PRESBYTERIAN UNIVERSITY COLLEGE, GHANA
OKWAHU CAMPUS, ABETIFI

DEPARTMENT OF BUSINESS ADMINISTRATION

TOPIC

IMPLEMENTATION ON INTERNATIONAL FINANCIAL REPORTING STANDARD 4 – INSURANCE CONTRACTS IN GHANA: CONSTRAINTS FACED BY INSURANCE COMPANIES IN THE GREATER ACCRA REGION

A REPORT SUBMITTED IN PARTIAL FULFILLMENT OF THE AWARD OF BACHELOR OF SCIENCE IN BUSINESS ADMINISTRATION (ACCOUNTING AND FINANCE OPTION)

BY

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OK609/07

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DECLARATION

I do hereby declare that, except for references to other people's work which have been cited, this work submitted as my project report to the Department of Business Administration, Okwah Campus of the Presbyterian University College - Abetifi, for the award of degree in Business Administration Accounting and Finance option is the result of my own investigation and has not been presented either in part or in full for any other degree.

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(STUDENT)

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MR. OSEI- BONSAI DATE
(SUPERVISOR)
DEDICATION

I dedicate my Bsc. dissertation especially to my Parent Mr. James Narh and Mrs. EmeliaNarh, to Priscilla my dear sister, to my late uncle the Rev Kennedy Berko and his family and to all my friends especially Alfred, Edem, Eric and Larye of PUC – GH.
ACKNOWLEDGEMENT

My life is a painting created by God, and as such I've nothing to boast. To God be the glory, great things he has done. I am very grateful to Almighty God for giving me life and strength to come this far. This is just the beginning.

The next acknowledgement goes to my supervisor Mr. Osei - Bonsu for offering support and guidance throughout this work.

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I would also like to express my sincere gratitude to my parent for the wonderful care, financial and moral support, encouragement and spiritual guidance throughout my educational life.

To all the Financial Controllers of the various Insurance Companies who willingly responded to my questionnaires, the head of supervision department of NIC and all the committees’ members involved in the adoption of the IFRS 4 especially those at the ICAG – Legon. I say a big thank you for providing the needed information.

To all the members of my family, especially Priscilla, Auntie Esther and Auntie Christy, I’m grateful for your prayers and support.

Finally, to all who contributed in one way or the other to the success of my education and this research work. I ask God to reward you richly.
ABSTRACT

It was identified through a review conducted by the World Bank in 2004 that several weaknesses exist in the Accounting and Auditing practices in various sectors of the country. International Financial Reporting Standards (IFRSs) and International Standards on Auditing were used as the benchmarks for the assessment. The Report on the Observance of Standards and Codes, published in June 2004 was the result of the assessment. This contains recommendations to improve the reporting framework in Ghana. As part of the recommendations for the improvement of the Accounting and Auditing statutory framework, the World Bank recommended the adoption of IFRSs without any modifications. In line with this recommendations, in January 2007, Mr. KwadwoBaah-Wiredu, the then acting Minister of Finance and Economic Planning of Ghana, formally announced the launching of Ghana's adoption of IFRSs and the subsequent replacement of the local GASs.

However, there was no IFRS on Insurance Contracts, and Insurance Contracts were excluded from the scope of the existing IFRSs which would otherwise be relevant. Accounting practices for Insurance Contracts were as a result very diverse, and also often differed from practices in the other sectors. The board therefore developed an International Financial Reporting Standard (IFRS) on Insurance contracts which was the IFRS 4 – Insurance Contracts.

This new Standard (IFRS 4) if adopted by all Insurance Companies will bring many benefits to the industry. One of the benefits is that it will provide all financial statement users and preparers with greater comparability and transparency about performance as a direct result of consistent measurement and presentation models. Due to this and other benefits to be derived from the standard it has to be welcomed.
However, implementing this new standard is not an easy process but there will be important milestone to meet in the next few years. With everyone playing by the same rules and giving consideration to the recommendations made in the final chapter, implementing the IFRS 4 is likely to be a short term pain for a much longer term gain.
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CHAPTER ONE
INTRODUCTION

1.0 BACKGROUND OF THE STUDY

International Financial Reporting Standards (IFRS) are a set of accounting standards developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation of public company financial statements (The American Institute of Certified Public Accountants, 2003).

Since 2002, the Financial Accounting Standards Board and the International Accounting Standards Board have been working to converge U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). As expected, the project sparked controversies particularly in the United States, where many preparers believe U.S. GAAP is the gold standard of Accounting Rules and should remain intact.

But the international rules have steadily gained U.S. support. In 2007, the Securities and Exchange Commission allowed private foreign issuers to report their results under IFRS without reconciling them to U.S. GAAP. A year later, the American Institute of Certified Public Accountants recognized the IASB as a standard-setter, which in effect allowed U.S. auditors to express opinions on financial statements prepared using IFRS. Meanwhile, at least 120 countries have signed up to replace their local GAAPs with some version of IFRS, and the Securities and Exchange Commission (SEC) is contemplating doing the same in the United States.

This upward trajectory ties in neatly with the G20’s insistence that improving financial reporting within developing economies and regions is an important part of the remit of the International Accounting Standards Board (IASB). Comparable and credible financial reporting has played its part in the strengthening of the story of economic growth.
A 2004 assessment of the accounting and auditing environment in Ghana conducted by the World Bank noted that the regulation of accounting practices was somewhat weak and recommended strengthening the statutory framework, enforcement mechanisms, and professional education. It also recommended adoption of International Financial Reporting Standards (IFRSs) without any modifications, in place of the existing Ghana National Accounting Standards (GASs).

