Exploring the Effect of International Financial Reporting Standard (IFRS17) Adoption on the Quality of Financial Reports: A Case of Insurance Companies in Zambia

James Chonya, Dr Simeon Mbewe, Kennedy Musonda MSc

Graduate School Of Business: University Of Zambia

DOI: https://dx.doi.org/10.47772/IJRISS.2025.90400476

Received: 11 April 2025; Accepted: 15 April 2025; Published: 22 May 2025

ABSTRACT

The introduction and the adoption of IFRS 17 signify a major shift in how insurance contracts are accounted for, making a significant departure from the preceding standard IFRS 4. While this transition aims to improve financial reporting quality, challenges such as inconsistent implementation, lack of expertise and systems limitations have hindered effective adoption. The explores the effect of IFRS adoption on quality financial reporting. Specifically, examining its effect on faithful presentation, relevance and comparability on the quality of financial reporting. Additionally, it identifies benefits and gaps in the adoption process. The study adopted an interpretivist philosophy and a qualitative method approach utilising an exploratory research design. Semi-structured interviews were conducted to collect data from accountants and auditors in the insurance industry who were purposively selected from the population. The data was analysed through thematic content analysis using NVivo version 15. The findings revealed that adoption of IFRS17 significantly improves quality of financial statements thereby enhancing user experience. Notably, the standard has introduced more detailed disclosures about nature and timing of cashflows, risk adjustments. Furthermore, profits recognised are matched with the service delivered through contractual service margins (CSM). The study concluded that the adoption of IFRS17 improves faithful presentation, relevance and comparability which are some of characteristics of quality financial reporting. Furthermore, the study found that there are many benefits associated with the adoption of IFRS 17. The study also revealed significant gaps that impede the effective adoption of the standard, such as lack of data management systems, inadequate actuarial models and lack of adequate skills among implementers. It is recommended that insurance companies adopt the standard in a more effective manner to optimise the benefits that the standard brings to the insurance sector and to different users of financial statements. Additionally, insurance companies must consider, comprehensive training programs for finance, accounting, and actuarial staff to build expertise in IFRS 17 requirements, ensuring accurate implementation and compliance. Additionally, they should modernize systems and establish robust data governance frameworks to handle the complex data and reporting requirements of IFRS 17. Further studies using either a quantitative or mixed-method approach especially on how the adoption of IFRS 17 impacts earnings management are recommended.

Keywords: IFRS17, Adoption, Quality Financial Reporting, Benefits, Gaps.

INTRODUCTION AND BACKGROUND

In the interconnected rapidly evolving business world, the need for universal financial reporting standards cannot be over emphasised. Modern economies rely on cross-border transactions and the free flow of international capital as investors seek diversification and investment opportunities across the globe, while companies raise capital, transact or operate in different countries. A few decades ago international business was impeded by a lack of a unified global accounting framework with each country reporting according to its own set of standards creating a complex patch of requirements causing challenges to user in different jurisdictions (IFRS Foundation, 2025). IFRS Accounting standards addressed these challenges by providing one common reporting of high quality internationally recognised set of accounting standards that enable companies to provide efficient, cost-effective reporting that meets users' needs. The adoption of IFRS improves the quality of financial reporting thereby enhancing the user experience of financial statements especially for the primary users (Mensah, 2019).

According to the conceptual framework for financial reporting, the primary users of accounting information are existing and potential investors, lenders, and other creditors who rely on general-purpose financial reports for information to make economic decision (IFRS Foundation, 2017). The IFRS provide a universal tone for reporting which is characterised with improving the quality of financial reporting. While general accounting standards like the IFRS provide a broad framework, some industries have unique characteristics that require specialised accounting guidelines. The insurance industry is a prime example where specific standards are required due to the unique nature of insurance contracts with elements that involve unique risks, obligations and cash flow patterns that require specialised accounting treatment.

The insurance sector, which plays a crucial role in the global economy with global assets under management estimated at about United States Dollars 34 trillion as at December 2023 (IAIS, 2024), relies on accounting standards to reflect financial prudence and integrity. For a long time, financial reporting for this industry was governed by IFRS 4 which had major shortcomings particularly, its lack of guidance on the measurement of insurance contracts, leading to diverse accounting practices among insurers across jurisdictions and products. These disparities posed significant challenges for investors and analysts attempting to compare insurers' financial results and evaluate their performance effectively (IFRS Foundation, 2021). Users of financial statements have always asked for financial reports that are of high quality especially after the Enron scandal and other financial scandals.

Therefore, quality financial statements must be relevant, faithfully presented and comparable, which IFRS4 failed to achieve. The introduction of IFRS17 in 2017 and the later adoption in accounting periods commencing 1st January 2023 is believed address the shortcomings highlighted above and enhance the quality in the way financial statements in the insurance industry are prepared. This standard aims to enhance faithful presentation, relevance and comparability which are some of key characteristics of quality financial reporting. According to (Al-Janabi, 2021) the application of IFRS improves the quality of financial reporting despite the associated challenges of implementing them especially in developing nations. However, there are also studies that argue that the adoption of IFRS can lead to the manipulation of accounting numbers.

