

## **Accounting Standards Compliance and Comparability of Measurement Practices: The Case of Malaysian General Insurers**

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### **ABSTRACT**

*This study determines the extent of compliance level of Malaysian general insurers towards the requirements stipulated in MAS 3 (Malaysian Accounting Standard No.3: Accounting for General Insurance Business) and GPI (Guidelines on Accounting for Insurance Business, JPI/GPI 3), and subsequently determines the comparability of relevant measurement practices outlined in the Standards and Guidelines. Data from the annual reports of 35 insurers were gathered and 18 measurement practices were examined in the study. The Herfindahl index (known as H-index) was employed in measuring the comparability of measurement practices. Except for the accrual of dividends, results suggest that the compliance level of companies towards most of the other items were high. Nevertheless, results on comparability of measurement practices were rather mixed, having H-indices ranging from a low score of 0.47 to a perfect score of 1.*

### **ABSTRAK**

*Kajian ini cuba menentukan tahap pematuhan syarikat penanggung insurans am di Malaysia terhadap keperluan pengukuran amalan perakaunan yang digariskan dalam MAS 3 (Standard Perakaunan Malaysia No. 3: Perakaunan bagi Perniagaan Insurans Am) dan GPI (Garis Panduan Perakaunan bagi Perniagaan Insurans, JPI/GPI 3). Seterusnya, kajian cuba menentukan tahap kebolehbandingan amalan perakaunan yang diliputi oleh kedua-dua Standard dan Garis Panduan. Laporan tahunan bagi 35 buah syarikat penanggung insurans am telah diperolehi dan sebanyak 18 amalan perakaunan telah dikaji. Indeks Herfindahl (dikenali sebagai indeks H) telah digunakan untuk mengukur kebolehbandingan amalan perakaunan. Secara keseluruhan, kajian mendapati yang tahap pematuhan adalah tinggi kecuali bagi pengiktirafan dividen. Keputusan bagi kebolehbandingan adalah bercampur-campur, dengan indeks H terletak di antara 0.47 dan 1.*

## INTRODUCTION

The development of an accounting standard difficulty in making financial comparisons among companies, due to the different accounting methods adopted. Nevertheless, the fact that a particular practice is required by an accounting standard does not necessarily indicate that it is complied with by all companies. One of the reason pointed out for the non-compliance is that in some countries the enforcement mechanisms are rather weak or ineffective (Ahmed and Nicholls, 1994). Even if all the companies were to comply with a particular standard, the issue of whether comparability will be enhanced is still debatable. This is especially true when an accounting standard allows a number of alternative treatments in measuring a particular item. In U.K., Dickson (1991) expressed the same concern when the draft directive for insurance undertakings accounts was agreed upon. In his remarks, he stated that:

*"Still, variation will remain, caused mainly by the inclusion of various options that allow similar items to be dealt with in different ways... Available options will result in different accounting policies for the valuation of assets and liabilities. This, in turn will affect the disclosed results ...".*

This paper will address the foregoing issues on compliance and comparability with respect to MAS 3 (Malaysian Accounting Standard No. 3: Accounting for General Insurance Business\*) and GPI (Guidelines on Accounting for Insurance Business, JPI/GPI 3). In particular, it attempts to observe the measurement of the compliance of Malaysian general insurers towards the require-

ments set forth in MAS 3 and GPI, and to determine the comparability of some of the relevant measurement practices outlined in those pronouncements. It is an extension of the study conducted earlier by the authors (see Ku Nor Izah and Shamsul Nahar, 1998) to determine the mandatory disclosure level of general insurers with respect to MAS 3 and its related standards.

MAS 3 was chosen for the following reasons. First, it is aimed at one particular type of business, and thus the problem of having diversity in sample companies is eliminated. Second, the fact that MAS 3 is among the first few standards that has been developed nationally would make the standard an interesting focus. The findings of this study might provide some useful avenues towards further development of the Standard by the newly formed Malaysian Accounting Standards Board (MASB). Third, as the insurance industry is highly regulated by Bank Negara Malaysia (BNM) where additional guidelines with respect to financial reporting are being imposed, it will be useful to observe its level of compliance and the comparability of accounting practices.