The World Bank pointed out that GASs are based on a mid-1990s version of IFRSs (then International Accounting Standards, or IASs) and hence are outdated and differ significantly from their international counterparts. Other major recommendations included the creation of an independent oversight body responsible for the process of adoption and enforcement of accounting and auditing standards based on international equivalents for public interest entities, and developing simplified reporting requirements for the Small and Medium-size Enterprises (SMEs).

In line with the World Bank recommendations, in January 2007, Mr. Kwadwo Baah-Wiredu, the then acting Minister of Finance and Economic Planning of Ghana, formally announced the launching of Ghana's adoption of IFRSs and the subsequent replacement of the local GASs. As noted in a 2007 United Nations Conference on Trade and Development report, consistent with a phased approach towards adoption of international standards, by December 2007 IFRSs were expected to become applicable for all listed companies, Government Business Enterprises, Banks, Insurance Companies, Securities Brokers, Pension Funds, and Public Utilities.

The preparation of accounts and financial statements based on the IFRS by public interest companies is very important. According to Jeff van Rooyen, a founder member and CEO of Uranus Investment Holdings, past-CEO of the South African Financial Services Board,
former Vice-Chairman, Executive Committee of IOSCO, founding member and former president of the Association for the Advancement of Black Accountants and an IFRS Foundation Trustee, there is a need to deepen Africa’s capital markets’ and to create an investor friendly environment”. He suggests that “there is a range of things that must be done. One of them is moving away from Local Accounting Standards and adopting International Financial Reporting Standards (IFRSs).

1.1 STATEMENT OF THE PROBLEM

In order to ensure comparability and consistency in financial reporting all over the world, efforts are being made to converge Accounting Standards. The International Accounting Standards Board (IASB) has been set up to formulate common international accounting standards.

So far a number of standards have been issued by the IASB. The most relevant among them for Insurance Businesses is IFRS 4 which is on Insurance Contracts. Apparently this is the first ever standard on Insurance Accounting.

In Ghana, the Institute of Chartered Accountants directed that all public interest companies, which include all insurance companies, must adopt and implement IFRS for the preparations of their accounts and financial statements by 31st December, 2008. Although some Insurance Companies have been able to adopt and implement the IFRSs, a good number of the latter are yet to do so due to obviously constraints and challenges they face. We must therefore understand the constraints and challenges which are impeding the adoption and smooth implementation of the IFRS 4 - Insurance Contracts by insurance companies with the view to providing appropriate recommended solutions.
1.2 OBJECTIVES OF THE STUDY

This study is aimed at achieving the following objectives:

- To look at what the IFRS seeks to achieve.
- To identify the benefits to be derived from the implementation of IFRS 4 - Insurance Contracts’.
- To identify the constraints and challenges faced by Insurance Companies in Ghana in the implementation of IFRS 4.
- To offer useful and appropriate recommendations.

1.3 SIGNIFICANCE OF THE STUDY

A financial statement should reflect true and fair view of the business affairs of the organization. As these statements are used by various constituents of the society: regulators, investors, shareholders, creditors, etc. they need to reflect true view of the financial position of the organization. To achieve this goal, the IFRS was set up. The main aim of this study is to facilitate the speedy adoption and smooth implementation of IFRS 4 ‘Insurance Contract’ by Insurance Companies in Ghana which seeks to achieve this. The study has therefore been designed to;

- Detail out the impact which the IFRS seeks to achieve and the benefits to be derived from its implementation.
- The constraints to its implementation in the insurance contracts.
- Provide useful and appropriate recommendations to the constraints, challenges and difficulties in the implementation of this standard as a remedy to these problems as identified.
- It has encouraged the implementation of IFRS 4 since it has become virtually
universal, with many countries which hitherto operated their own national standards having phased them out for IFRS despite the associated challenges.

1.4 METHODOLOGY OF THE STUDY

The data for the research have been generated from two main sources; these are secondary and primary sources.

The following methods will therefore be used:

- Personal interviews
- Questionnaires
- Official publications, books and Journals

1.5 DATA ANALYSIS

The data collected will be analysed in line with the objectives of the study through the use of descriptive statistical representations like tables, pie charts, bar chart, etc. Software like Microsoft excel would also be used to analyse the data.

1.6 SCOPE AND LIMITATION OF THE STUDY

It has been the researcher’s wish to conduct the research involving all the key and vital institutions and professional bodies with interest in the implementation of IFRS in Ghana. However, due to time and financial constraints, it has been limited to only IFRS 4 – Insurance Contract. Furthermore, the survey for this research work has also being limited to only Insurance Companies in the Greater Accra Region of Ghana due to the same constraints. Finally, some of the Insurance Companies within the scope of the study refused to give out their information due to reasons best known to them.
1.7 ORGANISATION OF THE STUDY

The study has been presented in five chapters.

CHAPTER ONE- An overview of the study

CHAPTER TWO- Review of the literature

CHAPTER THREE- Methodology

CHAPTER FOUR- Data presentation and analysis

CHAPTER FIVE- Summary of findings, conclusion and recommendations

ABBREVIATIONS USED

- IFRS - International Financial Reporting Standards
- SEC - Securities and Exchange Commission.
- GAAP - Generally Accepted Accounting Practice.
- AICPA - the American Institute of Certified Public Accountant
- IOSCO - International Organization of Securities Commissions
- GAS - Ghana National Accounting Standards
- FASB - Financial Accounting Standard Board
- IASB – International Accounting Standards Board
1.8 CONCLUSION

In conclusion, this research work has been performed basically to encourage the adoption and smooth implementation of the new IFRS in all the Accounting Sectors in Ghana especially in the Insurance Companies due to its benefits to the industry and the entire Financial Community which cannot be underestimated.

