Journal of Management and Corporate Governance *Volume 8, Number 2, 2016*
www.cenresinpub.org
ISSN: 2277-0089
© 2016 Cenresin Publications

The Comparability of Pre and Post Adoption IFRS in Nigeria Insurance Companies

SOYE, YINKA AUGUSTINE & RAJI, OLADEINDE AKEEM
Department of Insurance, The Federal Polytechnics Ilaro, Ogun State, Nigeria
Department of Insurance, The Federal Polytechnics Ilaro, Ogun State, Nigeria
E-mail: yinkaaugustine@yahoo.com

ABSTRACT
The study is carried out to measure the comparability of pre and post adoption IFRS in Nigeria insurance companies. ROA, ROE, DEBTRATIO, SIZE of company, GROWTH and ESP were selected as performance criterion for ten insurance companies in Nigeria. Data were collected (2007-2014) and divided into pre (2007-2010) and post (2011 2014) IFRS- Paired-Samples T-tests and f-test at 5% significance level was done to ascertain influence of pre and post IFRS adoption into insurance companies. Findings show that differences on the performance of the selected companies between Pre and Post IFRS periods are significant. The study affirmed a strong correlation between adoption of IFRS and performance of insurance companies in Nigeria.

Keywords*:* IFRS, Insurance Companies, Performance, Comparability

INTRODUCTION
In this modern time, as the world shifted to global village, and most of the countries in the world facing economics crisis, and this reflected in their financial sectors, so, it is imperative to call for uniformity in accounting standard. As a result of increasing globalization and therefore competition, it becomes imperative that countries and companies alike address issues that will make them become more attractive of investors capital which is like the proverbial beautiful bride (Essien-Akpan, 2011). This caused the necessity for the development of standardization in corporate financial statement preparation in order to enhance transparency in every corporate organization, and majorly to curb fraud and reduce forgery in the financial sector.

The adoption of IFRS as issued by the International Accounting Standards Board (IASB) is expected to result in the application of a common set of financial reporting standards within and between countries in Europe and many other countries that require or permit application of IFRS (Odia & Ogiedu, 2013). Although, firstly in 1973 the International Accounting

Standards Committee (IASC) was established and, subsequent to April 2001, IFRS issued by the IASC's successor, the International Accounting Standards Board ("IASB"), as well as interpretations of those standards. The IASB's mission includes the development of "a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in financial statements and other financial reporting…." The IASB seeks to "bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions (Deloitte, 2014).

In Nigeria setting, the Nigerian Accounting Standards Board (NASB) legally responsible for the Statement of Accounting Standards (SASs), but Nigeria adoption of IFRS was launched in September, 2010 by the Honourable Minister, Federal Ministry of Commerce and Industry – Senator Jubriel Martins-Kuye (OFR) (Madawaki, 2012). Following this announcement, in-order to enable NASB to perform its responsibilities conforms with the new international financial reporting standard, the board converted to Financial Reporting Council (FRC). Akpan-Essien (2011) affirmed that the adoption of the IFRS will ensure transparency, accountability and integrity in financial reporting necessary for addressing the crisis in the financial sector in Nigeria which was responsible for the Nigeria loss of the Foreign Direct Investment (FDI) in the oil and gas sector to countries such as Ghana that have begun oil production in commercial quantity and who are perceived to have better financial reporting standards in place.

Insurance companies are peculiar in the accounting reflection of the activities undertaken, because of the complexity in their operations. The reflections in their accounting based on supporting documents and financial statements. So, specific to these categories of corporate entities are subject to legislative changes frequently. Therefore, the transition to new standard accounting rules under IFRS will automatically necessitates changes in the financial culture of the insurance companies, and of course present to them some opportunities and difficulties. Insurers embarking on the IFRS journey will have their hands full understanding the new policies and keeping pace with changes required throughout the organization, including in accounting and financial reporting, finance/treasury, investment management, risk and controls, performance and decisions, actuarial and claims management, and tax, among others (Delloite, 2008).

However, In Nigeria five years after the introduction of the International Financial Reporting Standards (IFRS) in the industry, there are indications that many of the quoted insurance companies are yet to overcome difficulties posed by the new international accounting format as fewer companies have been able to conform. According to a release from the National Insurance Commission (NAICOM), for instance, out of 58 insurance companies operating in the country, only 16 insurance companies have got approval for the 2015 accounts before the 30th deadline (Guardian, 2016). This study stands to measure the comparability of pre and post adoption IFRS in Nigeria insurance companies. Hence, the specific objectives of the study are: to determine significant difference between the pre and post adoption of IFRS performance in Nigerian insurance companies; to determine how IFRS adoption has affected the performance of insurance companies in Nigeria.

