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Financial Reporting and Challenges of Implementing IFRS 17: Insurance Companies in Bangladesh

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Abstract

Purpose: This study aims to assess IFRS adoption, financial reporting practices, and the challenges of implementing the new IFRS 17 in insurance companies listed on the DSE in Bangladesh. **Research design, data, and methodology:** Cross-sectional data from 56 listed insurance companies for the years 2019-2023 were collected, and content analysis was performed to evaluate IFRS adoption and financial reporting practices. A structured questionnaire survey yielding 120 responses was used, followed by a structural equation model analysis to identify the challenges in implementing IFRS 17. **Results:** The study found that listed insurance companies adopt between 4 and 6 IFRS, with some implementing up to 12 IFRS, showing an upward trend in IFRS adoption. However, IFRS is not fully applied in preparing financial statements, as the Insurance Acts of 2010 and 1938 are still in use. The challenges in implementing IFRS 17 include conflicting regulations, data management issues, the need to modify accounting systems and processes, the need for human resource training on IFRS, and the misalignment between the current regulatory framework and IFRS. **Conclusions:** Insurance companies must address these challenges to effectively implement IFRS 17 in their financial reporting.

Keywords: IFRS, financial reporting, an emerging economy, insurance.

JEL Classification Code: F10, M40, M41.

1. Introduction

Top-notch information is essential for the equity markets to operate effectively. Particularly, the way financial information is prepared and presented to third parties who rely on it for making their choices is greatly influenced by accounting regimes and widely accepted accounting standards (Ball, 2006). Diverse accounting systems have important economic ramifications for how financial reporting is interpreted globally (Bushman & Smith, 2001). Enhancing fiscal comparability and transparency, global accounting and regulatory organizations launched an initiative to promote the unification of accounting standards to enhance comparability and transparency (Bassemir, 2017). International Financial Reporting Standards (IFRS), are the result of work done by the International Organization of Securities Commissions (IOSCO), the International Accounting Standards Committee (IASC), and other international accounting organizations. Since the completion of the initial collection of fundamental requirements in 1998, there has been a rise in the application of IFRS; countries leading the way in this adoption include Australia, nations that joined the European Union in 2005, and Bangladesh in 2006. Nonetheless, there are a few prominent outliers to this pattern, including Japan and the United States. The reasons for the reluctance of many notable nations to embrace remain unclear (Hong et al., 2014).

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Proponents' arguments emphasize the potential benefits of IFRS, including increased confidence among shareholders and cheaper accounting charges for international firms. (Karolyi & Gagnon, 2010). Therefore, the potential for a competitive advantage resulting from increased liquidity and a cheaper cost of capital might persuade national policymakers to embrace globally accepted accounting standards (Guermazi, 2022). Some studies using data from businesses reveal a boost in resource distribution, whereas others find no effect or only identify an effect under certain situations. Employing uniform accounting rules might improve business relationships between multinational companies by lowering the cost associated with data interpreting, surveillance, and fortifying the links within systems of communication (Golubeva, 2020). For this reason, a lot of scholars tried to closely examine how manufacturing and service organizations adopted IFRS and other financial reporting techniques. Results from most research on industrialized nations (such as the United States, the European Union, and the Group of Seven) were inconsistent. There was not much evidence found where output may likewise vary in the setting of a developing economy.

However, Bangladesh is a major area of interest for scholars because of its weak governance, outdated laws and regulations, uncertain political situation, inefficient capital market. Its expensive legal structure is still in place, with excessive oversight, an absence of credibility, and a dearth thereof integrity. Bangladesh's commercial sector is marked by high ownership concentration and family control, lack of bank funding, lax implementation of laws and regulations, and poor oversight, in line with other emerging nations (Hasan et al., 2022). There is research occurred on the implementation of IFRS 4 at DSE listed Insurance companies in Bangladesh (Rahman, 2017). Bangladesh has received praise from the international community for its recent advancements in pandemic preparation, significant economic growth, an increase in per capita income, infrastructure development, regulatory openness and accountability, and foreign direct investment incentives (Sawada et al., 2018). Therefore, Bangladesh's economy, being a developing one, would not benefit from the findings of that earlier research. Previous research also suggests a lack of studies regarding the execution to IFRS and financial reporting practices (Rahman, 2017). Consequently, this experimentation has been undertaken regarding the implementation of IFRS, financial reporting practices, and the difficulties associated with adopting new IFRS 17 by the insurance business, one of the biggest and most established investment sectors in the country.

Different insurance firms in Bangladesh offer various insurance policies that support GDP growth, industrial development, individual growth, and the attraction of foreign investment. Developing the standard of living is another goal. It carries out its responsibilities, contributes to the national income, and maintains stable financial system, much like other organizations (Khan & Uddin, 2020). Although the insurance sector has great economic potential, it hasn't entirely succeeded in reaching its objectives for a variety of reasons. The reasons are lack of awareness and trust, regulatory challenges, economic instability, limited infrastructures etc (Talonen, 2016). In addition, insurance businesses have lots of potential but they don’t completely implement IFRSs while creating financial statements. For this reason, the study is undertaken in the context of insurance companies (Rahman, 2017). To analyse the adoption of IFRS, financial reporting practices, and challenges of implementing IFRS 17 by insurance companies in Bangladesh, the following three research questions are the focus of this investigation:

RQ1. What number of IFRS do Bangladeshi listed insurance firms adhere to?

