EXPECTED EFFECTS OF IFRS 17 ON THE TRANSPARENCY AND COMPARABILITY OF INSURANCE COMPANIES' FINANCIAL STATEMENTS

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ABSTRACT

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Abstract

IFRS 17 is set to become effective on 1 January 2023, and it aims to improve transparency and comparability of financial statements of insurance companies. IFRS 17 is used for insurance contracts, and it will replace its predecessor IFRS 4. IFRS 4 allows the use of various valuation methods for insurance contracts, potentially resulting in lower comparability.

The purpose of this study is to examine how IFRS 17 is expected to affect the transparency and comparability of insurance companies' financial statements. Furthermore, this study observes whether accounting specialists perceive IFRS 17 more as a burden or a benefit for insurance companies.

The literature review of this study discusses IFRS 17 and the concepts of transparency, comparability and value relevance. The research data was collected through eight semi-structured interviews. The interviewees worked with IFRS standards daily and some with IFRS 17. More research data was collected through IFRS 17's official comment letters issued by insurance companies.

The results of the study suggest that IFRS 17 standard is projected to improve the transparency and comparability of financial statements of insurance companies. It is notable, however, that IFRS 17 is expected to achieve its goal only after several years of its implementation. The financial statements of insurance companies are not likely to have improved comparability and transparency during the first effective years because of the complexity and challenges associated with the standard. IFRS 17 is predicted to be more beneficial than burdensome for insurance companies if they are actively looking to improve their internal systems by fully implementing the standard, rather than only trying to fulfill its minimum requirements.

Key words
Transparency, comparability, value relevance, IFRS, IFRS 17

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TIIVISTELMÄ

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Tiivistelmä IFRS 17 -standardi tulee voimaan 1.1.2023, ja sen tavoitteena on parantaa vakuutusyhtiöiden tilinpäätöstietojen vertailukelpoisuutta ja läpinäkyvyyttä. IFRS 17 -standardia sovelletaan vakuutussopimuksiin ja se tulee korvaamaan IFRS 4 -standardin. IFRS 4 -standardi sallii erilaisten arvostusmenetelmien käytön vakuutussopimuksia arvostettaessa, mikä voi aiheuttaa ongelmia tilinpäätöstietojen vertailukelpoisuuteen. Tämän pro gradu -tutkielman tarkoituksena on selvittää, miten IFRS 17 -standardin käyttöönoton oletetaan vaikuttavan tilinpäätöstietojen vertailukelpoisuuteen ja läpinäkyvyyteen. Lisäksi tutkimus tarkastelee, onko tilintarkastusammattilaisten mielestä muutoksesta enemmän haittaa vai hyötyä vakuutusyhtiöille. Tutkimuksen teoriaosuus tarkastelee aiempaa tutkimusta tilinpäätöstietojen läpinäkyvyydestä, vertailukelpoisuudesta ja arvorelevanssista. Lisäksi teoriaosuudessa tutkitaan IFRS 17 -standardia tarkemmin. Tutkimuksen haastatteluaineisto kerättiin kahdeksalla teemahaastattelulla. Haastateltavat työskentelivät IFRS-standardien kanssa ja osa työskenteli IFRS 17 -standardin kanssa päivittäin. Lisäksi tutkimusaineistoa kerättiin IFRS 17 -standardin virallisista kommenttikirjeistä, joita vakuutusyhtiöt olivat kirjoittaneet. Tulosten mukaan IFRS 17 -standardi parantaa vakuutusyhtiöiden tilinpäätöstietojen läpinäkyvyyttä ja vertailukelpoisuutta. Huomattavaa oli kuitenkin, että IFRS 17 -standardin oletetaan saavuttavan tavoitteensa todennäköisesti vasta useamman vuoden jälkeen standardin huomattavan monimutkaisuuden vuoksi. IFRS 17 -standardista on todennäköisesti enemmän hyötyä vakuutusyhtiöille, jos sisäisiä toimintoja tarkastellaan ja kehitetään aktiivisesti standardin implementoinnin aikana sen sijaan, että täytettäisiin vain sen minimivaatimukset.	
Asiasanat Läpinäkyvyys, vertailukelpoisuus, arvorelevanssi, IFRS, IFRS 17	
Säilytyspaikka Jyväskylän yliopiston kirjasto	

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1 INTRODUCTION

IFRS 17 is an International Financial Reporting Standard (IFRS) which was issued in May 2017 by International Accounting Standards Board (IASB). IFRS 17 will replace IFRS 4 on accounting for insurance contracts, and it is set to become effective on 1 January 2023. IFRS 17 has been developed for over 20 years, and it will be a significant change to the way insurance companies produce their financial statements. IFRS 4 allows for variation between insurance companies in the valuation methods of insurance contracts, causing a decrease in comparability and transparency of financial statements in the insurance business. IASB has stated that the goals of IFRS 17 are to harmonize financial statements and to increase financial transparency and comparability in the insurance industry (IFRS, 2016). It is easy to assume that a standard that has been developed over a long time is going to be an instant improvement. However, increasing financial transparency and comparability is not a simple task on a practical level.

The need for financial transparency has been growing especially after the Enron scandal and other accounting incidents that have revealed the need for accountability in financial reporting (Stein et al., 2017). As the competition has become more global, investors want more information when making investment decisions (Yip & Young, 2012). An increasing number of companies have started to make their business more observable, leveraging transparency to achieve competitive advantage (Merlo et al., 2018). Transparency and comparability are desirable goals for companies, as it has been associated with various benefits (Barth et al., 2000; Hunton et al., 2006; Pankaj Madhani, 2007). Financial transparency is the amount to which financial statements disclose the underlying economics of an entity in an understandable way (Barth & Schipper, 2008). Low transparency causes also information asymmetry, which occurs when investors do not have the same amount of information on a firm's value. As a result, the investors in disadvantage require a return premium that grows in the risk of trading with privately informed investors (Brown, Hillegeist, & Lo, 2004).

However, improving financial transparency is a rather complicated endeavor for companies. It requires them to produce more information, and efforts to do so cause more expenses, costly investments, and the need to determine what is important information to disclose and what is not. According to Merlo et al. (2018), continuous improvement of transparency might also potentially cause the problem of disclosing too much information, and excessive standardization. When too much information is provided, or the information is overly complicated, the objective of transparency is not achieved. Instead, the user of the information faces a higher level of uncertainty. (Merlo et al., 2018). Also, there is no explicit agreement on what the underlying economics are, nor on the expected level of expertise the user of the financial statement is assumed to have in order to call the information added into financial statement readily understandable (Barth & Schipper, 2008).

The purpose of this study is to examine how the implementation of IFRS 17 is expected to affect the transparency and comparability of insurance companies' financial statements. Furthermore, this study discusses the benefits and costs IFRS 17 is expected to have for insurance companies. Based on the research objectives, the following research questions were formed:

- How is IFRS 17 expected to affect the transparency and comparability of financial statements of insurance companies?
- Do accounting specialists perceive IFRS 17 more as a burden or a benefit for insurance companies?

The study was conducted firstly by examining previous research on the concepts of transparency, comparability, value relevance and IFRS 17. The literature was mainly collected through Google Scholar search engine and Academic Search Elite (EBSCO) database. Keywords used when searching for material were: IFRS, IFRS 17, transparency, comparability and value relevance. Most of the previous literature used in this study is from the field of accounting and finance.

The empirical part of the study was performed by using a qualitative research method, and it consisted of analyzing official IFRS 17 comment letters and interviews. The comment letters have been issued by insurance companies on IFRS 17 standard's latest amendments. 23 letters were included in this study. Interviews were conducted using a semi-structured interview method, and they were then transcribed and analyzed using a qualitative analysis. Eight interviews were conducted with purposely selected interviewees. All the interviewees had expertise either specifically in IFRS 17 or IFRS and financial statements in general.

This study consists of nine chapters. The introduction briefly presents the background of the study, the research problem and main concepts. The theoretical framework of the study consists of the following concepts: financial transparency and comparability, value relevance, and IFRS 17. They are presented in chapters two, three, four, and five. The empirical part of the research begins in chapter six, where the research method, data collection, and data analysis are explained. The results of the study are presented in chapter seven, where also the used comment letters and interviews are examined. In chapter eight, the results of the study are discussed, and the validity, reliability and limitations of the study are considered. The final conclusions of the study are presented in chapter nine.

2 TRANSPARENCY IN FINANCIAL STATEMENTS

2.1 Financial transparency

Transparency in financial reporting is defined by Barth and Schipper (2008) as the amount to which financial statements disclose an entity's underlying economics in a way that is readily understandable by those reading the financial statements. The underlying economics of an entity are seen to consist of the entity's resources, claims to those resources, changes in resources and claims and cash flows (Barth & Schipper, 2008). Barth and Schipper (2008) explain that an entity's underlying economics also include the risks it faces, and for an entity to be transparent it has to take these risks and their management into account in its financial reporting. Pankaj Madhani (2007) has defined financial transparency as an objective of providing the users of financial statements with useful information for assessing the amounts, timing, and uncertainty of future cash-flows. Users of financial statement include, for example, investors, analysts, customers and suppliers. Later on, these are referred to as users of financial statements. Central attributes of transparency are the willingness of letting customers see through the company, and the intention of sharing more information that would be usually shared (Merlo et al., 2018). These attributes can be associated with the definition of transparency provided by Roberts (2009), who says that transparency is about making things visible and to provide insight on things that would otherwise remain hidden.

Transparency can be viewed from various angles. From the perspective of a company, transparency is the amount of visibility and accessibility of information provided by a business. From the financial statements users perspective, transparency is the individual's perception of a company using the relevant information provided (Merlo et al., 2018). For an entity to be transparent, it has to provide enough information to its users on the underlying economics in an understandable form (Barth & Schipper, 2008). However, the more complex a financial statement is, the more effort and time is needed to find the relevant information, which makes it challenging for investors and other users of the financial statement (Guay, Samuels, & Taylor, 2016).

What is transparent and clear for one might not be obvious to someone else with an inferior set of skills in interpreting financial information. A financial report that is transparent to an accounting expert might not be as see-through to someone with a narrower field of knowledge and skills in financial statements. (Barth & Schipper, 2008). According to Merlo et al. (2018), the accessible information must be understandable for the target audience. Consider the following example; the Western & Southern Financial Group provides a financial translator to assist their audience when they have difficulties interpreting the used financial terms. By providing a financial translator, Western & Southern Financial group gives its audience the possibility to understand the information, making it possible to be transparent in the first place. If the information cannot be interpreted, it can hardly be seen to improve transparency. Also, the provided information is expected to be objective, and a company is not expected to overstate the positives and minimize the negatives (Merlo et al., 2018).

What is reasonable in financial information is a problematic question. International Accounting Standards Board (IASB) has noted in a discussion paper that financial reports are tailored for users who have reasonable knowledge of business, economic activities, and financial reporting, and who study the information with reasonable diligence. IASB also states that relevant information should not be excluded from financial reports solely because it may be too complex or difficult for some users to understand. (Barth & Schipper, 2008).

However, Merlo et al. (2018) have expressed that when there is too much information or it is excessively complex, the user of the information could experience a higher level of uncertainty. Higher uncertainty can result in an adverse reaction and an unwelcome end-result from the perspective of the company. (Merlo et al., 2018). Complexity increases dispersion in analysts' forecasts, reduces the accuracy of the forecasts, and causes disagreement between agencies forming credit ratings (Guay et al., 2016). Managers can use the complexity of financial statements as a tool to hide poor performance by intentionally disclosing more information to make the statement harder to grasp, therefore making it more challenging for its user to notice the weak performance (Li, 2008). However, Bloomfield (2008) has suggested that another reason for managers to disclose more information when performing poorly financially is because they are required to give a more detailed explanation for a lackluster performance.

Barth and Schipper (2008) identified different ways to cultivate transparency in a financial report. These include, for example, disaggregation, salience, choice of measurement basis and comparability. When financial information is disaggregated, it can boost the transparency of a financial report. For instance, when there has been a change in line items in the income statement, the cause of the change is disclosed. However, what is too much disclosure has also been a topic of discussion. If there is too much disaggregation, the financial information provided might be too confusing, and it loses its simplicity. As for salience, the more salient the provided information is, the easier it should be to understand for the user of the financial report. Transparent financial reporting should recognize the items that provide the best information on an entity's underlying economics. The choice of measurement basis can determine whether the entity's financial information is given in an readily understandable and comparable form. (Barth & Schipper, 2008).

The need for more transparency can be associated with expecting the companies to be more accountable. Transparency is often increased by adding rules. It is expected to relieve the problem of information asymmetry between users and managers of financial statements (Stein et al., 2017). The idea of increased transparency in financial accounting leads to a belief that the users of the financial statements feel as they would be in control and have more information to base their decision making on, which then finally improves accountability. With the right amount of correct information, the users of financial statements feel that they can see through the business. (Roberts, 2009).

However, Roberts (2009) has argued that transparency becomes puzzling when it is believed to be the sole requirement of a company to be accountable. Roberts states that there is a limit to transparency, and the need for it is difficult to satisfy at least to a specific level. Transparency is not easily achieved, and the real world complexities that must be solved beforehand are not often properly understood or taken into account. Roberts also proposes that increasing transparency can undermine its initial purpose, which is to build trust. Improving transparency is nevertheless essential, but it should not be taken for granted that it is always for the best in terms of accountability. (Roberts, 2009).

2.2 Benefits of transparency in financial statements

There is a considerable amount of previous research on the benefits and expenses of being more transparent in financial reporting (Barth & Schipper, 2008; Ghosh, Liang, & Petrova, 2020; Hunton et al., 2006; Lander & Auger, 2008; Pankaj Madhani, 2007; Saha, Morris, & Kang, 2019; Stein et al., 2017). Previous theoretical research suggests that transparency in financial reporting is associated with a lower cost of capital and positive macroeconomic effects (Daske, Hail, Leuz, & Verdi, 2008; Easley & O'Hara, 2004). Other positive impacts found in transparency research are such as increased information content of earnings announcements, a greater amount of analysts following the company's performance, and also improved forecasting accuracy (Eng, Lin, & Neiva De Figueiredo, 2019). Financial transparency also facilitates a better allocation of resources since investors can make better investment decisions and comparisons (Pankaj Madhani, 2007).