In simple terms, IFRS encourages managers to use their professional judgment and be creative, which can result in a decrease in the faithful presentation, relevancy and comparability, of financial information. As a result, the quality of financial reporting is negatively affected (Barth, 2006). Another study done by Florina suggests that improvements and other benefits associated with the quality of financial reporting depend not only on the inspiration within their application, but also on the context in which they are applied matters in general. This does not only depend on the inspiration of applying the standard but also on the local context in which they are applied (Florina, 2019). The adoption of IFRS17 has been considered a demanding process compared to IFRS 4 for most insurance companies, this has not only delayed implementation but has brought a lot of questions on whether the standard has brought the desired quality in financial reporting that the preceding standard could not achieve. With limited empirical evidence on the benefits that the adoption of IFRS 17 brings, it is difficult to determine the effect of adopting this standard on the quality of financial reporting. Therefore, if preparers of financial statements do not really see the benefit of adopting the standard, it is difficult to apply it effectively and see the quality it brings to financial reporting. Therefore, this study aims to explore the effect of IFRS 17 adoption on quality financial reporting compared to IFRS 4.

Problem Statement

The insurance industry represents a significant component of the global financial systems. According to the Allianz Global Insurance Report for 2023, the insurance industry grew by 7.5% with premiums exceeding USD5.6 trillion and assets under management standing equivalent to 7.1% of the global gross domestic product (Allianz Global Insurance Report, 2024). On the local front, the Zambian insurance industry the industry recorded gross written premiums of ZMW 6.033 billion in 2022 compared to ZMW 5.344 billion in 2021 representing a growth of 13% (Insurance Association of Zambia (IAZ), 2022). Despite this favourable growth, the insurance industry both globally and locally has faced persistent challenges in achieving quality financial reporting due to a lack of a comprehensive accounting standard designed to address the unique complexity of the insurance business. The advent of International Financial Reporting Standards (IFRS 17) has significantly changed how the insurance sector accounts for insurance contracts. This has been necessitated by the desire to create a common global language for business affairs so that company accounts are comparable and understandable across international boundaries and the desire to improve the quality of financial reporting, (Alsaqqa, A & Sawan, N, 2023). While, the standard theoretically promises greater uniformity and transparency in profit recognition, its practical implementation has raised significant concerns among industry practitioners and other stakeholders. Modern accounting standards like IFRS 17 involve complex and demanding disclosure requirements. Many reporting entities perceive these as not adding value, leading to compromised compliance with the standard's requirements and ultimately affecting financial reporting quality (Saha, Morris, & Kang, 2019).

A recent study by Fitch, (2025) among European insurance market participants found that more than 50% percent of the respondents remained skeptical about the tangible benefits of IFRS 17 adoption. Many critical issues have emerged regarding the adoption of the standard and its effectiveness. The complexities of IFRS17 requirements, particularly the suitable discount rate, coupled with the substantial capital inputs involved in adopting the standard. Has raised concerns among users whether the standard truly delivers its promise to improve quality financial reporting. The International Accounting Standards Board (IASB 2017) has emphasised the need for proper adoption of the standard for users to realise the real benefits that come with its adoption. A study done by (Rajala, 2020) indicates that the adoption of IFRS 17 achieves little quality compared to the preceding standard but increases the burden of implementing the standard for most market players. This situation creates a significant research gap especially in the Zambian context where there is little empirical evidence on whether IFRS 17 adoption actually improves the quality of financial reporting. Therefore, this study seeks to explore the effect of IFRS 17 adoption on quality financial reporting.

LITERATURE REVIEW

Previous Studies

The insurance industry is one of the key industries in any economic environment. Globally, it is estimated that the insurance industry contributes over 7% to the global gross domestic product (GDP) (MAPFRE, 2022). According to OECD's global insurance outlook, the growth of insurance slowed down in 2023 due to global economic challenges. Growth slowed down after a 3.9 percent expansion in 2022. However, the global insurance premiums grew by only 1.1 percent in 2023, reflecting slower economic activity and inflationary pressures. Life insurance premiums saw muted growth of 0.9 percent in 2023, compared to 1.4 percent in 2022 (PIA, 2023). Despite the gloomy global insurance outlook, the Zambian insurance industry remained resilient, recording a 26.6 percent growth rate in terms of GWP in 2023 (2022: 12.89 percent). The industry growth rate was attributed to an increase in motor, property, life and health insurance uptake. The industry also recorded an increase in policyholder benefits and claims expenses to K3, 763 million in 2023 (2022: K1,964 million). Ultimately, the industry recorded a profit after tax of K364 million (2022: K316 million). Industry profitability increased on account of increased profits from reinsurance and long-term insurance business. (PIA, 2023). The below Long-Term and General Insurance Industry Gross Written Premium Growth (2019 – 2023)

