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IFRS 17 ADOPTION, RISK DISCLOSURE QUALITY, AND FINANCIAL STABILITY: EVIDENCE FROM CONVENTIONAL AND TAKAFUL INSURERS IN SAUDI ARABIA

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ABSTRACT

The adoption of IFRS 17 represents a major regulatory reform aimed at enhancing transparency, comparability, and risk visibility in insurance reporting. Despite its importance, empirical evidence on whether IFRS 17 has translated into measurable improvements in insurers' risk-disclosure quality and financial stability remains limited, particularly in emerging markets and Islamic insurance systems. Exploiting the mandatory adoption of IFRS 17 in Saudi Arabia in 2023 as an exogenous regulatory shock, this study examines its impact on risk-disclosure quality and financial stability, with a comparative focus on conventional and Takaful insurers. Using a balanced panel of 28 Saudi insurance companies observed over the period 2016–2025, we construct a hand-collected disclosure index based on IFRS 17-specific risk-reporting requirements and proxy financial stability using the Z-score. A difference-in-differences framework with firm and year fixed effects is employed, complemented by robustness analyses. The results show that IFRS 17 adoption significantly improves the quality of risk disclosures and enhances insurers' financial stability. Moreover, these effects are significantly stronger for Takaful insurers, suggesting that governance and risk-sharing features amplify the benefits of standardized disclosure. The findings contribute to the literature on accounting regulation and financial stability by providing early evidence that IFRS 17 generates real economic effects in an emerging and Islamic finance context, with important implications for regulators, insurers, and market participants.

KEYWORDS: IFRS 17; Risk Disclosure; Financial Stability; Saudi Insurance; Takaful; Vision 2030.

1. INTRODUCTION

The adoption of IFRS 17 Insurance Contracts marks one of the most significant accounting reforms in the insurance sector in recent decades. Unlike IFRS 4, which permitted considerable diversity in accounting for insurance obligations, IFRS 17 mandates consistent recognition, measurement, and detailed disclosures of insurance contract liabilities including fulfillment cash flows, contractual service margin (CSM) adjustments, and risk adjustments for non-financial uncertainty (Easson & Chevalier, 2022; CAS Actuarial Research Paper, Cai et al., 2025). This shift aims to improve the faithful representation and comparability of insurers' financial statements, thereby enhancing transparency and facilitating better risk assessment by stakeholders (EY, 2023; EIOPA, 2024).

From a regulatory and financial stability perspective, this reform carries important implications. The European Systemic Risk Board (ESRB) notes that IFRS 17 may amplify volatility in insurers' reported results (especially during the transition), but it also increases the granularity of risk disclosures and alignment between accounting and economic values (ESRB, 2021). For instance, differences between economic volatility and accounting volatility under the new standard a distinction that previous accounting regimes somewhat masked, become more visible.

In Europe, early adoption studies document substantial transitions in liabilities and sensitivities disclosure, but these generally focus on the accounting changes rather than downstream effects on solvency or risk stability. Market update reports by Big Four firms (e.g. KPMG, 2023) highlight that among 50+ adopting insurers, changes in assumptions, discount rates, and risk-adjustment treatments have been significant and that IFRS 17 disclosures are among the most scrutinized new reporting elements (KPMG, 2023).

In addition, the Saudi market includes both conventional insurers and Takaful firms, the latter operating under Islamic risk-sharing and governance models. Recent research in Saudi Takaful has examined how fraud disclosure affects financial stability, finding that stronger disclosure is associated with greater stability (Hemrit, 2020) which suggests that disclosure practices in the Islamic insurance arena are materially linked to firm resilience. Given this background, this paper explores the following question:

To what extent has the adoption of IFRS 17 improved risk-disclosure quality and financial stability in Saudi insurance companies, and do these effects differ between conventional and Takaful insurers?

By situating this question in the Saudi dual-model insurance system, the study contributes to three strands of scholarship. First, it adds to the growing but still limited literature on accounting reform and risk in insurance, particularly in emerging and Islamic markets. Second, it explores whether the conventional vs. Takaful business model conditions the impact of disclosure reforms an issue rarely addressed in previous IFRS 17 research. Third, the findings have direct relevance to regulators (e.g. SAMA, SOCPA), insurers, and investors seeking to assess whether enhanced accounting transparency strengthens institutional resilience in practice.

Against this background, the purpose of this study is to examine whether the mandatory adoption of IFRS 17 has improved the quality of risk disclosure and enhanced the financial stability of insurance companies in Saudi Arabia, with a comparative focus on conventional and Takaful insurers. The study shows that IFRS 17 adoption is associated with significant improvements in both disclosure quality and financial stability, with effects that are markedly stronger for Takaful insurers. These findings highlight the role of accounting reforms in strengthening institutional resilience in emerging markets operating under dual conventional–Islamic insurance frameworks.

Although IFRS 17 became mandatory in Saudi Arabia in 2023, the analysis intentionally covers the period 2016–2025 in order to construct a pre-adoption baseline and to implement a difference-in-differences research design. The years 2016–2022 therefore serve as the counterfactual period under IFRS 4 against which post-adoption outcomes are evaluated.

The rest of the paper is structured as follows. Section 2 reviews the literature on IFRS 17, insurance disclosure, and financial stability, with attention to Takaful. Section 3 describes the data, variables, and empirical methodology. Section 4 presents results and robustness analyses. Section 5 reports dynamic panel System-GMM robustness analyses to address potential endogeneity and persistence concerns. Section 6 concludes discusses implications, limitations, and avenues for future work.

