving the profitability levels of insurance companies, which would contribute to maintaining the stability of the insurance sector. Consequently, this enables insurance companies to meet their financial and non-financial obligations, such as claims and other liabilities.

2.2.1 Practical Significance

- The implementation of **Insurance Contracts Standard (IFRS 17)** enhances the **transparency, objectivity, comparability, and understandability** of accounting information for Jordanian insurance companies. This improves the quality of their financial reporting and better meets the needs of **current/potential investors** and all **financial statement users**.

- **IFRS 17** allows the use of **fair value accounting** (instead of historical cost) when recognizing **expected claim liabilities** and **insurance contract obligations**, leading to more accurate financial representation.

- Improved **timeliness and transparency** of insurance contract data helps mitigate **risks associated with insurance policies**—a critical need for both **local and international insurers**.

- The standard strengthens **investors' understanding** of insurers' **future profitability, risks, and changes in liabilities**, supporting more informed decision-making.

3.1 Study Objective

The primary objective of this study is to examine the **impact of implementing IFRS 17** on the **financial performance** of insurance companies listed on the **Amman Stock Exchange.

4.1 Hypothesis

Main Hypothesis (H_{01}):

There is no statistically significant effect at the 5% significance level of implementing the International Financial Reporting Standard for Insurance Contracts (IFRS 17) on the financial performance of insurance companies listed on the Amman Stock Exchange.

2. Literature Review

1. **Sayd & Zayriq (2022)**

"Insurance Contracts Accounting Between IFRS 17 and Solvency: A Comparative Study."

2. **Al-Araibi et al. (2021)**

"The Impact of Financial Solvency Indicators on Financial Performance: An Empirical Study on Libyan Insurance Companies."

3. **Al-Masri, Sameh (2021)**

"An Analytical Study on the Impact of Implementing IFRS 17 on Developing Accounting Measurement, Disclosure, and Improving Financial Reporting Quality in Egyptian Insurance Companies."

4. **Al-Mashhadani & Al-Zubaidi (2020)**

"The Effect of Measuring Insurance Contracts Under IFRS 17 on the Financial Solvency of Iraqi Insurance Companies."

5. **Abbas (2020)**

"The Role of IFRS 17 in Accounting for Insurance Companies: An Applied Study in National Insurance Company."

6. **Shahada (2019)**

"The Role of Implementing IFRS 17 in Activating Financial Solvency and Investment Profitability of Egyptian Insurance Companies."

7. **Mathias, Lina, et al. (2020)**

"Financial Position and Performance Under IFRS 17."

8. **Bosnia (2020)**

"The Effect of Audit Committee Characteristics on Financial Reporting Quality: Additional Evidence."

9. **Longonia, Philip (2019)**

"IFRS 17 Insurance Contracts and Firm Value."

3. Literature and Theoretical Framework

1.3 International Financial Reporting Standard for Insurance Contracts IFRS 17

The International Accounting Standards Board (IASB) issued the new International Financial Reporting Standard No. 17 "Insurance Contracts" on 18/5/2017 to replace International Financial Reporting Standard No. 4 "Insurance Contracts". The implementation deadline was set for 1/1/2021, then postponed to the beginning of 2023. The standard may be applied earlier if the company also applies International Financial Reporting Standard 9 "Financial Instruments" and International Financial Reporting Standard 15 "Revenue from Contracts with Customers" simultaneously (IFRS Foundation, 2020).

1.1.3 Objective of the Standard:

The standard aims to establish recognition, measurement, presentation and disclosure principles for insurance contracts that will provide relevant and faithfully representative information about insurance contracts. This information helps provide a basis for financial statement users to assess the impact of insurance contracts on the financial position, financial performance and cash flows of insurance companies (Abu Nasar and Himayat, 2023).

2.1.3 Scope of the Standard:

International Financial Reporting Standard No. 17 applies to the following (Abu Nasar and Himayat, 2023):

1. Insurance contracts including reinsurance contracts issued by the company.

2. Reinsurance contracts concluded with other companies.

3. Investment contracts with discretionary participation features issued by insurance companies, which also include issuing insurance contracts.

3.3 The Concept of Financial Performance**

The concept of financial performance has been addressed in numerous research studies and books, with varying perspectives on its definition. **Areeda (2017)** defined it as *"achieving gains from investments, increasing revenues, and reducing costs to fulfill obligations and attain desired objectives through the entity's ability to utilize available resources."*

Similarly, **Gibson (2016)** described it as *"achieving the entity's future economic objectives within a specified period by effectively utilizing assets and other resources."*

Al-Tayyeb & Boujemaa (2016) defined financial performance as *"a description of the company's current position and an identification of the trends that led to it by examining revenues, assets, liabilities, and net worth."*

Al-Nahal (2016) viewed it as *"a process to assess the entity's ability to optimally utilize its available assets and resources to achieve satisfactory outcomes, as well as a monitoring process aimed at evaluating the company's economic capability and sustainability."*

This aligns with **Albasheer & Shtanawi (2015)**, who defined it as *"the ability to effectively use assets and other resources to achieve future objectives within a specified timeframe."*

Additionally, **Al-Tarawneh (2015)** clarified that financial performance *"reflects the appropriateness of selected goals and the success in achieving them by measuring, directing, and controlling risks, while maintaining reasonable liquidity to meet short-term obligations and operational requirements of fixed assets."*

Conclusion from Definitions

Based on these definitions, the researcher observes that most interpretations of financial performance emphasize:

- **Optimal asset utilization** to efficiently achieve planned corporate objectives.