## LITERATURE REVIEW

The insurance industry is one of the important components of the financial system in Malaysia. The various regulatory measures introduced by BNM over the past years, coupled with the efforts of the industry have enhanced the ability of the insurers to take part in and benefit from the sustained growth of the nation. One of the areas that BNM was concerned with was that of the financial reporting of insurers. Standardization of accounting practices among insurers was one of the issues that

was emphasized during the mid 1980's, since insurers during the period did not have any specific guidelines on how to account for most of the relevant financial items. To enhance uniformity and thus comparability, the Malaysian Institute of Accountants (MIA) subsequently issued two sets of accounting standards in September 1991: MAS 3—Accounting for General Insurance Business, and MAS 4—Accounting for Life Insurance Business. Areas covered by the standards comprised accounting for investments, premiums, acquisition costs, claims and reinsurance. Both standards were made effective for financial statements covering periods commencing on or after 1 January 1992. To further complement these standards, BNM thereupon issued its own guidelines (Guidelines on Accounting for Insurance Business, JPI/GPI 3), referred hereafter as GPI, so as to ensure that the Bank's requirements will also be complied with. It was implemented simultaneously with the introduction of MAS 3 and 4. Nevertheless, this research will only focus on MAS 3 and the GPI.

Before the introduction of the Standards and Guidelines, there was too much flexibility in financial reporting in that insurance companies had the freedom to choose any method that they deemed fit in disclosing and accounting for a particular item. Accounting for 'claims that are incurred but not reported' (IBNR) is a good example of noncompliance among insurers, whereby it was found that some companies did not even make a provision for IBNR in the financial reports, and even companies that provided for IBNR used methods that were different from each other (Insurance Director, Bank Negara Malaysia 1995).

In an earlier study (Ku Nor Izah and Shamsul Nahar, 1998), the authors found that the compliance level towards disclosure requirements

imposed by MAS 3 and other related standards was still low. Given that insurance is a highly regulated industry, where complementary guidelines on accounting practices were imposed by BNM, the compliance level towards accounting measurement, on the other hand is expected to be high. Even with ordinary firms, Hussein (1992), using data from the Netherlands and the USA, showed that measurement practices were harmonised, but disclosure practices were not.

Research studies on comparability of accounting practices, often referred to as harmonisation of accounting, are becoming prevalent. Nonetheless, the specific definition of harmonisation or comparability of financial reports varies among studies. Generally, harmonisation in accounting refers to either *disclosure or measurement* harmonisation. Disclosure harmonisation refers to the harmonisation of the extent of disclosure, while measurement harmonisation is the harmonisation of the applied accounting methods (Van der Tas, 1988). Measurement harmonisation is the focus of this research, but the authors prefer to use the word comparability rather than harmonisation. The reason is that, harmonisation is often used in studies involving the comparison of practices among countries. Since the scope of this study is only limited to measurement practices dealt under MAS 3, the term comparability is considered to be more appropriate.

As cited by Herrmann and Thomas (1995), research studies attempting to determine the extent of harmonisation often combined accounting measurement and disclosure issues without differentiating between them. Such studies could be found, for example, in Nair and Frank, 1981; Choi and Bavishi, 1982; Evans and Taylor, 1982; McKinnon and Janell, 1984; and Purvis, 1991. Recognising that differentiation was important,

Hussein (1992), measured harmonisation in terms of both disclosure and measurement practices and found that measurement practices were harmonised but disclosure practices were not. Other studies that focused on measurement harmonisation could be found in Herrmann and Thomas (1995), and Archer, Delvaille, and McLeay (1995).

## RESEARCH METHODOLOGY

### *Measurement Practices*

The first step in the research design was to review MAS 3 and GPI in order to capture the accounting methods discussed and recommended for practice. All the items considered, together with the recommended treatments were listed on a scoring sheet. Measurement practices which were examined include investment valuations, recognition of interests and dividends, recognition of and accounting for premiums, computation of unearned premium reserve (UPR), policies and methods on deferral of acquisition costs, accounting for claims and accounting for reinsurance.

### *Data Collection*

The 1994 Annual Reports from all Malaysian incorporated insurers that were engaged in general insurance were requested through mail. Thirty-five out of 45 companies submitted their latest annual reports which therefore represented 78% of the population. Information concerning measurement practices were gathered and recorded on the individual company's scoring sheet comprising 29 measurement items.

Review of the annual reports on the accounting methods applied showed that not all items discussed in the relevant accounting standards are relevant to all companies, and in some cases, even though some items are relevant, companies might not disclose the accounting methods adopted. Non-disclosure of the latter case might create a problem in calculating the H-index because of the difficulty in determining which accounting method the non-disclosing firms adopted. As a result, the nondisclosure category is excluded in the computation of H-indices.