2. LITERATURE REVIEW

2.1. IFRS 17 and the Evolution of Insurance Disclosure

The introduction of IFRS 17 Insurance Contracts represents a paradigm shift in the accounting for insurance liabilities. Under the previous standard,

IFRS 4, insurers had considerable discretion in measurement models, leading to inconsistent practices and reduced comparability across jurisdictions (IASB, 2017). In contrast, IFRS 17 establishes a unified framework based on fulfilment cash flows, which incorporate unbiased probability-weighted estimates, discounting for the time value of money, and explicit risk adjustments for non-financial risks (IFRS Foundation, 2018). The standard further introduces the Contractual Service Margin (CSM) a prospective component representing unearned profit to ensure that revenue recognition reflects insurance services rendered over time (Chng et al. 2021; Easson & Chevalier, 2022).

These innovations fundamentally enhance financial statement transparency by requiring insurers to disclose reconciliations of liability movements, sensitivity analyses of key actuarial assumptions, and explanations of estimation changes. According to the European Systemic Risk Board (ESRB, 2021), IFRS 17 is expected to "increase the granularity and comparability of risk disclosures," improving supervisory assessment of solvency positions. Similarly, the European Securities and Markets Authority (ESMA, 2024) noted that, following IFRS 17 adoption, European insurers' financial statements included substantially more detailed risk-note disclosures particularly regarding liability volatility, contract groupings, and risk-sensitivity analyses.

Empirical evidence reinforces these theoretical expectations. Mab-Online (2023) analyzed early adopters in Europe and found that IFRS 17 led to a 35 % rise in the number of quantitative tables and reconciliations in annual reports, with higher explanatory quality on assumptions and risk adjustments. EY (2023) and KPMG (2023) similarly documented that global insurers' first-year IFRS 17 reports displayed richer narratives on contract margins and uncertainty, providing investors with more informative risk signals. In a developing-market context, Alhawtmeh (2023) demonstrated that Jordanian insurers adopting IFRS 17 reported improved measurement reliability and disclosure completeness compared with peers under IFRS 4, supporting the view that standardized recognition enhances reporting discipline in emerging economies.

Collectively, these studies indicate that IFRS 17 has mitigated long-standing opacity in insurance accounting by aligning recognition, measurement, and disclosure with the underlying risk economics of contracts. The requirement for detailed reconciliations and sensitivity analyses is particularly relevant to markets such as Saudi Arabia, where the unified adoption of IFRS 17 under the Saudi Central Bank (SAMA) offers a natural experiment to evaluate improvements in disclosure transparency.

The theoretical mechanism linking IFRS 17 adoption to financial stability operates through the information-asymmetry channel. By introducing standardized measurement and comprehensive risk disclosures, IFRS 17 mitigates managerial discretion and improves the credibility of reported liabilities, thereby reducing information asymmetry between insurers, investors, and regulators. Enhanced transparency fosters more accurate risk pricing, stronger market discipline, and ultimately, greater financial resilience (Bushman & Smith, 2001; Leuz & Verrecchia, 2000). Recent evidence from early adopters such as the *Deloitte (2024) Global IFRS 17 Transition Report* and the *IASB (2024) Post-Implementation Review* shows that the new standard increased comparability and reduced earnings volatility, particularly in markets with strong regulatory oversight. These improvements in disclosure quality can strengthen confidence among policyholders and investors, echoing the macroprudential literature that links accounting transparency to systemic stability (Laeven & Valencia, 2018; Laeven & Levine, 2009). Consequently, the adoption of IFRS 17 is expected to enhance insurers' financial soundness through improved transparency, better governance, and more informed stakeholder monitoring.

H1: IFRS 17 adoption improves the quality and transparency of risk disclosures in Saudi insurance companies.

2.2. Risk Disclosure and Financial Stability

The theoretical nexus between disclosure quality and financial stability has long been recognized in financial economics. According to agency theory (Jensen & Meckling, 1976) and information asymmetry models (Leuz & Verrecchia, 2000; Bushman & Smith, 2001), transparent disclosure reduces managerial opportunism and enables more effective external monitoring, leading to lower risk-taking incentives. In the insurance sector, enhanced disclosure supports both prudential supervision and market discipline by allowing stakeholders to assess capital adequacy, underwriting performance, and sensitivity to macro-financial shocks (Laeven & Levine, 2009).

From a policy perspective, the International Association of Insurance Supervisors (IAIS, 2019) underscores that disclosure reform can reinforce systemic resilience when coupled with risk-based

supervision. Empirically, Hemrit (2020) provides evidence from Saudi Arabia showing that greater disclosure of fraud risk information among Takaful insurers significantly enhances financial stability by improving stakeholder confidence and constraining opportunistic behavior. Hachicha et al. (2025) similarly found that broader voluntary disclosures especially in environmental, social, and governance (ESG) dimensions were positively associated with financial performance and stability during the COVID-19 crisis in the Saudi insurance industry. Beyond the Gulf region, Beretta & Bozzolan (2008) showed that risk-disclosure quality is inversely associated with earnings volatility in European firms, while Ntim et al. (2013) documented that transparent risk reporting strengthens investor confidence and firm value in emerging markets.

Building on this literature, IFRS 17's enhanced disclosure requirements are expected to strengthen the stability of insurers by improving the timeliness and precision of risk information available to regulators, investors, and policyholders. By reducing informational asymmetry and enhancing comparability, IFRS 17 can indirectly foster more conservative risk-taking and improved solvency management.

H2: Higher risk-disclosure quality resulting from IFRS 17 adoption enhances the financial stability of Saudi insurance companies.

2.3. Conventional Versus Takaful Insurers: Governance and Disclosure Dynamics

Saudi Arabia's insurance industry comprises both conventional and Takaful (Islamic) insurers regulated under a unified prudential framework by SAMA. The Takaful model, grounded in Islamic principles of mutual cooperation (ta'awun) and risk sharing (mudarabah), differs from conventional insurance by prohibiting interest (riba) and excessive uncertainty (gharar), and by distributing surpluses among participants (Bacha & Mirakhor, 2018). Governance in Takaful institutions is reinforced by Shariah supervisory boards, which oversee ethical compliance and risk-sharing practices, often leading to stronger stakeholder accountability and transparency incentives (Haddad & Souissi 2022).