According to Pankaj Madhani (2007), transparency is vital if a company is to attract interest from investors. On the contrary, if a company is not transparent, they risk their credibility in the eyes of investors. (Pankaj Madhani, 2007). When a firm makes an effort to be transparent, customers may notice and interpret it as a signal of the firm's goodwill, and these efforts may be rewarded with customers having more faith and trust in the firm (Merlo et al., 2018).

It has been shown that information asymmetry can be reduced through increased transparency in financial reporting. Increasing the amount of information that reflects the underlying economics improves transparency, which can result in lowered cost of capital for an entity. (Barth & Schipper, 2008). In their review of the recent literature concerning the financial reporting environment, Beyer, Cohen, Lys, and Walther (2010) found that in terms of transparency of financial statements, entities have two reasons to provide financial information and be transparent. First is to decrease information asymmetry between managers and the outsiders. This reason stems from the fact that a firm's manager often has more information on the projected worth and profitability of the firm's current and future investments compared to outsiders. This creates an information asymmetry problem. When outsiders cannot assess a firm's financial statement, they tend to undervalue firms with high profitability and overvalue firms with low profitability, which can lead to market failure. The second reason derives from the separation of ownership and control, which creates a principal-agent problem. To solve information asymmetry, there are usually contracts creating incentives that require information to be conveyed in the financial statements. (Beyer et al., 2010). However, the reduction of information asymmetry requires the disclosed information to be useful and understandable. According to Pankaj Madhani (2007), for information to be useful, it has to have five characteristics –

relevance, reliability, comparability, timeliness, and understandability. High information asymmetry can be considered connected to low transparency. Low transparency indicates that the users of financial statements are not being informed sufficiently, which in turn causes information asymmetry. Information asymmetry then causes an information premium. (Pankaj Madhani, 2007).

There has also been discussion about the burden that too high disclosure brings to entities. Research done by Saha et al. (2019) addresses the claim that modern accounting standards include unnecessary, complex, and burdensome disclosure standards. IFRS requires companies to disclose more information in their financial statements than the local GAAP. The study's results showed that companies found some of the information that IFRS requires them to disclose to not have any added value, and they were unwilling to comply with these standards. Often the invaluable information that companies did not want to disclose was not related to the company's disclosure incentives. (Saha et al., 2019). If the methods used for accounting are atypical, it results in increased analyst forecast errors and overall dispersion (Bradshaw, Miller, & Serafeim, 2009). De George et al. (2016) argued that it is not clear whether improved transparency would always result in a better quality of financial statements, and previous research has not addressed the problem of which level of transparency is optimal.

According to Lander and Auger (2008), the problem with financial standards is that they are too rule-based. This property can provide a route for entities to avoid the accounting objectives inherent in the standards. As a result, firms seek to exploit these objectives through structuring financial transactions to reach an accounting objective rather than an economic objective. Financial statements can be embellished through off-balance-sheet transactions. Off-balance-sheet arrangements often serve the purpose of trying to remove unfavourable information from the balance sheet to make the financial statement look more attractive to the parties interpreting it (Lander & Auger, 2008). In their research, Lander and Auger explored several ways through which companies manipulate off-balance-sheet transactions in order to further personal and business objectives. Transactions that are not following off-balance-sheet accounting rules results in a lack of financial transparency. Off-balance-sheet transactions are done to conceal debt in the balance sheet and to transfer away risk. The purpose of this is to have a more attractive financial ratio and to lure investors in. Certain types of off-balance-sheet actions can also include tax advantages (Lander & Auger, 2008). According to Lander and Auger, there are several ways to execute off-balance-sheet transactions. These include actions such as investments in the equity of other entities, transfers of financial assets, retirement arrangements, leases, and contingent obligations and guarantees. (Lander & Auger, 2008). For example, before the Enron disaster these types of transactions were poorly controlled. Enron was able to hide billions of dollars of debt through off-balance-sheeting and to give promising information in their financial statement, misleading the investors and anyone interpreting their reports.

2.3 IFRS implementation effects on transparency

Most of the previous studies done on IFRS implementation have suggested that IFRS brings remarkable benefits for the countries and companies adopting it. De George et al. (2016) listed the benefits of implementing IFRS as improved transparency, decreased cost of capital, increased investments from abroad, the ability to make better comparisons of financial reports, and an increased amount of following by foreign analysts (De George et al., 2016). Analysts can also produce more accurate forecasts when the disclosed information is more extensive. Demmer, Pronobis and Yohn (2019) found in their study that when IFRS has been adopted, a remarkable increase can be detected in accuracy of forecasts that are based on financial statements.

Daske, Hail, Leuz and Verdi (2008) found that benefits acquired from IFRS in the capital market occur only in countries where firms have real incentives to be transparent, and the institutional structure and legal enforcement is strong. However, IFRS adoption does not always improve financial reporting quality, and it might even make it worse (Cameran, Campa, & Pettinicchio, 2014). Cameran et al. (2014) conducted a research on Italian private companies and compared companies that had implemented IFRS to companies that would still use the local, generally accepted standards. The findings indicated that companies that had implemented IFRS saw the quality of their financial statements to decline. A possible reason for this was that companies could take advantage of the flexibility IFRS offered, causing them to strive towards specific incentives that had been given to them. (Cameran et al., 2014). However, it ought to be considered that the research was conducted in a single country and only on private companies. Previous research has also shown that the quality of financial reports cannot be expected to be equal between public and private entities (Ball & Shivakumar, 2005). Public companies have a much bigger incentive to produce high-quality financial information because of the pressure coming from the users of the financial statements (Cameran et al., 2014).

However, there is preceding research that provides different results of the implementation of IFRS in private companies. In their research, Bassemir and Novotny-Farkas (2018) studied German private companies that had voluntarily implemented IFRS into their financial statements. Findings suggested that companies adopting IFRS publishes more financial information in their reports, and they tended to show a higher inclination to publish their financial reports voluntarily on the corporate website. (Bassemir & Novotny-Farkas, 2018). However, it should be noted that in Bassemir and Novotny-Farkas' (2018) research, the private companies implemented IFRS voluntarily into their accounting, whereas in Cameran's (2019) research this was not the case.

Yang and Abeysekera (2018) conducted a research on public companies in Australia and investigated how they complied with earnings reporting guidelines that were released by ASIC (Australian Securities and Investment Commission) in order to communicate the quality of underlying earnings. They found that entities following IFRS have superior quality of underlying earnings reporting compared to entities that do not comply with the standards. Companies that do not follow the standards exclude information from their financial statements to make them more appealing to the user of this financial information. (Yang & Abeysekera, 2018).

In their research, Eng et al. (2019) examined the effect IFRS had on the quality of financial statements in Brazil. In 2010, Brazil required its listed companies to plan their financial statements under IFRS. Purpose of the research was to observe whether the quality of financial statements in Brazil advanced after the compulsory IFRS adoption in 2010. The research was conducted by measuring accounting quality in an inclusive manner in four different categories: value relevance of accounting, the information content of earnings, financial analyst forecasting activities, and liquidity. As a result, Eng et al. deduced that there was a substantial growth in the number of analysts following the firms. However, there was no improvement in analysts' forecasting accuracy after the implementation of IFRS, nor did they find greater liquidity as a result of the IFRS. There was no observable improvement in value relevance of earnings information. Eng et al. concluded their research by stating that there is no significant effect from the implementation of IFRS into accounting in Brazil. However, Eng et al. also argues that the quality of reported information is moving in the right direction. (Eng et al., 2019).

The mainstream research has indicated that the implementation of IFRS has had a positive outcome in the quality of financial statements. However, research conducted across the world has had varying results in regards of the gained improvement of financial quality, especially when measuring the effect of compulsory IFRS adoption on the improvement of financial reporting. The documented benefits of IFRS adoption tend to vary across firms and countries (De George et al., 2016). Despite this, the consensus in the literature is that compulsory IFRS adoption in Europe has had a positive impact on financial reporting, and it has amplified accounting relevance (Eng et al., 2019).

3 COMPARABILITY IN FINANCIAL STATEMENTS

3.1 Financial statement comparability

The definition of comparability in financial statements varies. When firms are using the same financial standards, they should produce similar financial numbers on similar sets of economic actions (Mukai, 2017). According to Barth, Landsman, Lang and Williams (2012), in order for economic values to be comparable with each other, they have to describe the same alteration in financial statements. Financial Accounting Standards Board (FASB) has defined that financial statement comparability is valuable because information gives the users the possibility to recognize the similarities or differences among two financial statements, thus making them more useful in decision making. One of the main goals of IFRS is to provide a high level of comparability between companies' financial statements. ("Comparability in International Accounting Standards," 2019).

The need for financial statements to be comparable has grown because of the increase in global investing (Yip & Young, 2012). Financial statement comparability is vital to the ability to compare companies based on their financial information. When financial statements are more uniform, the capital markets can work more effectively. For example, when lending or investment decisions are made, the process is challenging if the provided information from different financial reports are not comparable to each other. (De Franco, Kothari, & Verdi, 2011). According to De Franco et al. (2011), increasing the comparability of financial reporting enhances the overall quality of financial information. Improved comparability leads to a greater number of analysts following a specific company, and it is also associated with better forecast accuracy. Increasing the comparability of financial statements leads to lower effort of acquiring information about the company, and overall produces more information of higher quality to analysts. It also makes the information more understandable, which provides improved transparency as well. (De Franco et al., 2011). Improving the comparability of financial statements also improves the utility of financial information for external audits. Also, investors are able to make better valuations of a company's performance because peer-based comparability makes it easier to improve the accuracy of estimations and analyze the success of a company (Zhang, 2018). Financial statement comparability is an important asset for investors, and improvements in comparability advances decision making especially for foreign investors (De George et al., 2016).

3.2 IFRS implementation effects on financial statement comparability

The benefits of adopting IFRS can be acquired through improving transparency and comparability of financial reporting (Mita, Utama, Fitriany, & Wulandari, 2018). Mukai (2017) conducted research on how the implementation of IFRS in Japanese firms affected the comparability of financial statements. Specifically chosen Japanese firms that had applied IFRS into accounting were compared to other firms in Europe using IFRS. The results showed that comparability among Japanese and European firms increased after the application of IFRS. Mukai also noted in his literature review that various pieces of research have found that comparability of economic information has improved after implementing IFRS. (Mukai, 2017). Research by Mita et al. (2018) supports this: their findings indicated that IFRS implementation did increase the comparability of financial statements between different countries in Europe, and that this could have been the reason behind boosted foreign investing (Mita et al., 2018).

However, DeFond, Gao, Li, and Xia (2019) studied the effect of IFRS adoption in China from the perspective of foreign institutional investors, and found that the implementation of IFRS in China did not result in an increase of foreign investments, but instead seemingly reduced them. The evidence suggested that this was a result of the weak institutional infrastructure in China that hindered the goal of IFRS, which is to attract institutional investment through increased quality of financial reporting. If not properly implemented, it is difficult to see the benefits of IFRS. China is characterized by an institutional setting that creates subtle incentives for managers to produce high-quality financial statements. (DeFond et al., 2019). It was therefore difficult from the beginning to introduce IFRS into accounting in China. As DeFond et al. (2019) have stated, it is a common finding in previous studies on the benefits of IFRS that the advantages are more likely to be gained when IFRS is properly implemented. Prior research also suggests that IFRS adoption in China did not necessarily improve the quality of financial reporting (DeFond et al., 2019). This is also supported by Ball, Robin, and Wu (2003), who found in their research that the quality of financial statements does not depend solely on the used accounting standards, and that by itself, changing them does not lead to higher quality in financial statements. In their comprehensive review of IFRS adoption literature, De George et al. (2016) noted that most of the research studying IFRS adoption has suggested the comparability of financial reporting to not only be dependent on the used accounting standards. Other various factors affecting the comparability are, for example, reporting incentives, underlying economic integration, and institutional factors. (De George et al., 2016).

Changes in comparability initiated by the adoption of IFRS and improved quality of financial statements are not always connected to each other. According to De George et al. (2016), there is no consensus on whether the positive outcomes achieved after the IFRS adoption are the outcome of the IFRS adaptation itself or the outcome of other institutional changes occurring simultaneously with it. However, it is notable that preceding literature often mentions how IFRS adaptation has led to more investments from foreign countries and increased amount of foreign analysts following the firms utilizing IFRS in accounting, and that generally, capital markets have been impacted positively by the IFRS adaptation. (De George et al., 2016).

Chau, Dosmukhambetova and Kallinterakis (2013) conducted a research on the effect IFRS had on the comparability of financial statements in Europe. According to a test Chau et al. performed in their study, changes in the comparability of financial statements caused by the adoption of IFRS are not entirely similar. There is not enough appropriate statistical support to say that reporting quality is a good enough measurement to be used when defining the level of comparability. (Chau et al., 2013). However, they also found various positive sides to the adaption of IFRS. It seems to cause growth in absolute returns, which is caused by the larger amount of information provided in financial statements as required by IFRS. This is mostly because of the information provided by cash flows. (Chau et al., 2013). When IFRS is correctly implemented, it has had a positive effect on the quality of financial statements. This effect on reporting quality is greater in countries where the priorly used accounting standards are very different from IFRS. Finally, Chau et al. (2013) found that adoption of IFRS and thus fading differences between financial statements across countries should decrease the effort of understanding for financial analysts and other statement users, and aid analysts when they compare financial statements globally (Chau et al., 2013). However, Brochet, Jagolinzer and Riedl (2013) found that the benefits of IFRS adoption are not limited to only the countries whose local accounting standards differ from IFRS. Instead, improvements are also possible when the reporting quality is initially high and the local accounting standards is similar to IFRS. (Brochet et al., 2013).

The positive effect in comparability acquired through implementation of IFRS also showed in the debt markets, as a research done by Kim, Kraft and Ryan (2013) points out. According to their research, higher comparability reduces information asymmetry in the debt markets, which can lead to reduced cost of capital (Kim et al., 2013). Making financial statements more comparable should thus be an incentive for the applying this strategy in accounting. Another study supporting the statement that IFRS improves financial statement's comparability was done by Yip and Young (2012). They examined whether the adoption of IFRS would increase the quality of financial statements by comparing financial statements in 17 European countries. Findings of the study yielded empirical evidence of the fact that the mandatory adoption of IFRS improves the process of comparing financial statements worldwide. (Yip & Young, 2012).