Another problem arises when a company discloses a combination of accounting methods regarding a particular item. In this case, classification was made based on the dominant method used. If the dominant method was not clearly evident, the combined category was omitted in computing the H-index. Both approaches were used by Herrmann and Thomas (1995). However, in computing the level of measurement compliance with the Standards and Guidelines, the combined category would be considered.

### *Test on the Degree of Measurement Compliance Level*

A company is deemed to comply with a particular standard or guideline if the method or practice adopted is in accordance with MAS 3 or GPI. In the scoring sheet, a score of '1' is given if the practice is in conformity with either the Standard or Guideline, and otherwise a '0' is given. A perfect compliance level (100%) for a particular item is achieved if all companies adopted any of the methods allowed. On the other extreme, a zero compliance level is achieved if all the companies adopted the methods which are not in accordance with MAS 3 or GPI.

*Test on Comparability of Measurement Practice*

The Herfindahl index (known as H-index) recommended by Van der Tas (1988) was used to determine the degree of accounting measurement comparability of each item. The H-index was calculated by weighing the relative frequencies of the alternative methods against each other. In this context, the frequency of a method means the number of companies choosing a particular method, and the relative frequency is the number of parties choosing a particular method, divided by the total number of companies. High relative frequency will have a higher weighting than low relative frequency. Consequently, the H-index rises when companies tend to concentrate on one or a limited number of alternative methods. The formula for the H-index is:

$$H = \sum_{i=1}^n p_i^2$$

where H = H-index

n = number of alternative accounting methods, and  
pi = the relative frequency of accounting method i.

The formula was applied to all the items listed on the accounting score-sheet. For each item, the index would range between “0” (no comparability) and “1” (all companies using the same method).

The H-index was chosen over some other concentration measures due to its simplicity and its ability to provide more information than just calculating the frequencies of the accounting methods applied, especially when more than two alternative accounting methods are involved (Van

der Tas, 1988). Prior to the study by Van der Tas (1988), Herrmann and Thomas (1995) argued that there was no single quantifiable measure to assess harmonisation. Majority of the studies relied primarily on descriptive statistics in assessing harmonisation (e.g. Choi and Bavishi, 1982; Evans and Taylor, 1982; McKinnon and Janell, 1984). The application of the H-index and its other versions could be observed, among others in Archer et al. (1995) and Herrmann and Thomas (1995).

**RESULTS**

After omitting some of the measurement items that were not commonly disclosed by companies (items related to Accounting for Reinsurance in particular), 18 out of the 29 items of measurement practices warrant further discussions. The discussions of the major findings follow.

**Investments**

*Investment Properties*

The accounting standards provide that investment properties shall either be: a) treated as property in accordance with IAS 16 and depreciated in accordance with IAS 4, or b) as long term investments i) at cost, or ii) at revalued amounts. Only eleven companies (31.4% of the sample) reported that they owned investment properties. Table 1a summarises the methods used in their valuation on balance sheet dates, together with the H-index and the level of compliance. In this particular case, the company that applied either method 1 or 2 was also considered as to comply with the standard with the assumption that the company owned two or more properties which

**Table 1a**  
Investment Properties Valuation

Method Applied		Acceptance of method	Frequency	%
1.	Treated as long term investment at cost minus provision for permanent diminution in value	MAS 3.1	3	27.27
2.	Treated as long-term investment at revalued amount	MAS 3.1	7	63.64
3.	Treated either as 1 or 2	MAS 3.1	1	9.09
Total			11	

Compliance Level = 100% (n=11)

H-index = 0.5800 (n=10)

**Table 1b**  
Revaluation Interval (n=7)

		Acceptance of method	Frequency	%
1.	Once every 3 years	(MAS 3.1)	5	1.43
2.	Once every 5 years	None	2	8.57
Total			7	

Compliance Level = 71.43%

H-index = 0.5918

deserved separate valuation methods. As a result, all companies were found to comply with the standard. As discussed earlier, the company that treated the properties using either method was not considered in computing the H-index. An H-index of 0.58 indicates low comparability with regard to the item.

MAS 3.1 also provides that where revalued amounts are used, the assets should be revalued at regular intervals of once in every three years. Table

1b presents the results on the frequency of revaluation by the 7 companies that chose to revalue their properties. It could be observed that 71.4% of the companies complied with the standard, while the H-index of 0.5918 indicates moderate comparability among the companies.