RQ2. Do insurance companies follow IFRS to prepare their financial statements?

RQ3: What challenges do insurance firms have when putting IFRS 17 into practice?

The research offers several novelties. First, Bangladesh possesses a distinct regulatory and economic landscape. The study will offer insightful information on the particular difficulties insurance businesses in this situation come across. The research is distinct from more general studies on the adoption of IFRS 17 due to its emphasis on one nation in particular. Secondly, the study investigates the wider financial reporting procedures of insurance businesses in Bangladesh in addition to looking at the implementation of IFRS 17. This comprehensive approach will provide a deeper comprehension of how IFRS 17 will impact the financial reporting landscape. Finally, the study further clarifies the barriers insurance firms have in implementing IFRS 17 by specifically addressing the implementation problems. Policy choices and industry activities aimed at tackling these issues can benefit from the utilization of this data. Because of these several elements, the investigation greatly advances our knowledge of how IFRS 17 is being implemented.

2. Literature Review and Hypothesis Development

The adoption of accounting standards, the consequences of post-adoption, market response, the progressive acceptance process of international standards, and the benefits and challenges of applying IAS and IFRS have all been the subject of multiple research projects conducted worldwide (Caims, 2004; Duverne & Douit, 2007; Abdallah et al., 2018). There aren't many studies in Bangladesh that examine how well accounting standards are followed.

2.1. IFRS adoption and financial reporting Practice

Because local funding sources are few and worldwide marketplaces are becoming more integrated, businesses are raising more money on international capital markets (Houqe, 2018). Challenges faced by companies trading securities on foreign stock exchanges include managing different regulation on accounting and notification laws, and foreign investors' unwillingness to own overseas companies due to greater information disadvantages (Golubeva, 2020).

Adoption of IFRS is argued to lesen the information asymmetry between companies and owners by imposing higher-quality standards and mandating more disclosures. It also lowers information acquisition costs for global investors and maximizes financial statement comparability by decreasing variations in national GAAPs (De George et al., 2016). As a result of its acceptance, equity markets' financial reporting costs are decreased, and foreign investors' demand for cross-listed equities rises. IPO companies can raise more money from overseas markets by requiring the adoption of IFRS, as demonstrated by Hong et al. (2014).

The voluntary implementation of IFRS is influenced by firm-level factors such as business size, auditor type, IFRS understanding, management professionalism, and an interest to be publicly traded on a stock exchange. (Touron & Daly, 2020; Phan et al., 2018).

When it comes to the variables that affect the national implementation of IFRS, empirical evidence shows that countries with weak shareholder protections, poor local GAAP, and open economies were among the first to require the application of IFRS. Colonial associations, influence from other nations that provide funds and financial institutions, foreign direct investment, and trade institutional systems that promote gaining knowledge, and competitiveness are other considerations. (Agana et al., 2023).

In analysis of the effects of IFRS adoption on the economic worth and utility of fiscal information in Saudi Arabia's insurance sector, Alnodel (2018) concludes that company characteristics—specifically, profitability and size—have a greater bearing on both the importance and worth of accounting data than IFRS adoption.

According to Torchani et al.'s (2024) research, the European insurance business benefits from the implementation of IFRS by having better risk disclosure. Senyigit (2012) suggests that IFRS be adopted regularly in Turkey's insurance sector so that investors may compare companies through similar financial statements, therefore improving market efficiency. The insurance industry's requirements for reporting financial information are raised as a result of its embrace of IFRS.

2.2. Challenges of implementing IFRS 17

In April 1997, the International Accounting Standards Committee—the predecessor of the International Accounting Standards Board (IASB) — started work on the IFRS 17 draft. The effort resulted in the interim standard IFRS 4, which was released in March 2004. However, investors and analysts throughout the world demanded uniformity in the financial reports and disclosures that went along with them, and this was not achieved (Paetzmann & Lippl, 2013). Examining IFRS 17 makes it evident that new standards for retained reinsurance contracts, issued reinsurance contracts, and accounting for insurance contracts were adopted (Wahyuni et al., 2023). To implement IFRS 17, several challenges will be faced by insurance companies. A model is developed to identify the challenging elements affecting the implementation of IFRS 17. The created framework shown in Figure 1 is predicated on ideas taken from the following listed literature.

2.2.1. Several acts in effect and implementation of IFRS 17

According to Uddin (2021), the Insurance Act (2010) doesn’t have rules yet. Therefore, both the Insurance Act (1938) and the Insurance Act (2010) are used to prepare financial statements. Rahman and Rahman (2023) explain that due to several acts in place, will create difficulties in implementing IFRS 17.

H1: Several acts in effect negatively affect the implementation of IFRS 17.

2.2.2. Data management challenge and implementation of IFRS 17

An analysis of the difficulties in implementing IFRS 17 (IFRS 4, phase II) published by Milliman Inc. (2016) employed the criteria namely the requirement of a huge amount of new data for determining the volume of insurance contracts. Dahiyat and Owais (2021) identified data as a challenging factor for implementing IFRS 17.

