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The Expected Impact of Applying the Insurance Contracts Standard (IFRS 17) in the Solvency and Profitability of Insurance Companies listed on the Amman Stock Exchange

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Abstract

This study aimed to identify the expected impact of applying International Financial Reporting Standard No. 17 on the solvency and profitability of the insurance companies listed on the Amman Stock Exchange. The descriptive analytical approach was used to achieve the study's aim. The study used the questionnaire as a tool, where the study population consisted of all insurance companies listed on the Amman Stock Exchange. In contrast, the study sample included heads of accounts departments and actuaries working in insurance companies and accountants, and 33 questionnaires were distributed to insurance companies. One of the most important findings of this study was that there is a relationship between the independent variable (application of IFRS No. 17) and the dependent variable (solvency) in the insurance companies listed on the Amman Stock Exchange. And that there is a relationship between the independent variable (application of International Financial Reporting Standard No. 17) and the dependent variable (profitability) in the financial and service insurance companies listed on the Amman Stock Exchange. One of the most important recommendations of the study is the need for insurance companies to be keen to provide employees with ongoing experimental courses to remove the ambiguity surrounding some of the provisions of International Financial Reporting Standard No. 17.

Keywords: *Insurance Contract, Financial.*

Introduction

The developments witnessed by the insurance sector at the international level were reflected in the accounting fields of insurance companies in terms of the foundations of recognition, measurement, and disclosure, as well as the difference in accounting procedures in insurance contracts from other sectors, where the Standards Board (IASB) issued the IFRS 4 insurance contracts standard and the aim of its issuance is to find appropriate accounting methods to deal with insurance contracts for insurance companies as the standard allowed these companies to use different accounting methods, which led to creating problems related to the comparability of accounting information related to insurance contracts, as accounting treatments differ from one country to another and from one company to another within the same country, this is what made the International Accounting Standards Board resort to issuing a new standard (insurance contracts - IFRS 17), which concerns insurance contracts, which was supposed to start applying starting from 1/1/2021.

However, the effective date was postponed for two years, which will be effective from 1/1/2023, this postponement was in order to allow time for the regular application of the amended International Financial Reporting Standard (IFRS)17 in various jurisdictions around the world, and this would enable more insurance companies to implement the new standard at the same time (IASCA, 2020) the insurance sector in Jordan is exposed to many problems related to solvency and profitability (contractual service margin - unearned profit that the insurance company expects to achieve during the provision of the service, as the

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insurance sector plays an important role in the development of the national economy) the application of the new Financial Reporting Standard (IFRS 17) insurance contracts comes to treat the weaknesses in insurance companies in addition to unifying the accounting procedures for insurance contracts, hence this study came to know the expected impact of the application of the insurance contracts standard (IFRS 17) on the solvency and profitability of insurance companies listed on the Amman Stock Exchange the insurance sector in Jordan suffers from many problems related to solvency, profitability and successive losses, as a result of the imbalance in the value of compensation paid to some insurance contracts and between the premiums received from these contracts, and this matter led to the development of ten insurance companies in a critical situation as they are vulnerable to bankruptcy, and the exit of this number of insurance companies from the Jordanian market consisting of 27 companies is very important and can cause a defect in the Jordanian economy (the Jordanian Federation of Insurance Companies), as it is considered Insurance companies are one of the most important pillars of the Jordanian economy, and it is expected that the application of the new standard (IFRS 17) puts pressure on departments and puts them in a competitive environment, so companies must enhance their capabilities in pricing, distributing and promoting services, in an attempt to reduce their costs, distribute their obligations, gain new customers and increase sales and potential profits, and can reduce this financial default, and help insurance companies recover from this crisis.

Hence, this study will address two main questions:

The first main question is: What is the impact of applying the IFRS17 insurance contracts standard on solvency in insurance companies listed on the Amman Stock Exchange?

The second main question: What is the impact of applying the IFRS17 standard on profitability in insurance companies listed on the Amman Stock Exchange?

Based on the problem of the study and its questions, the following hypotheses were formulated:

First hypothesis: H01 There is no statistically significant effect at a significant level of 5% for the application of the IFRS 17 insurance contracts standard on solvency in insurance companies listed on the Amman Stock Exchange.