Empirical studies support these theoretical distinctions. Almosallam & Aljabr (2025) analyzed insurers in Saudi Arabia and the UAE and found that Takaful firms achieved slightly higher risk-management efficiency than their conventional counterparts, attributing this to governance mechanisms emphasizing prudence and accountability. Hemrit (2020) further demonstrated that the size and expertise of Shariah boards strengthen the positive association between disclosure practices and financial stability, suggesting that governance quality amplifies transparency effects in Islamic insurers. In contrast, Guendouz & Ouassaf (2018) observed that profitability drivers such as leverage and retention ratios affect both models similarly, though disclosure practices in Takaful firms tend to be more stakeholder-oriented.

Given these findings, the principles underlying the Takaful model mutuality, fairness, and accountability—are likely to reinforce the intended transparency objectives of IFRS 17. Consequently, IFRS 17's adoption may generate more substantial improvements in disclosure quality and stability for Takaful insurers than for conventional firms, as their governance culture is already aligned with high standards of ethical disclosure and risk-sharing transparency.

H3. The positive effects of IFRS 17 adoption on risk-disclosure quality and financial stability are stronger for Takaful insurers than for conventional insurers.

The reviewed literature reveals three consistent insights. First, IFRS 17 enhances comparability and transparency in insurance reporting by standardizing measurement and requiring detailed risk disclosures (Chng et al., 2021; ESMA, 2024). Second, empirical evidence across sectors and geographies demonstrates that disclosure quality contributes positively to financial stability through improved governance and reduced information asymmetry (Hemrit, 2020; Ntim et al., 2013). Third, the dual structure of the Saudi insurance market comprising both conventional and Takaful firms—offers a natural laboratory for assessing how institutional design influences the transmission of accounting reforms into stability outcomes.

However, the extant literature lacks empirical evidence linking IFRS 17 adoption to measurable improvements in insurers' stability, especially in emerging Islamic finance contexts. This study therefore fills that gap by examining whether the adoption of IFRS 17 has enhanced risk-disclosure quality and financial stability in Saudi insurers and whether these effects differ between conventional and Takaful models under a unified regulatory regime.

3. METHODOLOGY

3.1. Research Design

This study adopts a quantitative, explanatory panel-data framework to evaluate whether the

implementation of IFRS 17 Insurance Contracts has enhanced the quality of risk disclosure and strengthened the financial stability of Saudi insurers. The analysis focuses on a balanced panel of firms observed from 2016 to 2025, covering both conventional and Takaful models. Consistent with prior cross-country evidence on accounting regulation (Barth et al., 2012; Ahmed et al., 2013), a difference-in-differences (DiD) specification is employed to capture the causal impact of IFRS 17, treated as an exogenous regulatory shock mandated by the Saudi Central Bank (SAMA) effective 1 January 2023. Firm- and year-fixed effects control for unobservable heterogeneity and macroeconomic shocks.

Accordingly, observations prior to 2023 capture insurers' behavior under IFRS 4 and are required to establish the counterfactual trend and test the parallel-trends assumption underlying the difference-in-differences framework.

To validate the identification strategy, the parallel-trends assumption was formally assessed by comparing the pre-adoption trajectories of *RDQ* and *FS* for Takaful and conventional insurers over the period 2016–2022. Visual inspection of mean trends and regression-based tests of interaction terms between firm type and pre-IFRS 17-time dummies confirmed the absence of differential pre-trends. The estimated coefficients on the pre-period interactions were statistically insignificant ($p > 0.10$), indicating that both groups evolved similarly before 2023. This evidence supports the validity of the DiD framework and reinforces the causal interpretation of the IFRS 17 effect.

The longer pre-adoption window is intentional and serves to establish stable baseline trends and to test the parallel-trends assumption underlying the difference-in-differences design. The post-adoption period (2023–2025) reflects the maximum available data following the mandatory implementation of IFRS 17 and is sufficient to capture short-run and transitional effects of the reform, rather than long-term outcomes.

To ensure robustness and mitigate dynamic endogeneity, a two-step system-GMM estimator (Arellano & Bond, 1991; Blundell & Bond, 1998; Roodman, 2009) is used as a complementary specification. This estimator allows lagged dependent variables to serve as internal instruments, addressing potential persistence in disclosure or stability indicators. Instrument proliferation is controlled by restricting the lag structure to two periods and collapsing the instrument matrix.

3.2. Data and Sample

The study's sample comprises 28 Saudi insurance and reinsurance companies licensed by SAMA. The final dataset covers 28 insurers, including 16 conventional and 12 Takaful firms, consistent with the entities listed in the SAMA annual insurance reports. These figures correspond to the variable definitions and measurement reported in Table 3. To ensure data consistency, all firms were required to have continuous financial reporting from 2016 to 2025; companies with missing or irregular series were excluded. Minor missing observations. The financial data cover the period 2016–2025. While audited financial statements are available for all insurers up to 2024, the 2025 observations are based on the most recent publicly released financial information available at the time of data collection and have not yet been subject to final external audit. To ensure that the inclusion of 2025 data does not bias the results, all main analyses are replicated using a sample that excludes 2025, with qualitatively similar findings.

The period 2016–2022 represents the pre-IFRS 17 (IFRS 4) regime, whereas 2023–2025 corresponds to the post-adoption phase. Data are collected from publicly available sources SAMA Annual Insurance Market Reports, the Capital Market Authority (CMA) filings, company annual reports, and World Bank World Development Indicators (WDI) ensuring transparency and replicability. Missing values are winsorized at the 1st and 99th percentiles to mitigate the influence of outliers, and all monetary variables are expressed in constant 2020 Saudi riyals. All variables are drawn from publicly accessible and verifiable sources, summarized below in Table 1.

Table 1: Data Sources.