H2: Data management challenge negatively affects the implementation of IFRS 17.

2.2.3. The Modification of accounting system and process and implementation of IFRS 17

The following criteria namely the system was used in studies published by Milliman Inc. (2016) and Owasis and Dahiyat (2021) on the difficulties in employing IFRS 17 (IFRS 4, phase II), including how it will affect accounting systems, actuarial systems, and the updated method for computing the contractual service financing. KPMG (2023) stated that the financial reporting process for insurance accounting has to be completely redesigned because of the complexity of IFRS 17.

H3: The modification of the accounting system and process negatively affects the implementation of IFRS 17.

2.2.4. Human resource familiarization to apply IFRS 17 and implementation of IFRS 17

Loughlin (2024) identified human resource familiarization to apply IFRS 17 as a challenging factor. Skilled and highly qualified personnel are needed to implement IFRS 17. Al Shammari and Mahmoud (2020) study used an input, process, and output model to examine how IFRS 17 should be applied in the Iraqi context. Human resources were included in the input stage, along with their recovery process through educational programs along with acquainting them with the updated standard.

H4: Human resource familiarization to apply IFRS 17 negatively affects the implementation of IFRS 17.

2.2.5. Non-alignment between current regulatory framework and IFRS and Implementation of IFRS

According to Uddin (2021), the current regulatory framework and IFRS are not aligned. There is a lack of Takaful Reporting Guidelines in IFRS, no statement to reflect other comprehensive income or profit/ loss in the current regulatory framework, absence of classification of Property Occupied by Owners in the current regulatory framework. Ahmed and Ahmed (2021) recommend that alignment between the current regulatory framework and IFRS is essential before implementing IFRS 17

H5: Non-alignment between the current regulatory framework and IFRS affects negatively the implementation of IFRS 17.

3. Theoretical Framework

3.1. Institutional Theory

Institutional theory highlights the influence of laws, courts, regulatory bodies, and professional standards on the implementation of accounting regulations. Example: the IFRS adoption in Bangladesh. It uses institutional isomorphism to identify coercive, normative, and memetic pressures (Nurunnabi, 2015). Guerreiro et al. (2012) applied the theory to non-listed subsidiaries in Greece, arguing that coercive pressure may lead to voluntary adoption of IFRS.

3.2. Legitimacy Theory

Legitimation is the process an organization uses to defend its existence, and Guerreiro et al. (2012) used this theory to explain why companies adopt IFRS, beyond perceived financial gains, to improve their reputation among investors and peers, as it provides better access to debt financing and negotiation leverage.

3.3. Bonding Theory

The expenses or obligations that an agency or business owner bears in order to guarantee investors of its performance and sell securities at a higher price are referred to as bonding. Hope et al. (2006) contend that embrace of IFRS is highly probable in nations that gain benefits from implementing accounting standards.

4. Methodology

4.1. Data Collection

This study is quantitative in nature. It addresses the degree of accounting standard conformance and uniformity. For determining the IFRS adoption and the financial reporting practice of insurance companies, this study uses cross-sectional data. The DSE (Dhaka Stock Exchange) has 58 insurance businesses listed. Here, data from 56 insurance firms are gathered. Janata Insurance Company and Progressive Life Insurance Company do not provide their data. Hence, data cannot be collected. The annual reports of these 56 businesses for the years 2019–2023 are examined in this study. The Dhaka stock market and the company's official website are used in this study to obtain data.

When choosing population samples to determine the challenges of implementing IFRS 17 to include in the study, the researcher uses the judgmental sampling strategy, putting their reliance on their judgment. A judgmental sampling approach makes sense when it comes to saving time and money by obtaining a representative sample through solid judgment (Reddy & R, 2016). The sample for this study was made up of accounting professionals with prior experience working for insurance businesses in Bangladesh. Questionnaires were distributed to 170 people and 120 people responded. This study used a cross-sectional time frame that was reasonably accurate and economical. Two months, from April to May 2024, were used to gather the research data.

4.2. Data Analysis

4.2.1. Content analysis

Content analysis is a commonly used approach for IFRS and financial statements disclosure with an emphasis on the presence or absence of information (Elo et al., 2014). As the information in the annual report has been independently validated, it is trusted (Lajili & Zéghal, 2005). The annual report's content was examined using content analysis techniques in this investigation, which converted its presence or absence into numerical scores.

4.2.2. IFRS Disclosure Index

The process of determining the number of IFRS adopted by a corporation is dichotomous, with a score of 1 if the corporation discloses one adopted IFRS, and 0 otherwise. The net score for a firm is calculated by adding the scores of that company using Excel 2013.

IFRSD = (Total score of each company/Total number of IFRS)*100

4.2.3. Measurement Tool for Questionnaire Survey

Several sources were used in the development of the study's questionnaire, which measured both independent and dependent variables. The generated questionnaire is divided into two sections to account for the logical sequence of questions and has 21 questions in total. There are five questions in the first part that pertain to demographic traits. The second segment consists of sixteen questions addressing the independent variable (thirteen questions) and the dependent variable (three questions) regarding the implementation of IFRS 17. The responders stay attentive when the questions are provided in a logical order. A confidentiality form was distributed to each participant, outlining the aim of the study and guaranteeing the anonymity of their names. They might also choose to withdraw at any time or leave any queries unanswered.