Second hypothesis H02: There is no statistically significant effect at a significant level of 5% for the application of the IFRS 17 insurance contracts standard on the level of profitability in insurance companies listed on the Amman Stock Exchange

Literature Review

The insurance industry in Jordan developed establishing the first insurance agency in 1946, which was affiliated with the Egyptian Orient Insurance Company, while the first national insurance company appeared in 1951 as the Jordan Insurance Company. In 1956 the Jordanian Association of Insurance Companies was established. In 1965 the Insurance Law was issued, in 1987 the Unified Compulsory Insurance Office was established, and in 1999 the Jordan Insurance Authority was established. The number of companies increased in subsequent contracts, eventually reaching 24. Among them are (7) companies specializing in providing general insurance services, including medical insurance, one company specializes in practicing general insurance except for medical insurance, (15) companies that provide general insurance in addition to life insurance, and one company specializes in life insurance, and there are no companies specialized in reinsurance, as the statistics of financial indicators showed the performance of the insurance sector in Jordan as of 31/7/2020. (General Federation of Insurance Companies Statistics 2022). At the same time, laws were issued to regulate the insurance market (Insurance Law No. 30 of 1984 and Law No. 9 of 1995), in addition to the establishment of the Jordan Federation of Insurance Companies in 1989 which replaced the Jordan Insurance Association, Companies (established in 1956) (Jordan Insurance Federation, 2022). Despite the difficult conditions surrounding Jordan, the wheel of the local economy has begun to change rapidly, and growth figures have witnessed an increase in many areas during recent years. The emergence of the COVID-19 pandemic in 2019 and 2020 had an impact on the insurance sector in

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Jordan, this is evidenced by a report issued by the Jordan Federation of Insurance Companies on studies conducted during the first half of 2020 the solvency margin is one of the financial control tools for insurance companies, as insurance companies are exposed to many risks for various reasons, including a high level of administrative expenses, a drop in the level of insurance prices to below the acceptable level, the occurrence of natural disasters, mismanagement of investment funds, thus showing the importance of the solvency margin in ensuring the company's ability to meet its obligations in light of the risks that the company may be exposed to the general form of solvency determines the minimum capital, restrictions on the investment portfolio, a certain financial surplus, the completion of financial forms, and .repeated checks at least every three years

The Concept of Financial Solvency

Solvency has several symmetrical and converging definitions that share the basic idea in addition to some differences, including the definition of Al-Tartaq and Al-Ayeb (2018) as the company's ability to pay its obligations on maturity, which means the company's ability to pay its obligations on time without delay or any obstacles, and (Al-Zubaidi and Al-Mashhadani 2020) defined it as "the company's ability to cover various costs during the fiscal year.

Financial Solvency According to International Financial Reporting Standards

International Financial Reporting Standards (IFRS) provide several ways to measure the solvency of the company, namely the company's ability to meet its long-term financial obligations, and the following methods of disclosure and measurement of solvency by International Financial Reporting Standards, and the objective of each standard:

IFRS 9 is a financial instrument, that requires companies to measure and disclose credit risk of financial assets and liabilities. This helps assess the potential impact on the solvency of credit events such as default or impairment (Mawanane-Hewa,2022).

IFRS 7 Financial Instruments: Disclosures, require companies to disclose information that enables users of financial statements to assess the importance of a company's financial instruments to its financial position and performance (Nurudeen et al,2022).

IFRS 13: Measuring Fair Value, which provides a framework for measuring fair value and helps ensure that measurements are consistent and comparable across different companies, and can help assess a company's solvency by providing a consistent way to measure the value of assets and liabilities (Ramli et al,2021).

IFRS 17 Insurance contracts, which provides a new framework for accounting for insurance contracts and requires companies to measure and disclose information about the solvency margin, which is the difference between their assets and liabilities.

Profitability refers to a company's ability to generate revenue that exceeds expenses, resulting in positive financial gains. Profitability is a key indicator of the financial health of the company and is used to assess its ability to grow and invest, factors that can affect the profitability of the company include sales, costs, and general economic conditions, as profitability can be measured in different ways such as gross profit margin and net profit, and during this section all details related to profitability will be clarified.

