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Enhancing risk management and value creation in Jordanian insurance companies: The impact of IFRS

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Abstract

This study examines how adopting International Financial Reporting Standards (IFRS) helps Jordanian insurance companies manage risks and improve their market value. By analyzing financial statements from 21 insurance firms listed on the Amman Financial Market, the study found that IFRS adoption is closely linked to financial stability. The most widely used IFRS policies were cash flow risk management (50%) and fair value risk management (40%). The findings demonstrate a clear, positive relationship between IFRS adoption and company valuation, highlighting its role in building investor trust. For business leaders and policymakers, this research underscores the importance of IFRS as more than just an accounting standard; it is a strategic tool for financial stability. Encouraging wider adoption of IFRS could strengthen market confidence, attract investment, and support long-term economic growth.

Keywords: Financial Reporting, IFRS, Insurance Companies, Risk Mitigation, Valuation, Jordan.

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1. Introduction

In today's interconnected financial world, companies must navigate increasing risks from fluctuating exchange rates, interest rates, and global economic shifts. One of the most effective tools for managing these risks is the International Financial Reporting Standards (IFRS). Originally designed to create consistency in financial reporting across countries, IFRS has evolved into a key framework for risk management and value creation [1]. By ensuring transparency and comparability, IFRS enables companies to attract investors, make better financial decisions, and enhance overall stability in the market [2].

The adoption of IFRS has become increasingly significant in an era defined by globalization, cross-border capital and goods flows, and volatile global market dynamics. These interconnected factors have introduced businesses, investors, and individuals to unprecedented risks, such as sudden exchange rate fluctuations that impact the present value of future cash flows and, in turn, a company's overall valuation. Addressing these emerging risks has become a priority for businesses, prompting the development of effective mitigation strategies. Companies that fail to adopt transparent financial reporting standards may face challenges such as reduced investor confidence, market instability, and difficulties in securing funding. Among these strategies, financial derivatives have emerged as a vital tool, providing protection against risks associated with exchange rate volatility, interest rate changes, and escalating commodity prices. These instruments play a particularly critical role in managing the effects of foreign exchange rate fluctuations on international trade payments and receipts [2]. However, without a standardized financial reporting system, the effectiveness of such financial instruments remains limited. IFRS provides a structured framework that allows companies to disclose their financial strategies in a clear and consistent manner, fostering greater trust among investors and financial institutions. The global adoption of IFRS has proven to be a key response to these financial challenges. By offering a unified framework for financial reporting, IFRS promotes transparency, comparability, and consistency across markets. This shared financial language enables stakeholders ranging from investors to regulators to make more informed decisions and better manage financial risks. More importantly, it ensures that companies adhere to best practices in financial reporting, reducing the risk of corporate scandals and financial mismanagement.

Given that a company's core mission is to maximize shareholders' wealth through value creation and sound financial investments, this study seeks to examine the role of IFRS in mitigating financial risks and enhancing the valuation of Jordanian insurance companies. Specifically, the research focuses on the extent to which the implementation of IFRS impacts risk management practices and contributes to value creation for companies listed on the Amman Financial Market. Since the insurance sector operates in an environment of high uncertainty, with risks stemming from claims management, market fluctuations, and regulatory changes, the role of IFRS in providing a stable financial foundation becomes even more critical.

Despite its benefits, IFRS adoption is not universal, and companies often face challenges in implementation. In Jordan, insurance companies play a crucial role in the economy, yet little research has explored how IFRS affects their risk management strategies and market valuation. While many companies recognize the importance of IFRS, factors such as a lack of expertise, high implementation costs, and resistance to change have slowed adoption. This study aims to bridge that gap by investigating how IFRS adoption impacts Jordanian insurance firms listed on the Amman Financial Market. Understanding these challenges and their impact on financial performance is essential for policymakers and industry leaders looking to strengthen financial regulations and enhance corporate governance.

1.1. The Key Research Questions This Study Addresses Include

- How widely are IFRS policies adopted by Jordanian insurance companies?
- What impact do IFRS policies (such as cash flow hedging and fair value accounting) have on company valuation?
- What challenges do companies face in IFRS implementation?
- How does IFRS adoption influence investor confidence and financial decision-making in the Jordanian insurance sector?

By answering these questions, this study contributes valuable insights for business leaders, regulators, and policymakers**.** A better understanding of IFRS adoption can lead to stronger financial policies, increased investor confidence, and a more stable insurance sector. Moreover, it can serve as a guide for companies seeking to improve their financial transparency and risk management strategies, ensuring long-term sustainability and competitiveness in an evolving financial landscape.

1.2. Significance of Study

This research holds significant value as it provides insights into effective risk management strategies tailored to the needs of Jordanian insurance companies. By reducing financial volatility and enhancing investment practices, the study underscores the critical role IFRS plays in guiding companies toward sustainable growth.

The study emphasizes the importance of IFRS in enabling companies to manage financial risks effectively, ensuring accurate measurement and transparent disclosure of profits and losses while optimizing timing for key financial decisions. Importantly, it highlights how these practices can enhance market value without adversely affecting business performance.

Furthermore, the research sheds light on the level of awareness among Jordanian insurance companies regarding the objectives and applications of IFRS 9. By addressing this awareness, the study aims to offer actionable insights that contribute to improving financial reporting standards and aligning practices with global benchmarks.