Table 2.1 Long-Term and General Insurance Industry Gross Written Premium Growth (2019 – 2023)

Year	2023	2022	2021	2020	2019
Long-Term Insurance GWP	2,815,056,213	2,166,104,474	1,830,785,995	1,594,819,419	1,464,723,453
Long-Term Insurance GWP Growth Rate	29.96%	18.32%	14.80%	8.88%	14.86%
General Insurance GWP	4,996,292,834	3,866,783,238.	3,513,110,187	2,973,682,804	2,292,072,808
General Insurance GWP Rate	29.21%	10.07%	18.14%	29.74%	20.15%
Total GWP	7,811,349,046	6,032,887,712	5,343,896,183	4,568,502,223	3,756,796,261

Source: PIA Report (2023)

Despite these progressive statistics the industry has for a long time lacked a proper accounting standard to ensure that financial reporting is of good quality. In 2004, the IASB introduced IFRS 4 insurance contracts as an interim standard to try to harmonize financial reporting for the industry. However, the standard permitted preparers of financial statements to still prepare financial statements under the generally accepted accounting principles in their geographical region (IFRS Foundation, 2021). This posed challenges in comparability and consistency in the financial reporting of financial statements produced in different countries. Furthermore, the accounting standard lacked transparency on profitability and useful information on insurance liabilities, which presented a challenge for financial statements to be presented faithfully and to provide relevance to the users. Faithful presentation and relevance are two fundamental qualitative characteristics of quality financial statements. The standard also permitted preparers of financial information to give limited disclosures leaving out information relevant for users of financial statements (Deloitte and Touche, 2020). Relevance is the second fundamental characteristic of quality financial reporting. Without relevant information different users of information cannot make informed decisions. Therefore, with the introduction of IFRS 17 it is expected that financial reporting for insurance contracts will show a true economic reality of financial statements thereby enhancing the experience of users of financial statements. An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) and agrees to compensate the policyholder if a specified uncertain future event adversely affects them (PWC, 2019).

The International Financial Reporting Standard (IFRS) 17, issued in 2017, replaces IFRS 4, which was criticized for its lack of consistency and comparability. IFRS 17 introduces a uniform approach to accounting for insurance contracts, ensuring that financial statements accurately reflect an entity's financial position and risk exposure. Over time, financial reporting in the insurance sector has evolved from a principles-based approach under IFRS 4 to a more prescriptive framework under IFRS 17, which mandates a current measurement model for insurance contracts.

This shift has implications for insurers' financial statements, requiring changes in valuation methodologies, risk assessment, and financial disclosures. The adoption of IFRS 17 changes the way insurance contracts are accounted for it sets out principles for the recognition, measurement, presentation and disclosures within the scope of the standard (Young, 2021). The summary below shows the changes that the adoption of IFRS 17 is expected to introduce to financial reporting relative to the preceding standard IFRS 4. This shows the recognition, presentation, measurement and disclosure under IFRS 4 compared to IFRS 17.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume IX Issue IV April 2025

Table 2.2: Recognition, Presentation, Measurement and Disclosure under IFRS4 Vs IFRS17

IFRS 4—a lack of comparability	**IFRS 17—a consistent framework**
Comparability among companies across countries	
Accounting for insurance contracts varies significantly between companies operating in different countries.	Companies will apply consistent accounting for all insurance contracts.
Comparability among insurance contracts	
Some multinational companies consolidate their subsidiaries using different accounting policies for the same type of insurance contracts written in different countries.	A multinational company will measure insurance contracts consistently within the group, making it easier to compare results by product and geographical area.
Comparability among industries	
Some companies present cash or deposits received as revenue. This differs from accounting practice in other industries, in particular, banking and investment management.	Revenue will reflect the insurance coverage provided, excluding deposit components, as it would in any other industry.
IFRS 4—little transparent or useful information	**IFRS 17—more transparent and useful information**
Information about the value of insurance obligations	
Some companies measure insurance contracts using out-of-date information.	Companies will measure insurance contracts at current value.
Some companies do not consider the time value of money when measuring liabilities for claims.	Companies will reflect the time value of money in estimated payments to settle incurred claims.
Some companies measure insurance contracts based on the value of their investment portfolios.	Companies will measure their insurance contracts based only on the obligations created by these contracts.
Information about profitability	
Some companies do not provide consistent information about the sources of profit recognised from insurance contracts.	Companies will provide consistent information about components of current and future profits from insurance contracts.
Many companies provide alternative performance measures—non-GAAP measures—to supplement IFRS 4 information, such as embedded value information.	Companies and users of financial statements will use fewer non-GAAP measures; supplementary information will enable more meaningful comparisons.

Source: IFRS Foundation (2021)

This is expected to bring quality to financial reporting and enhance user information. However, the standard is relatively new,with the first adoption being the financial year ending 2023.