Jayathilaka (2020) profitability as the company's ability to achieve profit or a positive defined .return on its investmentsHereprofitability appears as a measure of the company's efficiency in using its resources to generate revenue, as it can be used to evaluate business performance On the otherhand (BATRÎNCA et al, 2014) defined profitability as a goal for the .company and a measure to judge its efficiency at the level of the total unit or partial unit

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The relationship between profitability and financial solvency in insurance companies.

Profitability and solvency are important measures to assess the financial health of an insurance company, as profitability refers to the company's ability to make profits. In contrast, solvency refers to the company's ability to meet its financial obligations when they are due (Hamza,2022).

Profitability is usually measured in financial ratios such as return on equityROEand return on assetsROAto make a profit and solvency, on the other hand, is usually measured by equity ratio and-to-financial ratios such as the debtthe current ratiowhich indicates the extent , to which a companycan meet its financial obligations (Jayathilaka, 2020)

The study of Sayd and Zariq, (2022) entitled: Accounting for insurance contracts between the International Financial Reporting Standard (IFRS 17) and Solvency: a comparative study, and one of the most important results was that the similarity of both Standard 17 and Solvency 2 in the use of objective models for measurement that correspond to market conditions and take into account discount rates to find the present value of future cash flows, and effective methods and mechanisms for the presentation and disclosure of insurance contracts, and Sameh's study, (2021), entitled: The impact of the application of IFRS No. 17 on the development of accounting measurement and disclosure and improving the quality of financial reports of Egyptian insurance companies The results showed that there is an impact of net written premiums to the ratio of shareholders' equity on financial performance. And the study by Tartag and Ayeb, (2018), entitled: Measuring the rules of solvency in insurance companies, one of the most important results was that Algerian insurance companies are not in line with global developments in the field of solvency, whether in terms of quantity or quality.

Hamza. et.al,(2022): The Expected Impact of Applying IFRS17 on The Quality of Financial Reports for Insurance Companies Listed on The Amman Stock Exchange. One of the most important findings is that there is a strong impact relationship between the application of IFRS 17 on the importance of financial reporting in insurance companies, and Lessons (Bosnia, 2020) on The Effect of Audit Committee Characteristics on the Financial Reporting Quality: Additional evidence The most important findings were that there was a significant positive relationship between the independence of the audit committee and the quality of the financial reports of French industrial companies.

Methodology

The descriptive analytical approach was followed as it is commensurate with the purposes sought by this study. The researcher relied on obtaining data and information from two types of data collection sources, namely: Primary sources: Which are those data obtained by the researcher by designing a questionnaire commensurate with the subject of the study, distributing it to the study sample, and then analyzing it using the statistical program Statistical Package for Social Science (SPSS).

Secondary sources: Reliance on scientific books, previous studies, research published in periodicals, scientific journals, statistics, and websites.

Study Population and Sample

The study population consists of 21 Jordanian insurance companies listed on the Amman Stock Exchange, and a sample was selected that included several account department managers and their assistants for several insurance companies, and some specialists in the field of financial analysis, insurance, accounting, and actuaries, and their number reached 40 individuals, the questionnaire was distributed to them, 35 forms were retrieved, i.e. a recovery rate of 87.5%.

The questionnaire was designed and arbitrated by several university professors specialized in the field of financial reporting standards, and insurance companies, and the questionnaire adopted the Likert five-point scale to measure the answers, and consisted of four axes:

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The first axis: is the identifying characteristics of the sample members.

The second axis: is the independent variable, applying the International Financial Reporting Standard IFRS17.

The third axis: is the dependent variable of financial solvency.

Fourth Theme: Dependent Variable Profitability

After the researcher finished identifying the members of the final study sample, the personal and functional characteristics of the sample members were described. It is clear from the data contained in the following:

About the current job: It is clear from Table (2) that 36% of the study sample are managers of the accounting department, 30% of them are accountants, 24% of them are financial analysts, and 9% are actuaries. This is an indication of the ability of the study sample members to answer the questions included in the study questionnaire and rely on them to reach more generalizable results.