The Standard further requires the properties to be revalued by professionals. The results showed that all the 7 companies complied with the Standard and hence obtained a perfect score for the H-index.

### *Government Securities*

All 35 companies reported that their investments in government securities were carried at cost with adjustments as prescribed by MAS 3.1, which results in maximum standard compliance and H-index.

### *Quoted Investments*

Thirty-four companies (97.1%) reported to have quoted investments. The distribution of the methods used in their valuation on the balance sheet dates is as shown in Table 2. A majority of the firms (94.12%) complied with MAS 3.1, which states that quoted investments should be carried at the lower of cost and market value (LCM), except that if the diminution in value of a particular investment is not regarded as temporary, provision should be made against the value of the investment. An H-index of 0.8893 implied that companies were in high agreement on the practice with regard to quoted investments.

### *Unquoted Investments*

MAS 3.1 and GPI Guidelines stipulate that unquoted investments shall be recorded at cost less provision for permanent diminution in value or valuation up to the extent of net tangible assets (NTA). Thirty-four companies (97.14%) reported to own unquoted investments. Table 3 shows a summary of practices adopted by companies. The combined category was not considered in computing the H-index and compliance level since we have no way in knowing whether the companies adopted both or either one of the methods. The high H-index of 0.9355 indicates that there is a high degree of consensus regarding the methods used in valuing unquoted investments.

### *Dividends*

All companies were found to receive dividends but only twenty-one companies (60%) disclosed the accounting treatment for the accrual of dividends. The summary result is as in Table 4. Only seven out of twenty-one companies that disclosed (33.33%), complied strictly with MAS 3.1 where dividends were recognised when declared payable. The company that had a combination of both methods was considered in computing the H-index since it clearly differentiated the methods used — one for subsidiaries and the other for non-subsidiaries. By doing so, its financial statements with regard to the item was not comparable to the others. An H-index of 0.4966 gave an indication that comparability is quite low with regard to the practice.

### *Interest Recognition*

Table 5 summarises the results on interest recognition. Twenty-two (95.65%) out of 23 companies that reported on interest recognition, stated that interests were recognised on an accrual basis, which was in compliance with MAS 3.1. Only one company used the cash basis, resulting in an H-index of 0.9168 which is very high in comparability.

### **Premiums**

#### *Premium Recognition*

MAS 3.2 provides that premiums shall be reported at the inception date. All 14 companies that reported on the recognition of premium for marine cargo, aviation cargo and inland transit stated that those premiums were recognised from the inception date which results in the maximum level of compliance and H-index. As for premiums from other busi-

**Table 2**  
Valuation of Quoted Investments (n=34)

	Method	Acceptance of method	Frequency	%
1.	Carried at LCM, applied on aggregate basis, except that if the diminution in value of a particular investment is not regarded as temporary, provision is made against the value of that investment (MAS 3.1)	MAS 3.1	32	94.12
2.	Carried at cost with specific write down for shares where a permanent diminution has occurred	MAS 3.1	2	5.88
	Total		34	
Compliance Level = 94.12%		H-index = 0.8893		

**Table 3**  
Valuation of Unquoted Investments (n=30)

	Method	Acceptance of method	Frequency	%
1.	Cost minus provision for permanent diminution in value	MAS 3.1	29	85.29
2.	Valuation up to the extent of net tangible assets of the investee (NTA)	MAS 3.1	1	2.94
3.	At cost and / or valuation and provision is made for any permanent diminution in value	MAS 3.1	4	11.7
	Total		34	
Compliance Level = 100%		H-index = 0.9355		

**Table 4**  
Accrual of Dividends (n=21)

	Treatment	Acceptance of method	Frequency	%
1.	Recognised when declared payable	(MAS 3.1)	7	33.33
2.	Recognised on receipt	none	13	69.90
3.	Recognised when declared for subsidiaries, and on receipt for others	none	1	4.76
	Total		21	
Compliance Level = 33.33%		H-index = 0.4966		



**Table 5**  
Interest Recognition (n=23)

	Method	Acceptance of method	Frequency	%
1.	Accrual Basis	MAS 3.1	22	95.65
2.	Cash Basis	none	1	4.35
	Total		23	