NIGERIA AND ADOPTION OF IFRS

Globally acceptance of IFRS as an international standard for financial statement preparation for quoted companies has brought challenges to the companies; especially insurance companies, because of their individualization of statement of account, more cost and more professionals will be required since IFRS represent a new method of preparing financial report, the need to create special accounting scheme for their insurance contracts that enable them to understand their risks better in order to manage their business effectively. Nigeria Accounting Standard Board (NASB) was established as a private sector initiative in 1982. The Board was developed from the then Association of Accountants of Nigeria, which was formed way back 1960 (Kantudu, 2005).

The Nigeria Senate in the year 2011 passed the Financial Reporting Council of Nigeria Bill, which repealed the Nigerian Accounting Standards Board Act and replaced it with a new set of rules which include, the establishment of the Financial Reporting Council (FRC) as the federal agency charged with the responsibility to develop and publish Accounting and Financial Reporting Standards to be observed in the preparation of financial statements in Nigeria and for related matters (Obazee, 2011).

Ideally, the IFRS philosophy is to cover the issues in principle, rather than using a prescriptive approach. It then stipulates that companies explain their financial statements with extensive use of notes attached to the financial accounts. By way of example, companies are required to disclose the key assumptions used in valuing policyholder liabilities (Oliver, 2009).

CHALLENGES OF IFRS ADOPTION AND IMPLEMENTATION IN NIGERIA

Bohušová & Blašková (2011) asserted that, IFRS implementation for SMEs could be more challenging especially in taxation and capital maintenance rules. It is believed that IFRS is suitable for medium and large scale businesses and or companies with subsidiaries in different countries or seeking international finance. Rong - Ruey Duh (2006) as cited in Odia & Ogiedu, (2013) expressed the implementation challenges include: timely interpretation of standards, continuous amendment to IFRS, accounting knowledge and expertise possessed by financial statement users, preparers, auditors and regulators, and managerial incentive. The implication of the schedule of adoption of the IFRS in Nigeria is the harmonization of the disparity of the existing Nigeria's standards with that of IFRSs together with the necessity to develop new skills. A transition programme from Nigeria Accounting Standards to IFRSs will be required. Systems and controls are to be designed to ensure consistency in the application of standards (Demak, 2013).

IFRS AND INSURANCE INDUSTRY

In order to harmonize accounting across the world, and thereby promote comparability of financial results, international accounting standards ("IFRS") have been developed over the past decade (Oliver, 2009). Insurance contracts are treated separately under IFRS 4, IFRS 15 and IFRS 9.

IFRS 4 AND INSURANCE OPERATIONS

IFRS 4 is regarded as an interim standard, as the International Accounting Standards Board has requested further public input, and expects to put in place a revised standard in 2010 (Oliver, 2009). Insurance contracts are treated separately under IFRS 4 Insurance Contracts, which lays the groundwork with the considerable task of defining an insurance contract and aspires to record both insurance contract assets and liabilities at their current exit value (CEV) (Delloite, 2008). Insurance contract is defined by IFRS as an arrangement where one party (the insurer) accepts risk by agreeing with another party (the policyholder) to compensate the policyholder or designated beneficiary if a specified uncertain future event (the insured event) adversely affects the policy holder .The specific standard pertaining to insurance is "IFRS 4 Insurance Contracts." The standard was developed in 2001, and applied from 2006 (Oliver, 2009). IFRS 4 provides information that distinguishing insurance risk from every other financial risk. Within the context IFRS 4's definition the policy holder must be exposed to the insured risk, but not speculating, and the insured

risk specified in the contract must relate directly to that exposure, and not simply be correlated with it. IFRS 4 Insurance Contracts has two phases that explain the definition of insurance contract, and the future standard of insurance contracts.

PHASE I OF IFRS 4

Phase I of IFRS 4 Insurance Contracts establishes a specific definition of insurance and reinsurance contracts introduces several changes to the accounting for insurance contracts and requires increased disclosure related to future cash flows and risk exposures (Delloite, 2008). IFRS 4 applies to all insurance contracts which carry insurance risk. The standard does not apply to other assets and liabilities, such as financial assets and financial liabilities (Oliver, 2009). Phase I of the insurance project requires increased quantitative and qualitative disclosure related to risk exposure. For example, it requires increased disclosure related to the explanation of reported amounts, including information on accounting policies, significant assumptions and material changes to insurance liabilities, reinsurance assets, and deferred acquisition costs (DAC) (Fitch, 2004).