Data Source	Type of Data	Variables Extracted	Access/ verification
SAMA Annual Insurance Market reports (2016-2025)	Regulatory, solvency & performance indicators	Solvency ratio, loss ratio, equity-to-assets, gross premiums	https://www.sama.go.sa/en-US/EconomicsReports
Capital Market Authority (CMA)	Audited Financials &governance data	Total assets, liabilities, leverage, board size, auditor type	https://cma.org.sa

Company annual reports (2023-2025)	IFRS 17- specific risk notes	CSM movements, risk adjustments, sensitivity analyses, liability reconciliations	Official corporate sites (eg; Tawuniya, Bupa, Arabia, Malath..)
World Bank-WDI	Macroeconomic controls	GDP growth, inflation, interest rate	https://data.worldbank.org

3.3. Measurement Of Variables

3.3.1. Risk-Disclosure Quality (Rdq)

Disclosure quality is assessed through manual content analysis of insurers' annual reports, following the frameworks of Beretta & Bozzolan (2008) and Ntim et al. (2013). Twenty IFRS 17-specific disclosure items are evaluated covering measurement assumptions, contractual-service-margin (CSM) reconciliations, risk-adjustment methods, sensitivity analyses, and risk-exposure narratives. Each item is coded as 1 (quantitative), 0.5 (qualitative), or 0 (absent).

The index for firm *i* in year *t* is computed as:

$RDQ_{it} = \frac{1}{20} \sum_{j=1}^{20} D_{ijt}$

- where, Dijt denotes the disclosure score for item j.
- 20 = total number of disclosure items evaluated. (Average of 20 equally weighted disclosure items).

Each company's annual report is reviewed line by line, and all 20 IFRS 17 disclosure items are manually coded following this three-level scoring scheme.

A higher RDQ value indicates greater transparency and compliance with IFRS 17 requirements. Inter-coder reliability (Cohen's κ = 0.87) confirms coding consistency.

For example, an insurer receives a score of 1 for the item "insurance risk sensitivity analysis" if the annual report provides a quantitative sensitivity analysis of claim assumptions, and 0 if such information is absent.

Table 2: Components of the Index.

Disclosure Category	Examples of Items IFR 17 (§ 93-132)
Measurement & Assumptions	Discount-rate sensitivity; risk-adjustment methodology; changes in assumptions
Contractual service Margin (CSM)	Opening and closing balances; movements due to new contracts, experience variances, time-value-of-money effects
Liability Reconciliation	Link between insurance liabilities and statement of financial position
Risk exposure	Credit, liquidity, market, and underwriting-risk analyses
Reinsurance and risk mitigation	Impact of reinsurance and derivatives on risk management
Sensitivity Analysis	Effect of increase or decrease of 1 percentage point in a key assumption
Nature and Extent of Risks	Qualitative narrative on risk concentration and diversification

Note: Each disclosure item is scored using a three-level coding scheme: 1 if the disclosure is quantitative, 0.5 if the disclosure is qualitative, and 0 if the disclosure is absent. The Risk-Disclosure Quality (RDQ) index is computed as the average score across the 20 IFRS 17–specific disclosure items, consistent with Beretta and Bozzolan (2008).

3.3.2. Financial Stability (Fs)

Financial stability (FS) is proxied by the z-score. The Z score was originally used in banking studies and later adapted to insurance research (Laeven & Levine (2009) and Hemrit & Belgacem, 2024). Financial stability is proxied using capital adequacy, profitability-based risk measures, and earnings volatility, which are widely employed in the insurance and banking literature. These measures are particularly relevant in the Saudi insurance context, where regulatory oversight by SAMA emphasizes solvency margins, capital buffers, and underwriting stability as core indicators of insurer resilience.

The Z-score combines profitability, capitalization, and risk (volatility) into a single, interpretable index. It reflects how far an institution is from insolvency, expressed in terms of the number of standard deviations its return on assets (ROA) would have to fall below its mean to erase its equity. A higher Z-score indicates greater financial stability, since it means the firm has stronger profitability and capitalization relative to the volatility of its returns. A lower Z-score means the firm is more vulnerable to losses or shocks.

$FS_{it} = \frac{ROA_{it} + Equity/Assets_{it}}{\sigma(ROA)_{it}}$

- ROA_{it}= Return on assets = Net income/Total assets
- Equity/Assets $_{(it)}$ = capital to assets ratio
- σ= Standard deviation of ROA

The numerator $ROA_{it} + Equity/Assets_{it}$ measures the firm's buffer- its expected return and capital available to absorb losses.

The denominator $\sigma(ROA)_{it}$ measures the risk of that buffer being eroded through income volatility.

Mathematically, assuming profits are normally distributed, the probability of insolvency declines exponentially as the Z-score rises.

3.3.3. Control Variables

Firm-level controls include size (log of assets), leverage (total liabilities / equity), age (years since licensing), and market share (premiums / industry total). Macroeconomic controls (GDP growth, inflation, interest rate) are obtained from WDI. Expected signs are consistent with prior literature (Laeven & Levine, 2009; Ntim et al., 2013).

Table 3: Variable Definitions and Measurement.

Construct	Variable	Measurement / Proxy	Expected Sign	Reference / Source
Dependent Variables				
Risk-Disclosure Quality	RDQ	Weighted index (0–1) based on 20 IFRS 17 items	(+)	Beretta & Bozzolan (2008); Chng et al. (2021)
Financial Stability	FS	Z-score = (ROA + Equity/Assets)/σ(ROA)	(+)	Laeven & Levine (2009); Hemrit & Belgacem (2024)
Key Explanatory Variables				
IFRS 17 Adoption	IFRS17	Dummy = 1 (2023–2025)	(+)	SAMA (2022)
Takaful Insurer	TAK	Dummy = 1 for Takaful company	(+)	SAMA Classification
Interaction Term	IFRS17×TAK	Differential effect for Takaful	(+)	Author's derivation
Controls variables				
Firm Size	SIZE	log (total assets)	(+)	CMA Filings
Leverage	LEV	Total liabilities / equity	(–)	CMA Filings
Firm Age	AGE	Years since licensing	(±)	SAMA Records
Market Share	MS	Premiums written / sector total	(+)	SAMA Reports
Macroeconomic Control	GDPG	Real GDP growth rate	(+)	World Bank (WDI)

Note: Author's computation from SAMA, CMA, and company reports (2016–2025).

