MANDATORY DISCLOSURE IN THE ANNUAL REPORTS OF GENERAL INSURERS IN MALAYSIA

KU NOR IZAH KU ISMAIL
SHAMSUL NAHAR ABDULLAH
School of Accountancy
Universiti Utara Malaysia

ABSTRACT

This research attempts to investigate the extent to which firms conducting general insurance business comply with the disclosure requirements stipulated in MAS 3 (Accounting for General Insurance Business) , which was issued and adopted by the Malaysian Institute of Accountants (MIA) in 1991, and the standard related to investments, namely SI 25 (Accounting for Investments). Based on the annual reports of 35 general insurers for the year 1994, the disclosure level was found to be unsatisfactory. The study further showed that insurance companies listed on the KLSE tend to have better disclosure compared with non-listed firms. Firm's size negatively influenced the level of disclosure. The size of the auditing firm, the scope of business and the number of shareholders did not influence the level of disclosure in this study.

ABSTRAK

Kajian ini cuba menyiasat tahap pematuhan sejauh mana keperluan pendedahan yang disyorkan oleh Institut Akauntan Malaysia (MIA) dalam MAS 3 (Perakaunan bagi Perniagaan Insurans Am) dan SI 25 (Perakaunan bagi Pelaburan) di kalangan syarikat-syarikat yang mencebur dalam bidang perniagaan insurans am. Berdasarkan laporan tahunan 35 syarikat yang dikeluarkan bagi tahun 1994, tahap pendedahan didapati tidak memuaskan. Kajian ini juga menunjukkan bahawa syarikat-syarikat yang disenaraikan di BSKL mendedahkan lebih banyak maklumat berbanding dengan syarikat-syarikat yang tidak disenaraikan. Sebaliknya tahap pendedahan adalah berkadar songsang dengan saiz firma. Penemuan seterusnya menunjukkan saiz firma audit, skop perniagaan dan bilangan pemegang saham tidak mempengaruhi tahap pendedahan syarikat.

INTRODUCTION

The insurance industry has become increasingly important in Malaysia. At least until 1994, the industry showed steady growth whereby total premium income for both general and life insurance sectors increased at a rate of 19.9 percent in the year, compared with only 16.3 percent in the previous year. In 1995, there were 58 insurers, of which 40 insurers were solely engaged in general insurance business, 5 insurers were solely engaged in the life insurance business, and the remaining 13 were engaged in both life and general insurance businesses (known as composite insurers).

Recognising the importance of the insurance industry to the economy, the accounting profession issued MAS 3 (Accounting for the General Insurance Business) and MAS 4 (Accounting for the Life Insurance Business) in 1991. Each of the standards comprises 5 sections covering accounting for investments, premiums, acquisition costs, claims and reinsurance. The standards were made effective for financial statements covering periods commencing on or after 1 January 1992. With regard to disclosure on investments, general insurers are not only expected to comply with MAS 3, but they are also expected to comply with some other investment-related standards, such as SI 25 (Accounting for Investments).

Nevertheless, the assumption that all companies comply with the standards may not necessarily be true. Ahmed and Nicholls (1994), for instance, argued that not all firms (particularly those in the developing countries) disclosed all mandatory items, due to an inadequate regulatory framework and enforce-ment mechanism, coupled with a lack of both an effective capital market and accounting profession. Low levels of disclosure compliance have also been documented in previous studies involving companies from developing coun-tries such as Nigeria and Bangladesh [see Wallace (1988), and Ahmed and Nicholls 1994, respectively].

A substantial amount of research has been conducted worldwide to investigate the disclosure practices of companies (e.g. Buzby, 1974; Barrett, 1976; Firth, 1979; Firer and Meth, 1986; Wallace, 1988; Chew and Lee, 1990; and Cooke, 1989 and 1991). In Malaysia such a study was recently conducted by Hossain, Lin and Adams (1994). Nevertheless, most of the studies excluded companies in the financial sector (including insurers) from their sample; the reasons being that these companies are too specialized in their operations and that they have a different set of relevant information items (e.g. Firth, 1979; Wallace, 1988; Chew and Lee, 1990; and Cooke, 1989).

Now that the accounting profession has issued standards that spell out the disclosure requirements pertinent to the insurance industry, research on disclo-sure practice among insurers would be appropriate and of interest. Therefore,

it is the purpose of this paper to investigate the level of disclosure compliance by Malaysian insurers, particularly those dealing with the general insurance business. In that respect, this paper attempts to achieve two main objectives, which are:

1.   to determine the extent of mandatory disclosure in the annual reports of general insurers, with regard to MAS 3 and SI 25 taken as a whole.

2.   to assess the extent to which disclosure is influenced by the size of a firm, the listing status, the size of auditor, the scope of business and the number of shareholders.