4.2.4. Variables

The independent variables are several acts in effect Data Management Challenge, the modification of the accounting system and process, human resource familiarization to apply IFRS 17, non-alignment between the current regulatory framework and IFRS. Dependent variable is implementation of IFRS 17.

4.2.5. Statistical Model

Excel 2013 was used to examine the individuals' demographic backgrounds. The study examined the descriptive data, assessed the validity and reliability of measurement, and confirmed the hypotheses using the partial least square structural equation modeling approach. The method offers an exceptionally flexible structure for the simultaneous assessment of comprehensive models, reflecting and formative measurement models, and constructions with a single item (Azim, 2012). The computations were performed using the SmartPLS 3 program with the path-weighting scheme configuration. A two-step process was used to evaluate the research model. Using the measurement model simplified the process of evaluating the measures' validity and reliability. On the other hand, the structural model was used. First, the measurement model was used to determine how structurally linked the components were. It consisted of two levels: first-order and second-order levels. The structural model is used in the next stage. Reflective structures are the first factor. The study used several criteria to examine reflective methods. The criteria were of outer loading above 0.7, composite reliability surpassing 0.6, average variance extracted (AVE) exceeding 0.5, and discriminant validity measuring how much a construct is different from other constructs (Nitzl, 2016). Thus, to accomplish this goal, the Fornell–Larcker criteria were applied. It is found that all of the components are suggestive of the formative measures at the second-order level of analysis. Three criteria were utilized in the study: a minimum value of zero for the outer weight, a maximum threshold of 0.05 for the p-value, and a maximum restriction of 5 for the variance inflation factor (VIF) (Azim, 2012). Using the path coefficient, p-value, and R^2, the structural model was employed in the second phase to evaluate the study hypotheses and determine the association between the variables. To ascertain the overall fit of the model, the standardized root mean square residual (SRMR) was then assessed. An SRMR value of 0 indicates an ideal match, but a value of 0.085 indicates a suitable fit. To assess the effectiveness of the bootstrapping process, 5, 000 bootstraps were used in the structural model computations (Nitzl, 2016).

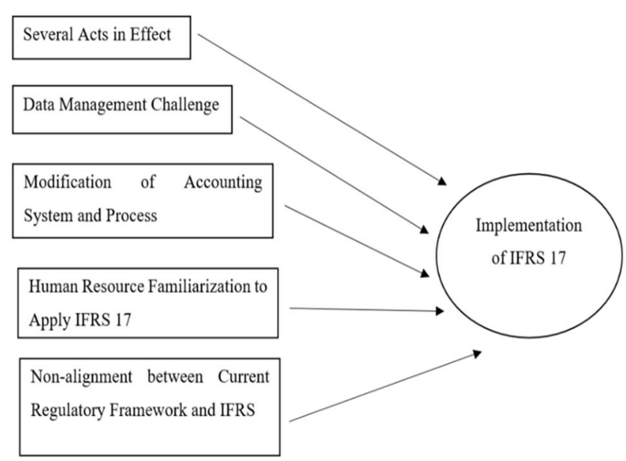

Figure 1: Developed Model

5. Analysis and Findings

5.1. Important Modifications to Accounting Standards after 2017

In 2018, the IASB released "Amendments to reference the conceptual framework," which included changes to IFRS 3, 6, and 14. The study tries to comprehend the impact of these adjustments of insurance companies listed on the DSE. IFRS 3, which came into effect on January 1st, 2019, provided more detailed instructions on business combinations. The classifications and measurement of share-based payments were amended to conform to IFRS 2. After 2018, IAS 39 was no longer applicable, and businesses had to switch to IFRS 9 (a new bad debt technique). IFRS 15 must be used instead of IAS 18, and IAS 17 will be succeeded by IFRS 16 (lease) in 2018. This new standard will increase interest and depreciation costs, increase EBIT and EBITDA in the income statement, and impact the balance sheet and ratios connected to the balance sheet, including the debt/equity ratio. After January 1, 2019, IFRS 17 will be applied; it is still optional to use and will take effect after 2023 (Akhter, 2022).

5.2. Status of IFRS Disclosure for Listed Insurance Companies

A summary of status of IFRS Disclosure for listed insurance companies is provided in appendix 1. According to Table 1, Insurance businesses in Bangladesh primarily adhere to IFRS 4, 7, 9, 13, 14, and 15. IFRS 2, 5, 6, and, 11 are not followed as Insurance Development and Regulatory Authority (IDRA) has given special guidelines. Listed insurance businesses in Bangladesh do not yet use IFRS 17, which is specifically designed for insurance companies.

