

EARNINGS QUALITY IN THE INSURANCE COMPANIES. A PERSPECTIVE VIEW OF THE CHANGES EXPECTED BY IFRS 17

Simona Arduini *

* Roma Tre University, Italy



How to cite: Arduini, S. (2019). Earnings quality in the insurance companies. A perspective view of the changes expected by IFRS 17. *Corporate Governance: Search for the Advanced Practices*, 36-38. <https://doi.org/10.22495/cpr19a8>

Copyright © 2019 The Authors
This work is licensed under a Creative Commons Attribution 4.0 International License (CC BY 4.0). <https://creativecommons.org/licenses/by/4.0/>

Received: 14.12.2018
Accepted: 09.01.2019
JEL Classification: M41
DOI: 10.22495/cpr19a8
Keywords: Earnings Quality, Insurance Contracts, Insurance Companies, IFRS 17, Earnings Smoothness

Abstract

The goal of the paper is to investigate about the expected quality's improvement of financial reporting in the Italian insurance sector when the IFRS 17 will be effective.

While many authors have analysed the topic of the quality of income in banks (Burke & Wieland, 2017; Dal Maso, Kanagaretman, Lobo & Terzani, 2018; Delis, Hasan, Iosifidi & Li, 2018; Jin, Kanagaretnam & Liu, 2018; Pinto & Picoto, 2018; Tchakoute Teuhigoua, 2018; etc.) the studies concerning insurances are still a few. In fact, in the last three decades only some researchers have examined the subject of earnings quality/management in the insurance sector; particularly, they explored the connection between management compensations and companies' earnings (Eckles, Halek, He, Sommer & Zhang, 2011; Scherzer, 1999), the discretionary earning's management (Beaver, McNichols & Nelson, 2000) and the effects of earnings announcement on market prices (Christensen, Gaver & Stuerke, 2005).

Many empirical and theoretical researches on the quality of financial reporting – written in the last five/six years – concern, instead, the effects of accounting standards' mandatory adoption (Ahmed, Neel & Wang, 2013; André & Filip, 2012; André, Filip & Paugam, 2015; Embring & Wall, 2012; Houqe, Monem, Tareq & van Zijl, 2016; Morais, Fialho & Dionisio, 2018; Rhee, Choi & Ryu, 2018). All the aforementioned studies

underline the high quality of financial reporting and the application of a conditional conservatism's mechanism under the IAS/IFRS.

Using the approach proposed by Schipper and Vincent (2003), we try to answer to the following research questions: is IFRS 17 able to improve the earnings sustainability/persistence? Is IFRS 17 useful to increase the earnings predictability and smoothness? As the quality of earnings derives from the qualitative characteristics of financial information, from the relation among accrual, cash and income and from the discretion in judgements and estimates, we examine the innovative range of IFRS 17 and we investigate whether the new standard's rules on Insurance Contracts may effectively affect the quality of insurance companies' earnings.

