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

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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, Kanagaretnam, Lobo & Terzani, 2018; Delis, Hasan, Iosifidi & Li, 2018; Jin, Kanagaretnam & Liu, 2018; Pinto & Picoto, 2018; Tchakoute Tchuigoua, 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