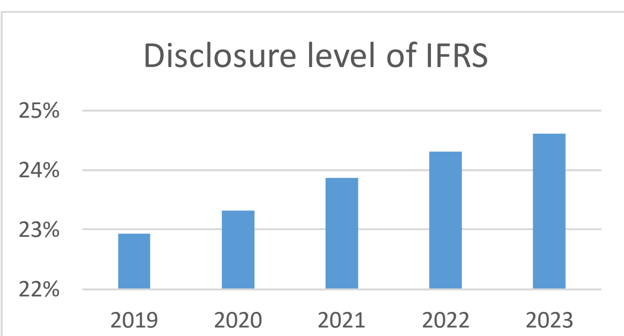

Figure 2: IFRS Disclosure Status of Insurance Companies

Figure 2 illustrates the IFRS disclosure status of insurance companies between the years 2019 and 2023 at 5-year intervals. It represents that disclosure status increased over the years. Overall, an upward trend in implementing IFRS is shown in the chart.

5.3. Descriptive statistics for IFRS disclosure

Table 1 represents consistency for IFRS disclosure of insurance companies in Bangladesh. The range of the mean is 4-6. It indicates that on average, listed insurance companies follow 4-6 IFRS. There is a downward trend in standard deviation which indicates more consistency in applying the IFRS by companies. Bangladeshi insurance companies adhere to the maximum 12 IFRS.

Table 1: Descriptive Statistics for IFRS Disclosure

Year	Mean	Standard deviation	Minimum	Maximum
2019	4.23	2.98	1	12
2020	4.26	2.94	1	12
2021	5.02	2.88	1	12
2022	5.05	2.82	1	12
2023	6.20	2.82	1	12

5.4. Financial Statements of Listed Insurance Companies

A compilation of financial reports that insurance firms have prepared is presented in Table 2. The current structure for insurance businesses' financial statements is provided by the first and third schedules of the Insurance Act of 1938.

The form A in the Insurance Act of 1938 is followed in preparing the balance sheet. There isn't any discernible variation on the asset side. "Actuarial Reserve Liability" and "Participating Policyholders' Dividend or Bonus Liability" are the two separate liabilities that IFRS would anticipate on the liability side. They are not presented in the current practice. The Balance Sheet displays the "Life Fund," which is the primary component needed to align our approach with IFRS. Additionally, the balance sheet does not have any distinct equity section reporting. The format has addressed the needs of IFRS/IAS to some extent, but not enough in the presentation to help the user of financial statements comprehend them better.

According to IFRS, the current year's profit/loss statement should be used to calculate the current year's surplus (profit/loss). Only the non-actuarial income items and life fund movement are displayed in the revenue account. Currently, the year's excess (profit or loss) is not shown in the revenue statement. It simply displays the excess from the prior year by deducting it from the starting life fund amount.

While the revenue account displays revenue on a collected basis (including premiums that have been past due for a specific period), IFRS requires the recognition of unearned premiums related to risky periods after the balance sheet date based on the estimated risk profile of the business. Therefore, in the Revenue Account, any premium that is received in advance is likewise recorded as premium income. Investment contract deposits must be recorded as liabilities on the balance sheet under IFRS, as opposed to the present practice of recording them as premiums in the revenue account.

Provisions for differentiating between distinct policyholder funds, such as participating and non-participating funds, are present in IFRS. The current insurance regulatory framework lacks clarity about the division of funds into participating and non-participating accounts.

Table 2: Financial Statements of Insurance Companies in Bangladesh

Statements	Percentage
Balance Sheet	100.00%
Revenue Account	77.50%
Cash flow statement	100%
A separate Actuarial Valuation Report	82.50%
A separate Financial Condition Report	82.50%

5.5. Demographic Profile:

170 questionnaires were given to experienced accountants employed by insurance businesses in Bangladesh as part of the study. A 71% response rate was obtained from 120 completed and returned questionnaires. Male involvement is higher than female participation. Table 3 depicts that 79.17% of participants in the sample are bachelor's degree holders. Age groupings are calculated consistently, according to the results. Furthermore, the survey has gathered information on the participants' work category. The findings presented in Table 3 demonstrate that accountants covered the largest percentage of participants (62.5%), with audit professionals coming in second (37.5%). 13 responded from juniors who had been in the group for less than five years. The majority of the participants had been there for five to ten years.

Table 3: Demographic Profile

Respondents Characteristics	Frequency (n= 120)	%
Gender		
Female	42	35
Male	78	65
Total	120	100
Age		
30 and younger	10	8.33
31-40	65	54.17
41-50	34	28.33
50 and older	11	9.17
Total	120	100
Education		
Bachelor degree	95	79.17
Masters	25	20.83
Total	120	100
Job		
Accountant	75	62.5
Auditor	45	37.5
Total	120	100
Experience		
Less than 5 years	13	10.83
5-10 years	85	70.83
More than 10 years	22	18.34
Total	120	100

5.6. Descriptive Statistics of Questionnaire Survey:

The variables are assessed using five Likert-scale questions. Five strongly agree, while one strongly disagrees. The factor mean, skewness, standard deviation, and kurtosis are displayed in Table 4. The average of all the factors ranges from 3 to 4, meaning that respondents generally agreed that all the variables about the challenges in implementing IFRS 17 are relevant. Human Resource familiarization to apply IFRS 17 had the greatest mean of 4.01, while several acts in effect received the lowest mean of 3.49. Several acts in effect have the highest variance of 1.12, according to the standard deviation showing data variations. Human Resource familiarization to apply IFRS 17, on the other hand, has the least standard deviation (1.02), suggesting that the concepts are stable with this variable. With a standard deviation or so, respondents' beliefs are often semi-consistent. There is a left-side tail distribution across all variables due to their negative skewness. Since all values fall between the range of -3 and 3, kurtosis is normal.