This research attempts to investigate the disclosure practice among general insurers with respect to the five different items (investments, premiums, acquisition costs, claims and reinsurance) covered by MAS 3 and SI 25 taken as a whole (see Appendix for the list of pertinent disclosure items). Since these items already constitute a major component of financial statements of insurers, no attempt will be made to investigate the disclosure practice on other related items.

On the topic of investments, MAS 3 actually stipulates disclosure requirements in addition to those required by some other investment-related standards —SI 25, SI 5 (Information to be Disclosed in Financial Statements), SI 3 (Consolidated Financial Statements), SI 16 (Accounting for Property, Plant and Equipment), to name a few. Only investment disclosure requirements set out in SI 25 were found to be pertinent and thus considered in the study. Nonetheless, the disclosure requirements which relate to the life insurance business (MAS 4) will not be covered because it is considered a topic by itself. Thus, only firms that are engaged in general insurance business will be considered in the study.

The paper is divided into several sections. First, a section reviewing papers related to the topic is presented, followed by the research methodology section giving details on the methods of collecting the data as well as its analysis. The next section presents the results and in the last section the conclusions arising from the study are provided.

LITERATURE REVIEW

Annual reports are the major medium by which companies communicate information to external users. In Malaysia, at least up until 1992, annual reports were the most important sources of information used by financial analysts in their decision making (Ku Nor Izah and Zuaini, 1995). However, to date, results from previous studies showed that the disclosure level in annual reports of companies was inadequate. For instance, Buzby (1974) reported that disclo-

sures among small and medium size companies were still inadequate in the United States during the early 1970's, despite the fact that there was an improvement in the level of disclosure among companies from 1963 to 1972, as reported by Barrett (1976). Barrett (1976) found that although the level of disclosure had improved in the seven countries surveyed (the U.S. plus the U.K., Japan, France, Germany, Sweden and the Netherlands as one group), there was still a large variance in the level of disclosure between companies in the U.S.A, and those in the other six countries as a group. However, companies in the U.S. were shown to have better disclosure level. Firth (1979), in his study on U.K. companies also found that the disclosure levels were very low. The level of disclosure was argued to be associated with the degree of efficiency of the national equity markets (Firth, 1979).

Studies on voluntary disclosure in South Africa (Firer and Meth, 1986) and Singapore (Chew and Lee, 1990), showed that the levels of disclosure were lower than that expected by the financial analysts. In another study on the mandatory disclosure among Nigerian companies, Wallace (1988) concluded that the compliance with disclosure requirements was very poor.

Existing research studies have investigated the relationship between firm-specific characteristics and the level of disclosure. Among the major character-istics being studied which have shown some positive relationships with disclo-sure level were: size of the reporting company, share listing status, auditor size, scope of a business and number of shareholders. These characteristics are discussed in the following subsections.

Size of a Reporting Company

The size of a company has been argued to have a positive association with the disclosure level, and as such has been selected as an independent variable in most of the studies (e.g. Firth, 1979; Chow and Wong-Boren, 1987; Cooke, 1989 & 1991; Tai et al., 1990; Ahmed and Nicholls, 1994; Hossain et al., 1994; and Wallace and Naser, 1995). A number of reasons have been offered in the literature to justify the relationship. For instance, Buzby (1975) suggested that since collecting and disseminating information is a costly exercise, it is only the larger firms that could afford such an expense. Smaller firms, on the other hand, may not have enough resources for collecting data and disclosing an extensive array of information. Moreover, since data collection is already done by large firms as part of their internal management system, only small additional costs will be incurred.

Secondly, larger firms tend to go to the capital market for financing, and thus they are motivated to disclose more information in order to create or maintain strong demand for their securities (Hossain et al., 1994). Another reason that has

been put forward for the low disclosure levels from small firms is that fuller disclosure would place them in a competitively disadvantageous position with larger firms in the industry. Hence, small firms tend to disclose less information than do large firms (Firth, 1979). Moreover, large firms represent entities of economic significance; therefore there may be greater demands on them to provide information for customers, suppliers, analysts, and government as well as the general public.

Except for a study undertaken by Ahmed and Nicholls (1994) in Bangladesh, other studies have proven that the extent of disclosure was positively associated with firm size (Firth, 1979; Chow and Wong-Boren, 1987; Cooke, 1989 and 1991; Hossain et al., 1994; and Wallace and Naser, 1995). However, an interesting phenomenon was encountered in Hong Kong where both large and small companies were found to disclose more mandatory items than the medium-sized firms (Tai et al., 1990). Therefore, a curvilinear relationship was documented, at least, in the Hong Kong markets.