- **Continuous guidance and monitoring** to mitigate risks.

- **Balancing profitability, liquidity, and risk management** to ensure sustainability.

2.2.4 Financial Performance Ratios**

Financial ratios summarize quantitative financial data of enterprises and help establish relationships between one or more elements of financial statements. These relationships may exist within the balance sheet, income statement, or both. Ratios are classified into five categories: **liquidity ratios, activity ratios, profitability ratios, solvency ratios, and market ratios** (Aqel, 2014). For the purposes of this study, the focus will be on the most critical financial ratios used in prior research to measure the financial performance of the insurance sector.

Given the scope of this study, the analysis will be limited to the ratios predefined in the study's framework and explicitly observed in the dependent variable of the study model. The researcher deems these ratios most appropriate for assessing financial performance in this specific context, namely:

- **Return on Assets (ROA)**

- **Return on Investment (ROI)**

- **Return on Equity (ROE)**

- **Return on Gross Premiums**

- **Return on Technical Reserves**

- **Solvency Margin**

- **Profitability Ratio**

4. Methodology and Procedures**

4.1 Research Method**

The study adopted a **descriptive-analytical approach**, as it aligns with the research objectives. Data collection relied on two primary sources:

1. **Primary Sources:**

   - Financial statements published by the **Amman Stock Exchange (2022)**.

   - Data analysis was conducted using the statistical software **STATA (Statistical Software for Data Science)**.

2. **Secondary Sources:**

   - Academic books, prior studies, peer-reviewed journal articles, published statistics, and reputable online sources.

2.4 Sample and Data Collection**

The study population consists of **20 Jordanian insurance companies** listed on the Amman Stock Exchange (ASE). The analysis relies on **published financial statements** from the ASE.

3.4 Study Tool

To achieve the study's objectives, the research utilizes **2022 financial data** published by the ASE to examine the impact of implementing **IFRS 17** on the financial performance of listed insurance companies. The analysis compares:

- **Pre-IFRS 17 financial statements** (before implementation)

- **Post-IFRS 17 financial statements** (after implementation)

This approach ensures **speed, effectiveness, accuracy, and realism** in assessing actual financial outcomes of the standard's application.

4.4 Research Model

The study model was designed based on:

1. **Literature review** of the subject

2. **Problem statement and hypothesis**

3. **Variables from previous studies**

The model includes:

1. **Independent Variable:** Implementation of IFRS 17 (Insurance Contracts)

2. **Dependent Variable:** Financial Performance

Dependent Variable**

Financial Performance

- Return on Assets (ROA)

- Implementation of IFRS 17 (Insurance Contracts)

- Return on Equity (ROE)

- Profitability

Figure (1) - *Source: Prepared by the researcher based on previous studies*

Independent Variable (Impact of Implementing IFRS 17 - Insurance Contracts)

The independent variable is represented by IFRS 17 (Insurance Contracts), a new accounting standard issued by the International Accounting Standards Board (IASB) in 2017. This insurance-specific accounting standard was developed to introduce improvements that enhance financial reporting transparency, increase relevance, and improve accounting information quality to meet financial statement users' requirements.

This variable was measured using a dummy variable:

- Assigned value (1) for fiscal years during IFRS 17 implementation period

- Assigned value (0) otherwise

Symbol: IFRS17

Dependent Variable (Financial Performance)

The study's dependent variable is financial performance, measured through:

1. **Return on Assets (ROA)**

   Calculation: Net Profit After Tax / Total Assets

2. **Return on Equity (ROE)**

   Calculation: Net Profit After Tax / Total Equity

3. **Profitability (IN)**

   Calculation: Net Profit After Tax / Total Common Shares Outstanding

. Study Hypothesis Testing**

Hypothesis (H_{01}): There is no statistically significant effect at the 5% significance level of implementing IFRS 17 (Insurance Contracts) on the financial performance of insurance companies listed on the Amman Stock Exchange (Jordan).