Implementing IFRS effectively improves the quality of financial statements and makes comparability more efficient. Improvement of comparability is greater in countries where the priorly used accounting standards are much different than the implemented IFRS. Thus, it can be argued that the implementation of IFRS, overall, improves the comparability of financial statements, and it has positive effects on investing globally, as investors are better equipped to globally compare the financial performances of companies. IFRS can improve the quality of reporting even if the local accounting standards do not differ significantly from the soon-to-be implemented IFRS. However, weak institutional infrastructure and differing incentives from a manager's perspective may hinder the ability to increase the quality of financial reporting when applying IFRS into accounting.

4 VALUE RELEVANCE

When one examines the expected effects a standard could have on a financial statement, it is essential to observe the value relevance IFRS 17 brings. Value relevance is associated with accounting quality (Capkun, Cazavan, Jeanjean, & Weiss, 2011). Value relevance of financial statement is evaluated by observing the connection between the information and the market value of the share or earnings. There have been studies in the past that have mainly inspected the institutional dimensions rather than the accounting practices performed by the preparers. One of the most famous of these researches is Hines' (1988) paper on what financial statements actually tell to the reader, how they communicate reality, and how the reader constructs reality by interpreting the information.

In their research, Barth et al. (2000) addressed the relevance of value relevance research. Value relevance researches are meant to evaluate how a specific accounting amount reflects information that users of financial statements use when valuing the firm's equity value. What connects all definitions of value relevance is that an accounting amount is regarded as value relevant if it has an important association with security market value (Barth, Beaver, & Landsman, 2000b). According to Suadiye (2012), the value relevance of a financial statement is defined by how well the information it contains reflects the company's value at that moment. Kargin (2013) has defined value relevance as an ability of the information to reflect firm value. For example, an accounting amount is regarded as value relevant, if it has a relation with share prices. (Kargin, 2013).

An accounting amount is also seen relevant if it can affect the decisions of the financial statement user. If the information available from a statement can affect an investors valuation of a company, it is seen as value relevant. (Dahmash, Durand, & Watson, 2009). One of the most commonly used measuring methods in value relevance research is a model published by Ohlson. In this model, goodwill is presented as a linear function which consists of book value and expected future profits. Regression models like this are typically used for forecasting, for example, stock prices or changes in stock prices. (Barth et al., 2000b).

One of the main objectives of financial statements is to provide its users with information so that they can use it when they estimate the possible amounts and timing of future cash flows. Various pieces of research have observed if specific accounting amounts reflect the values of the entity's assets, liabilities and earnings and how they reflect in equity prices. However, it is difficult to weigh the relevance of an accounting amount separately. Barth et al. (2000) found evidence indicating that fair values of financial instruments are value relevant. They argued in their research that in the future, the importance of value relevance research will only grow as the financial markets begin to expand and become more complex, requiring the accounting standards to be updated to keep up with the changes (Barth et al., 2000b).

There have been various studies conducted around the world on the effects that application of IFRS back in 2005 had on the value relevance of accounting information. Kargin (2013) studied the impact the application of IFRS had on value relevance both prior and after to the application. The results showed that value relevance had improved after the implementation of IFRS into accounting in 2005. Kargin also noted that previous literature has showed varying results on whether the value relevance of accounting information has declined or increased over time. (Kargin, 2013).

Chalmers, Clinch and Godfrey (2011), in turn, studied the effects of IFRS application on value relevance in Australia. The findings showed that while the book value of equity did not become more value relevant, reporting of earnings with IFRS did improve the value relevance of financial reporting. (Chalmers et al., 2011). Research results from the UK provide evidence that the switch from the local UK GAAP to IFRS resulted in more value relevant accounting, and also improved the quality of financial reporting (Iatridis, 2010). However, a study conducted by Dobija and Klimczak (2010) found that the application of IFRS did not have the same outcome in Poland.

There have been varying results in determining whether IFRS has improved the value relevance of accounting. It is difficult to measure how a specific standard is translated into practice and whether this practice is the best solution in terms of value relevance. One way of measuring value relevance is by using the statistical connections between information that financial statements have disclosed and stock market returns or values (Kargin, 2013).

5 IFRS 17 STANDARD

5.1 Overview of IFRS 17

IFRS 17 is a new accounting standard for insurance contracts issued by IASB in 2017. It is set to become effective in the beginning of 2023 (Ernst & Young, 2018). IFRS 17 replaces IFRS 4, which was designed to work as an interim standard that would diminish differences in insurance accounting practices. While IFRS 4 did reduce the disparities in insurance accounting, the insurers would still use a varying selection of accounting policies in valuating similar insurance contracts. In contrast to this, IFRS 17 aims to create a sole international accounting policy to be used in insurance contracts. The standard will address the same contracts as IFRS 4. (IASB, 2020). Like its predecessor, IFRS 17 affects companies that offer insurance contracts, meaning mostly insurance companies. The new standard is a significant change to insurance accounting requirements because it demands a complete renovation of insurers' financial statements. As defined by Ernst & Young (2018), one of the key principles of IFRS 17 is as follows:

> "An entity discloses information to enable the users of financial statements to assess the effect the contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity." (Ernst & Young, 2018, p. 7)

In the core of the change that IFRS 17 brings are the measurement models for insurance contracts. These are the general model, premium allocation approach, and the variable fee approach. These measurement models are later presented and explained in more detail, and they can be seen below in Figure 1. Next, the overview of IFRS 17 is presented in Figure 1, and the key principles according to Ernst & Young (2018) of IFRS 17 are examined in Table 1.

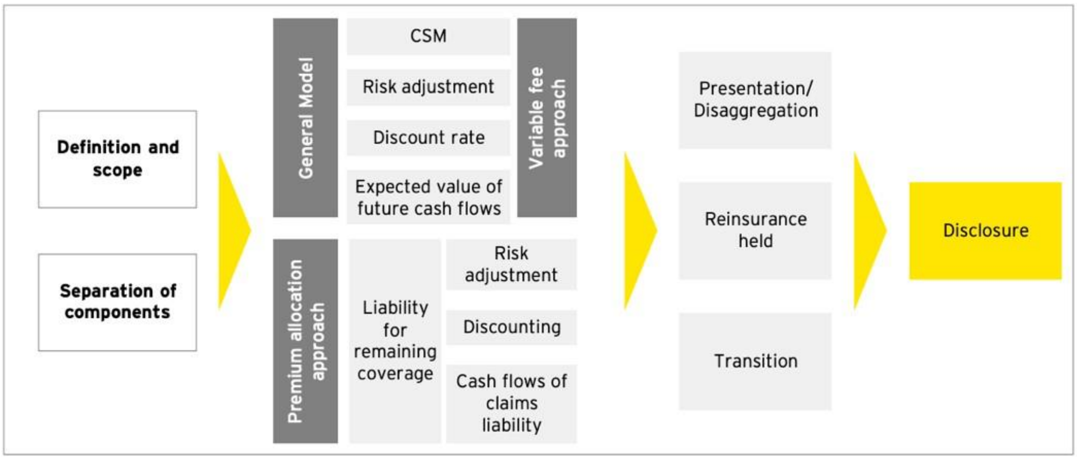

Figure 1 Overview of IFRS 17 (Ernst & Young, 2018)

5.2 The key principles and components of IFRS 17

Table 1 Key principles of IFRS 17 (Ernst & Young, 2018)

Key principles of IFRS 17
An entity must identify those contracts as insurance contracts where the entity accepts significant insurance risk from another by agreeing to compensate the insured party if a specified uncertain future event adversely affects the policy-holder.
Derivatives must be separated from insurance contracts. This could mean, for example, the distinct investment components that are embedded in the contract.
Insurance contracts are divided into groups. These groups are recognized and measured at a risk-adjusted present value of the future cash flows and at an amount that presents the profit that is still unearned in the group of contracts, which is also known as the contractual service margin (CSM).
Onwards from the point of time that the entity starts to provide insurance coverage and is under insurance risk, an entity is to recognize profit from a group of insurance contracts. If an entity expects to make losses on a group of contracts, the losses are to be recognized immediately.
Revenue, expenses, and finance incomes caused by the insurance contract are to be disclosed separately.
Entities are to disclose information for the users of the financial statement on how the amounts that are recognized in financial statements from insurance contracts are formed and the type and nature of risk that are being endured from the insurance contracts.
IFRS 17 includes three different measurement models for insurance contracts.

One of the key principles of IFRS 17 is that an entity is required to separate derivatives from insurance contracts on specific situations. (Ernst & Young, 2018). The importance of identifying the components stems from the fact that in IFRS 4, the separation of components from insurance contracts was voluntary. Thus IFRS 4 standard could be applied for contracts that had other investment components embedded in them. (Aarzen & Mourik, 2005). IFRS 17 requires the insurer to identify and separate distinct components from an insurance contract. The separation of components has to be done as the new standard requires such distinct components to be accounted for under relevant IFRS (KPMG, 2017). An illustration of separating components is presented in Figure 2. In Figure 2, IFRS 9 stands for financial instruments and IFRS 15 stands for revenue recognition. As seen in Figure 2, non-distinct investment components are not separated. However, the information of non-distinct investment components has to be disaggregated, thus providing the users of financial statements more information on what is embedded in the insurance contract.

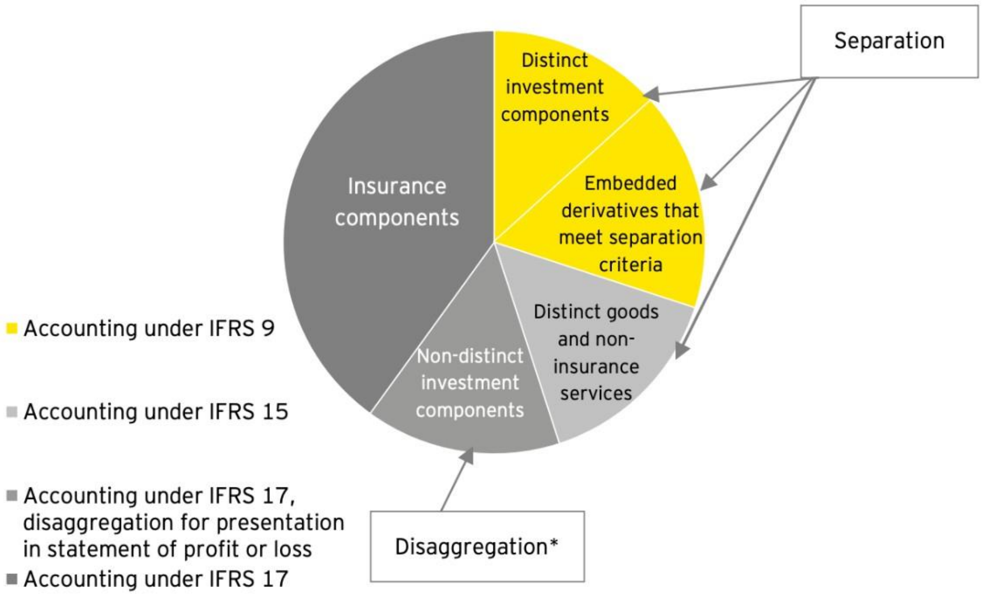

Figure 2 Illustration of separating non-insurance components (Ernst & Young, 2018, p. 15)

According to IFRS 17, there could be more than one component in an insurance contract that can belong under another standard. An insurance contract can include, for example, an investing component or a service component. IFRS 17 will address this by requiring the separation of non-insurance components and the voluntary separation of components is removed (Grant Thornton, 2020). In an investment component, IFRS 17 states that the entity is to apply IFRS 9 standard if the insurance contract includes a clearly distinguishable derivative. According to Ernst & Young (2018), investment component is defined by IFRS as a payment that the insurer must carry out in all circumstances, even if the insured event does not occur. An investment component must be separated from the insurance contract if it is clearly distinct from the insurance contract. A component is seen as distinct only if two following conditions are met: the investment component and the insurance component are not highly interrelated, and when a contract with equivalent terms is sold, or could be sold, separately in the same market, either by entities that issue insurance contracts or by other parties. An investment component and an insurance component are highly associated, if the entity is unable to measure one component without considering the other, or if the policyholder is unable to benefit from one component unless the other is also present. (Ernst & Young, 2018).

5.3 Measurement models of IFRS 17

One of the essential changes IFRS 17 will bring are the measurement models for insurance contracts. In order to explain the measurement models, it is important first to give definitions associated with the models.

Expected cash flows are the insurance company's expected receivables and payments. These are calculated among different unbiased scenarios and different cash flows like expenses, claims, or premiums are considered. The expected cash flows are discounted with the discount rate, which reflects the time period and the financial risk of the contract. **Risk adjustment** is the money the insurer wants to get in addition to the cash flows in order to compensate for the uncertainty of the insurance contract. **Contractual service margin (CSM)** is the expected unearned profit of a contract. It is an estimation of how much earnings are expected to be made if the insurer's assumptions hold true. (Ernst & Young, 2018).

The measurement models of insurance contracts is one of the core changes under IFRS 17. There are three different measurement models and they can be seen in the overview picture of IFRS 17 in Figure 1. The three measurement models are known as the general model, premium allocation approach, and variable fee approach. The three measurement models are presented in the next section.

The first measurement model is called the **general model,** which is also known as the building block approach as the model builds 'blocks' when measuring a group of insurance contracts (Ernst & Young, 2018). IFRS 17 is built around the general model and there are some modifications and simplifications that are usable in specific situations. The general model is the backbone of measurement models. It measures a group of insurance contracts as the sum of building blocks. The building blocks consist of fulfilment cash flows and contractual service margin. The general model is the default measurement model for all insurance contracts under IFRS 17. These building blocks are presented and visualized after this paragraph in Figure 3. The first blocks – fulfilment cash flows – present the risk-adjusted present value of an entity's rights and obligations to its policyholders. Fulfilment cash flows consist of an estimate of future cash flows, a discount adjustment, and a risk adjustment. An estimate of future cash flows is probability-weighted, the discount adjustment is for reflecting the time value of money and financial risks, while risk adjustment is for non-financial risk. The last block, contractual service margin, presents unearned profit from the insurance contracts. This is the profit a company will recognize when it provides its services during the coverage period. Contractual service margin is a new aspect in insurance contracts introduced by IFRS 17. It will require new system solutions or calculation models for most insurers. Contractual service margin cannot be negative in the insurance contracts it is applied to. As a result of a negative contractual service margin, a loss is reported in the profits section (Grant Thornton, 2020). Figure 3 below visualizes how the 'building blocks' are formed.