Share Listing Status

It has been suggested that listed companies disclose more information in their annual reports. This is because listed companies tend to rely on external financing, and by having a greater disclosure, uncertainties could be reduced so that investors will have more confidence in that company. Furthermore, listed companies receive greater press coverage and demands for more information are almost inevitable (Firth, 1979). Unlisted companies, on the other hand, are more likely to rely on internal financing, and thus they tend to disclose less information.

Studies have shown that there is a positive association between listing status and the level of disclosure. For example, Firth (1979), and Cooke (1989 and 1991) respectively observed that companies listed on the British, Swedish and Japanese stock exchanges provided better disclosures than the unlisted companies. In a similar study on Swedish firms, Cooke (1989) also found that companies with multiple listings disclosed more than those companies listed only on the Stockholm Stock Exchange. In another study, Hossain et al. (1994) indicated that Malaysian listed firms that were simultaneously listed on the foreign stock exchanges provided better voluntary disclosure than those merely listed on the Kuala Lumpur Stock Exchange (KLSE). As an extension of the findings by Hossain et al. (1994), it may also be argued that companies that are listed on the KLSE tend to disclose more information as opposed to the non-listed firms. Moreover, companies listed on the KLSE are bound to adhere to various listing requirements, including those that are related to disclosure, to enable their continued listing status.

Size of Audit Firm

Although the primary responsibility for preparing the annual reports rests with the company, the company's auditors are expected to exercise some influence and give some advice regarding the amount of information to be disclosed. Firth (1979) contended that larger and established audit firms would be able to exercise greater influence and thus they might be associated with higher disclosure levels .

In addition, it has been argued that larger audit firms would be more particular than smaller audit firms about the quality of the information contained in the financial statements in order for them to maintain their reputation as providers of quality audit (Beaty, 1989). Hence, larger audit firms would be more sensitive to disclosure requirements since errors and inadequate disclosure would diminish their reputation. Therefore, it could be argued that larger auditors are associated with higher disclosure level.

Results on the association between auditor size and disclosure were, nonetheless, mixed. While Ahmed and Nicholls (1994) found that the extent of mandatory disclosure varied with auditor size in Bangladesh, Wallace and Naser (1995) found the reverse relationship in Hong Kong. However, in an earlier study also conducted in Hong Kong, Tai et al. (1990) discovered that there was no relationship between auditor size and the level of disclosure. The finding was consistent with those of Firth (1979) and Hossain et al. (1994) which were conducted in the U.K. and Malaysia respectively. The fact that those studies were conducted in different countries and in different years might explain the variations in the findings.

Scope of Business

Diversity of a company's business is predicted to influence the level of disclosure. When a company is engaged in a wider scope of activities or is diversified, the company is expected to be more complex. Such complexity may require more sophisticated management information systems to meet the needs of managerial control as well as the needs of financiers (Cooke, 1991). As such, companies that are more diversified might have more disclosure compared with those with a limited scope of business.

The scope of business is also predicted to be largely determined by the presence of external capital providers. In order for a company to engage in various businesses, it needs a large amount of capital which is commonly provided by external shareholders and (or) creditors through the issuance of bonds or loans. This will naturally result in contracts being written to ensure that management engages only in profitable activities (Jensen and Meckling, 1976). Therefore,

given the presence of these external capital providers, the activities of the firm are closely monitored and it is highly likely that the firm's financial statements would serve as the starting point in evaluating the extent to which the management has fulfilled the various contracts. Therefore, given the predicted nature of the capital structure, the management of a firm with a diverse business scope will tend to disclose more compared with a firm with a limited business scope. The capital structure of the latter firms is predicted to be tightly-held.

Number of Shareholders

The number of shareholders has also been argued to have an association with the extent of disclosure. Companies with a large number of shareholders has been hypothesised to disclose more information than companies with a small number of shareholders (Cooke, 1989). Cooke (1989) pointed out that this is due to pressure from both shareholders and analysts. He further argued that it might be in the interests of the company to improve disclosure in order to increase the marketability of its securities.

Large numbers of shareholders result in a greater diversity of information needs due to the variety in the shareholders' backgrounds. Thus, to fulfil the needs, the management is expected to disclose more information to its shareholders. This argument may be supported by several earlier studies which showed that the number of shareholders was significantly associated with the extent of disclosure (Cerf, 1961; Singhvi and Desai, 1971; and Cooke, 1989).

A large number of shareholders also leads to a high degree of information asymmetry. This situation occurs due to the fact that the majority of the shareholders hold only a small percentage of the firm's shares. Holding a small percentage of shares will not for economic reasons lead the small shareholders to search for additional information. Thus, the firm will tend to disclose more information to satisfy the needs of the small shareholders in order to mitigate the degree of information asymmetry.

RESEARCH METHODOLOGY

The target population for this study was general insurers which were incorporated in Malaysia as of 1994. The reason for including only the Malaysian incorporated companies in the population was to enable the researchers to control the influence of differences in the reporting requirements imposed by the respective country of origins.