Compliance Level = 95.65%                      H-index = 0.9168

**Table 6**  
Recognition of Premium for Businesses Other than Marine Cargo,  
Aviation Cargo and Inland Transit (n=29)

	Method	Acceptance of method	Frequency	%
1.	From the inception date of the respective policy	(MAS 3.2)	26	89.66
2.	Issue of policies and advice from ceding companies	none	1	3.45
3.	Issues of debit notes	none	2	6.89
	Total		29	

Compliance Level = 89.69%                      H-index = 0.8094

**Table 7**  
Accounting for Premium (n=9)

	Method	Acceptance of method	Frequency	%
1.	Time Apportionment	MAS 3.2	4	44.44
2.	1/24 th. method	MAS 3.2	5	55.56
	Total		9	

Compliance Level = 100%                      H-index = 0.5061

nesses, the distribution of the reported treatments is shown in Table 6. It could be observed that 26 out of 29 companies that disclosed the policy (89.66%) strictly complied with MAS 3.2. An H-index of 0.8094 showed high comparability with regard to the policy.

Table 7 shows the result for accounting for premium whereby only nine companies mentioned the methods used. Four companies (44.44%) stated that they used time apportionment method while five companies (55.56%) used the 1/24th method, which resulted in an H-index of 0.5061.

### Computation of UPR

We refer to MAS 3.2 and the GPI Guidelines with regard to the computation of Unearned Premium Reserves (UPR). MAS 3.2 prescribes the methods to be applied as follows:

- a. in the case of cargo and goods-in-transit, the unexpired portion of the instalments;
- b. in the case of premiums which cover a period of risk of one year, a method no less accurate than the 1/24th method; and
- c. in the case of other policies extending over a period of more or less than twelve months, the time apportionment method.

The GPI Guidelines on the other hand prescribes the following basis in determining the UPR:

- a. Malaysian Business
  - the 25% method for cargo and transit business.
- the 1/24th method for all other classes of general business, with a deduction of 20%.

- b. Overseas Business
  - the 25% method for overseas inward cargo, and transit business.
  - the 1/8th method for all other classes of overseas business, with a deduction of 20%.

The Guidelines further state that the Reserves shall be determined on the basis of 'gross premiums less deductible reinsurance' underwritten during the period. It could be observed that MAS 3.2 and the GPI Guidelines require different sets of methods, each dealing with different categories. Nevertheless, the Guidelines recognise that where the application of the Accounting Standards results in a level of reserves higher than the reserves outlined in the Guidelines, insurers have the option to maintain such higher reserves. However, in any case, the UPR should not be lower than the amounts determined by the Guidelines.

Tables 8a, 8b and 8c show the distribution of methods used in calculating UPR for cargo and inland transit businesses, Malaysian other businesses and overseas businesses, respectively. It could be observed that the GPI methods were more popular among companies. With the introduction of the guidelines pertaining to the UPR methods, companies seem to have more alternatives in choosing the methods, and as a result would reduce the comparability among firms if the difference in the results are material.

In computing the H-index, care was taken in interpreting the 'higher of MAS or GPI method'. For example, if we refer to Table 8a, on one extreme there is a possibility that all the eight companies that adopted the 'higher of MAS or GPI method' selected the MAS method, and on the other extreme selected the GPI method. In total,

there would be nine combinations of methods and assuming they were of equal probability, the average H-index would be 0.7493 with lowest and highest scores of 0.5957 and 0.9395, respectively. Alternatively, the average H-index for UPR methods used for Malaysian businesses other than cargo and inland transit, and the UPR methods used for overseas businesses were found to be 0.4697 (with 40 possible combinations) and 0.6556 (with 12 possible combinations), respectively.

Acquisition Costs

MAS 3.3 requires recoverable acquisition costs to be deferred and properly allocated to the periods which give rise to income, except for those provided in paragraph 3.11 and 3.12. Seventeen companies (48.6% of the sample) deferred their acquisition costs. There was no indication of whether the nondisclosure of the remaining 18 firms was due to their reluctance to comply with the Standard

Table 8a  
UPR Methods for Cargo and Inland Transit (n=32)

Method		Acceptance of method	Frequency	%
1.	MAS 3.2 method	MAS 3.2	1	3.12
2.	GPI method : 25% method	GPI	23	71.88
3.	Higher of MAS 3.2 or GPI method	GPI	8	25.00
Total			32	
Compliance Level = 100%		H-index = 0.7493		

Table 8b  
UPR Methods for Malaysian Businesses Other than Cargo and Inland Transit (n=33)