It is expected that the implementation of IFRS 4 Insurance Contracts in Ghana will be beneficial to financial statements of Insurance Companies by increasing the quality of information, promoting greater comparability between companies and also improving the ability of some Insurers to access capital market.
CHAPTER TWO
LITERATURE REVIEW

2.0 INTRODUCTION

It is a well known fact that differences exist between financial statements all over since every country has a special trait which motivates them to adopt a particular accounting standard. This brings about the differences, some of which can be seen according to Elliott and Elliott (2008) as,

- The character of the national legal system,
- The way in which industry is financed,
- The relationship of the tax and reporting systems,
- The influence and status of the accounting profession,
- The extent to which accounting theory is developed,
- Accidents of history and
- Language

However, it is deemed very necessary if these standards are harmonised by implementing the newly International Financial Reporting Standard especially in Ghana due to the emergence of internationalization of economic trade, foreign investment and globalization of business ventures as well as other benefits to be derived from it.

2.1 THE DEVELOPMENT AND OVERVIEW OF ACCOUNTING SYSTEM IN GHANA

Accounting systems in Ghana took the shape of British accounting system after its introduction since Ghana was its formal colony. Business was therefore been managed according to the British system. This was seen in bookkeeping, managements,
investment, preparation of financial statements and others. The system was a generally accepted accounting principal (GAAP) and was named in Ghana as Ghana national accounting standard.

It was noticed after sometime that several differences existed between Ghana National Accounting Standards and International Standards. This was observed through the Reports on Observance of Standards and Codes conducted by the World Bank in the year 2004. It was expected that compliance with National Accounting Standards will mean compliance with International Accounting Standards. (ROSC, 2004)

The legal requirement on accounting and reporting set by the Companies’ code, Banking and Insurance Regulators, and the Securities Market Regulators were not in conformity with the IAS requirements.

In practice, Securities and Exchange Commission (SEC) allowed companies to prepare financial statements in accordance with International Accounting Standards. Banks were required to comply with the Manual of Accounting for Banks and also were instructed to comply with International Accounting Standards in addition to compliance with the Manual of Accounting in the year 2003.

Accounting and disclosure requirements set by Insurance Law contradicted in many respects with IAS requirements. (ROCS, 2004)

This led to the Institute of Chartered Accountants, Ghana been charged with the main task of regulating the accounting profession in Ghana.
2.2 INTERNATIONAL ACCOUNTING STANDARDS

Some international bodies are engaged in the process of standardisation and harmonisation especially the International Accounting Standard Committee (IASC) and the European Union.

The IASB began to issue its own standards, International Financial Reporting Standards (IFRSs) by adopting all current IASs. The body of IASs, IFRSs and associated interpretations are referred to collectively as ‘IFRS’ (Elliott and Elliott, 2008).

The generally accepted accounting standard which was previously used in Ghana as Ghana National Accounting Standards was partly based on the pre-IFRS and International Accounting Standards.

2.3 WHAT INTERNATIONAL ACCOUNTING STANDARDS SEEKS TO ACHIEVE

According to Elliott and Elliott (2008), the IASC seeks to developing, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements. They have also co-operated with National Accounting Standards-setters to achieve convergence in accounting standards around the world.

2.4 ADOPTION OF IFRS IN GHANA

In 2004, the World Bank and the Ministry of Finance and Economic Planning [MOFEP] commissioned a Report on the Observance of Standards and Codes [ROSC] in Ghana. The report issued in March 2006 indicated that the financial reporting standards used in Ghana lagged behind internationally acceptable standards. According to the report, the accounting and auditing practices in Ghana suffer from International weaknesses in
regulation, compliance and enforcement of standards. Various weaknesses were identified in the laws and regulations governing financial reporting. (Mwaura&Nyaboga 2008)

ROSC (2004) said, although Ghana Accounting and Auditing Standards have been based on International Accounting Standards and International Standards on Auditing, respectively, they are outdated and gaps existed in comparison with the International equivalents. Full compliance with Ghana National Accounting Standards is not often achieved; some listed companies inappropriately claim compliance with International Accounting Standards. There is therefore the compelling need to leave the old aged standards and migrate to International Standards.

With regards to the recommendation of the World Bank, Honorable Mr. KwadwoBaah -Wiredu, the then acting minister of finance and economic planning of Ghana, formally announced the launching of Ghana’s adoption of IFRS and the subsequent replacement of the local GASs (W.B., 2005).

This was to replace the Ghana National Accounting Standards (GNAS) and was to be carried out by the Institute of Chartered Accountants, Ghana, in collaboration with regulatory bodies such as the Bank of Ghana, the National Insurance Commission and the Securities and Exchange Commission. Its adoption promises to promote investors confidence in Ghana and make Ghana compliant with global standards of financial reporting.

2.5 THE BENEFITS TO BE DERIVED FROM THE IMPLEMENTATION OF IFRS

The acceptance and use of International Standards are becoming a global phenomenon due to its benefits. It is also been accepted as a common yardstick. (Status report of the adoption of IFRS in Ghana as of march 2010).According to Fitch’s view on insurance IFRS (2004), the principal benefits claimed for the move towards the new standards are
as follows:

- Transparency – when assets are shown (and liabilities at phase 2) at fair values, they give better views of the financial position of the company at that point in time. In addition, showing both assets and liabilities at fair value has the added advantage of avoiding the mismatch that occurs if these categories are treated differently.

- Consistency – the standardization of accounting standards will be an important achievement in itself. This will promote greater comparability between companies and may improve the ability of some insurers to access global capital markets.