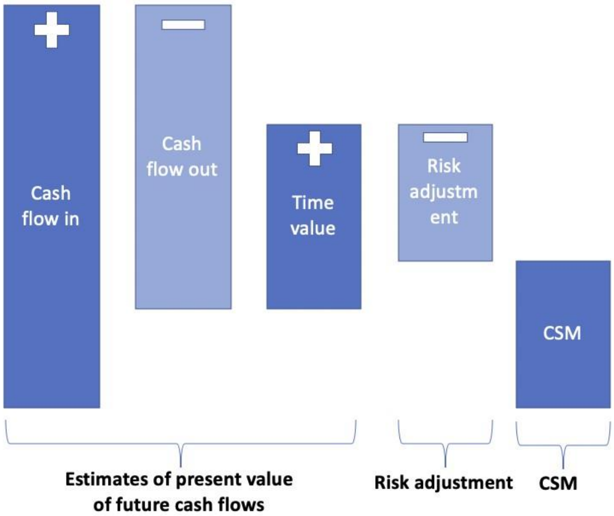

Figure 3 Illustration of general model

The second measurement model is known as **the premium allocation approach.** The premium allocation approach is a simplified model of the general model that is only applicable on specific occasions. It can be used to simplify the measurement of an insurance contract group when the coverage period is a year or under, or if the insurer is able to demonstrate that using the simplified model gives a similar approximation as when using the general model. According to Grant Thornton (2020), the premium allocation approach is an optional and simplified measurement model, which presents liability for unexpired coverage in an insurance contract. Premium allocation approach removes the need for calculating contractual service margin and risk adjustment during the pre-claims period (Grant Thornton, 2020). This model shares a lot in common with the current accounting model for short-duration insurance contracts under IFRS 4.

The third measurement model is called **the variable fee approach.** It is a modification of the general model. Contracts that share returns on underlying items with the policyholder are measured using the variable fee approach. When making the initial recognition, the insurer applies the general model as is usual on the long-term contracts. As for the subsequent measurement, the contractual service margin is modified for an amount that equals the change in the fair value of the underlying items less the change in the fulfilment cash flows. Grant Thornton (2020) defines the variable fee approach as the method that is to be used if the insurance contract has direct participation features. These could be, for example, contracts that include investment-related services (Grant Thornton, 2020). The only difference between the general model and the variable fee approach is that the variable fee approach applies to insurance groups that have policyholders participating in a share of a clearly identified pool of underlying items.

5.4 Differences between IFRS 4 and IFRS 17

To better understand the significant changes IFRS 17 brings, it is worthwhile to observe its predecessor, standard IFRS 4. The goal of IFRS was to establish a mutual accounting language to make financial statements more comparable globally. However, there are many issues with IFRS 4 restraining the valuation of insurance contracts in financial statements, causing them to not be comparable nor transparent. Because of the decrease in comparability, IFRS 17 was issued to replace IFRS 4 in order to make insurance companies more comparable and harmonize the valuation methods of insurance contracts. This gives users of financial statements more accurate and valid information.

IFRS 4 was first issued back in 2004. It was initially designed to only be a provisional standard, until IASB would develop a more globally harmonizing international standard for insurance contracts to replace it (Aarzen & Mourik, 2005). IFRS 4 did not have a significant effect on harmonizing the accounting policies of companies that practice the selling of insurance contracts. Therefore, insurance companies were still able to measure insurance contracts following vastly varying accounting policies in their financial statements, which caused difficulties when the financial statements were compared. Before IFRS 4, there was no international accounting standard issued for insurance contracts (IASB, 2020). Many companies had to implement IFRS into their accounting policies in 2005. IASB prepared IFRS 4, because they saw a crucial need for better disclosure on insurance contracts, in time for the adaptation of IFRS (Aarzen & Mourik, 2005).

Users of IFRS 4 are required to disclose in their financial statement the amount of cash flows to be acquired, their timing, and the involved uncertainty. The financial statement has to also include information on risk management and the terms of those insurance contracts that have a significant meaning for the cash flows (Gornik-Tomaszewski, 2005). IFRS 17, on the other hand, requires companies to measure insurance contracts in a specified manner that aims to produce financial statements that render insurance contracts more comparable and transparent. One of the main changes IFRS 17 brings in comparison to IFRS 4 is that it requires companies to recognize the profits acquired from insurance contracts only upon their delivery. Just like a factory, the company makes a profit only when it delivers the goods and not earlier.

The main differences between IFRS 4 and IFRS 17 according to IASB (2020) are listed below in Table 2 and Table 3. Two key aspects that IFRS 17 aims to improve are transparency and comparability of financial statements. Thus, it is important to examine the differences between IFRS 17 and its predecessor IFRS 4 in terms of transparency and comparability. Most considerable improvements have been made in valuing insurance contracts, in the comparability of insurance contract valuations, and in overall information provided by insurance contracts in financial statements.

Table 2 Differences between IFRS 4 and IFRS 17 in terms of providing transparent information (IASB, 2020, p. 2)

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.

Table 3 Differences between IFRS 4 and IFRS 17 in terms of providing comparable information (IASB, 2020, p. 3)

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.

6 EMPIRICAL RESEARCH

6.1 Research objective

The purpose of this study is to examine how the implementation of IFRS 17 standard affects the transparency and comparability of financial statements in insurance companies. Additionally, the study explores whether accounting specialists perceive IFRS 17 as burdensome or beneficial for the insurance companies.

Increasing financial statements' transparency and comparability is not an easy task. Financial transparency has become a relevant topic as globalization increases and creates more competition for companies and thus also a greater need for comparability of their financial performance (Stein et al., 2017). Investors want more information when they make their investment decisions, and it is important to know as transparently as possible how their possible investment choices are performing and how these companies compare to each other. Increasing information in financial statements is rather complicated for companies as it creates more expenses and they need to find out what is important information to disclose and what is not (Merlo et al., 2018). One of the main purposes of IFRS is to have companies produce more valid, transparent and comparable information, and thus harmonize financial statements around the world (IFRS, 2016). However, as previous research has suggested, sometimes this might cause disclosing too much information and excessive standardization (Guay et al., 2016; Lander & Auger, 2008; Merlo et al., 2018). Based on the research objectives, the following research questions were formed:

- How is IFRS 17 expected to affect the transparency and comparability of financial statements of insurance companies?
- Do accounting specialists perceive IFRS 17 more as a burden or a benefit for insurance companies?

Because of the limitations to time and resources, this study was limited to IFRS 17's expected effects on only transparency and comparability of financial statements.

6.2 Research method

Qualitative research was chosen to be the research method for this study. Qualitative approach is appropriate as prior research is limited and this subject has not been studied before in Finland. The method was chosen after comparing qualitative and quantitative research methods. Qualitative research can be described as comprehensive and within it, one can describe events occurring in real life (Hirsjärvi, Remes and Sajavaara, 2016, p. 161). In a qualitative research, instead of trying to prove existing facts, the goal is to find facts. (Hirsjärvi et al., 2016, p. 161). The purpose of this study is to examine the expected effects of IFRS 17 on financial statements and to evaluate the possible outcome of the implementation of IFRS 17. Thus, qualitative approach is suitable for this research.

In quantitative research, forming preliminary hypotheses is typical (Hirsjärvi et al., 2016, p. 164). In this research, it is not rational to produce any preliminary hypotheses because this study aims to find information on how professionals and insurance companies interpret and experience the implementation of IFRS 17. This research can be considered descriptive and mapping, which are attributes often associated with qualitative research (Hirsjärvi et al., 2016).

6.3 Data collection

Interviewing was chosen to be a suitable data collection method for this research. A total of eight interviews were held, and interviews lasted approximately 30 minutes. The basis of the interviews was not to test predefined hypotheses, but to gain information in order to answer the research questions. The interviews were conducted in a more conversation-like manner rather than following the interview questions strictly. As Hirsjärvi, Remes and Sajavaara (2007, p. 164) have stated, interviews and collecting information from documents are two of the main data-collection methods of qualitative research. It was also important for the chosen research method to be flexible since the purpose of the research was to explain and describe the opinions of professionals. Thus, interviews were considered a suitable option because interviews provide the interviewees with the option to answer broadly and express themselves. The discussion can be steered towards a more accurate direction, and spontaneous adjustment within the situation is also possible (Hirsjärvi et al., 2016, p. 205).

From different interview methods, a semi-structured approach was chosen to be the interview type for this study. In a semi-structured interview, the possibilities for sincerity, improvisation, and flexibility are present (Myers & Newman, 2007). This allows collecting information from the interviewees in a more comprehensive manner. Readily formed questions are used in a semi-structured interview, but they can be changed according to the answers (Hirsjärvi & Hurme, 2015, p. 47). The chosen interview type can also be called a theme interview. A theme interview is a semi-structured type interview that is typically focused on chosen themes (Hirsjärvi & Hurme, 2015, p. 47). The topics used in the interviews were based on themes that were observed in the previous literature. These themes formed a framework for the interview questions. Utilizing a framework as the basis of an interview is an effective way of controlling and guiding the interview (Schultze & Avital, 2011).

It is typical for qualitative research that the chosen interviewees are selected purposefully rather than randomly (Hirsjärvi et al., 2007, p. 160). This method of choosing interviewees was also practiced in this research. In order to gain as much valuable information as possible from this research, the selection of interviewees was limited on people with expertise and knowledge of IFRS 17 and its predecessor IFRS 4. Therefore, the information collected from the interviews is reliable to be used in analyzing the expected effects of IFRS 17.

Interview candidates were contacted via email. The interviews were held mostly in Microsoft Teams and one of the interviews was held in Google Meet. All the participants were interviewed individually, except for one interview that was conducted with two interviewees simultaneously. Performing the interviews remotely was considered the best solution because holding interviews in person was not appropriate or even possible due to the Covid-19 situation and the restrictions associated with it. The interviews were mostly held individually because it was considered the best environment for one to express their personal opinions on the discussed topics. Having a group-interview on this topic could have also resulted in an unnecessarily long interview, and scheduling such a meeting with all interviewees together would have been challenging. All the interviewees were promised full anonymity, meaning that their personal information was not to be used in this study at any point. Interviewees were also promised that the answers given in the interviews could not be connected to them. All the data collected and used in this study, starting from the transcription of interviews, was handled completely anonymously. As some of the interviews were held in Finnish, the transcribed material was translated into English before used in this study.

The interview questions used are presented below in Table 4, and a Finnish translation of the interview questions are presented in Appendix 1.

Table 4 Interview questions

Theme	Questions
Background *Job title* *Previous work experience* *Education*	1. What is your education? 2. What is your current job title? 3. Could you describe what your current job title includes?
Transparency and comparability of financial statements *Personal opinion* *Benefits and disadvantages*	4. How important do you find the transparency and comparability of financial statements? 5. How does the improvement of transparency and comparability help give a correct and an adequate financial statement? 6. What benefits do you think can be acquired through improved financial transparency and comparability? 7. Is it possible that the improvement of financial transparency and comparability can cause any disadvantages?
IFRS 17 *Knowledge* *Opinions on the standard*	8. What is your background knowledge of IFRS 17? 9. What do you think are the special features of IFRS 17? 10. What do you think about the IFRS 17 standard overall? 11. What do you think about the fact that IFRS 17 requires the separation of components of an insurance contract on specific occasions? 12. What do you think about measurement models of IFRS 17 for insurance contracts? 13. What do you think about CSM?
IFRS 4 *Knowledge* *Opinions on the standard* *Opinions on the change*	14. What is your background knowledge of IFRS 4? 15. What do you think about the IFRS 4 standard overall? 16. What do you think are the reasons why IFRS 4 is replaced by IFRS 17?
Effects *Opinions on the effects of IFRS 17*	17. How do you think the new standard will affect the transparency and comparability of financial statements? 18. How do you think the new standard will affect the users of financial statements? 19. How do you think the new standard will affect the insurance companies that have to implement it? 20. Do you think implementing IFRS 17 will cause burden or give value for the insurance companies? 21. What do you think IFRS 17 will do to the quality of provided financial information?

Comment letters issued by IFRS were also used as part of the empirical study. The letters used were initially written by insurance companies for the purpose of answering to IASB on the new amendments of IFRS that were done in 2019. They include the insurance companies' comments and opinions on the standard and its implementation. Therefore, the comment letters can be considered to provide information, to help in assessing the research questions, and to aid in forming a comprehensive standpoint of IFRS 17 from insurance companies' perspective.

In 2019, there were 123 comment letters sent addressing the new amendments of IFRS 17. Insurance company associations wrote a significant portion of the letters. However, this study focuses only at insurance companies. Thus, comment letters written by associations were excluded. Comment letters sent prior to 2019 are not included in this research because the newest letters provide the insurance companies' most recent opinions on IFRS 17. A total of 23 comment letters were used in this study, and all the used letters can be found in Appendix 2. This was considered an appropriate amount to form an adequate picture on the insurance companies' perspective on IFRS 17. The comment letters are public, and they can be observed in IFRS's website. The length of one comment letter was 12 pages on average.

These letters were used to form a more comprehensive image of the insurance companies' opinions on the new standard and its effects. This was done because of the limitations in finding suitable interviewees from insurance companies, as multiple refusals for the interview invites were received. Often these refusals resulted from the interview candidates thinking that they lacked the skills required to give comprehensive answers to the interview questions. In the end, only professionals working directly with IFRS 17 and professionals with general knowledge of IFRS were interviewed.

Comment letters were analyzed by forming two themes, which were benefits and concerns. After this, comment letters were read through and information that could be marked under either of the themes was highlighted. The highlighted information was used later forming conclusions and finding connections with the other gathered material.

6.4 Presenting data analysis

As the study was done using a qualitative method, qualitative analysis was chosen as the analysis method. For this method, it is typical that some of the analysis is already done during the interviews. Another attribute of this method is containing the data in a written form (Hirsjärvi & Hurme, 2008, p. 136). In a qualitative analysis, the researcher can choose to use either inductive or abductive reasoning. Inductive reasoning focuses on the collected data, whereas abductive reasoning is based on theoretical ideas which are then verified with the interviews (Hirsjärvi & Hurme, 2008, p. 136). In this research, inductive reasoning was used because conclusions were made with empirical data.

After recording the interviews, the material is either transcribed or conclusions are derived directly from the recordings (Hirsjärvi & Hurme, 2008, p. 138). In this research, the material was transcribed because of the length of the interviews, and because there was a lot of data to be observed and compared to other interviews. Transcribing the material is the best solution when the interviews are lengthy (Hirsjärvi & Hurme, 2008, p. 138). In this research, the complete recorded interviews were transcribed into their own text files that were named in a consecutive order. No information on the interviewee was added to the text files to protect their anonymity as promised.