References

1. Ahmed, A. S., Neel, M., & Wang, D. (2013). Does mandatory adoption of IFRS improve accounting quality? Preliminary Evidence. *Contemporary Accounting Research*, *30*(4), 1344 -1372. <https://doi.org/10.1111/j.1911-3846.2012.01193.x>
2. André, P., & Filip, A. (2012). *Accounting conservatism in Europe and the impact of mandatory IFRS adoption: Do country, institutional and legal differences survive?* ESSEC Business School: Cergy-Pontoise.
3. André, P., Filip, A., & Paugam, L. (2015). The effect of mandatory IFRS adoption on conditional conservatism in Europe. *Journal of Business Finance & Accounting*, *43*(3-4), 482-514. <https://doi.org/10.1111/jbfa.12105>
4. Beaver, W. H., McNichols, M. F., & Nelson, K. K. (2000). *Do firms issuing equity manage their earnings? Evidence from the Property-Casualty Insurance Industry*. Retrieved from: https://www.academia.edu/6227913/Do_Firms_Issuing_Equity_Manage_their_Earnings_Evidence_from_the_Property-Casualty_Insurance_Industry
5. Burke, Q. L., & Wieland, M. M. (2017). Value relevance of banks' cash flows from operations. *Advances in Accounting*, *39*, 60-78. <https://doi.org/10.1016/j.adiac.2017.08.002>
6. Christensen, T. E., Gaver, J. J., & Stuerke, P. S. (2005). The relation between investor uncertainty and market reactions to earnings announcements: Evidence from property-casualty insurance industry in the USA. *Journal of Business Finance and Accounting*, *32*(1-2), 1-29. <https://doi.org/10.1111/j.0306-686X.2005.00586.x>
7. Dal Maso, L., Kanagaretman, K., Lobo, G. J., & Terzani, S. (2018). The influence of accounting enforcement on earnings quality of banks: Implications of bank regulation and the global financial crisis. *Journal of Accounting and Public Policy*, *37*(5), 402-419. <https://doi.org/10.1016/j.jaccpubpol.2018.09.003>
8. Delis, M. D., Hasan, I, Iosifidi, M., & Li, L. (2018). Accounting quality in banking: The role of regulatory interventions. *Journal of Banking and Finance*, *97*, 297-317. <https://doi.org/10.1016/j.jbankfin.2018.10.005>
9. Eckles, D. L., Halek, M., He, E., Sommer, D. W., & Zhang, R. (2011). Earnings smoothing, executive compensation, and corporate governance: Evidence from the property-liability insurance industry. *The Journal of Risk and Insurance*, *78*(3), 761-790. <https://doi.org/10.1111/j.1539-6975.2011.01417.x>
10. Embring, H., & Wall, J. (2012). Accounting conservatism in Sweden: The effects of IFRS adoption on conservatism in Swedish accounting. Retrieved from: <https://uu.diva-portal.org>

11. Foster, G. (1975). Accounting earnings and stock prices of insurance companies. *The Accounting Review*, October, 686-698.
12. Gustafson, D. R. (1973). Solving a risk theory problem under time pressure (life insurance adjusted earnings). *The Journal of Risk and Insurance*, 41(2), 279-285.
13. Houqe, M. N., Monem, R. M., Tareq, M., & van Zijl, T. (2016). Secrecy and the impact of mandatory IFRS adoption on earnings quality in Europe. *Pacific Basin Finance Journal*, 40, 476-490. <https://doi.org/10.1016/j.pacfin.2016.08.002>
14. Jin, J. Y., Kanagaretnam, K., & Liu, Y. (2018). Banks' funding structure and earnings quality. *International Review of Financial Analysis*, 59, 163-178. <https://doi.org/10.1016/j.irfa.2018.08.009>
15. Morais, A. I., Fialho, A., & Dionisio, A. (2018). Is the accounting quality after the mandatory adoption of IFRS a random walk? Evidence from Europe. *Journal of Applied Accounting Research*, 19(3), 334-350. <https://doi.org/10.1108/JAAR-07-2016-0073>
16. Pinto, I., & Picoto, W. N. (2018). Earnings and capital management in European banks – Combining a multivariate regression with a qualitative comparative analysis. *Journal of Business Research*, 89(C), 258-264. <https://doi.org/10.1016/j.jbusres.2017.12.034>
17. Rhee, C. S., Choi, E. S., & Ryu, J. Y. (2018). The influence of firm's fair value system on earnings quality under IFRS. *Journal of Applied Business Research*, 34(3), 427-436. <https://doi.org/10.19030/jabr.v34i3.10166>
18. Scherzer, M. H. (1999). Earnings insurance – mission impossible? *Financial Executive*, May/June, 53-54.
19. Schipper, K., & Vincent, L. (2003). Earnings quality. *Accounting Horizons*, 17, 97-110. <https://doi.org/10.2308/acch.2003.17.s-1.97>
20. Tchakoute Tchougoua, H. (2018). Governance effectiveness and earnings quality: Evidence from microfinance institutions. *Comptabilité – Contrôle – Audit*, 2(24), 73-111. <https://doi.org/10.3917/cca.242.0073>