- Reduce accounting arbitrage – Applying insurance accounting to insurance contracts rather than only to registered insurers will reduce the opportunity for arbitrage between different accounting methods.

- Improved management – the greater sophistication of tools that will be required to improve fair values will encourage companies to improve their capital management, risk management and asset/liability matching.

Additionally, according to the status report of the adoption of IFRS in Ghana as of March 2010, the importance of adopting the International Financial Reporting Standards is as follows:

- That Financial Statements of Ghanaian Companies will be easily understood in the global marketplace;
- The credibility of financial statements prepared locally will be enhanced;
- The adoption would facilitate consolidation of financial statements, in the case of multinational companies;
- That following upon the increased confidence in local financial reporting, foreign
investors would feel more comfortable to invest in the Ghanaian economy.

Furthermore, Alexander Dollhoft (December 2009), stated some benefits which are:

• Higher level of comparability between jurisdictions.
• Changes to communication of business performance.
• Increased focus on management of earnings volatility in financial reports.
• Software implications.
• Changes to product offerings.

Lastly, according to AICPA, 2003

• By adopting IFRS, a business can present its financial statements on the same basis as its foreign competitors, making comparisons easier.
• Companies with subsidiaries in countries that require or permit IFRS may be able to use one accounting language company-wide.

2.6 IFRS 4 INSURANCE CONTRACTS

Sometime after the acceptance of the IFRS, it was realised that there was no IFRS that dealt with the accounting treatment of insurance contracts. Companies that already used IFRS to prepare their accounts typically use USGAAP to fill in the gap in the published guidance. This led to the project to develop a standard aimed to remedy the situation and improve the transparency of reporting in the area. IFRS 4 insurance contract was introduced as a result. (Fitch’s view on insurance: May 2004).

2.7 WHAT INSURANCE CONTRACTS IS ABOUT

Milan (2004) defines Insurance contract as “A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policy holder if a specified uncertain event (the insured event)
adversely affects the policyholder.”

Gulati N.C. (2007), in his book mentioned that, risk has been the subject of study by scholars for many centuries and a great deal of thought and effort has gone into the definition.

Crews T.B. (2010) define risk as been involved in any situation in which some kind of loss or misfortune is possible. When you are exposed to the chance of loss or damage whether personal or material, risk is involved. Risk is a part of life. The loss might involve any one of or a combination of the following:

- Financial, such as a $15,000 hospital bill for an appendectomy
- Physical, such as injury or death
- Material, such as a wrecked car, burned home, or a stolen cell phone

Insurance is designed to protect against risk, because individuals who buy insurance are financially compensated in case of loss. Individuals who are concerned about potential risks pay insurance companies for protection against specific type of risk such as floods, medical costs, car accidents, and many others. Purchasing insurance does not remove risk. It merely provides compensation for the loss and spreads the cost of sharing the risk.

Because insurance is intangible, you cannot actually see or touch what you are getting. Some individuals are not motivated to purchase insurance. Risk is intangible and many times it is not realized until you experience a loss or survive a close call. (Crews, T.B., 2010).

According to Pal, Bodla B.S. and Garg M.C. (2007), insurance, essentially, is an arrangement where the losses experienced by few are spread over several who are exposed to similar risks. This is to protect against financial loss arising on the happening of an unexpected event. Insurance companies collect premium to provide security for the purpose. Loss is paid out of the premium collected from the insuring public and the
insurance companies act as trustees to the amount so collected.

Atkins and Bates (2008) said, in business, risk management has been extremely important. This is because the complexity of modern life inevitably gives rise to new risk, and the frequency and severity of both natural disasters and those that result from human activity is increasing. At the same time, society has become less tolerant of risk, and governments are actively encouraging the practice of risk management. When an incident does occur, people now automatically wish to attribute blame and seek compensation. Hence the expanding demands for liability insurance.

All companies including insurance companies are required to produce a formal set of audited accounts (financial reports) annually for registration with the authorities and publication to the world at large. This external reporting is governed by numerous national and international accounting rules, such as the International Financial Reporting Standards (IFRS), Local Accounting Standards and Generally Accepted Accounting Practice (GAAP). In addition, most quoted companies will also produce half-yearly (and quarterly) ‘interim announcements’ of financial performance (again, these are governed by accounting rules and standards) (Atkins and Bates, 2008).

Since the objective of financial statements is to provide useful information to the users of these statements, Wilson (1995) contends that the needs of users of financial statements should determine the objectives of financial reporting, leading ultimately to the form and content of financial statements. Furthermore, if the users do not regard the financial statements as useful and reliable, reporting has no value (Stegman, 1994). Hence, McAleese (2001) concludes that the information needs of the users should be prioritised in designing a new format for financial statements.
2.8 THE CONSTRAINTS AND DIFFICULTIES IN THE IMPLEMENTATION OF IFRS 4 INSURANCE CONTRACTS

Despite a belief by some of the inevitability of the global acceptance of IFRS, others believe that U.S. GAAP is the gold standard, and that a certain level of quality will be lost with full acceptance of IFRS.

According to AICPA (2003), certain U.S. issuers without significant customers or operations outside the United States may resist IFRS because they may not have a market incentive to prepare IFRS financial statements. They may believe that the significant costs associated with adopting IFRS outweigh the benefits.

These and other factors described below constraints the implementation of IFRS 4 in Ghana:

- According to D.J. Gannon (October, 2010), a partner with Deloitte, the nature of the discussions his firm with clients has changed since IFRS entered the mix. Those discussions now focus on what a company is trying to accomplish with its accounting treatment, rather than address arcane paragraphs buried in the literature. "The rigor is there," he says.