3.4. Econometric Model

The baseline estimation uses the two-way fixed-effects DiD model:

To test H1-H3, we estimate the following baseline specification using firm- and time-fixed effects (FE) and clustered standard errors:

$$y_{it} = \alpha + \beta_1 IFRS17_t + \beta_2 TAK_i + \beta_3 + (IFRS17_t \times TAK_i) + \gamma X_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad (1)$$

where, where Y_{it} represents either *RDQ* or *FS*; $IFRS17_t$ is a post-2023 dummy; TAK_i identifies Takaful insurers; and X_{it} is the vector of control variables. μ_i and λ_t denote firm- and year-fixed effects. Standard errors are clustered at the firm level. The interaction term ($IFRS17_t \times TAK_i$) captures differential effects for Takaful companies.

Parallel-trend diagnostics confirm that pre-2023 trajectories in *RDQ* and *FS* did not differ significantly between Takaful and conventional insurers, supporting causal interpretation. System-GMM robustness estimations validate the consistency of coefficients, with Hansen p-values > 0.25 indicating valid instruments.

A significant positive β1supports H1 (overall disclosure improvement), a positive β1 when Yit=FS supports H2 (stability effect), and a positive β3 indicates that the effect is stronger for Takaful firms (H3).

Robustness checks include Dynamic panels (Arellano–Bond GMM) to address endogeneity from persistence in stability metrics (Roodman, 2009). While DiD controls for time-invariant heterogeneity, it may not eliminate Dynamic persistence (financial stability and disclosure quality are serially correlated), and Reverse causality (more stable insurers might voluntarily improve disclosure even before IFRS 17). To address this, the dynamic panel GMM estimator (Arellano & Bond, 1991; Blundell & Bond, 1998) introduces lagged dependent variables as instruments, effectively correcting for autocorrelation and simultaneity. Dynamic GMM has become the standard robustness method for studies analyzing regulatory or disclosure reforms: Ntim et al. (2013) employed GMM to examine disclosure–performance relations in emerging markets. Flannery & Rangan (2008) applied it to capital-structure adjustments in banks analogous to solvency adjustments in insurers.

Thus, incorporating GMM confirms that the estimated IFRS 17 effects remain valid even when accounting for persistence and endogenous feedback between disclosure and stability.

4. EMPIRICAL RESULTS AND DISCUSSION

4.1. Descriptive Statistics

The descriptive statistics reveal meaningful heterogeneity across insurers and time periods. The average RDQ score rises from 0.42 (pre-IFRS 17) to 0.67 (post-adoption), indicating marked

improvement in disclosure practices. The mean *z-score* also increases, reflecting enhanced solvency and profitability stability. Takaful insurers display slightly higher FS values on average, consistent with their cooperative governance structure emphasizing prudence and risk sharing. Pairwise correlations confirm the absence of severe multicollinearity among explanatory variables.

Table 4: Descriptive Statistics (2016–2025).

	Mean	Std. Dev.	Min	Max
Risk-Disclosure Quality (RDQ)	0.54	0.18	0.12	0.89
Financial Stability (FS z-score)	2.41	0.96	0.48	4.75
IFRS 17 dummy	0.33	0.47	0	1
Takaful dummy	0.42	0.50	0	1
Firm Size (log assets)	17.35	1.22	15.09	19.98
Leverage	1.46	0.77	0.41	3.87
Market Share (%)	4.92	5.35	0.10	25.11
GDP growth (%)	2.73	1.98	−0.72	7.65

Note: Author's computation from SAMA, CMA, and company reports (2016–2025).

4.2. Correlation Analysis

Table 4 presents pairwise correlations. RDQ correlates positively with FS ($\rho = 0.41$, $p < 0.01$), suggesting that firms with richer risk disclosures exhibit greater stability. Multicollinearity diagnostics show no variance-inflation factor above 2.1, confirming model suitability. The moderate positive correlation between IFRS 17 and RDQ ($\rho = 0.33$) provides preliminary evidence of the disclosure effect posited in H1.

Table 5: Pearson Correlation Matrix.

	RDQ	FS	IFRS17	TAK	SIZE	LEV	MS
RDQ	1						
FS	0.41***	1					
IFRS17	0.33***	0.29***	1				
TAK	0.27**	0.18*	0.02	1			
SIZE	0.21*	0.36***	0.05	−0.09	1		
LEV	−0.15	−0.29**	−0.03	0.07	−0.25*	1	
MS	0.09	0.11	0.01	0.08	0.33***	−0.17	1

Notes: *** p < 0.01; ** p < 0.05; * p < 0.10.

4.3. Difference-In-Differences Estimation Results

The fixed-effects DiD estimations (Table 5) show that the IFRS 17 dummy carries a positive and statistically significant coefficient ($p < 0.01$) when *RDQ* is the dependent variable, supporting H_1. This indicates that IFRS 17 adoption materially improves disclosure quality through standardized measurement, reconciliations, and risk-adjustment disclosures.

The magnitude of the estimated effect implies that IFRS 17 adoption increases the average risk-disclosure quality (RDQ) score by approximately 11 percentage points, rising from a baseline mean of 0.47 in the pre-adoption period to 0.61 post-adoption. Reporting both the coefficient and baseline level provides a clearer interpretation of the economic significance of the effect.

The effect remains robust after controlling for firm size, leverage, and macroeconomic conditions. This finding aligns with European evidence reported by ESMA (2024) and Chng et al. (2021), who documented that IFRS 17 reduces reporting opacity by mandating uniform liability valuation methods.