Therefore, the effect of the adoption of this standard on quality financial reporting is yet to be fully known.

In a bid to understand the effect of adopting IFRS on stock markets in the United Arab Emirates (UAE), Ihab Alsaqqa and Nedal Sawan conducted a study to evaluate the advantages and difficulties faced by firms listed on the stock market in the United Arab Emirates after the implementation of IFRS. The purpose of this study was to evaluate the benefits and drawbacks of IFRS adoption for firms that are listed on the UAE stock market. This analysis's methodology was predicated on the identification and evaluation of the major forces affecting businesses that are listed on the stock exchange in the United Arab Emirates. The findings unequivocally demonstrate that the advantages of IFRS adoption in the UAE ultimately exceed the challenges and expenses. The results also show that the implementation of IFRS in the UAE stock markets has raised the bar for overall financial reporting quality, which in turn has drawn investors to the country's stock markets. (Alsaqqa, I & Sawan, N, 2013).

Another study was carried out in Canada (Dahiyata, A & Owaisa, W, 2021) aimed at exploring the expected effect of applying the International Financial Reporting Standard (IFRS) 17 Insurance Contracts on the quality of financial reports. The study followed exploratory descriptive analytical approaches. A questionnaire was developed and distributed to a sample of 120 financial employees in all insurance companies in Jordan. It concluded that the expected effect of applying the standard on the quality of financial reports was significant, especially on the comparability of financial reports and faithful representation.

It was found that there is an expected, statistically significant and positive effect between the application of the standard, and the quality of financial reports in general, as well as the expected influence of applying the standard and each of comparability, faithful representation, relevance, verifiability, timely, and understandability respectively. The study was carried out prior to adoption and focused on the expected impact of IFRS 17 implementation which is impractical to get the real results before the standard is actually adopted.

A study conducted by (Alhawtmeh, 2023) on the impact of IFRS 17 on the development of accounting measurement and disclosure, in addition to improving the quality of financial reports, considered compliance with the requirements of IFRS 4. This is study that was conducted in the Jordanian insurance sector. The study found that there was need to conduct increased research related to the impact of adopting the IFRS 17 in improving the quality of reports and overcoming obstacles such as current laws, professional qualifications of those preparing reports for insurance companies, and the situation of auditors.

A related study conducted by (Alhasan, 2024) aimed to identify deficiencies in the financial statements of insurance firms operating in Iraq concerning their adherence to IFRS 4. Additionally, the research emphasized the significance of implementing the IFRS 17 financial reporting standard in Iraqi insurance companies and its role in rectifying the deficiencies in financial reporting that arise from the application of IFRS 4. The primary objective of this study was to provide a comprehensive analysis of the effects that the implementation of the IFRS 17 has on the financial statements of insurance companies operating in Iraq.

The study unveiled several noteworthy observations. These include a robust positive effect, which is both statistically significant and evident, of implementing the IFRS 17 standard on various aspects such as disclosure and presentation, financial reporting quality, financial statements, net income and retained earnings, as well as financial solvency within the Iraqi insurance sector (Alhasan, 2024).

Similarly, a study by Baijot and Courtois aimed to explore the expected effect of the transition from IFRS 4 to IFRS 17 Insurance Contracts (IFRS 17) on the financial statements of an entity, and to identify how the volatility of the financial statements is affected by the new standard.

This study concluded that the volatility of the financial statements is likely to decrease under IFRS 17 due to a lower amount of accounting mismatches and the requirement to reconcile the accounting treatments of assets held as backup for a portfolio of insurance contracts with the accounting treatment of the portfolio of insurance contracts itself, (Baijot, A and Courtois, C, 2022).

This essentially improves the reliability of financial information which is an important aspect of quality financial information that this study intends to bring out.

The concept of quality has been fundamental to any debate on financial reporting, regulation and accounting standard setting globally. One of the reasons often advanced for the adoption of International Financial Reporting Standards (IFRS) is that it improves financial reporting quality; however, the major challenge found in most prior literature is how to operationalise and assess this quality of financial information when a standard like IFRS17 is adopted which my study intends to do. With the use of the operationalized qualitative aspects of financial reports provided by the IASB conceptual framework, a study by (Agienohuwa, O.O & Ilaboya, O.J, 2018) attempted to examine how the quality of financial reporting has changed in Nigerian Money Deposit Banks (MDBs) after the implementation of IFRS.

The measuring scale for fundamental and enhancing qualitative characteristics was operationalized by the study. Since every MDB, which makes up the population, also makes up the sample, they employed a census technique. All quoted MDBs' annual reports and accounts provided the data, and Mann-Whitney statistics were employed for the analysis. According to their research, there was a statistically significant difference in Nigeria's financial reporting quality before and after IFRS implementation, (Agienohuwa, O.O & Ilaboya, O.J, 2018). This study was specifically on MDBs in Nigeria while my study is focused on insurance companies in Zambia. However, a similar approach will be undertaken to examine how quality financial reporting has changed after the adoption of IFRS17.