About the variable of practical specialization: It is clear from Table (2) that 67% are from the accounting major, 24% are from the finance major, 0% are from the business administration and economics major, and 9% are an actuary, and it is noted that the majority of the study sample members are from the accounting specialization and this gives an indication that the members of the study sample had a scientific background qualified to answer the questionnaire questions and that their answers are realistic and have high credibility.

About the variable of academic qualification: It is clear from Table (2) that the members of the study sample who hold a bachelor's degree ranked first with a percentage of 63%, and holders of a diploma degree (college) ranked last 0%, while holders of a master's degree came in second place with a percentage of 30%, and the third place in total doctorate with a percentage of 6%. This means that most of the study sample are bachelor's degree holders.

About the variable of work experience: It is clear from Table (2) that 9% of the study sample have less than 5 years of work experience, 21% range from 5 to less than 10 years, 45% range from 10 to less than 15 years, and 24% have 15 years of work experience or more. All of the above characteristics of the sample members indicate the friction of the study sample with the scientific and professional reality, and their ability to realize the paragraphs of the questionnaire and what they mean, which reflects positively on the validity of their answers to the questionnaire questions.

Study Tool and Definition

To achieve the objectives of the study, the researcher developed and developed a questionnaire for the current study, to identify the expected impact of the application of the financial reporting standard IFRS17 on solvency and profitability in insurance companies listed on the Amman Stock Exchange, from the point of view of the study sample, as the researcher developed this tool to cover the hypotheses on which it was based, and the reasons that called for choosing this method to collect data from the study sample are summarized in that the standard was applied on 1/1/2023, so there is no available at present. Actual financial results about the application, in addition to the advantages of this method of speed, efficiency, and low cost.

The following elements of verification and control were taken into account in the design of the questionnaire:

The simplicity and clarity of paragraphs regarding wording and freedom from linguistic errors.

Its relevance and comprehensiveness to the axis it was designed to measure.

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With a "positive" attitude in some and "negative" in others to ensure the focus of respondents.

Do not put paragraphs with open ends so that the respondent does not get tired of answering the paragraphs of the questionnaire.

Several paragraphs aimed at verifying the credibility of the answers given.

It was confirmed that all data will be strictly confidential, and will not have any impact on the respondent, with no obligation to mention the respondent's name on the questionnaire.

Attach to each questionnaire a letter addressed by the researcher to the respondent specifying the objective of the study, and promising to give the respondent the results of the study as soon as it is completed if the respondent so wishes.

Steps to prepare the study tool (questionnaire):

The researcher relied on several steps until the study tool reached its final version, these steps are summarized as follows:

Some of the literature related to the application of IFRS17 and solvency standards was reviewed

In addition to referring to research and studies published in periodicals and scientific journals related to the subject of the study, to benefit from them in building the questionnaire and drafting its paragraphs.

Consult several Jordanian university professors in determining the dimensions and paragraphs of the questionnaire.

After all the dimensions of the study were approved, the researcher classified the paragraphs of the questionnaire on several axes, where the researcher reviewed them with the supervisor to ensure their comprehensiveness and coverage of the main axes of the study.

The questionnaire was presented to eight arbitrators, faculty members in Jordanian public and private universities, and Appendix No. (2) shows the names of the arbitrators.

In light of the opinions of the arbitrators, some paragraphs of the questionnaire were amended, so that the questionnaire appears in its final form as in Appendix No. (1).

Description of the Study Tool (Questionnaire)

A special questionnaire was designed and developed to identify the expected impact of the application of the Financial Reporting Standard IFRS17 on solvency and profitability in insurance companies listed on the Amman Stock Exchange, the study tool included in its final form the following parts:

The first part: Is devoted to knowing the general data of the members of the study sample, which is the current job, scientific specialization, academic qualification, and number of years of experience.

The second part: Is devoted to the paragraphs that cover the variables of the study, and consists of three sections, namely:

The first section: The questions that covered the independent variable were devoted to applying the International Financial Reporting Standard IFRS17 in Jordanian insurance companies listed on the Amman Stock Exchange, and included (15) items, measured from (1-15).

The second section: was devoted to questions that covered the dependent variable of financial solvency, included (15) paragraphs, and was measured from (16-30).

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The third section: was devoted to questions that covered the dependent variable profitability, included (15) paragraphs, and was measured from (31-45).