The actual analysis began after the transcribing phase. There are four phases in analysis: reading, categorization or coding, finding connections, and reporting (Hirsjärvi & Hurme, 2015, p. 144). The material was read repeatedly to make the material familiar to the researcher and prepare them for the upcoming phases of analysis.

Then, the categorization phase began. According to Hirsjärvi and Hurme (2015, p. 144), categorization can be done based, for example, on the research problem, research method or theories. Categorization helps in interpreting and summarizing the material (Hirsjärvi & Hurme, 2015, p. 147), and it was done adhering to the themes used in the interviews. After printing out the written transcriptions, they were reorganized according to the themes. Thus, it was easier to find connections, compare the answers, and to make conclusions. The themes of the categorization were transparency and comparability, IFRS 17, IFRS 4, and the expected effects of IFRS 17. According to Eskola and Suoranta (2014, p. 175-182), dividing obtained data into themes aids in extracting clear results and answers for the research questions from transcribed material.

After the answers from transcriptions were categorized according to the themes, it was easier to begin the next phase of finding connections. This means finding similarities, differences and abnormalities from the answers. To make this phase more straightforward, the written documents with the interview answers were reorganized into themes and printed, and afterwards the similarities and connections between the interviews were highlighted. The phase of reporting and the results are presented in the next chapter.

7 RESULTS

7.1 Insurance companies' comment letters analysis

The letters used in this research are from all around the world which is important in forming a reliable and comprehensive perspective of the current situation of IFRS 17. As also noted in previous literature of IFRS implementations, the effects have been varying in different parts of the world, and thus it is important to take this into account when addressing the expected effects of IFRS 17, and also consider this fact when making conclusions.

7.1.1 Benefits of IFRS 17

Because of the nature of the comment letters, they did not address the benefits gained from IFRS 17, but rather explained the problems and concerns regarding the standard in order to possibly develop towards the right direction. However, almost all letters stated that they support IASB in developing a new standard to harmonize reporting in the insurance sector. Respondents said that there is a need to decrease variance in financial reporting in the insurance sector. AIA Group stated in their comment letter:

> "As one of the largest independent publicly listed life insurers globally, AIA are fully aligned with the goal of introducing a truly global, and universally adopted accounting standard that brings increased comparability and transparency to the industry." – AIA Group

Munich Re expressed their motivation to implement a high-quality standard to insurance business.

> "We remain committed to a high-quality standard for insurance contracts which significantly improves the insurers' financial reporting landscape." – Munich Re

The overall tone of the letters was that all companies implementing IFRS 17 were embracing it and understood the reasons behind IFRS 17's development.

7.1.2 Concerns of IFRS 17

Almost all the letters mentioned the amount of costs that implementing IFRS 17 causes and will cause in the future. Insurance companies have invested significantly into the implementation of IFRS 17 in order to be more efficient in its use by the time it becomes effective. In their comment letter, Allianz mentioned that they have prepared for the implementation of IFRS 17 by preparing their own IT- and actuarial systems.

> "Allianz has been investing significant efforts in the implementation project of IFRS 17, including developing own actuarial and IT systems." - Allianz

Some of the letters addressed the problem of the effective date of IFRS 17. There were differing opinions on when IFRS 17 should become active, and some stated that further delay of the standard would be not appreciated because of the costs and time invested in it. In contrast, some companies welcomed pushing the date back one or two years to make the implementation and challenges more manageable.

> "We support the proposed effective date of 2022. Most of Korean insurers, including Samsung Life, have put considerable amount of efforts to implement IFRS 17. Many of our activities are oriented around IFRS 17. If there should be any amendments that are significant enough to change the principles of IFRS 17 or further delay the effective date, we would expect substantive amount of sunk costs to arise." – Samsung Life

However, Prudential, for example, stated that they believe a further delay of IFRS 17 to be necessary in order to make the transition to the new standard easier and to solve its related issues.

> "Our view is that a further delay to 2023 for the effective date is necessary for the overall benefit of all stakeholders to ensure that the standard has all the material flaws corrected and there is sufficient time for preparers to implement a complex set of requirements." - Prudential

Intact had also expressed their opinion to postpone IFRS 17 from 2021 to 2023 in order to solve significant implementation problems.

> "We strongly recommend IASB to consider deferring the adoption of IFRS 17 by one additional year, from 2022 to 2023, as there remain some significant implementation challenges." - Intact

Sun Life also agreed on delaying the effective date of IFRS 17:

> "We believe that postponing the effective date of IFRS 17 to January 2023 will significantly reduce implementation risks and allow for a successful implementation of IFRS 17 globally." – Sun Life

It is important to consider that when these comment letters were issued, the expected effective date of IFRS 17 was on 1 January 2021. However, the date was postponed in 2020 all the way till 1 January 2023. Thus, we can see possible effects that the further deferral of IFRS 17 might have caused to insurance companies, according to these letters. Samsung Life Insurance expected the sunken costs to rise greatly if IFRS 17 was to be delayed and stated that they are against any proposal of postponing IFRS 17.

To summarize, the opinions of when IFRS 17 should become effective vary. Overall, some companies have made strict investment plans and timetables in order to be prepared to implement the new standard on the expected effective date, which was in 2019 planned to be 2021. As this has later changed, it can be assumed that the costs have risen even more for insurance companies. However, it is also notable that while some companies opposed the deferral of IFRS 17, there were many demanding more time to overcome the challenges in the implementation project. Therefore, it might be that some companies have now been able to solve the implementation problems in time, making the transition to IFRS 17 easier and consequently decreasing future expenses.

Some significant concerns emerged from the comment letters. Mostly these were related to problems in implementation and interpreting the new standard. Overall, the tone of the letters was that IFRS 17 has somewhat confusing parts that cause significant issues in the implementation of the standard. Almost all of the letters stated that IFRS 17 is not yet ready, and it needs to be developed to better enable it to achieve its own objectives. Some even stated that there are requirements in IFRS 17 that increase the costs of implementation to unacceptable levels while the gained benefit is insufficient. Issues that were mentioned the most often are introduced next, along with some examples from the comment letters.

Definition of an investment component seems to still be a concern for the insurance companies implementing IFRS 17. Sun Life stated in their comment letter:

> "The definition of investment-return services is unclear, and the concept of an investment component and the purpose of identifying investment components has been lost. These sources of confusion are significantly disrupting our implementation efforts." – Sun Life

In their letter, Aviva defined that IASB should take into account the existence of a wide range of non-distinct investment components which would not be considered as having an investment objective, funeral plan being given as an example. Aviva proposed that IASB should consider restricting investment components to contracts that have a savings objective. There is a need for a more precise delineation between insurance contracts and financial instruments.

> "We understood that the original aim of identifying investment components was to align presentation of revenue and claims for insurance contracts with a savings element with investment business. This principle seems to have been lost and there is a wide range of non-distinct investment components which are found in a broad range

> of products which we would not consider to have a saving or investment objective, funeral plans being a good example." - Aviva

Reinsurance contracts were often mentioned as a continuing major concern. Many of the letters stated that reinsurance products that provide coverage on a proportional basis were not properly accounted for in the exposure draft provided by IASB. For example, Hannover Re wrote that they consider the guidance on accounting for proportionate reinsurance inconsistent. HSBC stated that the proportionate coverage for reinsurance contract was helpful but too restrictive.

> "We especially consider the guidance on accounting for proportionate reinsurance held as inconsistent." – Hannover Re

> "The definition of proportionate coverage for reinsurance is helpful but as defined is too restrictive." – HSBC

Another recurring concern was transition. Many expressed their concern regarding it, and saw that the transition still has major challenges. Hannover Re had written on its concerns:

> "The requirement to provide fully restated and audited comparative financials when transitioning to IFRS 17 creates a conceptual break between IFRS 17 and IFRS 9 requirements for the transition period." – Hannover Re

Other concerns dealt with the level of aggregation, interpreting the requirements of the standard, timing of IFRS 17 adoption, and the possible effects the adoption will have on the comparability of financial statements. There were concerns whether insurance companies have interpreted IFRS 17 correctly and whether they would thus be able to present the financial information accurately.

Almost all letters stated that the standard is challenging and complex. However, not all said that the complexity is an obstacle for its implementation. The overall tone of the letters made it clear that implementation would not be easy and that there are still major issues creating concerns for the insurance companies. For example, in their comment letter, Allianz argued that the new standard is a challenge, but overall, utilizing it is feasible. Some companies, on the other hand, felt more concerned about IFRS 17 and its requirements. For example, Prudential wrote:

> "We remain very concerned about the gulf between the number of significant issues that remain to be resolved and the time needed to achieve a credible standard." - Prudential

It could be deduced from the letters that one of the biggest reasons behind insurance companies asking for IFRS 17 to be postponed further was the need to understand the standard better and to be more prepared to implement it. Also, it could be argued that some of the requirements of IFRS 17 were still unclear and causing concern, which would in turn make the preparation for the implementation more difficult and frustrating.

7.2 Interviews

7.2.1 Interviewees background information

Eight people were interviewed for this study. All interviewees were selected with a discretionary basis, and they were selected as if to represent different viewpoints, such as that of an IFRS 17 expert or an audit working with financial statements and IFRS in general. All the interviewees were from consulting companies, and they work with advisory and auditing. Selecting interviewees with different viewpoints was done in order to form as comprehensive of an image of IFRS 17 as possible. Different perspectives were also necessary because it was challenging to find experts who worked daily solely with IFRS 17. Diversity in the interviewees' background gave added value to the study because IFRS 17 does not only affect the companies applying it into their accounting, but also the users of the financial statement. All interviewees either work with IFRS 17 or are familiar with the standard and IFRS in general. The job titles of the interviewees are presented in Table 5, and IFRS' relation to their job are presented in Table 6.

Table 5 Jobs titles of the interviewees

Interviewee	**Job title**
Interviewee 1	Financial mathematician and actuary
Interviewee 2	Senior manager, actuary
Interviewee 3	Audit associate
Interviewee 4	IFRS expert
Interviewee 5	Actuary
Interviewee 6	Audit associate
Interviewee 7	Financial and transaction services
Interviewee 8	Actuary

Table 6 IFRS relation to the interviewees job

Interviewee	**IFRS association to work**
Interviewee 1	IFRS 17 implementation consulting
Interviewee 2	IFRS 17 projects and IFRS 17 working group
Interviewee 3	Audit tasks related to IFRS
Interviewee 4	IFRS 17 implementing projects
Interviewee 5	Consulting, IFRS 17 preparation
Interviewee 6	Audit tasks using IFRS
Interviewee 7	IFRS 17 implementation advisory
Interviewee 8	IFRS advisory, IFRS 17 advisory

7.2.2 Opinions on transparency and comparability

Interviewees' opinions on transparency and comparability were studied by asking about their personal opinions on the topics, and on how they expect them to affect financial statements. Additionally, it was asked what they thought would be the benefits or disadvantages from increasing transparency and comparability. All the interviewees thought that transparency and comparability are important.

> "Accounting standards that make comparability possible are really important. If we are to avoid risks associated with financial markets, we have to have comparability in order to identify them." – Interviewee 7

> "I find transparency and comparability important both from an auditor's and a reader's perspective. I feel that nowadays they are more valued in business." – Interviewee 3

> "I find them really important. If you think about it from an investor's perspective, comparability is important. It is hard to make investing decisions based only on financial statements when comparing is challenging." – Interviewee 4

Some of the interviewees expressed their opinion on transparency and comparability in the insurance industry:

> "The situation nowadays is that there is no real comparability and transparency is not very high. For example, if unprofitable contracts are taken into groups with profitable contracts, then requirements of IFRS 17 should improve comparability and transparency." – Interviewee 4

> "Obviously in insurance business it is itself quite complicated, because there is a lot of inherit risk in the business. It can be challenging to evaluate from the outside, so that makes it perhaps a bit more difficult to get the transparency you would like to have compared to other industries." – Interviewee 2

> "The practical execution is often challenging. I believe that especially in insurance industry reporting there are a lot of things that are complex or not easily understandable. So already, there are not that many who are able to read the financial statement and understand it completely. Especially in life insurance, the way of preparing income statement conceals too much information in it. For example, companies themselves do not use the income statements to follow their own progress because the image it gives is way too coarse." – Interviewee 5

> "The level of comparability in insurance industry is pretty weak at the moment. Right now, I do not think there is an issue with requiring insurance companies to disclose too much information." – Interviewee 8

All interviewees said that improving transparency and comparability of financial statements is important and there are benefits to it:

> "It gives more transparency to a business' operation and possibly makes the financial statement easier to read and interpret. Auditing is easier when there is more information available." – Interviewee 3

> "From a theoretical standpoint, I do not think there is any sort of harm in increasing transparency. Transparency, in itself, is a good thing. So as long as you manage to increase transparency, I think it is a good thing and only for the better, both for the insurance industry and users of financial statements." – Interviewee 2

Three of the interviewees argued that there could also be some disadvantages to excessively increasing transparency:

> "What is the right level so that one does not have to disclose too much about their business. So that the right level would remain, that companies don't have to disclose too much about their business and readers of financial statements would not be confused with unnecessary details." – Interviewee 1

> "I believe that some optimal level can be found. If we want to endlessly focus, open, and add more information into financial statements, then it no longer serves the purpose, which is that the user of it can through reading understand the financial situation of the company, at least on a rough level." – Interviewee 5

> "The actual practical application might vary between companies. From a company's perspective, maybe they look at how much delicate information is being disclosed. Maybe not everything the standard requires is wanted to be disclosed. If you think about from the reader's perspective, every time when new information is available, it requires the reader to familiarize themselves with it and to understand what all the numbers and information mean." – Interviewee 4

Based on the responses from the interviewees, one could conclude that transparency and comparability of financial statements is important and improving them is necessary especially in the insurance industry. However, increasing transparency too much might cause the financial statement to become too complex or inconvenient for interpretation. Adding new information to financial statements requires its user to educate themselves on the new standard in order to understand the new information.