Table 4: Descriptive Statistics of Questionnaire Survey

Variable	Mean	SD	Skewness	Kurtosis
Several acts in effect	3.49	1.12	-0.60	-0.23
Data Management Challenge	3.50	1.13	-0.56	-0.60
The modification of the accounting system and process	3.69	1.09	-0.82	0.35
Human Resource familiarization to apply IFRS 17	4.01	1.02	-0.82	0.43
Non-alignment between the current regulatory framework and IFRS.	3.55	1.04	-0.37	-0.35
Implementation of IFRS 17	3.61	1.03	-0.81	0.69

5.7. Measurement Model

Appendix 2 provides an overview of the first-order construct's measurements. Each item's outer loading was higher than 0.7. Cronbach's alpha, average variance, and composite reliability values were obtained.

The findings of the Fornell-Larcker criteria are shown in Appendix 3. Since each variable's square root of AVE was greater than its greatest correlation with any other variable, discriminant validity was demonstrated. As a result, the variable and its associated indicators share the greatest variation.

Table 5 displays the second-order findings of the formative construct measurements. Every weight was more than zero, the p-value was less than 0.05, and the VIF values were less than five.

Table 5: Measurement of Formative Construct (second order)

Items	Weight	p-value	Variance Inflation factor (VIF)
Critical value	>0	<0.05	<5
Implementation of IFRS 17	0.31722	0.00	2.2287
Several acts in effect	0.31824	0.00	2.66934
Data Management Challenge	0.34476	0.00	1.27806
The modification of the accounting system and process	0.43656	0.00	2.01246
Human Resource familiarization to apply IFRS 17	0.3876	0.00	2.61732
Non-alignment between the current regulatory framework and IFRS.	0.4743	0.00	1.2852

5.8. Structural Model

The study employed the structural model to evaluate the importance of hypotheses. The path coefficient and p-value for the challenges of implementation of IFRS 17 in Bangladeshi insurance businesses are displayed in appendix 4. The findings demonstrate that every factor had a negative effect on the application of IFRS 17 with the path coefficient values of -0.522 and -0.132, respectively, and a p-value of less than 0.05. It indicates that Several acts in effect, Data Management Challenges, Modification of accounting system and process, Human Resource familiarization to apply IFRS 17, and Non-alignment between the current regulatory framework and IFRS are the challenging factors of implementation of IFRS 17 in insurance companies in Bangladesh.

The dependent variable named implementation of IFRS 17 has an R^2 value of 0.685, indicating how much various challenging factors influence the adoption of IFRS 17 in insurance companies in Bangladesh.

6. Discussion

Globalization has significantly impacted the commercial sector, leading to the increasing use of International Financial Standards (IFRS) as integration tools. IFRS aims to reduce information asymmetry between corporate management and business partners. For this reason, the study examines the adoption of insurance companies in Bangladesh by the IFRS. From the findings in Table 1, it’s shown that insurance companies are following a maximum of 12 IFRS from 2019-2023. According to institutional and legitimacy theory, the IFRS disclosure of insurance companies has had an upward trend over the years, as shown in bar chart 1. Therefore, companies want to show their legitimacy and improve their reputation in the financial market. The majority of the insurance companies mentioned in their annual reports that they are not following all IFRS guidelines because of the IDRA guidelines. As per bonding theory, insurance companies are not getting the proper benefit from adopting all IFRS. For this reason, they haven’t adopted all IFRS.

Table 2 shows that Insurance companies in Bangladesh primarily prepare financial statements using the prescribed schedules of the Insurance Act of 1938, which has been in place for decades. This is a major reason why IFRS 4 was not fully adopted in Bangladesh, as local laws take precedence over IFRS. The Financial Reporting Council (FRC) recently issued a mandate for insurance companies to adopt IFRS, but due to previous practices and uncertainty, insurance companies in Bangladesh primarily adhere to the schedules under the Insurance Act 1938.

Among the IFRSs, IFRS 17 mandates that insurance contracts adhere to international accounting standards for financial reporting to enhance accounting procedures and comprehend the key elements associated with insurance companies. However, it’s found that there are important challenging factors to implementing IFRS 17 which are shown in appendix 2.

In Bangladesh, various regulatory frameworks govern insurance firms, including the Securities and Exchange Rules of 1987, Companies Act of 1994, Insurance Act of 2010, Insurance Act of 1938 and 1958, Financial Reporting Act of 2015, IAS, and IFRS. The Insurance Rules of 1958 are considered an addition to the Insurance Act of 1938, but the regulatory body does not provide a comprehensive set of rules to complement the Insurance Act of 2010. According to institutional theory, both acts are used for financial reporting because of regulatory pressure. Appendix 4 shows a negative relationship between several acts in effect and IFRS 17 implementation, suggesting difficulties in implementing these regulations. Therefore, H1 is accepted.