Method		Acceptance of method	Frequency	%
1.	Time apportionment	MAS 3.2	3	9.09
2.	1/24th	MAS 3.2	4	12.12
3.	1/24th less 20%	GPI	14	42.42
4.	Higher of GPI and time apportionment	GPI	3	9.09
5.	Higher of GPI and 1/24th	GPI	9	27.27
Total			33	
Compliance Level = 100%		H-index = 0.4697		

**Table 8c**  
UPR Methods Used for Overseas Businesses (n=11)

Method		Acceptance of method	Frequency	%
1.	1/8th less 20%	GPI	6	54.54
2.	Higher of GPI and time apportionment	GPI	3	27.27
3.	Higher of GPI and 1/24th	GPI	2	18.18
Total			11	
Compliance Level = 100%		H-index = 0.6556		

**Table 9a**  
Allocation of Deferral of Acquisition Costs (n=17)

Method		Acceptance of method	Frequency	%
1.	Specific identification with a particular period	MAS 3.3	9	100
Total			9	
Compliance Level = 100%		H-index = 1.0000		

**Table 9b**  
Netting of Deferred Acquisition Costs Against UPR (n=17)

		Acceptance of method	Frequency	%
1.	Yes	MAS 3.3	16	94.12
2.	No	None	1	15.88
Total			17	
Compliance Level = 94.12		H-index = 0.8893		

or due to its undeferral in nature. Tables 9a and 9b summarize the findings on the deferral of acquisition costs.

Given a limited number of companies that deferred their acquisition costs, the compliance level and H-index were found to be high with regard to the item.

Claims

In accounting for provision for claims arising on insurance policies, the case-basis method was required by MIA in MAS 3.4. In addition, the Guidelines, among others, require the provision be made on the basis of all information available and such provision should be reviewed and updated as more information becomes available. Eighteen companies reported on the method used, whereby only three companies (16.67%) mentioned the use of the case-basis as required by the Standard. The remaining 15 companies reported that they used the best available information' in estimating the provi-

sion, which is in compliance with the Guidelines. Since 'the best available information' was seen as a means of getting information in applying the case-basis method, it was assumed that those companies were also using the case-basis method. Therefore, we would assume perfect scores of standard compliance and H-index. One company stated that it made a revision using other methods when case-basis is used. The method used was 'allowance for foreseeable events'.

MAS 3.4 further requires companies to provide for IBNR claims. In computing IBNR claims, data on late reported claims for at least seven years must be used. The Guidelines propose that IBNR claims be made based on the actual claims development patterns in the immediate past and projected into the future. Thirty-four companies (97.1%) stated that they provided for IBNR in their financial statements, but only 27 disclosed the methods applied. Table 10 shows the distribution of methods used, as mentioned in the annual reports.

In conclusion, all companies that disclosed the methods applied complied with the Standard by

Table 10  
Methods Used in Accounting for IBNR (n=27)

Method		Acceptance of method	Frequency	%
1.	Link ratio	MAS 3.4	7	25.93
2.	Based on actuarial valuation	MAS 3.4	1	3.70
3.	Mathematical/statistical method based on actual calims develop- ment pattern	MAS 3.4	18	66.67
4.	Chain ladder	MAS 3.4	1	3.70
Total			27	

Compliance Level = 100%

H-index = 0.5143

**Table 11**  
Compliance Level and H-index for the Accounting Practices with *n* Number of Companies and *i*  
Number of Alternative Method (s) Allowed

		Compliance Level (%)	H-index	<i>n</i>	<i>i</i>
<b><i>Investments</i></b>					
1.	Method used to value investment properties	100	0.5800	11	3
2.	Revaluation interval	71.43	0.5918	7	1
3.	Revaluation by professionals	100	1.0000	7	1
4.	Method used to value government securities	100	1.0000	35	1
5.	Method used to value quoted investment	94.12	0.8893	34	2
6.	Method used to value unquoted investments	100	0.9355	34	2
7.	Accrual of dividend	33.33	0.4966	21	1
8.	Recognition of interest	95.65	0.9168	23	1
<b><i>Premiums</i></b>					
9.	Recognition of premiums for marine cargo, aviation cargo and inland transit	100	1.0000	14	1
10.	Recognition of premium from other businesses	89.69	0.8094	29	1
11.	Accounting for premium of businesses other than cargo and inland transit	100	0.5061	9	2
12.	Computation of UPR for cargo and inland transit	100	0.7493	32	3
13.	Computation of UPR for Malaysian other businesses	100	0.4697	33	5
14.	Computation of UPR for overseas businesses	100	0.6556	11	3
<b><i>Acquisition Costs</i></b>					
15.	Allocation method of deferred recoverable acquisition costs	100	1.0000	9	1
16.	Deferred acquisition costs netted against UPR	94.12	0.8893	16	1
<b><i>Claims</i></b>					
17.	Accounting for provision for claims	100	1.0000	18	1
18.	IBNR method used	100	0.5143	27	4