7.2.3 Opinions on IFRS 17

Interview subjects' background knowledge and opinions on IFRS 17 were studied by asking how they felt about the new standard, its measurement models, contractual service margin (CSM), and the separation of components from insurance contracts. All the interviewees had prior knowledge on IFRS 17 and three of them worked with IFRS 17 on daily basis. When asked about their general opinion on the standard and what they identified as its special features, the answers varied. However, all the interviewees agreed that the main goal of IFRS 17 was to increase comparability and transparency:

> "IFRS 17 unifies the methods used to value the liability of insurance contracts. It brings comparability between companies." – Interviewee 1

> "I think IFRS 17 will increase the understanding of the business and make it more transparent. For instance, you cannot sort of hide your losses with unprofitable businesses. Instead you have to separate those two and put them into different groups and show them explicitly in your accounts. So, I think that will increase transparency

> and make the financial statements better from a principle standpoint." - Interviewee 2
>
> "I think IFRS 17 is about highlighting harmonization and increasing comparability. Because IFRS 4 was an interim solution, it was already a standard in need of more development. IFRS 17 should make the financial statement easier for its users to read it." – Interviewee 3
>
> "Valuing the contracts changes significantly. Profits are not recognized immediately completely in income statement, but rather the income is recognized over time. There are also changes coming to additional attachments: for example, to mandatory insurance liability reconciliation tables. They show how the insurance liability has changed from the opening balance sheet to the closing balance sheet through various income statements and then through cash flow items." – Interviewee 4
>
> "Its objective definitely is harmonizing the financial statements in the insurance business and to increase the comparability and transparency between financial statements." – Interviewee 6

Some of the interviewees expressed their concerns on the complexity of the implementation of IFRS 17:

> "Initialization of IFRS 17 is a challenge for companies. Companies have to make a lot of effort to plan the practical execution." – Interviewee 6
>
> "Producing information and figures is going to be a real challenge from the perspective of processes and systems." – Interviewee 4
>
> "After discussions with insurance companies, it seems that the implementation will cause a lot of different challenges because the insurance programs gathering information do not necessarily provide all the required information. The missing data is a problem. On operational scale, it is going to be a big and expensive change." – Interviewee 7
>
> "The level you need to track these numbers which I think perhaps will at least make it a bit difficult to report it and will perhaps increase the complexity of the task. (With IFRS 17, the level you need to track insurance contracts will make it difficult to report and it will increase complexity of the task. Which I think is not perhaps increasing the transparency. The level of granularity is overcomplicating it a bit.) Which I think perhaps is not necessary or is not increasing the transparency. So overall principle based it is a good thing, but I think perhaps the level of granularity you need to do this is perhaps overcomplicating it a bit." – Interviewee 2

All the interviewees stated that IFRS 17 requirement of separating distinct components from insurance contracts was an improvement:

> "I think from a principle standpoint separating components makes sense because you can have the kind of products that are a combination of different features, and some that are insurance related and some that are not. After unbundling is fulfilled, the components that are not insurance related should be reported after another IFRS standard. I think that is fair." – Interviewee 2
>
> "It is really important that insurance activity and components that go under financial instruments standards are kept separate."- Interviewee 6

> "I think separating components from insurance contracts brings out more of what the insurance contract is, which is a good thing. If there are attributes, that can be separated from it, then I think it is a benefit from the perspective of transparency." – Interviewee 3

> "Separating components from insurance contracts is a supported and a vital change to what a life insurance company's income statement will look like. From the perspective of an income statement, the company will look significantly smaller, than what it looks like today. This is how it is supposed to be, and it tells the fact that a great deal of life insurance business is something else than insurance business." – Interviewee 5

Interviewee 2 expressed their concerns on the possible problem of different interpretations when separating components from insurance contracts:

> "It can be a bit hard to evaluate for all different insurance companies what should be within the standard, because that is not specifically clear in a principle-based standard. So, I think the problem is that you could get a lot of different interpretations." – Interviewee 2

Overall, the interviewees agreed with the three measurement models introduced by IFRS 17:

> "When one considers the nature of an insurance contract, different measurement models are important. For example, non-life insurance contracts are often short and cover about the length of a year. For those, premium allocation approach definitely gives an outcome as relevant as the general model. The measurement model should not affect how the result is formed and whether is gives an accurate and adequate image. So I think it is good that they have given three different measurement models. – Interviewee 1

> "In general, I like the idea of the building block model. I find the way it is described and the principles behind it valid. Variable fee approach was constructed because for some products you would also have the financial results reflecting your best assessment. They should be taken into consideration in the CSM, because it is related to future profits. When it comes to premium allocation approach, my understanding is that it is made primarily for non-life business, which is much shorter duration than life business. The whole complexity of the CSM and matching the results of a time is not sort of valid when you have a one year contract as it is not necessarily a same degree. From a principle based standpoint I think it is fair to have a simpler approach for shorter contracts, I agree with that." – Interviewee 2

> "Overall, the three measurement models sound logical. IFRS 17 is not a perfect standard and after some time there will be upgrades and rectifications." – Interviewee 7

However, some interviewees mentioned some problems related to measurement models:

> "They are going to be challenging. Premium allocation approach is a relief with contracts that last less than a year. The general model and the modified version of it, the variable fee approach, are challenging. In theory, they sound easy, but on practical level, producing the figures and monitoring them is hard. It will pose challenges." – Interviewee 4

> "There is a lot of uncertainty regarding the premium allocation approach and the variable fee approach, on how they are to be interpreted and how the measurement

should be built internally in the company. In a way, it also feels like that the original sin of this standard is its way of striving for perfection, causing the standard to be riddled with various difficult questions that have no simple answer from the standard itself." – Interviewee 5

"The variable fee approach itself and how you apply it is fair, but I think it is a bit complicated and a bit unclear on when you should apply it. That is perhaps the biggest issue at this point, for which products does variable fee approach apply and for which not. It is not clear and something that perhaps could be explained better in the standard as well." – Interviewee 2

Interviewee 2 also expressed his concern on the premium allocation approach:

"From my point of view, I think the principle to use premium allocation approach is a very good idea, but the way you measure it should perhaps be changed, much more to what is in today's accounting standards to reduce the complexity of reporting, because I don't see ever much more transparency coming out of the way how it is measured." – Interviewee 2

Some of the interviewees expressed that CSM is a welcome idea in the insurance industry:

"A good idea overall, profits are not recognized immediately but rather when the insurance service is being offered. It is similar to other industries. When you offer or give payments, they are recognized at the occurring moment rather than before it has been given to the customer. It is challenging for sure." – Interviewee 4

"I think the idea of CSM and that you are not going to show the profit in your financial statement before you actually provide the service to the customer is a good principle, I agree with that. I think CSM is good and will be increasing the transparency of results." – Interviewee 2

"When one looks at the liabilities of a balance sheet now, there is only one big figure, which is insurance debt. With IFRS 17 it is chopped into more accurate parts, which one of them is the CSM." – Interviewee 5

However, interviewees 2, 5, and 8 also said that there is some complexity within CSM:

"The level of granularity, especially splitting not into portfolios or groups but into annual cohorts is perhaps doing the measurement of too gradual level. This will increase the complexity without increasing the transparency of the business necessarily."– Interviewee 2

"There are difficulties in the standard on clearing CSM, it has been made very detailed. Another concern with CSM is that if one is not an enlightened reader of a financial statement and if one can't really understand all the risks associated in the insurance business, then one might interpret the CSM in the balance sheet as a fact without any uncertainties that should be taken into attention." – Interviewee 5

"Insurance companies booking the profits in the same manner is a good thing. However, because there is no such practice at the moment, it will cause a great amount of effort to implement such a standard in a reasonable way." – Interviewee 8

One could conclude that overall, the changes IFRS 17 brings are necessary and needed to introduce more comparability and transparency into the insurance industry. However, there seems to still be complexity within the standard and implementing it efficiently will be a challenge for insurance companies.

7.2.4 Opinions on IFRS 4

Subjects' opinions on IFRS 4 were studied by asking what the interviewees thought about the standard, and what they felt were the reasons behind the need to replace it with IFRS 17. Everyone agreed that IFRS 4 was only a temporary solution, and provided some comparability between insurance companies. However, the problems lied with the possibility to use a number of different methods in valuing insurance contracts:

> "IFRS 4 was an interim standard. It allows various valuation methods in the background, so when thinking what the future profitability of an insurance contract is, IFRS 4 doesn't express it in any way. IFRS 17 moves to a more forward-looking way, or from retrospective to a prospective world." – Interviewee 1

> "When IFRS 4 became effective, it was known that it is a temporary standard. Moving to IFRS 17 is largely about transparency and comparability, and about having a standard that improves them. It is a necessary change in every way." Interviewee 4

> "IFRS 4 was sort of a way of trying to harmonize insurance industry while we wait for a more uniform international standard to come, which was IFRS 17. Therefore, IFRS 4 does not go into the same sort of detail with measurement models and things like that in the same way IFRS 17 does." – Interviewee 2

To summarize, all agreed that IFRS 4 was meant to only be a temporary standard, and the need for change exists. IFRS 4 did not sufficiently unify the measurement methods, which caused a decrease in transparency and made comparability a challenge.

7.2.5 Opinions on the expected effects of IFRS 17

The interviewees' opinions on the expected effects of IFRS 17 were studied by asking them about their presumptions on how it would affect insurance companies and users of financial statements, and on how it would generally affect financial statements. All interviewees expected transparency and comparability to improve, at least after the initial challenges have been dealt with:

> "I think the effect will be positive from many perspectives, both from the point of view of an auditor and the user of a financial statement. It will also make the attached files of a financial statement more comparable and perhaps also bring more accountability from the reporting perspective." – Interviewee 6

> "Personally, I think that it will increase a company's comparability and transparency. Attached files force to disclose more of the sources of insurance payment profits, where are they coming from and how is the contractual service margin expected to

be recognized in the future. Thus, the standard forces add transparency and consequently also comparability." – Interviewee 4

"IFRS 17 affects financial statements in a positive way. Especially in a stage when the users of financial statements learn to use the provided information more efficiently." – Interviewee 1

"Now might be the most challenging stage, when the system has to be constructed. After this, I believe we move on to the practical phase, and when we move onwards from there, we start to see the benefits. In the long run, I believe this is a huge step forward." – Interviewee 5

Interviewees 2 and 5 expressed their concerns on IFRS 17:

"The standard is complex because the business is complex. One of the most challenging parts of IFRS 17 is that it covers a broad area in insurance business. There are quite a few different insurance products out there, so it is very hard to make a principle that applies for all insurance business. The ambition is quite huge and the problem with an ambition like that is that you are overreaching, sort of taking too much into one standard. So that is one of the issues, and what the result will be, only time will tell." – Interviewee 2

"I would not be completely surprised, if even more serious problems arise, than what has been seen at this point. I have been a little sceptical ever since I started to look into IFRS 17 a couple of years ago. I have years of experience from the industry, and I have to say I have been quite surprised on how complex IFRS 17 is as a standard. That may be one of the reasons why I am a little afraid whether this standard has gone too far, and whether this means that things are about to become even more complicated to understand in regards of the economic systems of insurance companies. This could be because there is complexity and a significant amount of assumptions are created. On a practical level, IFRS 17 brings a lot of challenges, as new kind of calculations are formed. If there are some leaks or failures in reporting that can be seen only after some time has passed, the damages might be already great. Time will tell, but I am more sceptical than I used to be, for now I think that the market will survive IFRS 17 fine, but some smaller companies are starting to get busy." – Interviewee 5

When the interviewees were asked what they thought about the effects on the users of financial statements, everyone mentioned that in the beginning, there will be a learning process before the benefits can be gained from the new standard:

"For sure, it will be a challenge in the beginning when the user of the financial statements learns how to read the new information. Income statements will look different and attached files will require orientation. After the users learn to read them, they can benefit from the new information. It will provide the possibility to make better comparisons between companies, and one can get better view of how the profits are formed, how the liability has changed, and so on." – Interviewee 4

"Investors must have an initial perception of the standard, so that they can understand what is presented in the financial statement. When users of the financial statement know why the standard has been developed and made effective, it will definitely help them make better conclusions based on the new information." – Interviewee 3

> "I suppose that after companies are able to make reports under the new standard, there will be a lot of areas that need improvement, and this will continue long after the standard has become effective. The effects will be huge in insurance companies, and there is still a lot of work to be done from the company's perspective." – Interviewee 7

Regarding the effect on insurance companies, all interviewees mentioned the significant costs and time investment in implementing IFRS 17:

> "There will be additional costs for insurance companies. When one thinks about it from the perspective of producing accurate information and portraying the right image, the amount of risk points, where the financial information can be transmitted incorrectly, increases. Because of that, it is important that data management and improving control systems is focused on." – Interviewee 1

> "IFRS 17 is challenging and arduous when one considers costs, time, and resources invested. It will take time. However, I see it reflecting positively on the companies' operations and on what the users of financial statements think about them." – Interviewee 3

> "I think the initial costs of implementing IFRS 17 will be higher than the gain in the short term. Once you get the benefits from implementing IFRS 17, both from the investor side and the insurance side, I think you would gradually profit from it and that gives back to some of the complexity of IFRS 17. In some ways there is still a bit too much complexity in the standard especially in the granularity of the measurement. There are some respects of it that I think will increase the costs without increasing the transparency and value in the insurance business." – Interviewee 2

Interviewee 4 also said that the postponing of IFRS 17 will give more time to focus on the right things and find possibilities within implementing the new standard:

> "It is challenging. I think that especially now that they postponed the effective date further, companies have the possibility to rethink processes so that they will not just fulfil the requirements of IFRS 17, but instead add value to the company by increasing the process and system performances, and, for example, by rethinking pricing. It will provide a lot more possibilities." – Interviewee 4

When asked whether IFRS 17 would be a burden or a benefit for insurance companies, everyone thought the benefits would become apparent in the future, and that the hardest part would be the implementation phase and the accompanying costs:

> "In the long term, I think insurance companies will benefit from IFRS 17 even though the cost from implementing it is a bit high upfront. There are still some unnecessary related costs, so to speak, or at least you won't get the benefits. Especially when it comes to the granularity, but there are also things that I mentioned about in the premium allocation approach, or using the premium to receive or pay premium. There are some respects of those things that I don't think will increase the transparency or sort of understanding of the underlying business more than you already have today, so there are some respects of the standards that will only increase the cost but not the transparency. But overall, I think it will increase the transparency in the long run, but it will be a bumpy road in the start." – Interviewee 2

> "The only thing I see that is going to be a burden is in the beginning of the implementation and everything included in it. I do not think it will be a problem from the

> perspective of reporting, I think that all companies want to work accountably, and they probably also want that the readers of financial statements have as much exact information on their activity as possible. I do not feel that anyone wants to kind of conceal anything." – Interviewee 3