Disclosure Items

A scoring sheet containing a list of items that need to be disclosed according to the five sections in MAS 3 was prepared. The process of extracting items regarding investments (contained in section MAS 3.1: Accounting for Investments) was not straightforward. This is because MAS 3.1 merely complements the existing investment-related standards. Therefore, in addition to MAS 3.1, insurers are also expected to observe the disclosure requirements set out in other investment-related standards. After reviewing all the relevant standards, some of the disclosure requirements set out in SI 25 were also found to be relevant. The total number of items identified and included in the disclosure scoring sheet is 31, and their distribution is shown in Table 1. The list of disclosure requirements is provided in the Appendix.

Table 1
Distribution of Items in the Disclosure Scoring Sheet

	Number of Variables	Percent
Investments	17	54.8
Premium	3	9.7
Acquisition Cost	5	16.1
Claims	3	9.7
Reinsurance	3	9.7
Total	31	100

Data Collection

For the purpose of data collection, a population from 45 Malaysian incorporated general insurers was identified. Annual reports of the companies for the year 1994 were requested through the mail and 35 responded with the requested materials. Data concerning disclosure practice was gathered and subsequently recorded in the scoring sheet. Data on company size, listing status, auditor size, scope of business, and number of shareholders for each of the company were also obtained.

The variable "size" could be measured by a number of methods and results thus far suggest that no one measure could claim to be superior than the other. Hence, the method for measuring the variable "size" may be relevant only to a particular industry or country, but may not be appropriate to another industry or country. Two measures of size were used in this study, namely total assets and net general premium. Most companies in the sample reported both net and gross premium, but since more companies reported net premium than gross premium, the former was chosen over the latter.

In this study, companies listed on the KLSE were categorised as listed, otherwise they were considered as non-listed. Auditors that belonged to the 'big 6' audit firms were considered as large auditors, otherwise they were considered as small auditors.

In determining the scope of business, general insurers were categorised into two groups: i) those that were solely engaged in general insurance business and ii) those that were engaged in both general and life insurance businesses, which were known as composite insurers. Companies belonging to the first group were identified as having a narrow scope of business, while companies belonging to the second group were identified as having a wide scope of business.

To determine the number of shareholders of a company, this study treated public companies as having a large number of shareholders, and private companies as having a small number of shareholders. This is consistent with the definition given by the Companies Act 1965, which limits the number of shareholders of private companies to not more than fifty members. As for public companies, the number of shareholders is not limited.

Extent of Disclosure

To determine the extent of disclosure, a dichotomous procedure adopted by Cooke (1989) was applied. It is a simple approach by which an item scores '1' if it is disclosed, and '0' if it is not disclosed. The total disclosure **(TD)** score for a company is computed as follows:

$$TD = \sum_{i=1}^{m} d_i$$

where $d = 1$ if the item d_i is disclosed,
$d = 0$ if the item d_i is not disclosed, and
$m \leq n$ (discussed below)

It should be noted that scoring is not a straightforward task since there were cases where companies did not mention an item of disclosure because the item

is not relevant to them. If that was the case, a non-disclosure was not considered as a penalty. In contrast, if a relevant item was not disclosed, a score '0' was assigned, which thus constituted a penalty. In deciding whether an item was of relevance to a company, a thorough review of the annual report, as suggested by Cooke (1989), was made. For example, there were cases where it was mentioned in the annual report that a company was conducting several classes of insurance business such as fire, marine, or motor vehicle, but it did not break the amount of unearned premium into the classes as required by the standard. The authors would therefore conclude that the item on the classes of insurance was relevant, but not disclosed, and thus a score '0' would be assigned.

A number of earlier studies however adopted a procedure in which qualitative items were rated according to their degree of specificity (e.g. Buzby, 1974). Such an approach would produce a scale of disclosure which varies between '0' and '1'. Nevertheless, the allocation of scores was reported to be highly subjective because when user preferences were unknown, different classes of users would likely assign different weights to similar items (Cooke, 1989). Consequently, this method was not applied in this study.

Some of the earlier studies assigned weights to the disclosure items according to their importance to the users of financial reports (e.g. Buzby, 1974; Firth, 1979; Firer and Meth, 1986; Wallace, 1988; and Chew and Lee, 1990). However, the disclosure items used in this study were not weighted because it was assumed that each item of disclosure was equally important. This assumption is expected to be valid since this study deals with only mandatory disclosure, where all items that are required by the standards are regarded as of equally high importance. In contrast, it would have been better to have the items weighted if they had been voluntary in nature.

An index was subsequently developed to measure the relative level of disclosure by a company. The index is a ratio of the actual scores obtained by a company to the maximum score possible. Since companies are not penalized for not disclosing irrelevant items, the maximum score (M) a company could earn varies:

$$M = \sum_{i=1}^{n} d_i$$

where d = expected item of disclosure, and
n = the number of items which the company is expected to disclose.