making provisions for IBNR claims because the Standard and Guidelines do not really specify the method to be adopted. The one company that did not report on provision for IBNR claim together with the companies that did not mention the method used were omitted in the calculations of compliance level and the H-index. Based on the wording regarding the methods used in providing for IBNR claims, we could not determine if one method was different from the other. Taken as they were, the H-index was computed to be 0.5143.

Table 11 shows the overall results for measurement compliance levels and H-indices for 18 items under review.

## DISCUSSION AND CONCLUSION

Table 11 reveals that except for accounting for the accrual of dividend (compliance level of 33.33%), all other items were highly in compliance with the Standards and Guidelines, with eleven items obtaining maximum scores. The non-accrual of dividends by most of the companies is perhaps due to the insignificant amount of dividends declared before year ends and are only paid in the next period. Thus, the benefit of having to accrue the dividends may not be cost justified for some insurers that receive a relatively small amount of dividend during the time. The fact that the GPI does not deal with the recognition of dividend might contribute to the noncompliance as well. The overall high rate of compliance is nevertheless expected as insurers are being constantly monitored by BNM. The GPI seems to satisfactorily support MAS 3 in achieving the high compliance rate.

Although the overall compliance level with respect to MAS 3 and GPI is considered high,

this study reveals that not all companies comply with some of the measurement practices proposed in the Standards. The finding seems to support the move made by the MASB to mandate all the Standards that have been approved by the Board via the Companies Act (1995). By mandating all the standards, it is expected that compliance will be improved in most of the companies.

The results of the H-indices were mixed, with the scores ranging from 0.4697 to 1.0000. Four of the items obtain perfect scores. Table 11 reveals that these items allow only one accounting treatment, and thus all companies tend to concentrate on using that particular accounting treatment. Generally, it is observed that comparability with regard to some of the items were quite low, particularly when the Standards and Guidelines permit the use of alternative measurement treatments. This could be observed in areas like the computations of UPR, IBNR and the valuation of investment properties. To prove that there is a correlation between comparability (as measured by the H-index) and the number of accounting treatments allowed, the Pearson correlation test was conducted. The results reveal that there is a significant correlation (at 0.01 level) between comparability and the number of accounting treatments allowed.

Consistent with the contentions made by Dickson (1991) and Fischer (1989), this study shows that comparability of accounting practices is not achieved when financial statement preparers have as much discretion as is allowed under the standard or the guidelines. The finding also suggests that although MAS 3 and the GPI works successfully in promoting compliance, their impact on comparability is less far-reaching due to the discretion given to companies in choosing among alternative methods which are equally acceptable. On coming

up with a new set of standards for insurers as well as for all other companies, this is something to be considered by the MASB. Perhaps, by proposing benchmark treatments, the problem of comparability could be minimized. On its part, BNM shall ensure that the treatments proposed in the Guidelines are reduced and are in agreement with those of the Standards. As a conclusion, this study suggests that no matter how good the compliance level would be for any standard, the objective of having comparable financial statements will not be achieved unless the number of alternative treatments for each of the accounting practices are minimized.

Future research on similar issues of compliance and comparability might concentrate on some other standards issued by the accounting profession. On the global scene, the effort undertaken by the International Accounting Standards Committee (IASC) in revising some of the standards in order to limit accounting policy choice was a good move towards financial reporting comparability. Since the MIA and recently the MASB had adopted most of the revised standards, it would be of value if future research could concentrate on some of the important standards in order to determine whether comparability has really improved in those areas.

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### ENDNOTES

\*MAS 3 consists of the following 5 standards: MAS 3.1: Accounting for Investments; MAS 3.2:

Accounting for Premiums; MAS 3.3: Accounting for Acquisition Costs; MAS 3.4: Accounting for Claims; and MAS 3.5: Accounting for Reinsurance.

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