In Zimbabwe, a study was carried out to assess 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 conductawareness campaigns that promote the adoption of IFRS 17, (Chikundura, R, et al, 2023). This study focused mainly on challenges, that small-scale insurance companies faced with implementing IFRS 17. Though the study was narrowed to challenges it will help me gain some insights into my third research question.

A different study done by Jinga, (2020) had the primary of offering an exploratory foundation for comprehending how stakeholders in the insurance industry apply IFRS 17. The study aimed to ascertain potential effects of implementing IFRS 17 on the prominence of financial reporting in the insurance industry, vulnerabilities in the implementation of IFRS 17 that require close monitoring, and modifications and adaptations to IFRS 17 to ensure flawless financial reporting in the insurance industry. The study used a qualitative methodology and interpretivist philosophy.

A design of exploratory research was employed. The study included structured interviews as a means of data collection from insurance experts who were specifically chosen for the sample. A thematic content analysis of the replies obtained showed that IFRS 17 raises the standard of financial reporting by disclosing insurance obligations, providing insurers with more predictable capital needs, and improving transparency. Additionally, it seeks to improve the consistency and comparability of financial reporting across organizations in the insurance industry. The primary gaps, according to the questionnaire-based qualitative study, are in the effectiveness of technological investments insurers' financial reporting systems' , the reporting of contracts paid or received prior to recognition, and the inconsistent recognition of income tax payments and insurance income.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume IX Issue IV April 2025

The original calculation of the contractual performance margin, the recognition of insurance proceeds and the associated income tax that is billed to the policyholder, and the enlargement of the definition of liabilities to include all commitments are the three areas with the most revisions. According to the study's findings, insurance firms' financial reporting is now more transparent, uniform, comparable, and consistent when using IFRS 17. Insurance businesses were advised to use IFRS 17, educate employees to enhance their abilities, and push for the adoption of changes to the new standard, (Jinga, 2020). This study was done prior to the adoption of IFRS17 and it focused on the expected impact of the standard in the South African whereas my study focuses on the post-adoption effect of IFRS 17 on quality financial reporting in the Zambian insurance industry.

This study is exploratory in nature and reflects on the principles and foundational basis of IFRS 17 Insurance Contracts. Interviews were conducted with members of an Insurance Project Working Group set up by the South African Institute of Chartered Accountants (SAICA). The Working Group consisted of industry and accounting experts tasked with guiding the South African accounting profession in the current preparation and future application of the new standard. The interviews sought to obtain the respondents' perspectives on the usefulness of the new standard and its ability to counter challenges in the previous standard. Specifically, IFRS 17 would be considered successful if it were to produce more transparent, relevant, reliable and comparable information for users of insurance sector financial statements, (Muchirahondo, 2020).

The research findings show that the IASB's many years of hard work to produce the new standard have received a positive response. The majority of interviewees believed that yes, the principles in the standard though associated with significant judgement and application complexities would generate more useful financial reporting for insurance contracts. Some argued, however, that more guidance would be needed once the standard had been fully implemented to eliminate any inconsistences in its application due to the use of judgement and the standard's inherent complexities to ensure that comparability could still be achieved, (Muchirahondo, 2020).

The International Accounting Standards Board's (IASB) Insurance Accounting project is almost finished, some 20 years after it was started. It is imperative that insurers start to comprehend and be ready for the changes that the released in June 2013 International Financial Reporting Standard 4 (IFRS 4) Exposure Draft will bring about in terms of global insurance financial reporting. This dissertation examines the main ideas and anticipated effects of the currently proposed IFRS 4 Phase II standard within the context of life insurance in South Africa. Specifically, the present Financial Soundness Valuation (FSV) approach for basic illustrative term and endowment insurance products are compared with the planned IFRS 4 Phase II approach to profit reporting, (Marszalek, 2014).

The comparison's findings serve as the foundation for a discussion of how the new profit reporting standard will affect insurance contract liabilities and, consequently, profit profiles over time. It also evaluates whether the new standard's modifications better address the goals of insurance financial reporting and the requirements of financial statement users. This dissertation focuses on the important areas where the exposure draft has a high degree of confidence and only briefly discusses the regions where change is still anticipated. According to the results, insurer financial reporting under IFRS 4 will be more grounded in principles, more able to satisfy the criteria of basic financial reporting features, and more comparable with insurer financial reporting abroad. These results confirm the hypothesis that South African insurers' financial reporting will benefit from the switch to IFRS 4 by providing them with more information to help them make informed financial choices, (Marszalek, 2014). This study focused on IFRS 4 which is a preceding standard to IFRS 17, however, it could help understand some of the challenges faced during the implementation of a similar standard.