Among the key accounting changes introduced in Phase I are the requirement for insurers to account for embedded derivatives (e.g., guarantees, such as return of premium, offered as part of a life insurance product) and record them at “fair value,” as well as the elimination of equalization and catastrophe reserves utilized in some countries (Delloite, 2008). Phase I of IFRS 4 Insurance Contracts also, “will require the disclosure of risk management policies and terms and conditions that have a material impact on the amount, timing and uncertainty of the insurers’ cash flows.” (Fitch, 2004).

PHASE II OF IFRS 4

Phase II of IFRS 4 Insurance Contract is designed to bring greater comparability to what is at present a diverse patchwork of national approaches to liability measurement (Dewald, 2015). IFRS 4 (Phase II) fundamentally rearranges international accounting of insurance contracts. It presents the insurance industry with numerous challenges in terms of accounting specifications and enhanced process, data and IT requirements (Zeb Control, 2016). Deloitte asserts, as cited in Borneo Post, (2016), IFRS 4 Phase II transforms how insurers account for income and liabilities from insurance contracts they sell, it creates a new financial language with which to inform investors about the performance of this complex global industry. A major prerequisite for the successful implementation of IFRS 4 (Phase II)

is a deep insurance-specific understanding of the measurement methods, the related data requirements and on top of that a clear view on the underlying processes and data flows within a company which must be organized (Zeb Control, 2016).

The Phase II of IFRS 4 deals with the future standard of insurance contracts, and it includes specific requirements for determining non-insurance components and which accounting standard to follow (IFRS 4 Phase II or IFRS 15) (EY, 2015).With the introduction of IFRS 4 (Phase II), cash flow projections and present value calculations will become the measure of all things also in accounting. This means, the adoption of IFRS 4 Phase II will take place in parallel with several national reforms of insurance risk-based capital regulations that are anticipated to be based on broadly the same principles offering strategic synergy benefits in terms of financial and solvency reporting (Borneo, 2016).

IFRS 15 AND INSURANCE OPERATIONS

IFRS 15 allows a series of distinct goods or services that is transferred consecutively to be treated as a single performance obligation if the distinct goods or services are substantially the same and would be recognized over time using the same measure of progress. Certain services provided by insurance related TPAs (e.g., claims processing, contract administration services) under a contract are substantially the same and occur continuously over the contract period. These types of services will generally represent a single performance obligation comprising a number of discrete service periods (e.g., months, quarters, years) (EY, 2015). Under IFRS 15 the new revenue standard is effective for annual periods beginning on or after 1 January 2017, early application is permitted (KPMG, 2014).

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services (Pannell Kerr Forster International, 2015). IFRS 15 is based on a core principle that requires an entity to recognize revenue in a manner that depicts the transfer of goods and services to customers at an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services (Certified Practicing Accountant, 2011).

IFRS 15 applies to all contracts with customers, except for those that are within the scope of other IFRSs. Examples of contracts that are outside the

scope of IFRS 15 include, but are not limited to, leases (IAS 17 leases), insurance contracts (IFRS 4 Insurance Contract) and financial instruments (IFRS 9 Financial instruments or, for entities that have not yet adopted IFRS 9, IAS 39 Financial Instruments: Recognition and Measurement) (Delloite, 2015). The objective of IFRS 15 is to establish the principles that an entity should apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer (Certified Practicing Accountant, 2011).

IFRS 9 and Insurance Operations

IFRS 9 introduces significant improvements in accounting for financial instruments that the IASB believes should be implemented on a timely basis. These improvements are particularly important for entities that issue insurance contracts, because they hold significant investments in financial instruments (BDO International, 2015).

IFRS 9 requires an entity to separate some embedded derivatives from their host contract, measure them at fair value and include changes in their fair value in profit or loss. IFRS 9 applies to derivatives embedded in an insurance contract unless the embedded derivative is itself an insurance contract (IFRS foundation, 2014).

The improvements introduced by IFRS 9 include: the new, more forward looking expected credit loss impairment requirements and related disclosures requirements, which will better portray the credit quality of financial assets and provide better information about credit risk and how that risk is managed; classification and measurement requirements that will better portray how entities manage their financial assets; and an improved hedge accounting model and associated disclosures about risk management (BDO International, 2015).