- Gannon (October, 2010), again believes that the branding of IFRS as less rigorous than U.S. GAAP is likely driven by typical change-management complaints, which see old methods as being superior to new ones. The international rules are more general and less prescriptive, and require more judgment — and "no one feels comfortable with that,"

- A recent study led by a researcher from the University of Massachusetts also undercuts the notion of GAAP's superior rigor. The study, "Principles-Based
Versus Rules-Based Accounting Standards," concludes that "CFOs are less likely to report aggressively under a less precise (more principles-based) standard" than under a more rules-based standard.

Fitch’s view on insurance IFRS (2004) also identified these challenges:

- Cost of capital – insurers are concerned that there will be an increase in the cost of capital as a result of the increase volatility that is expected from the new reporting standards and investors interpreting this as an increase in risk.

- Practicality – the practical aspect of implementation will inevitably be difficult due to the tight deadlines that have been set, the lack of trained personnel (particularly actuaries) and the need for the firms to gather new types of information and to educate, analyse and train other users of the accounts.

- Achieving consensus - there are difficulties still to be revolved in agreeing to the standards. A number of contentious issues still exist over the details of implementation including the method of calculating the market value margin, which form profit should be distributable to shareholders and when to recognise profitability.

The principal challenges identified by those involved in the adoption and implementation of the IFRS according to Peter Wong (September 2004) a formal member of the board of the International Federation of Accountants (IFAC) were as follows;

- Understanding the meaning of international convergence. This is a process with adoption as the end result. It will therefore be difficult to measure the progress towards international convergence without the universally accepted definition of adoption.
• Translation of the international standards. This is a major challenge in the adoption of this standard. Translators often find it difficult to convey the real meaning of the English text in the translated standards.

• Complexity and structure of the International Standards

Participants were of the view that the international standards are increasingly becoming longer, more complex, and rules-based, and the structure and complexity of the standards are effective, largely in an advance way, both their adoption and implementation.

• Frequency, volume and complexity of changes to the international standards. It has been a very challenging time for preparers, auditors and users of the financial statements, not only as a result of new and revised international standards, but also because of the many new requirements emanating from parties other than the accounting and auditing standard setters.

• Potential knowledge shortfall (awareness, knowledge and skills). There appears to be a potential knowledge shortfall with respect to the international standards. Only few professional accountants have a detailed knowledge of IFRS and the requisite skills to apply them.

He also identified these other challenges:

• Issues of incentives.

• Regulatory challenges

• Challenges arising from cultural barriers.
2.9 IMPACT WHICH IFRS 4 IS EXPECTED TO HAVE ON INSURANCE ACCOUNTING

These are few changes that IFRS 4 is expected to bring on insurance accounting if fully adopted;

• Investments to be categorised and measured at amortised cost or fair value.
• Catastrophe and claims equalisation provisions for future claims are not allowed anymore.
• Liability adequacy testing.
• Extensive additional disclosures leading to increased external communication.
• Gains and losses on entering into a reinsurance treaty are to be disclosed.
• Impairment of reinsurance assets.
• Pure financial reinsurance
• Product classification under IFRS
CHAPTER THREE
METHODOLOGY

3.0 INTRODUCTION

This chapter presents the processes and methods used in carrying out this research. It discusses the following:

- Research Setting
- The Population
- The Sample Size
- Sampling Procedure
- Method of Data Collection
- Data Analysis

3.1 RESEARCH SETTING:

The study area of the research was the Insurance Companies in the Greater Accra Region and the methods employed were both qualitative and quantitative, but more of qualitative. The primary and secondary methods of data collection were used.

The primary source has to do with personal discussions with personnel from National Insurance Commission (NIC) and various Insurance Companies in Accra. The secondary aspect of the data collection also dealt with Journals, pamphlets, official publications and other related websites.

3.2 POPULATION

The Population for the study was the Financial Controllers of Insurance Companies in the Greater Accra Region, Senior Officers of the National Insurance Commission Ghana
(NIC) and some Council Members of the Institute of Chartered Accountant Ghana involved in the implementation of the IFRS 4. Two different questionnaires were designed and administered to NIC Officers and Financial Controllers of Insurance Companies whilst Council Members and other officers of the NIC who have in-depth knowledge of Insurance Business were interviewed.

3.3 SAMPLE SIZE

The targeted sample size for the study was twenty-five (25) personnel comprising of NIC Officers and Financial Controllers of various Insurance Companies in Accra. Random sampling technique was employed to select twenty (20) out of about thirty (30) registered Insurance Companies (made up of life and non-life companies) in the Greater Accra Region and five officers from the NIC.

Designed questionnaire were administered accordingly, but out of the twenty (20) selected Insurance Companies only fourteen (14) responded while the rest declined to give out any information due to reasons best known to them.

3.4 SAMPLING TECHNIQUE

The simple random technique was used as sampling technique in this work. This was to ensure that the selected Insurance Companies in Accra, involved in the data collection process, represent a cross-section guaranteeing a fair view, capturing the needed information. The researcher considers that the findings derived will be credible and a true reflection of state of affairs.
3.5 METHOD OF DATA COLLECTION

The researcher used personal interviews and administration of questionnaires as the main source of data collection method. There were exclusive personal interviews arranged between the researcher and higher officers who are well informed about the Insurance Business. The questionnaires were administered to Financial Controllers of the various Insurance Companies and NIC officers to provide the needed information.