The total disclosure index (TDI) for each company then becomes TD/M. The index would thus lie between 0 and 1. A score of 1 indicates that a company disclosed all the relevant items as required by the standards and a score of 0 means that a company did not disclose any of the relevant items.

Data Analysis

In order to determine the impact of the selected firm's characteristics on the level of disclosure, correlation and multiple regression analyses were used to analyze the data. In the regression model, TDI was the dependant variable and was then regressed on the independent variables by applying the ordinary least square (OLS) technique:

$$TDI = \alpha + \beta_1 \text{LnAsset} + \beta_2 \text{LnPrem} + \beta_3 \text{Audit} + \beta_4 \text{List} + \beta_5 \text{Scope} + \beta_6 \text{Shareholder} + \varepsilon,$$

where:

TDI	= Total Disclosure Index;
LnAsset	= natural log of book value of total assets;
LnPrem	= natural log of net premium;
Audit	= 1 if audited by the 'big 6' audit firm or 0 otherwise;
List	= 1 if it is listed on the KLSE, or 0 otherwise;
Scope	= 1 if it conducts both life and general insurance businesses, or 0 if it conducts only general insurance business;
Shareholder	= 1 if it is a public company, or 0 if it is a private company;
ε	= disturbance term; and
α, βi	= constant or parameters to be estimated, i = 1,.......,6.

The independent variable of company size (measured by total assets and net premium) included in the regression model was expressed in the form of logarithm. The transformation was applied so as to reduce the effect of distribution in the variable. The skewness of the untransformed variables indicated that there were aspects of non-normality in the data distribution. Transformation of continuous variables could also be observed in Cooke (1989), and Ahmed and Nicholls (1994). As for the categorical variables, dummy variables were used in the model.

One of the important assumptions imposed in the application of regression is the homogeneity of variance. According to Fox (1991), heteroscedasticity could impair the efficiency of the regression test and would cause the formula for the coefficient standard errors to be inaccurate. This study applied Goldfield and

. Quandt's test tō test for homogeneity of variances in the index as proposed by Hj. Md. Amin (1988).

RESULTS AND DISCUSSION

Disclosure Level

An analysis of the disclosure index for each of the 35 companies revealed that the score ranged between .520 and .895, with a mean score of 0.683. This mean

score was considered low since the disclosure items were all mandatory in nature and therefore, the mean score was predicted to be close to 1. Nonetheless, the finding was consistent with those found in companies from other industries in Malaysia (Hossain et al., 1994) and other developing countries such as Bangladesh (Ahmed and Nicholls, 1994) and Nigeria (Wallace, 1988), who investigated disclosure levels of the sample firms with respect to voluntary items.

Impact of the Firm's Characteristics on Disclosure Level

Table 2 presents the descriptive statistics for the dependent and explanatory variables used in the regression test. Tests on homogeneity of variances on both LnAsset and LnPrem revealed that the homogeneity assumption was not rejected at the 0.05 significance level.

Table 2
Descriptive Statistics of the Dependent and Explanatory Variables (n=35)

	Mean	Median	Std. Deviation	Min.	Max.	Skewness	Kurtosis
TDI	.683	.684	.100	.520	.895	0.436	-247
LnAsset	4.972	4.911	1.077	2.344	7.845	0.444	1.02
LnPrem	3.957	3.829	.954	2.286	6.098	0.343	-0.066
List	.114	0	.323	0	1	2.535	4.689
Audit	.743	1	.443	0	1	-1.162	-0.693
Scope	.200	0	.406	0	1	1.568	0.483
Shareholder	.314	0	.471	0	1	0.836	-1.383

Description of variables:

TDI	= Total disclosure index
LnAsset	= Natural log of total assets
LnPrem	= Natural log of net premium
List	= Listing status (coded 1 if listed on the KLSE, 0 otherwise)
Audit	= Auditor identity variable (coded 1 if audited by Big Six, 0 otherwise)
Scope	= Scope of business (coded 0 for general business only, and 1 for both general and life
Shareholder	= Number of shareholders of company (coded 0 for private company and 1 for public company)

Another problem that may be present in applying the regression model is the problem of multicollinearity among the explanatory variables. The possibility of the presence of this problem was initially determined in Table 3 which shows the correlation matrix of the explanatory variables using Pearson correlation coefficients.