IFRS foundation (2014) affirm that, as an exception to the requirements in IFRS 9, an insurer need not separate, and measure at fair value, a policyholder's option to surrender an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate), even if the exercise price differs from the carrying amount of the host insurance liability. The foundation proceed further that however, the requirements in IFRS 9 do apply to a put option or cash surrender option embedded in an insurance contract if the surrender value varies in response to the change

in a financial variable (such as an equity or commodity price or index), or a non-financial variable that is not specific to a party to the contract.

METHODOLOGY

The study is carried out to investigate the comparability of pre and post adoption IFRS in Nigeria insurance companies. Secondary data were collected through the financial statement of the ten (10) quoted insurance companies randomly selected out of the fifty-eight (58) quoted insurance companies registered with the Nigeria stock exchange. This study employed financial ratio analysis, and compared the mean and variances of the financial figures and ratios using Paired-Samples T-tests and f-test at 5% significance level. The target population for this study is the entire quoted insurance companies in Nigeria.

PAIRED-SAMPLES T-TESTS

This study measured the comparability of pre and post adoption IFRS in Nigeria insurance companies. The use of Paired-samples *t*-test is in line with the work of Nengzih (2015). Paired-samples *t*-test is a statistical tool used to compare two related means to determine the significant one. It tests the null hypothesis that the difference between two related means is significantly different from 0.

Table 1: Showing the Analysis for Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	PRE & POST	6	.993	.000

Under table 1, the correlation between the PRE & POST adoption of IFRS in the Nigeria insurance companies shows that $r=0.993$ with the p-value (0.000) less than 0.05. this indicates that the performance correlation between before and after the adoption of IFRS in the Nigeria insurance companies is very strong because of the fact that R-value is very close to 1at the significant level of 95% confidence, $p<0.05$.

Table 2: Showing the Analysis for Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	PRE	3.3954	6	4.86713	1.98700
	POST	3.7085	6	4.77789	1.95057

Table 2 shows the performance rate of insurance companies in Nigeria as measured to compare before and after the adoption of IFRS into their operations, the mean (SD) for PRE test is 3.3954 (4.86713) and for the POST 3.7085 (4.77789). From the mean for both the PRE and POST it shows that the performance of the insurance companies in Nigeria after the adoption of IFRS, (POST) is more significant than before the adoption of IFRS (PRE).

Table 3: Showing the Analysis for Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 PRE – POST	-.31314	.58961	.24071	-.93190	.30562	-1.301	5	.250

Table 3 presents the results of the t test analysis regarding the PRE and POST adoption of IFRS performance rate of insurance companies in Nigeria which could aid the evaluation of the implementation of IFRS in the industry. The t test result shows that the difference was statistically significant, t (5) = 1.301, p < 0.05.

DECISION RULE

The criteria used under Paired Sample T-test to accept or reject H1 is if *t-calculated <t-tabulated*, then H1 will be accepted, but if *t- calculated >t-tabulated* then H1 is rejected and H0 is accepted which means there is significant influence with the International Financial Reporting Standards (IFRS) for the Nigeria insurance companies.

Under table 3 *t- calculated* = -1.301 as against *t-tabulated* =2.015, at 0.05 level of significant, the degree of freedom= n-1 i.e 6-1=5.

Since decision rule posits that significant relationship exist between two variables when t- *calculated is lesser than t-tabulated*. Given T-calculated of -1.301 as against T-tabulated of 2.015, it is clearly shows that there is significant improvement in the Nigeria insurance companies after the adoption of IFRS.

DISCUSSION OF FINDING

The study was carried out to measure the comparability of pre and post adoption IFRS in Nigeria insurance companies. The findings of the study indicate that adoption of IFRS into insurance companies' business in Nigeria affected the financial statement of the industry positively, also, the adoption has significant impact on the performance of the industry positively as these revealed from Paired Sample T-test analysis.

CONCLUSION

The emergence of International Financial Reporting Standards (IFRS) in the Nigeria insurance industry has not only affected their financial report statement preparation, but also gives chances for efficient performance and transparency in the industry. The study has primarily established empirical indication that really the adoption of ICT in the Nigerian insurance industry is influential, going by the result of the study's analysis. The study measure the comparability of pre and post adoption IFRS in Nigeria insurance companies. The study affirmed that POST adoption of IFRS into insurance companies in Nigeria really has more significant than the PRE adoption. Also, it shows that the adoption of IFRS into insurance industry affected the performance of the industry positively.

RECOMMENDATIONS

Based on the findings and conclusion the following are recommended:
The study recommends that all insurance companies in Nigeria should embrace IFRS in their businesses to enhance more transparency in their financial report preparation. There is also a need for insurance companies to train their staff more on the method to adopt when using IFRS to prepare financial statement.