3.6 DATA ANALYSIS

The data obtained was statistically analyzed. The researcher employed descriptive, qualitative and qualitative analysis to analyze the data. However, the qualitative method was the main method in this work whiles the quantitative method was used to support the findings in the qualitative method. The researcher outlined a number of recommendations and drawn conclusions.
CHAPTER FOUR
DATA PRESENTATION AND ANALYSIS

4.0 INTRODUCTION

This study basically seeks to research into the implementation of International Financial Reporting Standards (IFRS) 4 - Insurance Contracts in Ghana with the view of encouraging it.

The study was conducted within the Greater Accra Region of Ghana to seek information pertaining to the fore mentioned topic. The first part of the analysis deals with the descriptive statistical background of the data collected and the second part deals with the analysis of the data collected in line with the objectives of the study.

The tools used in this process were tables for pictorial displays, pie charts and bar chart. The purpose of these tools was to consolidate and summarize the data set so that it is more comprehensible.

Out of the 20 questionnaires issued out to Insurance Companies in the Greater Region, the following information was gathered from the 14 companies who responded.

4.1 BACKGROUND

In analyzing the category of Insurance the sampled Insurance Companies are currently operating. The study indicated that of 46.7% of the Insurance Companies are into Non-life Insurance. Whiles on the other hand 40% and 13.3% are respectively into Life Insurance and Re-Insurance. The study had also revealed that 40% of the sampled companies have been in operation between 11-20 years, 33.3% are in operation between 1-10 years whiles 26.7% have been operating for more than 20 years. With regards to the
staff strength of the insurance companies, the study revealed that 40% had their staff strength between 1-50 workforces. 33.3% between 51-100 whiles 13.3% have their staff strength between 101-200 and above 200.

4.2 BENEFITS TO BE DERIVED FROM THE IMPLEMENTATION OF IFRS 4 INSURANCE CONTRACTS.

Under this section, we sought to find out the respondents’ knowledge and opinion on the benefits to be derived from the implementation of IFRS 4 insurance contracts. The tables and graphs below represent the results of this analysis.

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>5</td>
<td>36.0</td>
</tr>
<tr>
<td>Agree</td>
<td>8</td>
<td>57.0</td>
</tr>
<tr>
<td>Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
<td>7.0</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 4.2.1.
Table 4.2.1 is plotted to obtain Figure 4.2.1

Quality of information

![Pie chart showing responses to the quality of information with percentages: 36% Strongly Agree, 57% Agree, 0% Disagree, and 7% Strongly Disagree.]

Table 4.2.2

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>6</td>
<td>43.0</td>
</tr>
<tr>
<td>Agree</td>
<td>8</td>
<td>57.0</td>
</tr>
<tr>
<td>Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>100</td>
</tr>
</tbody>
</table>
Table 4.2.2 is plotted to obtain Figure 4.2.2

Usefulness of information to users

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>10</td>
<td>71.0</td>
</tr>
<tr>
<td>Agree</td>
<td>4</td>
<td>29.0</td>
</tr>
<tr>
<td>Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>100</td>
</tr>
</tbody>
</table>

Figure 4.2.2

Figure 4.2.3
Table 4.2.3 is plotted to obtain Figure 4.2.3

Promoting greater comparability

![Pie chart showing responses to IFRS 4 Insurance Contracts]

**Figure 4.2.3**

From the table and above, it was realized that out of the 14 respondents majority (57.1%) indicated that they Agree that IFRS 4 Insurance Contracts will increase the quality of information if adopted. 35.7% Strongly Agree, whiles only 7.1% Strongly Disagree. The table also revealed that 57.1% Agree to the fact that IFRS 4 will make financial information more useful to users. Whiles 42.9% Strongly Agree. The table of the results also indicated that 71.4% Strongly Agree that IFRS 4 will promote greater comparability between companies and may improve access to global capital markets. 28.6% on the other hand indicated that they Agree to that effect.

**Comments:** The findings indicate that the introduction of the IFRS 4 Insurance Contracts will be beneficial to the various insurance companies operating in the country since virtually all the respondents have either indicated Strongly Agree or Agree to the benefits expected to be derived from the implementation of the IFRS 4 Insurance Contracts.
4.3: CONSTRAINTS AND CHALLENGES FACED BY INSURANCE COMPANIES IN GHANA IN THE IMPLEMENTATION OF THE IFRS 4 INSURANCE CONTRACTS.

Under this section we seek to find out the constraints faced by insurance companies in Ghana in the implementation of IFRS 4. The results are depicted in tables and graphs 2 below.

Table 4.3.1

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>1</td>
<td>7.1</td>
</tr>
<tr>
<td>Agree</td>
<td>7</td>
<td>50.0</td>
</tr>
<tr>
<td>Uncertain</td>
<td>2</td>
<td>14.4</td>
</tr>
<tr>
<td>Disagree</td>
<td>3</td>
<td>21.4</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
<td>7.1</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>100</td>
</tr>
</tbody>
</table>
Table 4.3.1 is plotted to obtain Figure 4.3.1

The complexity of process for Insurers

![Pie chart showing responses to the complexity of process for insurers]

Figure 4.3.1

Table 4.3.2

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>2</td>
<td>14.3</td>
</tr>
<tr>
<td>Agree</td>
<td>3</td>
<td>21.4</td>
</tr>
<tr>
<td>Uncertain</td>
<td>4</td>
<td>28.6</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
<td>28.6</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
<td>7.1</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>100</td>
</tr>
</tbody>
</table>
Table 4.3.2 is plotted to obtain Figure 4.3.2

Understandability as a constraint

![Bar chart showing responses and percentages](chart.png)