When *FS* is used as the dependent variable, the coefficient on IFRS 17 is also positive ($p < 0.05$), confirming H_2. Improved disclosure and comparability appear to strengthen insurers' solvency and profitability stability. This result is consistent with the transparency stability channel proposed by Bushman & Williams (2012) and Laeven & Levine (2009). Control coefficients also conform to theoretical expectations and prior empirical evidence.

Firm size and capitalization positively influence financial stability, reflecting the stabilizing effect of scale and equity buffers. Conversely, leverage exhibits a negative relationship with stability, consistent with the notion that excessive debt amplifies solvency risk (Laeven & Levine, 2009; Flannery & Rangan, 2008). Control variables behave as expected: firm size and capitalization exert positive effects on stability, while higher leverage is negatively associated with FS.

Table 6: Did Fixed-Effects Estimation (2016–2025).

	(1) Risk Disclosure Quality (RDQ)	(2) Financial Stability (FS)	(3) FS Model with IFRS 17 × TAK Interaction
IFRS 17 dummy	0.112 *** (3.42)	0.187 ** (2.56)	0.142 ** (2.11)
TAK dummy	0.084 * (1.89)	0.063 (1.47)	–
IFRS 17 × TAK	–	–	0.196 ** (2.34)
SIZE	0.029 ** (2.07)	0.044 *** (3.12)	0.045 *** (3.19)
LEV	−0.054 ** (−2.01)	−0.079 ** (−2.28)	−0.081 ** (−2.31)
MS	0.007 (1.12)	0.010 (1.43)	0.011 (1.51)
GDPG	0.015 ** (2.20)	0.021 ** (2.46)	0.020 ** (2.41)
Constant	0.312 (1.61)	1.148 *** (3.97)	1.083 *** (3.85)
Firm FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Adj. R^2	0.47	0.52	0.56

Notes: t-statistics in parentheses; *** p < 0.01, ** p < 0.05, * p < 0.10. This table reports fixed-effects Difference-in-Differences (DiD) regressions estimating the impact of *IFRS 17* adoption on insurers' risk-disclosure quality (RDQ) and financial stability (FS) in Saudi Arabia from 2016 to 2025. *** p < 0.01, ** p < 0.05, * p < 0.10.

The interaction term (IFRS17 × TAK) is positive and significant at the 5% level, supporting H_3. This implies that the stabilizing and transparency-enhancing impact of IFRS 17 is more pronounced among Takaful insurers. The result underscores the complementarity between IFRS 17's disclosure framework and the Shariah-based governance mechanisms inherent to Takaful operations. This finding is consistent with Haddad & Souissi (2022) and Hemrit (2020), who emphasize that Shariah supervisory boards reinforce ethical accountability and limit managerial opportunism, thus amplifying the benefits of transparent accounting.

4.4. Discussion

The coefficient on IFRS 17 in Column (1) is positive and significant ($\beta = 0.112$, $p < 0.01$), confirming that the implementation of the new standard significantly improved insurers' disclosure transparency. This result aligns with international empirical evidence.

For instance, Barth et al. (2012) found that mandatory IFRS adoption enhanced accounting comparability and information usefulness across firms, and Ahmed et al. (2013) reported similar results for IFRS adoption improving accrual quality in global contexts. Specifically, within the insurance industry, EY (2023) and KPMG (2023) documented that the first wave of IFRS 17 adopters mainly European and Asia-Pacific insurers substantially expanded the number and granularity of sensitivity analyses, CSM reconciliations, and assumptions disclosures.

The Saudi results mirror these international patterns: the observed 11-percentage-point rise in the risk-disclosure index reflects the standard's prescriptive note structure (IASB, 2024) and SAMA's strict enforcement guidance (SAMA Circular 2022/45). The finding also resonates with Mab-Online (2023), which found that IFRS 17 increased the average number of quantitative disclosure tables per insurer by 35 % in Europe.

From a theoretical perspective, these results validate the premise that mandatory disclosure regulation can mitigate information asymmetry (Leuz & Verrecchia, 2000; Bushman & Smith, 2001) by standardizing the information environment. By requiring detailed reconciliations of liabilities and explicit risk adjustments, IFRS 17 reduces managerial discretion in narrative reporting a limitation highlighted under IFRS 4 by Eliwa et al. (2021) in their cross-country insurance disclosure analysis.

Hence, the Saudi data reinforce the conclusion that IFRS 17 enhances both the quantity and quality of risk disclosures, consistent with prior international studies (Chng et al., 2021; Barth et al., 2012; ESMA, 2024).

The second major finding a positive and significant coefficient for IFRS 17 on financial stability ($\beta = 0.187$, $p < 0.05$) indicates that enhanced disclosure quality contributes meaningfully to insurers' solvency and resilience. This outcome supports theoretical expectations derived from agency theory and prudential supervision literature: when financial reporting becomes more transparent, external stakeholders (regulators, rating agencies, investors) can exert stronger monitoring, which disciplines managerial behavior and reduces excessive risk-taking (Laeven & Levine, 2009; Bushman & Williams, 2012).

Empirically, this relationship aligns with findings by Hemrit & Belgacem (2024), who showed that greater disclosure specifically fraud-related transparency reduces solvency risk among Saudi Takaful insurers, and by Ntim et al. (2013), who reported that risk-reporting quality enhances firm value and financial performance in emerging markets. Furthermore, Flannery & Rangan (2008)

demonstrated that disclosure reforms in banking improved capital adequacy through market discipline; IFRS 17 appears to have a comparable stabilizing effect in the insurance sector.

The mechanism linking IFRS 17 to stability likely operates through reduced earnings volatility and improved risk predictability. The new measurement model's focus on current fulfilment values and explicit recognition of time-value-of-money effects limits earnings manipulation and enhances solvency predictability, as observed by Easson & Chevalier (2022) and ESRB (2021). The Saudi findings therefore echo international evidence showing that transparency-driven reforms enhance the risk-bearing capacity of financial institutions (Barth & Landsman, 2010; Laeven & Levine, 2009).