Study Tool Scale

The researcher used the Likert five-point scale to find out the respondents' answers to the paragraphs of the questionnaire, as the Likert scale is one of the most used measures to measure the respondents' attitudes and opinions, and the degrees of answers have been determined as in Table (1).

Table No. (1). Significance Scale

Importance	very agree	I agree	neutral	Disagree	Disagree.
Grade	5	4	3	2	1

Believe the Study Tool

To verify the validity of the study tool, the researcher presented it to a group of arbitrators with competence and experience from faculty members in Jordanian universities, and the number of arbitrators reached (8) See Appendix No. (2). The aim of the arbitration of the questionnaire, is to verify the extent to which the paragraphs belong to the variables of the study. The accuracy of the linguistic formulation of the paragraphs has taken the researcher their observations about them, and the questionnaire was modified based on these observations until the questionnaire reached its form.

Stability of the Study Instrument

To verify the stability of the study tool, the Cronbch alpha coefficient was used, where the stability coefficient of the total tool was (0759), this percentage is acceptable to adopt the results of this study, as the acceptable percentage for generalizing the results for humanitarian and social research is (70% or more) (Sekaran, 2016). As shown in Table (2).

Table (2). Cronbach Alpha Coefficient for Measuring Resolution Stability

Part	Variables	Number of paragraphs	Cronbach Alpha
First	Application ofIFRS17 standard	15	0.75
Second	Solvency	15	0.732
Third	Profitability	15	0.786
The tool as a whole		45	0.759

Normal Distribution Test

Before conducting the process of examining the hypotheses of the study, some statistical tests that should be performed on the data and variables of the study must be verified, including:

Kolmokroff - Samir Nouf :(One-Sample K–S Test)

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The Colemokroff-Samir Nouf test (One-Sample K-S Test) was used to verify whether the data of the study variables are subject to normal distribution or not, Table (3) shows the results of the Kolmokroff-Samir Nouf test (One-Sample K-S Test), to test the property of the normal distribution of the study variables data:

Table (3). Results of the Kolmokroff - Samir Nouf Test to Verify the Normal Distribution Characteristic of the Study Variables Data

Part	Variables	Calculated (Z) value	Significance level
The first	Application of IFRS 17	1.20	0.125
Second	Solvency	1.186	0.120
Third	Profitability	0.844	0.475
whole The tool as a		1.028	0.145

The tabular value of (Z) is (1.96) at the significance level (0.05≥α), and the test is two-sided (-2tailed.

) It is clear from the results shown in Table9) that all the values of (Zcalculated for the (study variables are less than the tabular value of (Z) of (1.96), and that all the values of the α). In light of the previous ≤0.05)significance level are greater than the significance level) results, the null hypothesisH0) was acceptedThe data of the study variables are subject to " : making it ready ,This shows that the data follows the normal distribution ".normal distribution .for analytical statistical tests

Result and Discussion

The arithmetic averages and standard deviations were extracted for the answers of the study sample working in insurance companies and financial analysts specialized in the insurance business. This is to describe the sample answers in the paragraphs of the questionnaire determine the degree of interest of the members of the study sample, and diagnose the extent to which the answers are dispersed from their arithmetic averages.

Hypothesis Test of the Study

Hypothesis (01H): There is no statistically significant effect at a significant level of 5% for the application of the IFRS 17 insurance contract standard on solvency in insurance companies listed on the Amman Stock Exchange.

This part of the study shows the effect of the independent variable (application of the International Financial Reporting StandardIFRS17on the dependent variable financial solvency, as the simple linear regression equation can be developed according to the

Soil = α+β SAIFRS +e

SAIFRS= Standard application IFRS17

Sol= Solvency

e= random error

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Table (4) shows the results of the simple regression test analysis of the first hypothesis:

Table (4). Multiple Regression Analysis Test Results to Measure the Impact of IFRS17 Application on Financial Solvency

Independent variable	Contrast source	Sum of squares	Degrees of freedom	F value	T value	Significance level	Statistical Decision
International Financial Reporting Standard Insurance Contracts17	Hard	2.574	1	13.6	3.034	0.004	Rejection of the nihilistic hypothesis
	Error	14.541	14				
	Total	17.114	15				
R^2value	0.420						
Valueβ	0.388						
Sol = 2.574+0.388 SAIFRS +14.541							