In appendix 4, the implementation of IFRS 17 is negatively impacted by data management variables, as businesses need to gather and handle detailed data for financial and performance reporting. IFRS 17 harmonizes accounting and actuarial data using common data sets like the level of aggregation reference data. However, version control concerns across financial and actuarial data lead to reconciliation challenges, making data management a prime challenge in IFRS 17 implementation. Hence, H2 is accepted.

For implementing IFRS 17, a new accounting system needs to be designed. The majority of the respondents also agree that a new actuarial model needs to be implemented or modified to the current one. For this, a high budget is needed. Hence, the modification of the accounting system and process is another challenge in implementing IFRS 17. Therefore, the negative relation between the modification of the accounting system and the process and implementation of IFRS 17 is shown in appendix 4. Therefore, H3 is accepted.

The majority of the respondents agree that IFRS 17 is a complex standard. To implement it, a qualified chartered accountant is needed. In Bangladesh, there is a scarcity of qualified chartered accountants. Hence the proper training needs to be provided to the current employees. It will cost high. Therefore, Human resource familiarization is another challenging factor in implementing IFRS 17. Human resource familiarization to apply IFRS 17 impacts negatively the implementation of IFRS 17 in appendix 4. Hence, H4 is accepted.

There is non-alignment between the current regulatory framework and IFRS. There are three distinct funds under the Takaful business: the Operator Fund, the Participants' Investment Fund, and the Participants' Risk Fund. The majority of the respondents agree that the existing Takaful legal framework is incomplete, it requires clear guidance from authorities. Further synchronization is required between IFRS rules and Takaful insurance reporting. Another issue is that according to IFRS 9, financial instruments must be reported using the following three categories: profit and loss, amortized cost, and fair value through other comprehensive income. Nevertheless, the majority of the respondents agree that companies do not have a statement to represent additional comprehensive income or profit/loss, as per regulatory framework. Therefore, every financial instrument or investment that has to be reported at fair value needs to be represented in fair value through the revenue account or balance sheet. Finally, Owner-occupied property must be shown on the balance sheet under the Property, Plant, and Equipment heading according to IFRS. The majority of the respondents agree that all real estate properties, however, must be shown under the Investments heading on the balance sheet per regulatory framework. These non-alignments between the current regulatory framework and IFRS will create problems in implementing IFRS 17 which is shown in appendix 4. Hence, H5 is accepted. Therefore, challenges need to be overcome before implementing IFRS 17.

7. Conclusion

The global convergence of accounting standards will provide a consistent and trustworthy reporting framework. However, few studies of developed countries have examined IFRS adoption and financial reporting of insurance companies. In this aspect, the emerging countries fall short. This research focuses on the adoption of IFRS by insurance companies between 2019 and 2023. According to the survey, insurance companies do not adhere to full IFRS because of specific requirements issued by IDRA. Maximum 12 IFRS are followed by insurance companies.

The study also discusses the financial reporting practice of insurance companies. Most insurance companies generate their financial statements using applicable schedules from the Insurance Act of 1938. The Insurance Act of 2010 replaced the Insurance Act of 1938, however insurance firms are still allowed to follow the 1938 Act's schedules if the 2010 Act does not specify any forms that are needed. Bangladesh has long been an IFRS-compliant jurisdiction; however, the financial statements of Bangladeshi insurance companies did not show significant compliance with IFRS 4, Insurance Contracts, and the special IFRS for the insurance industry.

In addition, a new set of International Financial Standards (IFRS) about the insurance sector (IFRS 17, Insurance Contracts) is introduced. Therefore, the study examines the challenges of implementing IFRS 17 in the context of emerging economies. The factors of the study are derived from several theories of challenges of implementation of IFRS 17 and developed in a framework that includes several acts in effect, data management challenge, modification of the accounting system and process, human resource familiarization to apply IFRS 17, and non-alignment between the current regulatory framework and IFRS. According to the study's conclusions, every element directly hinders the widespread use of IFRS 17. Hence, they are the challenging factors that create difficulties in implementing IFRS 17.

Based on the previous study, it is anticipated that IFRS 17 would improve consistency across methods of calculating profit and loss from insurance contracts; as a result, financial statements from various geographical locations and sectors should be far more similar. The reporting of earnings now has a new foundation (Uddin, 2021). The methodology for measuring insurance liability and insurance finance expenditure will change. Risk allowance and probability weightage must be used in conjunction with service results to differentiate finance expense from insurance responsibility (Rahman & Rahman, 2023). Therefore, implementing IFRS 17 will improve the financial reporting of insurance companies.

An absence thereof IFRS 17 adoption by all surveyed companies, despite its effective date in 2023, could result in financial reporting inconsistencies, misleading information, regulatory challenges, and increased scrutiny. This lack of a common accounting standard can make financial statements difficult to compare, hinder investors' decision-making, and lead to non-compliance with regulatory requirements. Increased scrutiny could result in additional costs and burdens for companies that do not comply with IFRS 17. Investor confidence in these companies may be reduced due to a lack of commitment to transparency and best practices, potentially leading to a decline in share prices. Operational challenges include increased complexity, time-consuming implementation, and potential disruptions, especially for companies with complex insurance portfolios.