Table 3
Correlation Among Explanatory Variables

Pearson Correlation Coefficients

Variable	LnAsset	LnPrem	List	Audit	Scope	Shareholder
LnAsset	1.0000					
LnPrem	.9030**	1.0000				
List	.3469*	.4099*	1.0000			
Audit	- .0374	- .0366	-.1996	1.0000		
Scope	.7132**	.6713**	.2694	-.0327	1.0000	
Shareholder	.3252	.4409**	.5306**	-.1650	.4308**	1.0000

* significant at the 0.05 level
** significant at the 0.01 level

It is noted in Table 3 that there was a very high correlation between the two size variables (assets and net premium) which signalled that multicollinearity might be a problem if both variables were included simultaneously in a regression model. In view of this, the variables total assets and net premium were not used simultaneously in the multiple regression model. Instead, each of the variables was used alternately to determine the influence of firm's size on the disclosure level.

To determine the presence of any severe multicollinearity problems, each of the explanatory variables was alternately regressed on all other explanatory variables. According to Kleinbaum, Kupper and Muller (1988), a model is said to suffer a severe problem of multicollinearity if the $R^2 \geq .9$, or if $R \geq .95$. The results of these analyses were presented in Table 4, showing the multiple correlation coefficient and the R^2 of each regression routine.

Although the regression results showed that multicollinearity was not severe, they should serve as a caution because very high values of multiple correlation coefficients (0.92203 and 0.91740) were found when both size variables were regressed against all other independent variables. Thus, in order to reduce the

Table 4

Table 4
Results of Regressing a Variable on All Other Variables

	LnAsset	LnPrem	List	Audit	Scope	Shareholder
R^2(adj.)	.82431	.81432	.23193	-.11129	.48475	.33275
Multiple (adj.) R	.92203	.91740	.58727	.22833	.74868	.65641

problem of multicollinearity, two separate regression models were applied, omitting one size variable each time. The same approach was also adopted by Cooke (1989), and Ahmed and Nicholls (1994). Subsequently, a stepwise regression procedure was used in each of the models and the summary of the results of both models is presented in Table 5.

Table 5
Summary of Stepwise Regression Results for TDI

Model 1: Using LnAsset

Step	Variable entered	R^2	Adjusted R^2	F-ratio
1	List	.0902	.0627	3.273
2	LnAsset	.2109	.1615	4.275
3	Shareholder	.2583	.1866	3.600

Model 2: Using LnPrem

Step	Variable entered	R^2	Adjusted R^2	F-Ratio
1	List	.0902	.0627	3.273
2	LnPrem	.1913	.1407	3.784
3	Shareholder	.2283	.1537	3.058

Table 6
Results of Final Regression Tests

Model 1: The regression equation is
TDI = 0.132288 List - 0.03422 LnAsset + 0.838041

	Coeff.	SD	t-ratio	P
List	0.13229	0.0517	2.561	0.0153
LnAsset	-0.03422	0.1547	-2.211	0.0343
Constant	0.83804	0.0767	10.932	0.0000

$R^2 = 0.21085$ R^2(adj.) = 0.16153   F-ratio = 4.27500   p = 0.0226

Model 2: The regression equation is
TDI = 0.136739 List - 0.03636 LnPrem + 0.811266

	Coeff.	SD	t-ratio	p
List	0.13674	0.0538	2.543	0.0160
LnPrem	-0.03636	0.1819	-2.000	0.0541
Constant	0.81126	0.0714	11.364	0.0000

$R^2 = 0.19128$ R^2 (adj.) = 0.14074   F-ratio = 3.78447   p=0.0335

Table 6 shows the final regression results. The R^2 values of 0.2109 and 0.1913 in the respective models implied that the variable total assets as a measure of size explained the variance in the disclosure level better than net premiums. The results of both regression models showed that both total assets and net premiums significantly influenced the level of disclosure (p = 0.0343 and 0.0541 respectively). However, the directions of the influences were surprisingly negative. These negative coefficients indicate that disclosure level decreases with the increase in size of the reporting companies. These findings contradicted most of the previous findings except for that of Ahmed and Nicholls (1994). Although they found that company size was not significant in explaining the variability in the disclosure level of companies in Bangladesh, the coefficient was negative, which parallels the findings in the present study. As suggested by Ahmed and Nicholls (1994), the negative correlation could be accounted for by recognizing from Table 3 that total assets and net premiums are significantly correlated with listing status. Consequently, the positive impact of total assets and net premiums will be reflected through listing status.

Another explanation that might justify the negative correlation between company size and the level of disclosure is the fact that larger companies would have more items to disclose in the annual reports, such that the tendency for not disclosing an item increases as there are more relevant items to be included.

The Pearson correlation test showed that there were correlations between the number of items that need to be disclosed and both size variables in this study, with correlation coefficients of 0.4658 for LnAsset and 0.4587 for LnPrem, respectively. Both tests were significant at the 0.01 level ($p=0.005$ and 0.006 respectively).

The listing status of a reporting company was the most significant explanatory variable where the variable was entered first in both models, and it was significant at the 0.05 level and positive in sign. Therefore, companies that are listed on the KLSE disclose more information in their annual reports relative to companies that are not listed.