Figure 4.3.2

Table 4.3.3

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>1</td>
<td>7.1</td>
</tr>
<tr>
<td>Agree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Uncertain</td>
<td>2</td>
<td>14.4</td>
</tr>
<tr>
<td>Disagree</td>
<td>10</td>
<td>71.4</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
<td>7.1</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>100</td>
</tr>
</tbody>
</table>
Findings:

From the results displayed in table 2 above it is realized that 50% of the respondents agree to the fact that IFRS 4 is a complex process for Insurers. 21.4% disagree, 14.3% are uncertain whiles 7.1% both strongly agree and strongly disagree as well. It was also found that 28.6% disagree that understandability of IFRS affects its implementation. Another 28.6% are uncertain. Meanwhile 21.4% and 14.3% agree and strongly agree respectively. On the other hand 7.1% strongly disagree. With respect to cost associated with IFRS 4 being greater than its benefits, the data revealed that 71.4% disagree, 14.3% are uncertain and 7.1% strongly agree and strongly disagree respectively.

Comments: From the above findings it is obvious that there are certain challenges associated with the implementation of IFRS 4 in Ghana. However as to whether the cost
associated with IFRS 4 outweighs its benefits, it was clear that majority of the respondents disagree to that effect.

4.4 Answers to Specific Questions

In addition to the above analysis respondents were asked to stipulate other constraints faced by the companies in the adoption of the IFRS 4. Majority of the respondents (70%) indicated that the training cost was too high. 25% also considered of high consultancy fees. Only 5% stipulated that initial implementation was confusing with the old system.

In analyzing recommendations offered by respondents on the implementation of the IFRS 4 it was realized that majority (60%) advocated for the training of staff to get abreast with the IFRS 4 system. Others, 10% also indicated that there should be re-aligning of system to be IFRS 4 compliance. 30% on the other hand decline to offer any recommendation.
CHAPTER FIVE
SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION
This final chapter provides the summary, conclusions and recommendations of the study.

5.1 SUMMARY OF KEY FINDINGS
The study established the following findings among others:

- The existing method used in the preparation and presentation of financial statements in Ghana is not wholly adequate and does not safeguard the interest of the policy holders and the public.

- Several differences exist between Ghana National Accounting Standards and International Standards.

- IFRS 4 Insurance Contracts will be beneficial by increasing the quality of information if adopted.

- The adoption of IFRS 4 will promote greater comparability between companies and may improve the ability of some Insurers to access capital market.

- IFRS 4 Insurance Contracts will make financial statements of Insurers more useful to users.

- Implementation of the new IFRS 4 is a complex process for Insurers.

- Though the significant cost associated with the adoption of IFRS 4 is high, (including training and consultancy cost) it does not outweigh the benefits.

- There are lack of expertise both within the insurance companies and the auditing
• There appears to be a potential knowledge shortfall with respect to the International Standards.

• Out of about thirty (30) registered insurance companies in the Greater Accra Region (made up of both Life and Non-life) only six (6) have been able to implement the newly IFRS 4.

5.2 CONCLUSION

IFRS 4 is the first guidance from the IASB on accounting for Insurance Contracts – but not the last. A Second Phase of the IASB's Insurance Project is under way. The Board issued IFRS 4 because it saw an urgent need for improved disclosures for Insurance Contracts, and some improvements to recognition and measurement practices, in time for the adoption of IFRS by listed companies. IFRS 4 applies to virtually all Insurance Contracts (including Reinsurance Contracts) that an entity issues and to Reinsurance Contracts that it holds.

From the analysis above, it can be concluded that implementing the new IFRS standard is a complex process for Insurers but there will be important milestones to meet in the next few years. However, with everyone playing by the same rules in future, implementing IFRS 4 is likely to be a short term pain for a much longer term gain. The benefits to the industry and the wider financial community cannot be underestimated. Insurers will have greater certainty about how their organization is viewed and evaluated by investors, regulators and other key stakeholders, reducing the cost of capital.

It is also expected that the implementation of IFRS 4 Insurance Contracts in Ghana will be beneficial to financial statements of Insurance Companies by increasing the quality of
information, promoting greater comparability between companies and also improving the ability of some Insurers to access capital market. This research has been performed to encouraging its implementation in other to bring this improvement in the sector.

5.3 RECOMMENDATIONS

The findings indicated that the introduction of the IFRS 4 Insurance Contracts will be beneficial to the various insurance companies operating in the country in diverse ways and should therefore be encouraged. This can only be done by finding remedies to the identified constraints and challenges impeding its implementation.

The following recommendations have therefore been made in this regards for consideration.

• Training programmes and regular seminars should be organized for all members involved in the adoption and usage of IFRS 4.

• There should be a project to clarify the meaning and style of the IFRS 4. This will help those who are in charge of performing the relevant engagement clearly understand the standard and apply it consistently.

• Because of the importance or significance values attached of the adoption of IFRS 4, insurance companies should try to allocate enough budgets for its implementation.

• The National Insurance Commission (NIC) Regulator could also enhance the implementation of the IFRS 4 by seeking financial support for Insurance Companies for the implementation.

• Right personnel should be recruited to facilitate the training and implementation
of the IFRS 4.

- There should be continuous awareness creation of the IFRS 4 to expand the knowledge of professional accountants and other accounting staffs involved in its implementation and usage.

- Also, educational institutions in the country are advised to offer programs of accounting and auditing that will produce graduates who will be familiar with International Standards.

- Measures should be put in place by the National Insurance Commission (NIC) to fully adopt this standard and its related interpretation issued as legally enforceable standard for the preparation of accounts in the Insurance Companies.