The positive and statistically significant coefficient on the interaction term IFRS 17 × TAK ($\beta = 0.196$, $p < 0.05$) provides novel evidence that Takaful insurers experienced a stronger positive effect from IFRS 17 adoption on financial stability than conventional firms. This differential effect aligns with the unique governance and ethical framework of Islamic insurance, which emphasizes risk-sharing, fairness, and transparency (Bacha & Mirakhor, 2018).

Several prior studies help explain this asymmetry. Haddad and Souissi (2022) found that Shariah supervisory boards enhance disclosure quality in Islamic financial institutions, as board oversight enforces compliance and limits information concealment. Hemrit (2020) similarly observed that the presence of larger, more expert Shariah boards strengthens the positive link between disclosure and stability in Takaful insurers.

The Saudi context amplifies this interaction for two reasons.First, the cooperative Takaful structure inherently aligns with IFRS 17's performance-based recognition principle: as profits are distributed to participants rather than shareholders, the new disclosure regime reduces uncertainty about how earnings and risk margins are allocated (SOA, 2024). Second, Shariah governance imposes higher ethical reporting standards, reducing discretionary bias in assumptions (Hassan & Aliyu, 2018).

Therefore, the stronger IFRS 17 effect among Takaful firms reflects complementarity between accounting transparency and ethical governance, consistent with Chapra (2016), who argued that Islamic governance mechanisms magnify the efficiency of financial reforms in promoting stability.

Control coefficients also conform to theoretical expectations. Firm size shows a positive and significant relation to both RDQ and FS, consistent with Beretta & Bozzolan (2008) and Ntim et al. (2013), who found that larger firms disclose more and maintain greater stability due to resource capacity and regulatory visibility. Leverage exhibits a negative and significant effect, in line with Myers (1977) and Laeven & Levine (2009), confirming that excessive leverage reduces solvency margins and constrains disclosure flexibility. GDP growth is positively associated with both RDQ and FS, supporting Laeven & Valencia (2018) that macroeconomic expansion strengthens insurers' stability and reporting incentives.

Overall, Table 6 provides consistent empirical validation for the proposed hypotheses. The evidence confirms that IFRS 17 adoption has enhanced the transparency of risk-related disclosures (H1), improved the financial stability of insurers (H2), and yielded stronger effects for Takaful insurers (H3) due to their governance structures.

These results are broadly aligned with earlier IFRS-based research but extend it to the Islamic insurance and emerging-market context, an area where empirical work remains limited. They suggest that accounting standard reforms can achieve real financial-stability outcomes when embedded within robust governance frameworks, echoing conclusions drawn by Barth & Landsman (2010) and Bushman & Williams (2012) in the banking literature.

5. DYNAMIC PANEL GMM ROBUSTNESS

The dynamic panel model is estimated using the two-step system-GMM estimator, where lagged levels of the dependent variables serve as internal instruments. Specifically, the second and third-order lags of *RDQ* and *FS* are used as instruments for their first-differenced equations, following Roodman (2009). This approach minimizes simultaneity bias and captures the persistence inherent in disclosure and stability dynamics. To prevent instrument overfitting, the instrument count is limited to 28 slightly below the number of cross-sectional units ($N = 28$), ensuring that the Hansen J-test remains well-powered. The Hansen test of over-identifying restrictions ($p = 0.27$) confirms overall instrument validity, and the Arellano–Bond AR (2) test ($p > 0.20$) indicates no second-order serial correlation. Together, these diagnostics support the consistency and efficiency of the GMM specification.

To verify robustness, the analysis is re-estimated using alternative stability proxies the solvency ratio and combined ratio, yielding consistent signs and significance levels. System-GMM estimates further confirm the persistence of both *RDQ* and *FS*, with lagged terms remaining positive and significant ($p < 0.01$). Diagnostic statistics indicate no second-order

serial correlation (AR (2) p > 0.20) and valid instruments (Hansen p = 0.27). Overall, these checks reinforce the credibility of the baseline findings and mitigate endogeneity concerns.

Table 7: System-Gmm Robustness (Two-Step, Windmeijer-Corrected).

	(1) RDQ	(2) FS
Lagged Dependent Var.	0.432 *** (6.01)	0.547 *** (7.22)
IFRS 17	0.098 ** (2.44)	0.163 ** (2.18)
IFRS 17 × TAK	0.157 ** (2.07)	0.185 ** (2.31)
Hansen p-value	0.27	0.31
AR (2) p-value	0.42	0.48

Notes: Two-Step System GMM With Windmeijer Finite-Sample Correction. Hansen And AR (2) Tests Confirm Instrument Validity (Roodman 2009).

The persistence coefficients (0.43–0.55) confirm that both disclosure quality and stability are path-dependent, justifying the dynamic specification. The continued significance of IFRS 17 and IFRS 17 × TAK validates the robustness of DiD results.

The empirical evidence confirms that IFRS 17 adoption has achieved its intended regulatory objectives of improving disclosure quality and promoting financial stability. The magnitude of the coefficients suggests that post-IFRS 17 insurers increased disclosure scores by roughly 11 percentage points and improved solvency ratios by 15–19 %, consistent with transparency-driven monitoring effects.

These results extend findings from Barth et al. (2012) and Ahmed et al. (2013), who documented IFRS adoption benefits in general accounting quality to the insurance domain. Moreover, the Takaful-specific effect mirrors Hemrit (2020) and Haddad & Souissi (2022), underscoring the role of governance and ethical oversight in amplifying the benefits of accounting reforms.

For regulators such as SAMA and SOCPA, the results provide empirical backing for continued enforcement of IFRS 17 disclosure guidance and for capacity-building among Takaful boards to maximize transparency. For investors and policyholders, improved comparability of risk information may enhance confidence in Saudi insurers and attract foreign capital, aligning with Vision 2030's financial-sector-development objectives.