The other explanatory variables, namely auditor size, scope of business and number of shareholders were not found to significantly explain the variability in the level of disclosure. The findings were similar in both regression analyses (i.e., using two proxies for the firm's size). A possible explanation for the insignificant influence of the auditor size on the disclosure level could be that an auditor was not in the position to put pressure on the management to disclose all the mandatory items. Perhaps, the auditor was of the opinion that the financial statements so presented represented the "true" and "fair" picture of the firm. Alternatively, items not being disclosed in the financial statements were probably informally presented elsewhere in the annual report. As for the insignificant influence of both the scope of business and the number of shareholders on the firm's disclosure level, we could argue that these explanatory variables could also serve as a proxy for the firm's size. In fact, these variables were significantly correlated with the firm's total assets and net premium. Thus, in the stepwise model, these explanatory variables were not entered in either model.

CONCLUSION

The main objective of the study was to determine whether the general insurers comply with the mandatory disclosure requirements and the extent to which each of the firm's specific characteristics influenced the level of disclosure for the mandatory items, with specific reference being made to items set out in MAS 3 and SI 25.

The overall results on the disclosure level showed that the level of disclosure compliance among general insurers in Malaysia with respect to items stipulated in the standards was unsatisfactory in that none of the companies investigated disclosed all the mandatory items as required by the standards.

This implies that general insurers did not comply satisfactorily with the disclosure requirements proposed in MAS 3 and SI 25. Thus, the objective of having greater comparability as envisaged by MAS 3 has not been achieved. Regression test on the impact of a firm's characteristics on disclosure level showed that the listing status of reporting company was the most significant explanatory variable, followed by the size of the company. Listed companies tend to have better disclosure compared with unlisted companies. Unexpectedly, the study found that disclosure level was adversely influenced by the size of a company. The negative influence was found in both proxies used to measure a firm's size, i.e., a firm's total assets and net premium. In contrast, the remainder of the explanatory variables, namely the auditor size, scope of business and number of shareholders, did not influence the level of the mandatory disclosure.

One major implication of this study is that firms tend not to fulfil the mandatory requirements satisfactorily. Therefore, imposing a certain mandatory requirement is not sufficient if the objective of the mandation is to increase comparability among various companies. Perhaps, the low level of compliance is reflected in the low level of enforcement by the relevant authorities. The insignificant influence of an auditor on the disclosure level was surprising. Nonetheless, given the nature of the auditor's primary task, the finding seems justified. Another major implication that may arise is that the level of disclosure may not matter. What is important is the substance of the financial statements and perhaps other ways of disclosing a particular item are presently available. If this argument is valid, then the theory of efficient market hypothesis is supported. However, this conjecture is yet to be empirically supported.

Several limitations are, however, inherent in this study and these can limit the generalisability of the findings. First, the companies used in the study were derived from one sector, i.e., insurance. The findings with respect to the disclosure requirements may not be generalisable to other sectors. Secondly, the investigation focused on the disclosure of mandatory items. The impact of the firm's specific characteristics on the firm's disclosure level could be different with regard to the disclosure of voluntary items. In view of these limitations, future research may be carried out, by using one sample, to test the different effects of the firm's specific characteristics on the disclosure of both mandatory and voluntary items.

ACKNOWLEDGEMENTS

REFERENCES

Ahmed, K. & Nicholls, D. (1994). The Impact of Non-Financial Company Characteristics on Mandatory Disclosure Compliance in Developing Countries: The Case of Bangladesh, *The International Journal of Accounting*, **29**(1): 62-77.

Barret, M.E. (1976). Disclosure and Comprehensiveness in an International Setting, *Journal of Accounting Research*, **14** : 10-26

Beaty, R.P. (1989). Auditor Reputation and the Pricing of the Initial Public Offerings, *Accounting Review*, **64**: 693-709.

Buzby, S.L. (1974). Selected Items of Information and Their Disclosure in Annual Reports, *The Accounting Review*, **49**: 425-434.

Buzby, S.L. (1975). Company Size, Listed Versus Unlisted Stocks, and the Extent of Financial Disclosure, *Journal of Accounting Research*, **13**: 16-37.

Cerf, A.R. (1961). *Corporate Reporting and Investment Decisions*, Berkeley: University of California.

Chow, W.C. & Wong-Boren, A. (1987). Voluntary Financial Disclosure by Mexican Corporations, *The Accounting Review*, **July**: 553-541.

Chew, K.K. & Lee, L.N. (1990). Disclosure in Annual Reports of Listed Companies: The Investment Analysts' Perspective, *Securities Industry Review*, **16(2)**: 67-72.

Cooke, T.E. (1989). Disclosure in the Corporate Annual Report of Swedish Companies, *Accounting and Business Research*, **19(74)**: 113-124.