> "I see the new standard as a benefit for insurance companies. It forces them to improve their processes and decrease operative risks. It should also force them to improve financial management functions." – Interviewee 7

Interviewees 4 and 8 expressed that the outcome of IFRS 17 also depends on what the company wants:

> "It depends on whether they want to only fulfil the minimum requirement. Obviously, implementation causes significant costs, and if one is able to increase the effectiveness of processes and improve business under the use of IFRS 17, then it is possible for it to bring more benefits. Of course, when numbers must be observed this precisely, they become more transparent for the management as well, and thus they can make better decisions." – Interviewee 4

> "It has also much to do with how the company itself relates to the new standard. If they see it as a positive thing, it should be beneficial as they also improve their financial reporting while adapting to the new standard." – Interviewee 8

Finally, the interview subjects were asked about their opinion on the effect that IFRS 17 would have on the quality of provided financial information:

> "I believe that it might be more complicated – attached files, for example, can be really hard to interpret even if one would have acquainted themselves with them. I think that if the users of the financial statement can orientate themselves well enough and understand what is really being said and shown, they will get a better understanding of the company. I believe it will increase complexity, and that the income statement will look a lot different. New information always causes challenges." – Interviewee 4

> "The risk that provided information is incorrect grows, because the points of risk where the information can be processed falsely increases. If control environment is built well and the company is able to show that the audit trail is of good quality, then I can see the risks decrease. Overall, the standard itself cannot increase the quality. The standard requires more information to be presented, but how high quality the information provided is, that springs from the insurance companies." – Interviewee 1

> "I believe that the quality of the provided information in financial statements is going to improve after the implementation of IFRS 17. After all, companies must produce more information, and more information should give the users of financial statement more data to observe. However, I think it will also make the financial statement more complicated, and because of this, it also depends on whether the users of the financial statement is able to read and interpret the new provided information." – Interviewee 6

Expected effects of IFRS 17 seem to be mainly positive. However, in order to reach the point where benefits are noticeable, companies have to overcome the complexities and challenges of initializing IFRS 17 in their systems and processes, and said challenges are going to be difficult. On the other hand, some of the interviewees expressed their opinion on the possibility that the standard would be too complex and far-reaching. An accounting standard might not transform a company's accounting systems for the better or decrease the included risk. Also, there was strong opinion among interviewees that for IFRS 17 to achieve its objective of improving transparency and comparability, the users of financial statements have to be able to interpret the new provided information.

8 DISCUSSION

8.1 Expected effects of IFRS 17 on the transparency and comparability of financial statements and insurance companies

IFRS 17 is a significant change to the insurance industry. It provides three measurement models and contractual service margin and requires the separation of insurance components from insurance contracts. Additionally, it requires a great number of new additional attachments to be produced for the financial statements.

According to the interview results, insurance industry lacks comparability, and transparency is complicated because there is a lot of inherit risk in the business that can be difficult to evaluate from the outside. Interviews mentioned that there are many things in the insurance industry that are complex or complicated to understand, making interpretation of financial statements difficult for the user. For example, life insurance was perceived to conceal too much information in its way of producing income statements. It was also mentioned in the interviews that some insurance companies do not use the income statements themselves to follow their own progression, because it is a too coarse of an image.

Results found that the adoption of IFRS 17 standard is a great challenge. Almost all comment letters somehow mentioned the significant resources companies have invested in understanding and implementing IFRS 17. Previous research has mentioned that increasing financial transparency is often associated with providing more information in the financial statement. This is connected to companies having to make an effort in order to provide the required information accurately (Barth & Schipper, 2008). If the requirements of an accounting standard do not match a company's incentives or are too complex, a company might not comply to the standard (Saha et al., 2019). However, even though IFRS 17 requires a great amount of new information to be disclosed, it is difficult to not see it being vital. After all, the provided information is public and meant to be interpreted by users of financial statements.

The comment letters mentioned that it is difficult for insurance companies to implement the standard comprehensively to its systems and processes when there are still issues that need resolving.

IFRS 17 requires the insurer to separate investment components from an insurance contract. Previously under IFRS 4, this was not mandatory. Interview results show that reporting investment components under the correct IFRS standard brings out more of the original nature of insurance contract. It nurtures transparency of financial statements since the information provided is more salient (Barth & Schipper, 2008). However, interviewees expressed that the possible challenge with separating insurance components is that you could get various interpretations when the separation is applied. It can be difficult to evaluate what is within the standard, because this is not specifically clear when the standard is principle-based. Comment letters supported this and many similar concerns were mentioned. For example, defining an investment component was a dilemma for insurance companies and reinsurance contracts that provide coverage on a proportional basis were not properly accounted for. Possible lack of comparability after transition to IFRS 17 worried insurance companies since there are still requirements that need to be explained more in detail. The same opinion was also present in the interviews.

IFRS 17 presents three measurement models, the general model, premium allocation approach, and variable fee approach. According to the results, these measurement models are important for increasing comparability and transparency. From the point of view of an insurance contract, different measurement models are vital. For example, there are insurance contracts that are often effective for less than a year, and in addition, there are life-insurance contracts. Non-life insurance contracts are often short-lived, and for them, the premium allocation approach gives an outcome that is just as relevant than with the general model. Having a selection of measurement models gives more variety and flexibility for insurance companies to work with.

However, measurement models were also perceived as challenging. In theory, they sound appropriate and useful, but on a practical level, producing and monitoring the figures is challenging. Results of the study implied that there is uncertainty on how the measurement models should be applied and interpreted. For example, interviewees expressed that determining when the variable fee approach should be applied is an issue and something the standard could clarify further.

This was also evident with CSM, which is an element of the measurement models ensuring that companies will not show the profit in their financial statement before you provide the service to the customer. Interviewees agreed that CSM will increase transparency. For example, when one looks at the liabilities of a balance sheet at this point in time there is only one figure which is insurance debt. After applying IFRS 17, insurance debt is divided into several, more specific parts, one of which is CSM. However, the interviews showed that there are challenges with CSM. It contains a lot of detail which causes challenges for insurance companies. Interviewees stated that the measurement in CSM is done on a too gradual level, and this in turn increases the complexity. If the reader of financial statement is not aware of CSM and the risks associated with insurance business, the reader can interpret the CSM in the balance sheet as a certain fact without any consideration. CSM is a new element in the insurance business. Therefore, it will be challenging to implement such a standard in a reasonable way.

Improving transparency and comparability cannot be achieved only through the new standard. The standard is used to provide the information in financial statements but it is the insurance companies' responsibility to produce accurate information as IFRS 17 requires. All the interviewees mentioned that the introduction of IFRS 17 will be a challenge, and that companies must make significant efforts in order to plan the practical implementation. Interviewees mentioned that companies need to get the audit trails to work correctly for the information to be accurate in the financial statements. Previous research has shown that there can be backlash from too extensive requirements to disclose information (Lander & Auger, 2008; Pankaj Madhani, 2007). Therefore, it is essential that insurance companies use IFRS 17 as required, because otherwise it could cause disparity in the comparability of financial statements, and as a result, prevent IFRS 17 from reaching its objective of harmonizing the financial statements of insurance companies.

Insurance companies must create more information in financial statements, and for example, new attached files are required, such as changes in the insurance's liability. Previous literature indicates that one method to increase transparency is to disaggregate more information in the financial statement (Barth & Schipper, 2008). Furthermore, IFRS 17 is a standard that aims to disaggregate more information from insurance contracts compared to IFRS 4. However, it should be considered that disaggregating more information does not automatically gift more transparency (Lander & Auger, 2008; Pankaj Madhani, 2007; Saha et al., 2019). It was discussed in the interviews that providing more information makes financial statements more complicated and convoluted. It will require the user of financial statement to have educated themselves on the new information before the benefits can be gained from the changes brought by IFRS 17. Previous literature supports the claim that higher complexity in financial statements is associated with users of financial statements having to use more time to understand the disclosed accounting amounts (Merlo et al., 2018). Also, possible variations in the accounting practices first years after IFRS 17 implementation can cause dispersion in analysts' forecasts (Guay et al., 2016).

It was evident from the comment letters that more time is needed in order to make the transition to IFRS 17 easier. There were various responses on whether the standard should be postponed to a later date. Some of the comment letters argued that a delay was necessary in order to make the transition to IFRS 17 easier and to give more time to learn the new standard and how it should be implemented. However, some companies instead argued that a further postponing would cause unnecessary expenses. Some comment letters stated that because they have a strict schedule planned for the implementation of IFRS 17, it would cause high sunken costs to the project if a delay was to take place.

In 2020, IASB decided to postpone IFRS 17 further till 2023. It will be interesting to see how this affects insurance companies who are implementing IFRS 17. However, some companies needed more time to adapt to the new standard. It is, therefore, possible that because of the postponement more insurance companies can implement IFRS 17 with less effort.

As for the management of insurance companies, implementation phase of IFRS 17 will, according to the results, potentially be a challenge and require significant amount of resources and time invested. However, interviewees mentioned, that there are also benefits for the management. These include improving internal processes and systems when management absorbs the new standard into the accounting systems of a company. Because the management must educate themselves on IFRS 17, this could lead into a more comprehensive understanding of the internal systems, and as a result, into better decision-making ability and finding possible flaws in the systems.

In terms of value relevancy, we must wait for the first financial statements under IFRS 17 to examine whether the provided information will be more value relevant than the financial statements made under IFRS 4. However, the concern lies within the complexity of IFRS 17 and in its ability to provide value relevant information. In order to be value relevant, the provided information should be comparable to other financial statements from the same industry (Barth & Schipper, 2008; Mukai, 2017). Previous research has noted that for information to be value relevant, it has to affect the security market values, and also have impact on the decision-making process of an investor evaluating their investment choices (Kargin, 2013; Suadiye, 2012). When IFRS 17 harmonizes insurance contract valuation methods, it requires the insurance industry to provide more uniform financial statements. Thus, increasing comparability should be an improvement on value relevancy. However, the results of the study suggest that after IFRS 17 becomes effective, it will take some time before we can determine whether value relevancy has improved. According to results, it is unlikely that after the application of IFRS 17, everyone will instantly produce comparable financial statements in terms on insurance contract measurement. Also, the new provided information is going to cause challenges in terms of its interpretation. It was evident, that the new information is complex, at least in the beginning. IFRS 17 requires time for users to understand it, and it is supported by previous research (Merlo et al., 2018). IFRS 17's effects on value relevancy are difficult to analyze before the standard is active; how does this affect the information related to, for example, security market value or to the decision-making process of an investor? To understand the new information correctly, the companies are responsible of conveying the information accurately. This seems to be a great challenge, and it cannot be confirmed for sure that the first financial statements under IFRS 17 are going to be accurate and correct. However, many of the interviewees agreed that IFRS 17 makes companies disclose more valid information on the insurance contract valuations compared to IFRS 4.

According to the results from the interviews and the comment letters, it is highly likely that IFRS 17 will increase the transparency and comparability of financial statements, thus accomplishing the purpose of its creation. As previous literature has indicated, this would have many benefits, such as the reduced cost of capital or increasing the accuracy of forecasts done by analyst (Beyer et al., 2010; Daske et al., 2008; Pankaj Madhani, 2007). Therefore, for IASB and the insurance companies implementing it, IFRS can be considered a worthy goal to aim for. Previous literature has also indicated that comparability can be increased by making the financial statements look alike in the same economic activities (Barth & Schipper, 2008; Mukai, 2017). With IFRS 17, insurance contracts valuations between insurance companies are more uniform, increasing comparability. According to the results, when IFRS 17 becomes active and the first financial statements using the standard are disclosed, companies will look at other companies' strategies in using the standard and educate themselves through them. This supports the claim that the financial statements are not highly comparable in the first years of using IFRS 17 because companies have a lot of different ways of utilizing the standard. After all, it is a principle-based standard which does not instruct how to handle the practical implementation, leaving that responsibility on the shoulders of the companies required to use the standard.

According to the study results, IFRS 17 is burdensome for insurance companies during the first years. They must use a significant amount of resources and time on the initialization, and the advantages received from IFRS 17 are not easily noticed right away. However, after the initialization is done and insurance companies have developed their ways to use IFRS 17 efficiently, the benefits are notable. Almost all comment letters stated that they understand why the new standard is being developed and that they can see positive sides to it. In addition, all the interviewees agreed that they believe IFRS 17 will, after the challenges faced in the beginning, begin to yield more benefits and make the financial statements more transparent and comparable. Interviewees also believe in a positive outcome and that the companies will mould themselves to the new standard. After a successful implementation, both the benefits and the shortcomings in need of improvement will show themselves. IFRS 17 covers a broad area, and that is why it will be difficult to implement. However, after the beginning, it will become a standard that makes the insurance industry a more comparable and gives the financial statements the transparency they have been lacking.

Nevertheless, one should keep in mind the risks associated with such a significant leap in financial reporting, and not take for granted that there will be an increase in transparency and comparability after changing to IFRS 17. For financial statements' transparency to be improved, previous literature has noted that the additional information provided of underlying economics should be in a readily understandable form (Barth & Schipper, 2008). If this is not the case, it is challenging for the user of the financial statement to gain the benefits of the provided additional information (Guay et al., 2016). The users of the financial statements have to educate themselves on the new information in order to interpret the material correctly (Merlo et al., 2018). If there was a scenario where all insurance companies could apply IFRS 17 accurately, for them to appear more transparent the users of the financial statements would need to be able to understand the given information. However, it is difficult to see beforehand how miscalculations and false information will emerge with IFRS 17. For example, if there were to be miscalculations in the insurance contract measurements or in the additional provided information in the financial statements, we would not know how great the possible miscalculations would be, and therefore know how big of an effect it would have for an investor. Also, it could be challenging for an investor to possibly see these miscalculations in the first place. As previous research has noted, one solution to the complexity of new financial information in the financial statement could be a financial dictionary that the users of financial statements could use when they interpret the information (Merlo et al., 2018). A financial dictionary could help with the problem because the level of financial expertise varies within the users of financial statements. The users that have less financial expertise could conveniently find explanations to new terms and information, and thus be able to make better-informed decisions. This would also decrease the time required to understand the new standard.

8.2 Validity, reliability and limitations of the study

There are some limitations to be considered regarding the reliability and validity of this study. When it comes to the prior research presented in the literature review, it should be noted that there is no recently published completed research on this topic. There has been one study conducted in 2017 by Mignolet (2017) on the expected impact of IFRS 17 on the transparency of insurance companies' financial statements. This study was done three years ago, and there have been new alterations done on IFRS 17 since then. It was also the only study that was found regarding IFRS 17 and the chosen topic. However, an adequate amount of research on the concepts of transparency, comparability and value relevance was found.