Tabular T value at the significance level (0.05≥α) is 2

It is clear from the data in the previous table that the calculated T value is 3.034, while its tabular value was 2, by comparing the values reached in the test of this hypothesis, it turns out that the calculated value is greater than the tabular value, so the null hypothesis is rejected, and the alternative hypothesis that states that "there is a statistically significant impact of the application of IFRS17 on solvency In Jordanian insurance companies listed on the Amman Stock Exchange at the significance level (0.05≥α)" and this is confirmed by the value of the significance level (0.004 = α) which is less than the significance level (0.05≥α), and the table indicates that the variance in the independent variable (R2) is explained by 0.42 of the variation in the identification and measurement of Jordanian insurance risks.

Second Hypothesis

There is no statistically significant effect at a significant level of 5% for the application of the IFRS 17 insurance contracts standard on the level of profitability of insurance companies listed on the Amman Stock Exchange.

This part of the study shows the effect of the independent variable (application of the International Financial Reporting StandardIFRS17on the dependent variable profitability as the simple linear regression equation can be developed according to

Pro = α+β SAIFRS +e

SAIFRS= Standard application IFRS17

Pro= profitability

e= random error

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Table (5). Multiple Regression Analysis Test Results to Measure the Impact of IFRS17 Application on Profitability

Independent variable	Contrast source	Sum of squares	Degrees of freedom	F value	T value	Significance level	Statistical Decision
International Financial Reporting Standard Insurance Contracts17	Hard	3.858	1				
	Error	29.731	14				
	Total	33.589	15	6.748	2.598	0.012	Rejection of the nihilistic hypothesis
R2value	0.115						
Valueβ	0.339						
Pro =3.858+0.339 SAIFRS +29.731							

Tabular T value at the significance level (0.05≥α) is 2.96

It is clear from the data in the previous table that the value of T The calculated is 2.598, while its tabular value is 2, and by comparing the values reached in the test of this hypothesis, it turns out that the calculated value is greater than the tabular value, so the nihilistic hypothesis is rejected, and the alternative hypothesis that states that "There is a trace of the application of the standard International Financial Reporting IFRS17 on profitability in Jordanian insurance companies listed on the Amman Stock Exchange at (0.05≥α)"This is confirmed by the value of the significance level (0.012 = α) which is less than the significance level (0.05≥α), and the table also indicates that the variance in the independent variable (R2)It explains the 0.339 variances in insurance risk analysis.

From the above, we conclude the following:

There is a statistically significant impact of the application of the International Financial Reporting Standard (IFRS17) on the solvency of insurance companies listed on the Amman Stock Exchange.

There is a significant impact of the application of IFRS 17 on profitability in insurance companies listed on the Amman Stock Exchange.

Table (6). Summary of The Results of The Study Hypothesis Test

Hypothesis	Resolution	Total
First	Rejection of the nihilistic hypothesis	Application of IFRS 17 on solvency in insurance companies listed on the Amman Stock Exchange
The second	Rejection of the nihilistic hypothesis	To applyIFRS 17 to profitability in insurance companies listed the Amman Stock Exchange on

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Conclusion

The results of the study showed that there is a very high-level application of International Financial Reporting Standard No. 17 in insurance companies listed on the Amman Stock Exchange, to follow the local laws and legislations that obligated insurance companies to apply the standard from the beginning of 2023 and the application of the standard leads to a decrease in the level of profits visible in the income statement of insurance companies, which in turn affects the financial performance of insurance companies and fundamentally affects the elements of financial statements in insurance companies and employees in insurance companies. Those in charge of applying the standard still need intensive training courses to increase understanding of the standard and will be more useful because they coincide with the application of the standard directly and the standard needs to increase the expansion of research and studies to measure the impact of its application in an actual and not expected way, because the application has recently begun, so awareness must be increased among investors and administrations about the low profitability values resulting from the application of the standard does not negatively affect the performance, but rather works to raise the value of the solvency of insurance companies and increase Their ability to fulfill their obligations.

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