Theoretical Framework – Agency Theory

According to Jensen and Meckling (1976), agency theory is an economic concept that examines the relationship that exists between the principal and the agent and how best to structure the contract between them. The theory identifies and analyzes conflicts that may emerge between the principal and the agent when they both have goals that are not aligned. In this case, the principals are the shareholders who engage directors to act as agents by preparing financial statements that are not short of quality. Directors, as agents of shareholders, have a mandate to make decisions that protect the interests of the shareholders. Most of the shareholders are institutional investors who are looking for growth in their investment through share appreciation and dividend payout.

Therefore, investors need to make informed decisions on whether to invest in a particular company, to reduce their investment, or to fully disinvest. The decision to do so purely depends on the financial information that the directors of investees provide. Therefore, the quality of financial information cannot be overemphasized, as this provides a basis on which shareholders make informed decisions. However, agency theory suggests that the interests of shareholders and agents may sometimes differ; as a result, this may potentially lead to financial loss and a lack of solid basis for decision-making.

The loss of value due to contradicting goals of the agent is called agency loss. To avoid this loss, the theory suggests that the agent must be compensated for making sound decisions that promote the objectives of the shareholders stated above. The theory further emphasizes the importance of sharing efficient and important information between the principal and the agent. The adoption of IFRS 17 is suggested to improves comparability, consistency and faithful presentation of financial information prepared by the directors which is important for decision-making for the shareholders.

Stakeholder's Theory

The stakeholder theory introduced by R. Edward Freeman in 1984 explains how organisations consider the interests of individuals or groups affected by their actions. It describes the different types of stakeholders including those with a direct stake, intermediaries who protect stakeholders' interests and external regulators who protect the public interest. The theory emphasises the importance of stakeholder relations and the creation of value for them. In this regard, preparers of financial statements must consider the expectations of different users of financial information to reduce information asymmetry among users and improve the quality of decisions by the users of financial information.

The adoption of IFRS 17 is expected to improve the quality of information for the users of financial statements therefore, it enhances transparency by providing clearer and more consistent information on how insurers measure and report their obligations. Additionally, shareholders who are key stakeholders will be able to assess profitability, risk exposure and how their earnings will change in value due the prudent measurement approach that IFRS17 proposes. Lastly, regulator will be able to rely on financial statements that are presented faithfully with extensive disclosures complementing solvency.

RESEARCH METHODOLOGY AND DESIGN

The study adopted a qualitative method approach, grounded in interpretivism philosophy to explore the real effects of IFRS 17 adoption on the quality of financial statements in the Zambian insurance industry. Following the qualitative approach, the researcher employed in-depth, semi-structured interviews with insurance professionals working in accounts or finance departments and external auditors responsible for auditing financial statements. This was to capture the lived experiences and the subjective interpretation of IFRS17 adoption. This approach was particularly appropriate as it allowed for rich, contextual understanding of complex accounting phenomena through open-ended exploration of the insurers perceived effects of IFRS 17 on faithful presentation, relevance and comparability which are some of the qualitative characteristics of quality financial statements, perceived benefits of adopting the standard and gaps identified during the adoption process, while deliberately minimising quantitative techniques to prioritise depth of insight over numerical measurements. The qualitative research approach enabled the researcher to answer the why, how and the what questions surrounding this phenomenon.

A research design is a procedural plan that is adopted by a researcher to answer questions in a valid way. This study will employ a comparative research design using qualitative approach, which focuses on words to answer the why, how and the what questions. The research, therefore used minimal systematic comparison different cases to understand how varying conditions, structures, or regulatory frameworks affect outcomes (Bryman, 2012).

This approach is suitable for evaluating the impact of IFRS 17 adoption on the quality of financial reporting in relation to IFRS 4, the previous standard. Given that IFRS 17 introduces significant changes in the recognition, measurement, presentation, and disclosure of insurance contracts, a comparative analysis will facilitate a structured assessment of whether these changes improve financial reporting quality. The study will also identify both differences and similarities between the two standards and explore their implications for financial transparency, comparability, and the decision-usefulness of financial information. Additionally, it will address some of the challenges associated with the adoption of IFRS 17.

This comparative strategy was selected to provide empirical insights into how regulatory changes influence financial reporting, laying the groundwork for future research in this area. A qualitative method of research will be used because qualitative research is applied when the researcher wants to deeply understand people's experiences, perceptions and meaning especially, typically utilizing collecting first hand data through questionnaires and interviews, especially where the researcher wants to explore a new phenomenon. IFRS 17 is a relatively new standard with experiences of users of the standard still new, therefore the qualitative research method is ideal for this study.

FINDINGS

To explore perceptions of financial reporting professionals of the changes regarding faithful presentation, relevance and comparability on the quality of financial reports following the adoption of IFRS17.