Interviewees were selected using discretionary sampling, rather than unsystematically. This is typical for qualitative research (Hirsjärvi et al., 2007, p. 160). The goal of the sampling was to gain as broad representation of the research subject as possible, which would then increase the validity and reliability of the study, and the probability of generalization. However, it should be considered that the generalization of the results may be decreased by the small sample size. The number of interviewees was restricted due to the rather specific area of knowledge required from the interviewee to give comprehensive answers and opinions on the research topics. In qualitative research, the suitable amount is decided by the intention of the study (Hirsjärvi & Hurme, 2015, p. 58). Eight people were interviewed for this study. All the interviewees had experience on IFRS 17 and most of them worked with IFRS 17 daily, therefore meaning that the answers acquired from these interviews should be of high value. This number of interviewees were also deemed sufficient because the conclusions were formed based not only on the interviewees, but also on the 23 comment letters issued by insurance companies on IFRS 17. The amount of data was deemed appropriate to form a comprehensive image of the insurance industry's perception of IFRS 17. However, it should be noted that one of the interviewees was from Norway, while the rest were from Finland, which might affect the generalization of the results. When possible interviewees were scouted, it was also decided to exclude investors, for example, from the study.

The researcher must be aware of how to create a valid frame for the interview and how to conduct an interview. If the interview is not conducted well, it can result in biased answers. An unsettling interview situation can also distort the answers of an interviewee. People have a high tendency of giving socially acceptable answers in interviews or bias their answers as they do not want their employer to know their true opinions. (Myers & Newman, 2007). However, this possible issue was mitigated by full anonymity of the interviewees. According to Myers and Newman (2007), there are various problems that can be encountered with interviews. Interviews are often situations where a complete stranger is interrogated, and answers are required under time pressure. The pressure of answering quickly can result in the interviewee creating opinions, that they were not supporting in the beginning. This causes the reliability of the study to decrease. Also, the interviewer is an unfamiliar person, which can result in not gaining the trust of the interviewee. Lack of trust might cause the interviewee not disclosing information that the interviewee could consider as sensitive. (Myers & Newman, 2007). In this study the interviewees were given a brief presentation in the beginning of the interview, and the researcher was introduced to them. This was done to decrease the level of unfamiliarity and make the interview situation less stressful. Additionally, the length of the interview was not precisely defined in advance, so there was no time-limit causing pressure, and the interviewees were allowed to take as much time as they wanted to think about their answers.

Interviews were held as semi-structured interviews, as it provided flexibility that a qualitative interview needs (Myers & Newman, 2007). Semi-structured interviews provided the best opportunity to obtain diverse information about the research topics, which would then enhance the ability of forming a comprehensive image of the expected effects of IFRS 17. Therefore, choosing a semi-structured interview for obtaining data enhances the reliability and validity of the study.

Most of the interviews were held in Finnish. After the interviews were transcribed, the collected material was translated into English, so they could be used in this study. There can be different interpretations between languages and there is always a possibility that a meaning of a sentence can get lost in translation. That is one aspect to consider when determining the reliability of this study.

It should be noted as well that not many insurance companies exist in Finland that are affected by IFRS 17, so finding an larger number of interviewees from insurance companies would have required to widen the search to abroad. The comment letters were considered to give a more comprehensive image of the insurance industry’s opinion on the standard. It is notable, that there were over one hundred comment letters issued by insurance groups on the new amendments of IFRS 17, a total number of 123 letters. It would have taken a significant amount of time to comb through all the comment letters, so letters were chosen on the certain specifics. Associations and groups were excluded so that the number of letters could be limited to a more manageable amount, but still enough to be considered adequate. This ensured that only insurance companies that must work independently on the standard were selected, and as a result, all the possible effects, feelings, and challenges could be discovered. It should also be noted that the comment letters used in this study comment on the new amendments issued by IASB, so they do not give opinions on the overall perception of insurance companies on IFRS 17 in general. However, almost all letters did include remarks on the insurance companies’ standpoint on IFRS 17’s direction and what they thought about it.

It should be considered that the opinions gathered from the interviews come from the interviewees’ varying perspectives. Some of the interviewees worked with IFRS 17 daily, some regularly worked with IFRS in general, and some were auditors who used the standard and were able to give an opinion on the changes it brings to financial statements. Interviewees with differing backgrounds were used in order to enrich the obtained results and form a comprehensive image on the possible effects of IFRS 17.

The study was limited only on the expected effects of IFRS 17 on transparency and comparability of financial statements. IFRS 17 is a wide topic, and the possible effects caused by the standard are so extensive that it is impossible to take everything into account in a study of this scope. Thus, this study’s aim was to be more of a summary of the broader effects the standard might have. However, the study includes the opinions of accounting professionals who work with IFRS 17 on daily basis or are familiar with the standard. All the interviewees gave explicit information about the standard and their opinion on whether the standard will achieve its goals. Also, all the interviewees were asked if they would like to add something after the main interview questions were done. All the interviewees expressed that the interview covered the main areas of IFRS 17. Two interviewees added that additional attachments have an important role in the change to IFRS 17. Additionally, the comment letters used presented insurance companies’ standpoint on IFRS 17 and the standard’s present issues that concern the companies implementing it. Therefore, it can be said that the study covered the most important areas of IFRS 17.

The results of this study are not to be taken as absolute facts, but it is rather a speculative and explanatory study trying to discover the expected effects of IFRS 17, whether it is going to achieve its initial goals, and what are the effects it will have on insurance companies. There is always uncertainty when one tries to predict the future. It is not yet known how IFRS 17 will succeed in two years, since it is set to become active in 1 January 2023. That can only be speculated, and this study aims to be the latest hypothesis and estimation on what might transpire. There might still be new amendments coming to IFRS 17, and these amendments will probably change the way insurance companies perceive the standard, as well as the opinions of the experts working with it.

9 CONCLUSION

The purpose of this study was to examine the expected effects of IFRS 17 on the transparency and comparability of insurance companies' financial statements by investigating how accounting specialists and insurance companies perceive IFRS 17 and the possible outcomes of the standard's implementation. The research objective was approached through the research questions:

- How is IFRS 17 expected to affect the transparency and comparability of insurance companies' financial statements?
- Do accounting specialists perceive IFRS 17 to be more of a burden or a benefit for insurance companies?

Answers to the research questions were sought by conducting a literature review, observing comment letters of IFRS 17, and interviewing eight accounting specialists. In the beginning of the research, the subject was approached by reading previous research on financial transparency, financial comparability, and value relevance, and by examining IFRS 17 standard. The most significant findings related to the study are presented in chapters two, three, four and five. After exploring previous research, answers for the research questions were gathered through reading comment letters on IFRS 17 and conducting eight interviews with accounting specialists. The interviews were held as theme interviews, and the information gathered was categorized under themes and analyzed.

According to the results, IFRS 17 can be expected to increase the transparency and comparability of insurance companies' financial statements after some years. It will add more information on the underlying economics of insurance companies into the financial statements and disaggregate details on insurance contract valuation. Disaggregating nurtures transparency (Barth & Schipper, 2008), but added information has to be in an understandable form (Guay et al., 2016) in order to improve transparency. Users of financial statements have to be able to understand the new information in order for it to be comparable and transparent (Barth & Schipper, 2008). Comparability is expected to increase as

IFRS 17 harmonizes the measurement methods in insurance contract valuations between insurance companies. Insurance companies will produce similar financial numbers on similar sets of economic actions, which improves comparability (Mukai, 2017). However, it seems likely that the first financial statements created under IFRS 17 will not be wholly comparable, and the benefits of the added information on underlying economics and thus expected increase of transparency will be challenging to perceive. Thus, it is likely that comparability is not increased during the first year, at least. It is also difficult for the users of financial statements to make decisions when the provided information is not comparable (De Franco et al., 2011).

IFRS 17 will contain many risks because it covers a broad area in financial reporting. It will cause a significant amount of expenses and will be time-consuming when it is implemented. There are likely to be questions and challenges emerging after IFRS 17 becomes active and the first financial statements adhering to it have been published. Therefore, for the insurance companies, IFRS 17 can be expected to be rather burdensome in the implementation phase that lasts for the first few years after it become effective.

There will be a phase of adaptation when insurance companies find the best ways to use the standard and initialize it in their internal systems, and the users of financial statements can interpret the new information provided. It was evident from the results of the interviews that the complexity of the standard was a concern for the interviewees, and the same opinion emerged from the comment letters of insurance companies. However, all the interviewees believed that in the long run, IFRS 17 would increase the transparency and comparability. Also, it was evident from the comment letters that insurance companies mostly agreed that IFRS 17 is going to improve the financial statements in the insurance industry.

This research produced new information on the possible effects IFRS 17 will have on the transparency and comparability of insurance companies' financial statements. It provides an estimation of the possible consequences of IFRS 17 and insight into how insurance companies and experts in IFRS 17 feel about the standard. The results of the study address the current state of IFRS 17, and there could well be new amendments be altered before the effective date. This study also provides insight into the research area of transparency in financial reporting. It observes the expected effects in financial statements after a new accounting standard is introduced and aims to provide some insight into possible costs that emerge from the struggles of improving the transparency of financial statements. Because IFRS 17 is a rather new standard and it has not become effective yet, there is an opportunity to use this study as a basis for future research on the topic.

This research topic is a rather new one, as IFRS 17 has not yet become effective, and it is still being altered by the IASB. It would be interesting to conduct research on IFRS 17 after its effective date and after the first financial statements using it are published. After some years have passed, we can observe how it develops and how it is absorbed into the accounting of insurance companies, and perhaps examine the possible disparity that could still exist in financial statements after its actual initialization.

Due to constraints of time and resources, the scope of this study was limited on only the broader effects IFRS 17 has on the transparency and comparability of financial statements. IFRS 17 is a wide topic, and it has a lot of aspects that could be studied more specifically, for example, the measurement methods it utilizes or the CSM. Also, as IFRS 17 is a significant upgrade in insurance business' financial reporting, it could be a subject to be considered in schools. The lessons could include, for instance, the reasons why an upgrade from IFRS 4 to IFRS 17 was required, and what does it mean for the entities required to use the standard.

This study could be expanded by studying IFRS 17 interpretations of the financial statements' users, and on how they feel about the new provided information. Also, this study could be used in later research that could be carried out after IFRS 17 has become effective and the effects in financial statements can be observed. In addition, the ongoing coronavirus situation could be seen as a wake-up call that better understanding of the insurance business and risk management is required, and how IFRS 17 will affect understanding insurance business. Such research could also use, for example, Ohlson's model and evaluate the value relevance of the new information that is required to be disclosed according to IFRS 17.

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APPENDIX 1 THE SEMI-STRUCTURED INTERVIEW FRAME (PUOLISTRUKTUROITU HAASTATTELURUNKO)

Teema	Kysymykset
Tausta Työn kuva Työkokemus Koulutus	1. Mikä on koulutustaustasi? 2. Mikä on nykyinen tehtävänimikkeesi? 3. Voisitko kertoa mitä nykyinen tehtävänimikkeesi sisältää?
Tilinpäätöstietojen läpinäkyvyys ja vertailukelpoisuus Henkilökohtainen mielipide Hyödyt ja haitat	4. Kuinka tärkeänä pidät tilinpäätöstietojen läpinäkyvyyttä ja vertailukelpoisuutta? 5. Kuinka läpinäkyvyyden ja vertailukelpoisuuden parantaminen vaikuttavat oikean ja riittävän kuvan antamiseen tilinpäätöksessä? 6. Mitä hyötyjä uskot aiheutuvan tilinpäätöstietojen läpinäkyvyyden ja vertailukelpoisuuden lisäämisestä? 7. Voiko läpinäkyvyyden ja vertailukelpoisuuden lisäämisestä olla mielestäsi haittaa?
IFRS 17 Taustatietämys Henkilökohtainen mielipide	8. Mikä on taustatietämyksesi IFRS 17 -standardista? 9. Mitkä ovat mielestäsi IFRS 17 -standardin erityispiirteet? 10. Mitä mieltä olet yleisesti IFRS 17 -standardista? 11. Mitä mieltä olet siitä, että IFRS 17 vaatii komponenttien erottelemista vakuutussopimuksesta tietyissä tapauksissa? 12. Mitä mieltä olet IFRS 17 -standardin vakuutussopimusten arvonmääritysmalleista? 13. Mitä mieltä olet CSM:stä?
IFRS 4 Taustatietämys Mielipiteet standardista ja muutoksesta	14. Mikä on taustatietämyksesi IFRS 4 -standardista? 15. Mitä mieltä olet yleisesti IFRS 4 -standardista? 16. Mitä uskot olevan syynä sille, että IFRS 4 korvataan IFRS 17 -standardilla?
Standardin vaikutukset Mielipiteet IFRS 17 standardin vaikutuksista	17. Miten uskot uuden standardin vaikuttavan tilinpäätöstietojen läpinäkyvyyteen ja vertailukelpoisuuteen? 18. Miten uskot uuden standardin vaikuttavan tilinpäätöstietoja käyttäviin henkilöihin? 19. Miten uskot uuden standardin vaikuttavan vakuutusyhtiöihin, jotka ottavat sen käyttöön? 20. Uskotko IFRS 17 -standardin aiheuttavan enemmän hyötyä vai haittaa vakuutusyhtiöille? 21. Miten uskot IFRS 17 -standardin vaikuttavan tuotetun taloudellisen informaation laatuun?

APPENDIX 2 IFRS 17 COMMENT LETTERS

A complete list of chosen comment letters used in this study. All the comment letters can be found at https://www.ifrs.org/projects/2020/amendments-to-ifrs-17/comment-letters-projects/ed-amendments-to-ifrs-17/#comment-letters.

Company name	Comment letter number
Allianz	5
Munich Re	10
Samsung Life Insurance	11
Prudential	21
HSBC	29
Ping	8
Old Mutual	14
Hannover Re	15
Intact	35
QBE Insurance Group	37
AMP Life	40
Insurance Australia Group	42
Barclays	46
KBI Insurance Group	50
PICC Property and Casualty	57
AIA Group	71
Liberty Holdings	75
Manulife Financial	77
Deutsche Bank	106
AON	107
Sun Life	109
BNP Paribas	110
Aviva	112