These findings corroborate earlier results in developed markets while providing novel evidence from an emerging Islamic-finance context. The observed post-reform improvements parallel the IFRS 9 experience in banking, where enhanced transparency mitigated pro-cyclicality and risk mispricing. However, the Takaful-specific amplification effect is new: it suggests that governance-embedded ethical systems can strengthen the transmission of accounting reforms into real-sector stability outcomes, a topic scarcely documented outside Southeast Asia.

6. CONCLUSIONS AND POLICY IMPLICATIONS

This study examined whether the implementation of IFRS 17 Insurance Contracts has improved the quality of risk disclosure and financial stability of insurance companies in Saudi Arabia, with a comparative focus on Takaful and conventional insurers. Using a balanced panel of 28 firms observed from 2016 to 2025 and employing a difference-in-differences design complemented by system-GMM robustness checks, the results provide compelling evidence that IFRS 17 has had a significant and positive impact on both the transparency of risk reporting and the solvency resilience of Saudi insurers. The findings confirm that the adoption of IFRS 17 replacing the principle-based flexibility of IFRS 4 with a more structured measurement framework based on fulfilment cash flows, contractual service margin (CSM), and explicit risk adjustments has led to measurable improvements in disclosure comparability and reliability). The positive and statistically significant coefficients associated with the IFRS 17 dummy variable in both the risk-disclosure and financial-stability regressions indicate that regulatory harmonization enhances the informational environment of insurers, consistent with global evidence from Barth et al, (2012) and Ahmed et al, (2013), who found that mandatory IFRS adoption improves accounting quality and market discipline across jurisdictions.

Importantly, the study also confirms that higher disclosure quality fosters financial stability, echoing the theoretical propositions of Bushman and Williams (2012) and Laeven and Levine (2009) that transparency reduces moral hazard and excessive risk-taking. By making liability valuation and risk-adjustment assumptions more visible, IFRS 17 has improved investors and regulators' ability to assess solvency positions and manage prudential oversight. This mechanism reflects a transparency–stability nexus previously observed in banking reforms such as IFRS 9 and now empirically validated for the insurance sector. Moreover, the analysis

demonstrates that the effect of IFRS 17 is stronger among Takaful insurers, suggesting that Shariah governance and the cooperative, risk-sharing structure of Islamic insurance amplify the benefits of standardized disclosure. This finding aligns with Hemrit (2020), who emphasized the role of Shariah supervisory boards in strengthening transparency and ethical compliance, and with Bacha and Mirakhor (2018), who argued that Islamic financial governance fosters long-term stability through accountability and shared risk principles.

These results have broad theoretical and policy implications. Theoretically, this study provides one of the first empirical validations of IFRS 17's real economic effects in an emerging Islamic-finance context, bridging the accounting-regulation literature (Barth et al., 2012; Cheng et al., 2021) with the financial-stability literature (Bushman & Williams, 2012; Laeven & Levine, 2009). The development of a quantitative disclosure-quality index adapted to IFRS 17's 20-item reporting structure also contributes methodologically, extending the framework of Beretta and Bozzolan (2008) and Ntim et al. (2013) into the insurance domain. Empirically, this study demonstrates that global accounting standards can generate tangible improvements in financial soundness when implemented within robust governance systems such as those embedded in the Saudi Takaful model.

From a regulatory perspective, the findings provide clear evidence-based guidance for SAMA and SOCPA. The positive solvency effects associated with IFRS 17 adoption underscore the need for continued enforcement and consistency in disclosure templates, as well as capacity-building initiatives for actuarial and financial-reporting teams. Regulators could issue further implementation circulars specifying quantitative disclosure thresholds, particularly for risk adjustments and contractual-service-margin reconciliations, to ensure comparability across insurers. For insurance firms themselves, the results highlight the strategic importance of integrating IFRS 17 data structures with enterprise risk management (ERM) and capital-planning systems, transforming compliance into a driver of governance and performance improvement. Takaful operators, in particular, can capitalize on their mutual and ethical orientation by aligning Shariah compliance reporting with IFRS 17 transparency metrics, thereby enhancing stakeholder trust and investor confidence.

At the macro level, these findings support Saudi Arabia's Vision 2030 Financial Sector Development Program, which aims to deepen insurance penetration and strengthen financial stability. Improved disclosure quality reduces information asymmetry and builds market confidence, potentially attracting foreign investment into the Saudi insurance sector a key goal for diversifying the economy and integrating it with global capital markets.

While this study provides robust evidence on the effects of IFRS 17 adoption on risk-disclosure quality and financial stability, several limitations should be acknowledged. First, the post-adoption observation window remains relatively short (2023–2025), reflecting the recent mandatory implementation of IFRS 17 in Saudi Arabia. Although robustness checks confirm that the results are not driven by the inclusion of the most recent year, future research could reassess these relationships over a longer horizon as more post-implementation data become available. Second, the measurement of disclosure quality relies on manual content analysis, which despite strong inter-coder reliability inevitably involves a degree of subjectivity. Future studies could complement this approach by employing automated text-analysis or natural-language-processing techniques to enhance scalability and objectivity. Finally, extending the analysis to cross-country settings or other IFRS 17-adopting jurisdictions would allow for broader generalization and comparative insights across regulatory and institutional environments.

In Conclusion, this study provides robust empirical evidence that IFRS 17 adoption has enhanced both the quality of insurers' risk disclosure and their financial stability in Saudi Arabia, with more pronounced gains among Takaful insurers due to their governance and ethical frameworks. These findings underscore the complementary relationship between high-quality accounting standards and effective governance structures in promoting financial transparency and systemic resilience. By aligning accounting reform with the principles of risk sharing, accountability, and comparability, Saudi Arabia's insurance sector is not only strengthening its domestic financial infrastructure but also positioning itself as a model for emerging Islamic and hybrid insurance markets transitioning toward IFRS 17 compliance.

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