The first objective sought to explore perceptions of financial reporting professionals regarding how the adoption of IFRS 17 influences the qualitative characteristics of financial reporting, specifically faithful presentation, relevance and comparability of IFRS 17 on quality financial reporting. The findings reveal a strong consensus among respondents with 59% scoring that the adoption of IFRS 17 has brought substantial improvement in this area therefore leading to quality financial statements.

The results resonate with the fact sheets from IFRS Foundation (2017), which claims that under IFRS 17 companies will measure insurance contracts at current value using most relevant key assumptions thereby by enhancing the quality of information for users.

Regarding comparability over 76% of respondents affirmed that the adoption of IFRS 17 enhanced comparability of financial statements across different entities domestically and across borders.

The adoption of IFRS 17 eliminates the shortcomings that existed under the preceding standard IFRS 4 which permitted insurance companies to operate under different accounting practices . This uniformity was viewed as a critical advancement, particularly for users of financial statements such as potential investors and analysts who use the financial statements to make decisions.

The adoption of IFRS 17 ensures that insurers' financial reporting is treated in the same way as other entities. These results principally align with the study by (Jinga, 2020) who also stated that the purpose of IFRS 17 is to increase comparability between insurance companies. This also resonates with the report done by (PWC, 2017).

To identify the benefits that come with the adoption of IFRS 17 following the transmission from FRS 4.

IFRS 17 introduces a more rigorous and transparent measurement model, ensuring that financial statements reflect an insurer's economic reality. The standard ensures that financial statements accurately align revenue recognition with service delivery, eliminating the opportunity for profit smoothing. This enhances the true and fair view of the presented financial statements, thereby enhancing the user experience of the financial statements. The clarity with which liabilities are presented through the General Measurement Model and the Variable Fee Approach, which incorporates risk adjustments and contractual service margins, gives users a more realistic position.

IFRS 17 introduces a more rigorous and transparent measurement model, ensuring that financial statements accurately reflect an insurer's economic reality.

The respondents further affirmed that IFRS 17 adoption enhances the usefulness of information for different users, such as investors, lenders, and other stakeholders through several key improvements, such as more detailed disclosures on profitability and risk adjustments providing more insights into the company's financial position. Furthermore, the costs incurred during a given period are recorded in the same period as revenue is generated, and the costs that relate to insurance contracts are presented separately. Furthermore, the information under IFRS 17 is more forward-looking as it incorporates time value of money techniques such as discount rates and non-financial risk adjustments.

The study's second objective was to identify the benefits of IFRS 17 adoption regarding faithful presentation, relevance, and comparability. Their findings reveal overwhelming support from the respondents, with over 71% as shown in figure 4 below, affirming that IFRS 17 significantly enhances these qualitative characteristics, thereby improving the quality of financial reporting and enhancing the quality for decision-makers.

One of the most significant benefits of IFRS 17 is the elimination of variations that existed under IFRS 4. As far as financial reporting is concerned, users of financial statements could not easily compare financial statements under IFRS 4 because insurance companies were permitted to produce financial statements under the local GAAP. However, the standardization of accounting policies, eliminating the use of local GAAP, and the uniformity of revenue recognition and liability measurement have enhanced user experience, enabling users of financial statements to easily compare financial statements across different insurance companies. However, there is still information asymmetry among insurance companies due to the lack of a standardized discount rate to use. Standardized accounting policies reduce the use of local GAAP variations.

To examine the gaps in the adoption processes of IFRS 17 following the transmission from FRS

The third objective examined critical gaps in the adoption, revealing significant implementation gaps. Predominant concerns highlighted by the users include the technological dependency of IFRS 17, with most respondents emphasizing that its proper implementation hinged on the insurers' financial systems capabilities. The complexity of the standard poses serious challenges for users and insurers to understand. More than 50% of the respondents agree that IFRS is a complex standard.

R4: Areas of judgment, e.g., determining discount rates and risk adjustments, may cause difficulties in comparability.

16: IFRS 17 is a complex standard and is a challenge even for personnel with finance expertise. However, the various workshops and training available, as well as enhanced disclosures in financial statements, should bridge the knowledge gap.

R11: The implementation of IFRS 17 has generally increased the complexity of financial statements compared to the previous standard, IFRS 4, due to several factors. These include detailed measurement requirements that necessitate breaking down liabilities into components like fulfillment cash flows, risk adjustments, and CSM, which complicates the accounting process.

Despite these gaps, the respondents acknowledged that efforts to bridge these adoption hurdles through staff training and upgrading of technology are in place. Suggesting that while IFRS 17 presents substantial transitional complexities, insurers are actively developing mitigating strategies to ensure effective adoption. The findings collectively suggest the need for supplementary guidance on a clear definition of most gray areas, along with continued investments and well-coordinated team efforts. With other key team participants, such as actuarial scientists, the insurers will realize the intended benefits of adopting IFRS 17.