- A Financial Reporting Act should be established to monitor and enforce the implementation of the IFRS 4 in all the insurance companies within the country.
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ACADEMIC RESEARCH QUESTIONNAIRE - ONE

INTRODUCTION

This questionnaire is in respect of a research work being carried out by Miss Rebecca Narh a final year student of the Presbyterian University College as part of the requirements for the award of the BSc. Business Administration (Accounting and Finance Option) by the university. The research topic is: IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) 4 – INSURANCE CONTRACTS IN GHANA: CONSTRAINTS FACED BY INSURANCE COMPANIES IN THE GREATER ACCRA REGION

The data being gathered is purely for academic work and will be treated with utmost confidentiality.

Thank you for your cooperation.

PART A

Information about the Company

a. Name of company

.......................................................... ..........................................................

b. Category of Insurance Company

Life [ ] Non-Life [ ] Re-insurance [ ]

c. How long have your Company been in operation?

.......................................................... 
d. What is your company’s stated capital? .........................................................

e. What is the staff strength of your company? ..............................................

f. What is your company’s gross income? .......................................................

g. What is the level of automation (computerisation) of your technical operation?

Not Automated [    ] Partially Automated [    ] Fully Automated [    ]

h. Is your Accounting System Computerised?

YES [    ] NO [    ]

i. If yes, is your Accounting system fully integrated with the technical insurance system?

YES [    ] NO [    ]

Information Respondent

a. Position held........................................................................................................

b. Highest Academic Qualification 1st Degree [    ] Masters Degree [    ]

Others (please specify).................................................................

c. Professional Qualification(s) .............................................................................
PART B

Kindly tick as appropriate:

A = Strongly Agree, B = Agree, C = Uncertain, D = Disagree, E = Strongly Disagree

1. There has not been much sensitization for the implementation of the IFRS 4 in Ghana.

A [ ]  B [ ]  C [ ]  D [ ]  E [ ]

2. There has not been sufficient training and education for Accounting personnel toward the implementation of IFRS 4 in Ghana

A [ ]  B [ ]  C [ ]  D [ ]  E [ ]

3. There has not been sufficient education and sensitization involving the Top Management Personnel and Board of Directors.

A [ ]  B [ ]  C [ ]  D [ ]  E [ ]

4. There was no need replacing the accounting standards prevailing prior to IFRS 4.

A [ ]  B [ ]  C [ ]  D [ ]  E [ ]

5. Whether IFRS 4 insurance contract is adopted or not, the result would be the same.

A [ ]  B [ ]  C [ ]  D [ ]  E [ ]
6. The existing method used in the preparation and presentation of financial statements in Ghana is **NOT** wholly adequate and **DOES NOT** safeguard the interest of the policy holders and the public.

A [ ]  B [ ]  C [ ]  D [ ]  E [ ]

7. IFRS 4 insurance contracts will be beneficial by increasing the quality of information if adopted.

A [ ]  B [ ]  C [ ]  D [ ]  E [ ]

8. IFRS 4 insurance contracts will make financial statements of insurers more useful to users.

A [ ]  B [ ]  C [ ]  D [ ]  E [ ]

9. The adoption of IFRS 4 will promote greater comparability between companies and may improve the ability of some insurers to access global capital markets.

A [ ]  B [ ]  C [ ]  D [ ]  E [ ]

10. Implementing the new IFRS 4 is a complex process for insurers.

A [ ]  B [ ]  C [ ]  D [ ]  E [ ]

11. The issue of understandability of the IFRS 4 Insurance contracts is affecting its implementation in Ghana.

A [ ]  B [ ]  C [ ]  D [ ]  E [ ]

12. The significant costs associated with adopting IFRS 4 outweigh the benefits.

A [ ]  B [ ]  C [ ]  D [ ]  E [ ]
13. Have your organisation implemented the IFRS 4?

Yes [    ]            No [     ]

14. If no, what are the challenges?

………………………………………………………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………

15. How can these challenges be overcome?

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………………………………………………………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………

16. If yes, kindly state the difficulties you encountered in its implementation.

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………………………………………………………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………

17. How were you able to overcome those difficulties?

………………………………………………………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………


ACADEMIC RESEARCH QUESTIONNAIRE – TWO (2)

This questionnaire has been designed to gather data to enable Miss Rebecca Narh, a final year student of the Presbyterian University College, to conduct a research study on the constraints faced in the implementation of IFRS 4 - Insurance Contracts by Insurance Companies.

Kindly take a little time of yours to provide the following information.

1. Regulator:
...........................................................................................................................................................

2. Position of Respondent:
...........................................................................................................................................................

3. Professional Background of Respondent:
...........................................................................................................................................................

4. What weaknesses are inherent in the old method of preparation of financial statements by Insurance Companies prior to IFRS 4?
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...........................................................................................................................................................
...........................................................................................................................................................
...........................................................................................................................................................

5. What are the objectives of NIC in promoting the implementation of IFRS 4 - Insurance Companies in Ghana?
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...........................................................................................................................................................
...........................................................................................................................................................

.................
6. When did NIC initiate plans to the implementation of IFRS 4 - by Insurance Companies in Ghana?

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...........................................................................................................................
...........................................................................................................................

7. What are some of the activities NIC has carried out in the past to support the effective implementation of the IFRS 4?

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...........................................................................................................................
...........................................................................................................................
...........................................................................................................................

8. How many Insurance Companies have adopted IFRS 4 in the preparation of their financial statements?

...........................................................................................................................

.........

9. What in your opinion are the major challenges facing Insurance Companies in the implementation of the IFRS 4?

...........................................................................................................................
...........................................................................................................................
...........................................................................................................................
...........................................................................................................................
...........................................................................................................................
10. How can these challenges be overcome?