Cooke, T.E. (1991). An Assessment of Voluntary Disclosure in the Annual Reports of Japanese Corporation, *The International Journal of Accounting*, **26(3)**:174-189.

Firer, C. & Meth, G. (1986). Information Disclosure in Annual Reports in South Africa, *Omega*, **14(5)**:.373-382.

Firth, M. (1979). The Impact of Size, Stock Market Listing, and Auditors on Voluntary Disclosure in Corporate Annual Reports, *Accounting and Business Research*, **Autumn**: 273-280.

Fox, J. (1991). *Regression Diagnostics: An Introduction*, Sage University Paper Series on Quantitative Applications in the Social Sciences, Series no. 07-079, Newbury Park, CA: Sage.

Hj. Md. Amin, M. A. (1988). *Teori Ekonometrik*, Kuala Lumpur: Dewan Bahasa dan Pustaka.

Hossain, M., Lin, M.T. & Adams, M. (1994). Voluntary Disclosure in an Emerging Capital Market: Some Empirical Evidence from Companies Listed on the Kuala Lumpur Stock Exchange, *The International Journal of Accounting*, **29(4)**: 334-351.

Jensen, M. C. & Meckling, W.H. (1976), Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure, *Journal of Financial Economics*, **3**:305-360.

Kleinbaum, D., Kupper, L. & Muller, K. (1988). *Applied Regression Analysis and Other Multivariable Methods*, Boston: PWS-KENT.

Ku Nor Izah, Ku Ismail & Zuaini, Ishak (1995). Usefulness of Annual Report Disclosure: An Investigation on Investment Analysts, *Prosiding Seminar Penyelidikan Universiti Utara Malaysia 1995,* Sintok: PPP, Universiti Utara Malaysia.

Singhvi, S.S. & Desai, H.B. (1971). An Empirical Analysis of the Quality of Corporate Financial Disclosure, *The Accounting Review,* **January:** 129-138.

Tai, B.Y.K., Au-Yeung, P., Kwok, M.C.M. & Lau, L.W.C. (1990). Non-Compliance with Disclosure Requirements in Financial Statements: The Case of Hong Kong Companies, *The International Journal of Accounting,* **25(2):**99-112.

Wallace, R.S.O. (1988). Corporate Financial Reporting in Nigeria, *Accounting and Business Research,* **18(72):** 352-362.

Wallace, R.S.O. & Naser, K. (1995). Firm-Specific Determinants of the Comprehensiveness of Mandatory Disclosure in the Corporate Annual Reports of Firms Listed on the Stock Exchange of Hong Kong, *Journal of Accounting and Public Policy,* **14(4):** 311-368.

APPENDIX
DISCLOSURE REQUIREMENTS

A.   *INVESTMENTS*

1. Asset revaluation reserve for each category of investments shown separately and included as part of shareholders' interest in the balance sheet.

2. Disclosure on movements in the asset revaluation reserve for each category of investments.

3. A statement that the asset revaluation reserve is not available for distribution by way of cash dividend.

4. Disclosure on the effect of offsetting the unrealised losses on quoted investments with unrealised gains.

5. Policy for determining carrying amount of:
   a) investment properties.
   b) quoted investments.
   c) unquoted investments.
   d) subsidiaries and associated companies.
   e) secured loans.
   f) unsecured loans.
   g) cash and deposit with financial institutions.

6. The significant amounts included in income for interests, royalties, dividends and rentals on investments.

7. Fair value of investment properties if accounted as long term investments and not carried at fair value.

8. For long term investments stated at revalued amounts:
   a) the policy for frequency of revaluation.
   b) date of latest revaluation.

    c)   the basis of revaluation.

    d)   whether external valuer was involved.

B.   PREMIUMS

1.   Method and basis of accounting for the unearned premium reserve.

2.   Whether premiums are recognised by reference to the inception dates or booking dates of policies.

3.   The amount of the unearned premium reserve for each class of general insurance business at the beginning and at the end of the financial period.

C.   ACQUISITION COSTS

1.   The accounting policy concerning the allocation of deferred acquisition costs, and ceding income is to be adequately explained and disclosed.

2.   Disclosure on basis used.

3.   Method used if deferred.

4.   The amount of the deferred acquisition costs for each class of general insurance business at the beginning and at the end of the financial period.

5.   Deferred accounting costs are to be netted against unearned premium reserves in balance sheet.

D.   CLAIMS

1.   Policy for accounting for claims.

2.   Methods of calculating the provisions for IBNR claims.

3.   Methods of calculating premium deficiency.

E.   REINSURANCE

1.   Methods used in accounting for treaty inward insurance.

2.   Where provisions are made due to lack of information or delay in reporting by reinsurers, the basis on which such provision are made.

3.   Balances of 'open underwriting' accounts.