This section examines the effect of the independent variable (implementation of IFRS 17) on the dependent variable (financial performance) through the following simple linear regression models:

Model 1: Effect of IFRS 17 implementation on Return on Assets

$ROA = \beta_0 + \beta_1 IFRS17 + \beta_2 APP + \varepsilon$ ... (1)

Model 2: Effect of IFRS 17 implementation on Return on Equity

$ROE = \beta_0 + \beta_1 IFRS17 + \beta_2 APP + \varepsilon$ ... (2)

Model 3: Effect of IFRS 17 implementation on Profitability

$IN = \beta_0 + \beta_1 IFRS17 + \beta_2 APP + \varepsilon$ ... (3)

Where:

ROA = Return on Assets

ROE = Return on Equity

IN = Profitability

IFRS17 = IFRS 17 (Insurance Contracts) standard

APP = Implementation of IFRS 17

β_0 = Constant term

β_1-β_4 = Regression coefficients

ε = Random error term

Descriptive Statistics of the Dependent Variable (Financial Performance)**

Variable	Measure	Pre-Implementation	Post-Implementation	Total
Return on Assets (ROA)	Mean	0.0079	0.0144	0.0112
	Std. Deviation	0.0370	0.0440	0.0402
	Minimum	-0.0761	-0.0926	-0.0926
	Maximum	0.0530	0.0680	0.0680
Return on Equity (ROE)	Mean	0.0212	0.0294	0.0253
	Std. Deviation	0.1112	0.1550	0.1329
	Minimum	-0.2865	-0.4475	-0.4475
	Maximum	0.1508	0.1896	0.1896
Profitability (IN)	Mean	0.0827	0.0964	0.0896
	Std. Deviation	0.1598	0.1977	0.1772
	Minimum	-0.1882	-0.1943	-0.1943
	Maximum	0.4150	0.6688	0.6688

Results from Table (1) indicate the following:**

I. Pre-Implementation of IFRS 17 (Insurance Contracts):

- **ROA (Return on Assets):**

  The mean financial performance was **0.79%** (SD = 3.7%), with a maximum value of **5.3%** and a minimum of **-7.6%**.

- **ROE (Return on Equity):**

  The mean was **2.1%** (SD = 11%), peaking at **15.1%** and dipping to **-28.7%**.

- **Profitability (IN):**

  The average stood at **8.3%** (SD = 16%), with extremes of **41%** (max) and **-19%** (min).

II. Post-Implementation of IFRS 17 (Insurance Contracts):

- **ROA:**

  The mean rose to **1.4%** (SD = 4.3%), with values ranging from **-9.2%** to **6.8%**.

- **ROE:**

  The average increased to **2.9%** (SD = 15.5%), spanning **-45%** (min) to **19%** (max).

- **Profitability:**

  The mean reached **9.6%** (SD = 20%), with a record high of **67%** and a low of **-19.4%**.

Key Observations:

1. **Performance Improvement:**

- All metrics (ROA, ROE, Profitability) showed **higher means post-IFRS 17**, suggesting enhanced financial outcomes.

- **Profitability** saw the most dramatic rise (8.3% → 9.6%), with a notable **67% peak**.

2. **Volatility:**

- **Increased standard deviations** post-implementation (e.g., ROE’s SD rose from 11% to 15.5%) indicate greater variability in results.

3. **Risk Exposure:**

- Wider ranges (e.g., ROE’s **-45% to 19%**) highlight both **potential gains and risks** under IFRS 17.

4. **Consistency:**

- Negative minima persisted across periods, underscoring **sector-specific challenges** despite the new standard.

Key Findings from the Results:**

1. **Improvement in Financial Performance Averages:**

- The mean values of financial performance **increased post-IFRS 17 implementation**:

  - **ROA**: 0.79% → **1.4%**

  - **ROE**: 2.1% → **2.9%**

  - **Profitability (IN)**: 8.3% → **9.6%**

2. **Higher Volatility in Results:**

- Standard deviations rose across all metrics, indicating **greater variability**:

  - **ROA**: 3.7% → **4.4%**

  - **ROE**: 11% → **15.5%**

  - **Profitability**: 16% → **20%**

**5. Conclusions and Recommendations**

**5.1 Key Findings**

Based on statistical analysis and hypothesis testing, the study concludes:

1. **IFRS 17 Implementation in Jordanian Insurance Companies:**

- Listed insurers on the Amman Stock Exchange **complied with IFRS 17** as mandated by local regulations starting in **2023**.

2. **Statistically Significant Impact on Financial Performance:**

- IFRS 17 adoption **positively influenced** financial performance, aligning with **Shahada (2019)** on improved solvency and profitability.

3. **Increased Asset/Liability Values in Financial Position:**

- The standard **raised reported assets and liabilities** in balance sheets, affecting financial outcomes—consistent with **Sameh (2021)**.

4. **Reduction in Reported Profits:**

- IFRS 17 led to **lower profit figures** in income statements, impacting overall performance (supported by **Sameh, 2021**).

5. **Material Impact on Financial Statement Elements:**

- The standard **fundamentally altered** key financial metrics for insurers.

5.2. Recommendations**

Based on the study's theoretical framework and statistical analysis, the following recommendations are proposed:

1. **Training for Insurance Professionals:**

Employees and those responsible for implementing **IFRS 17** still require **intensive training programs** to enhance their understanding of the standard. Such training would be most beneficial if conducted alongside **real-time application**.

2. **Further Research on IFRS 17's Impact:**

More **empirical studies** are needed to assess the **actual** (not just projected) effects of IFRS 17, given its recent implementation.

3. **Investor & Management Awareness:**

Stakeholders should be educated that the **decline in reported profitability** due to IFRS 17 does **not** indicate poor financial performance. Instead, it reflects improved financial resilience, enabling insurers to better meet their obligations.

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