REFERENCES

Bohušová, H. & Blašková, V. (2011). In What Ways are Countries Which Have Already Adopted IFRS for SMEs Different. *ActaUniversitatisAgriculturae Et SilviculturaeMendelianaeBrunensis, 4 (2), 37-41.*

BDO International Accounting and Standards Board (2015) the International Accounting and Standards Board (IASB) Published Exposure Draft 2015/11 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (the ED): *International Financial Reporting Bulleting 2015/17. Sourced from* www.bdointernational.com

Delloite (2013) IFRS 4 (Phase II) for Insurance Contracts: Revised Exposure Draft Explained through an Illustrative Example*. Dirk Vlaminckx Christophe Vandeweghe Bert Lievens*

Delloite (2014) IFRS Implementation: The Journey So far- The Auditor's Perspectives. *A Delloite Research Report. Sourced from* www.deloitte.com

Delloite (2008) The IFRS Journey in Insurance: A Look Beyond Accounting Changes. *A Delloite Research Report. Sourced from* www.deloitte.com

Dewald van den, B. (2015) How South African Companies can Best Prepare for IFRS 4 Phase II .*The Journal of the Global Accounting Alliance: By GAA Accounting*

Essien-Akpan I. (2011). The International Financial Reporting Standards (IFRS).The Role of the Chartered Secretary and Administrator. *A Paper Presented at the 35th Conference of ICSAN. Lagos Sheraton Hotels and Towers. October 26th and 27th.*

EY's International Financial Reporting Standards Group (2015) Applying IFRS in Insurance: The New Revenue Recognition Standard – Insurance Entities*. Sourced from ey.com*

G.O. Demaki, G. O. (2013) Prospects and Challenges of International Financial Reporting Standards to Economic Development in Nigeria**.** *Global Journal of Management and Business Research Volume 13 Issue 1 Version 1.0 Year 2013 Type: Double Blind Peer Reviewed International Research Journal Publisher: Global Journals Inc. (USA) http://creativecommons.org/licenses/by-nc/3.0/),*

IFRS Foundation (2014) International Financial Reporting Standard 4 *Insurance Contracts*

Kantudu, A. S. (2005). "The Degree of Compliance with the Requirement of Information to be disclosed in Financial Statement by Listed Firms in Nigeria", *Abuja Management Review*, 3(1): 26-46.

KPMG News letter (2014) Riding the Waves of the New Revenue Standard - IFRS 15: *Revenue from Contracts with Customers*

Madawaki, A. (2012). Adopting International Financial Reporting Standards in Developing Countries: The Case of Nigeria. *International Journal of Business and Management. 7 (3).*www.cosenet.org/ijbm*.*

Fitch Ratings, (2004) "Mind the GAAP: Fitch's View on Insurance IFRS"

Obazee, J. O. (2011). Issues and Challenges of International Financial Reporting Standards (IFRS) Adoption for Emerging Economies. *The Nigerian Accountant,* 44 (4): 26 – 28.

Odia, J. O. & Ogiedu, K. O. (2013) IFRS Adoption: Issues, Challenges and Lessons for Nigeria and other Adopters. *Mediterranean Journal of Social Sciences, MCSER Publishing, Rome-Italy. Vol 4 No 3*

Oliver, R. (2009) Insurance Accrual Accounting: Primer Series on Insurance Issue 6. The World Bank. Sourced from www.worldbank.org/nbfi

Rong-Ruey, D. (2006) Convergence of Taiwan's Financial Accounting Standards with International Financial Reporting Standards: *Past, Present and Outlook, Accounting Research and Development Foundation, Taiwan*

APPENDIX

PRE	TOTAL	AVERAGE	**POST**	TOTAL	AVERAGE	
ROA	0.6711	0.016778	ROA	0.5494	0.013735	
ROE	0.8698	0.021745	ROE	-0.50049	-0.01251	
DEBTRATIO	14.4	0.36	DEBTRATIO	21.1	0.5275	
SIZE	398.02	9.9505	SIZE	400.38	10.0095	
GROWTH	365.99	9.384359	GROWTH	382.84	9.571	
EPS	25.56	0.639	EPS	85.68	2.142	

Reference to this paper should be made as follows: Soye, Yinka Augustine & Raji, Oladeinde Akeem (2016), The Comparability of Pre and Post Adoption IFRS in Nigeria Insurance Companies *J. of Management and Corporate Governance,* Vol. 8, No. 2, Pp. 47 – 58.