Challenges need to be overcome. It is recommended that The Insurance Regulator and other agencies coordinate to implement the comprehensive IFRS reporting system. Possible changes in the existing regulatory framework should be made for the full implementation of IFRS. The possible benefits of implementing IFRS 17 should be disclosed to the insurance companies so that they become eager to implement IFRS 17.

Overall, IFRS 17 implementation is necessary in financial reporting as a means of encouraging the insurance sector in Bangladesh to promote further development. It is anticipated that the study will advance knowledge of IFRS adoption, financial reporting, and difficulties of implementing IFRS 17 in insurance companies in Bangladesh and offer insightful analysis to financial professionals working in this area.

8. Limitation of the Research

There are several limits to the study's findings, which may pave the way for more investigation. Firstly, additional factors like Chronic characteristics of insurance contracts, embedded value, the intricate feature of the business model, and instability of the market that might influence the IFRS implementation in the insurance industry were not included in the current experimentation. The second reason is that the target population is limited to the Bangladeshi setting; thus, it is advised that future research employ a bigger sample size and look for other variables. For example, a cross-national study comparing various perspectives in the insurance sectors might be helpful. Lastly, qualitative research should be the main focus of future studies to analyze the challenging factors impacting the IFRS implementation in the insurance sector in greater detail.

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Appendix

Appendix 1: Disclosure Status of IFRS of Listed Insurance Companies.

IFRS	2019	2020	2021	2022	2023
IFRS 1	30%	30%	30%	32%	32.65%
IFRS 2	0	0	0	0	0
IFRS 3	6%	6.1%	7.2%	7.3%	7.3%
IFRS 4	37%	37%	40.4%	40.5%	40.5%
IFRS 5	0	0	0	0	0
IFRS 6	0	0	0	0	0
IFRS 7	45%	47.5%	47.5%	47.5%	49.75%
IFRS 8	29.76%	30.2%	30.2%	32.76%	32.76%
IFRS 9	48.2%	48.5%	50%	50.2%	50.3%
IFRS10	14.2%	14.2%	16%	16%	16.5%
IFRS 11	0	0	0	0	0
IFRS 12	14.76%	15.2%	15.5%	15.5%	17%
IFRS 13	49.8%	50%	50%	52.2%	52.2%
IFRS 14	10%	10%	11.2%	11.3%	11.3%
IFRS 15	65%	67%	67%	67%	67%
IFRS 16	40%	40.75%	40.75%	41%	41%
IFRS 17	0	0	0	0	0
Average	23%	23%	24%	24%	25%

Appendix 2: Measurement of Reflective Construct (First Order)

Variables	Items	Outer Loading >0.70	Cronbach's Alpha >0.70	Composite Reliability >0.70	Average Variance extracted >0.50
Implementation of IFRS 17	II1	0.78234	0.79458	0.8721	0.57426
	II2	0.89148			
	II3	0.83538			
Several acts in effect	SA1	0.94962	0.8976	0.94452	0.82212
	SA2	0.91698			
Data Management Challenge	DM1	0.81702	0.8313	0.9078	0.7446
	DM2	0.89862			
The Modification of the accounting system and process	AS1	0.94554	0.89148	0.94044	0.81498
	AS2	0.94962			
	AS3	0.83436			
Human Resource familiarization to apply IFRS 17	HR1	0.83844	0.84864	0.91698	0.76398
	HR2	0.91086			
	HR3	0.8976			
Non-alignment between the current regulatory framework and IFRS.	RF1	0.85068	0.77928	0.87618	0.6834
	RF2	0.80478			
	RF3	0.84864			

Appendix 3: Fornell–Larcker Criterion

Variable	Implementation of IFRS 17	Several acts in effect	Data Management Challenge	Modification of the accounting system and process	Human Resource familiarization to apply IFRS 17	Non-alignment between the current regulatory framework and IFRS.
Implementation of IFRS 17	0.77					
Several acts in effect	(0.66)	0.91				
Data Management Challenge	(0.43)	0.24	0.91			
Modification of the accounting system and process	(0.78)	0.71	0.84	0.88		
Human Resource familiarization to apply IFRS 17	(0.75)	0.70	0.88	0.99	0.88	
Non-alignment between the current regulatory framework and IFRS.	(0.49)	0.77	0.24	0.43	0.44	0.83

Appendix 4: Path Coefficient

Hypothesis	Relationship	Direct effect	Confidence Interval 2.5%	Confidence Interval 97.5%	p-value
H1	Several acts in effect → Implementation of IFRS 17	-0.1926	-0.05202	-0.29784	0.001
H2	Data Management Challenge → Implementation of IFRS 17	-0.132	-0.04182	-0.20094	0.00
H3	Modification of the accounting system and process → Implementation of IFRS 17	-0.20298	-0.17646	-0.22746	0.00
H4	Human Resource familiarization to apply IFRS 17 → Implementation of IFRS 17	-0.522	-0.355	-0.68	0.00
H5	Non-alignment between the current regulatory framework and IFRS → Implementation of IFRS 17	-0.482	-0.323	-0.524	0.00