CONCLUSION

This study has demonstrated that the adoption of IFRS 17 significantly improves the quality of financial reporting in the insurance sector. The findings revealed that faithful presentation, relevance, and comparability which are key characteristics of quality financial statements that the standard intended to improve have been enhanced due to the standard’s principle-based measurement approach and enhanced disclosure requirements. By aligning revenue recognition with actual service delivery and reducing the chances of earnings management opportunities, IFRS 17 addresses agency theory concerns of information asymmetry between insurers and shareholders. Additionally, the standard supports stakeholder theory by providing decision-useful information to investors and lenders through a transparent reporting framework. Despite the benefits that IFRS 17 presents, the study revealed gaps that include legacy IT infrastructure, inadequate skill sets to match the demands of the standards, and a lack of coordination between finance and actuarial departments. These gaps identified could be addressed through strategic investment in technology, strong stakeholder collaborations, and continuous capacity development. The study revealed that the long-term benefits outweigh these identified gaps during the adoption process.

REFERENCES AND BIBLIOGRAPHY

1. Alsaqqa, I., & Sawan, N. (2013). The Advantages and the Challenges of Adopting IFRS into UAE. International Journal of Business and Management, 2-17.
2. Alhawtmeh, O. M. (2023). The Impact of IFRS 17 on the Development of Accounting Measurement and Disclosure, in Addition to Improving the Quality of Financial Reports, Considering Compliance. Business Journal, 1-4
3. Bryman, A. (2016). Social Research Methods. Oxford: Oxford University Press.
4. Chowdhury, M. F. (2014). Interpretivism in Aiding Our Understanding of the Contemporary Social World. Open Journal of Philosophy, 2-8.
5. Florina, R. G. (2019). Consequences and Motivations of Adopting IFRS. Perceptions Regarding Institutional Factors , 5-8.
6. Jinga, T. (2020). Understanding the New International Financial Reporting Standard: The Case of IFRS17. Understanding the New International Financial Reporting Standard: The Case of IFRS17, 65.
7. Mensah, E. (2019). The effect of IFRS adoption on financial reporting quality:evidence from listed manufacturing firms in Ghana. Economic Research , 2890-2905.
8. Muchirahondo, G. (2020). Usefulness of IFRS 17 Insurance contracts: Perspectives from South African accounting experts . Usefulness of IFRS 17 Insurance contracts: Perspectives from South African accounting experts , 30-42.
9. Nundwe, M. N., & Lengwe, C. (2024). Factors affecting IFRS 17 implementation in the insurance industry: A case of Zambia. National Journal of Multidisciplinary Research and Development, 48-55.
10. Saha, A., Morris, R. D., & Kang, H., 2019. Disclosure Overload? An Empirical Analysis of International Financial Reporting Standards Disclosure Requirements. Abacus, 55(1), 205–236. https://doi.org/10.1111/abac.12148
11. Fitch. (2025, 01 25). https://www.fitchratings.com/research/insurance/ifrs-17-contractual-service-margin-major-step-up-in-insurance-accounting. Retrieved from https://www.fitchratings.com:

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume IX Issue IV April 2025

https://www.fitchratings.com/research/insurance/ifrs-17-contractual-service-margin-major-step-up-in-insurance-accounting

12. Foundation, I. (2023). IFRS Foundation . London : IFRS Foundation .
13. IAIS. (2024). Global Insurance Market Report (GIMAR). Basel: International Association of Insurance Supervisors.
14. IASB. (2018). Conceptual Framework. London: IASB.
15. IFRS Foundation . (2017). Conceptual Framework for Financial Reporting. London : IFRS Foundation.
16. IFRS Foundation . (2021). IFRS Annual Report . London : IFRS Foundation .
17. IFRS Foundation . (2025, January 1). www.ifrs.org. Retrieved from https://www.ifrs.org/use-around-the-world/why-global-accounting-standards: https://www.ifrs.org/use-around-the-world/why-global-accounting-standards
18. Insurance Association of Zambia (IAZ) . (2022). Insurance Industry Report. Lusaka : Insurance Association of Zambia (IAZ).
19. (2024). Allianz Global Insurance Report . France: Allianz.
20. Pensions and Insurance Authority (PIA). (2022). PIA Annual Report 2022. Lusaka : PIA.
21. PIA. (2023). 2023 Pensions and Insurance Annual Report. Retrieved from www.pia.org.zm: http://www.pia.org.zm
22. PWC. (2017). IFRS 17:REDEFINING INSURANCE ACCOUNTING. IFRS 17:REDEFINING INSURANCE ACCOUNTING, 10.
23. PWC. (2019). IFRS 17 Overview . London: PriceWaterHouseCoopers .
24. MAPFRE. (2022, September 23). MAPFRE. Madrid , Madrid, Spain : MAPFRE.
25. Deliotte and Touche. (2020). Deliotte and Touche. London : Deliotte and Touche.
26. Young, E. a. (2021). IASB amends IFRS 17 to permit a classification overlay for financial assets presented in comparative periods on initial application of IFRS 17. London: Ernst & Young.