1.3. Study Hypotheses

1.3.1. Main Hypothesis

There is no statistically significant effect, at the 5% significance level, of International Financial Reporting Standards (IFRS), including their dimensions (cash flows, fair value, and net foreign investments), on the valuation of insurance companies listed on the Amman Stock Exchange.

This overarching hypothesis is further broken down into the following sub-hypotheses:

- *There is no statistically significant effect, at the 5% significance level, of cash flow risk on the valuation of insurance companies listed on the Amman Stock Exchange.*

- *There is no statistically significant effect, at the 5% significance level, of fair value risk on the valuation of insurance companies listed on the Amman Stock Exchange.*
- *There is no statistically significant effect, at the 5% significance level, of net foreign investment risk on the valuation of insurance companies listed on the Amman Stock Exchange.*

1.4. Theoretical Framework

International Financial Reporting Standards (IFRS) are not just a technical requirement but the backbone of modern financial practices. They embody the principles that govern transparency, comparability, and consistency in financial reporting across the globe. In a world where markets are deeply intertwined and constantly evolving, IFRS serves as a guiding compass, helping businesses navigate complex financial landscapes. Beyond compliance, these standards have become essential tools for managing risks and fostering trust among stakeholders.

With the advent of financial innovations, particularly in derivatives markets companies now have powerful mechanisms at their disposal to adhere to IFRS while safeguarding against risks posed by fluctuating interest rates, volatile commodity prices, or unpredictable currency movements. As Bodie et al. [3] aptly describe, IFRS functions as a financial shield. It doesn't merely prevent losses; it can transform them into gains, turning precarious situations into opportunities for financial growth. Imagine a company facing fluctuating foreign exchange rates: rather than succumbing to the risks, IFRS allows it to take control through structured strategies, converting uncertainty into stability. To draw an analogy, IFRS-based transactions such as future contracts or hedging instruments act like an insurance policy for a company's financial well-being. They provide a buffer against the unpredictable, ensuring that profit and loss fluctuations are mitigated, and financial goals remain achievable [4]. Managers, understanding this critical role, use IFRS principles as a cornerstone of risk management strategies. Whether it's deploying financial derivatives or leveraging hedging tools, the aim is to counteract uncertainties in fair value or cash flows, ensuring smoother financial performance. The flexibility IFRS offers, such as adjusting asset valuations to stabilize cash flows, further reinforces its importance as a risk management framework [5].

Perhaps the most compelling feature of IFRS is its cost-effectiveness when applied in efficient exchange markets. As Brealey et al. [6] highlight, these standards are not just theoretical constructs; they deliver practical, measurable benefits, making them indispensable for companies seeking to thrive in competitive environments.

1.5. Exploring the Categories of IFRS Applications

To fully appreciate the practical dimensions of IFRS, it is essential to delve into its three primary categories, each addressing unique financial challenges:

1. Fair Value Hedging:
   Imagine a company grappling with the fluctuating value of its financial assets or liabilities. Fair value hedging comes to the rescue by stabilizing these changes. The adjustments are seamlessly reflected in the financial statements, providing stakeholders with a clear picture of the company's financial health. This mechanism not only ensures accuracy but also fosters trust, as stakeholders can rely on the integrity of the reported financial data.
2. Cash Flow Hedging:
   Think of cash flow hedging as a safeguard for the future. For companies concerned about the unpredictability of future cash inflows and outflows, this tool offers a solution. By using hedging instruments, companies can lock in stability, ensuring that cash flow fluctuations do not derail financial planning. This approach directly impacts on net income, creating a ripple effect that strengthens overall financial resilience.
3. Hedging Net Investments in Foreign Subsidiaries:
   For multinational corporations operating across borders, exchange rate fluctuations can pose significant risks. Hedging net investments in foreign subsidiaries acts as a protective barrier, shielding the parent company's income from currency volatility. This category underscores the global relevance of IFRS, as it bridges the gap between financial stability and international operations.

1.6. Key Factors Shaping IFRS and Risk Management Strategies

The implementation of IFRS is not a one-size-fits-all endeavor. Companies must consider a range of factors, each influencing the way these standards are applied:

A. Impact on Multinational Corporations:

Multinational corporations often walk a tightrope, balancing resources for production and sales while contending with the challenges of exchange rate fluctuations. IFRS provides them with the tools to maintain equilibrium, ensuring that their global operations remain profitable and sustainable.

B. Cost Implications:
   Implementing IFRS comes with costs, influenced by factors such as transaction fees and the alignment of interest and exchange rates [7]. Companies must weigh these costs against the benefits, often finding that the long-term advantages far outweigh the initial investments.

C. Decisions on Financial Derivatives:
   Navigating the world of financial derivatives is no small feat. Whether it's managing futures contracts or addressing risks tied to foreign exchange rates, companies must carefully strategize to ensure that their risk management efforts align with their overall financial goals [8].

1.7. Management Objectives Anchored in IFRS Principles

At the heart of IFRS is the ambition to empower management to make informed, strategic decisions. These decisions are often guided by three overarching objectives:

- Maximizing Owners' Wealth:
  Maximizing the wealth of owners involves a long-term commitment to value creation, not merely focusing on immediate financial returns. Management's primary responsibility is to enhance the current value of the company through effective decision-making, underpinned by reliable and timely information. This transparency ensures that financial markets remain well-informed and that investors have access to the insights needed to make confident decisions [9]. By fostering a sense of trust and reliability among stakeholders, management cultivates an environment that encourages long-term growth. When investors and other key stakeholders feel secure, it paves the way for sustained progress and the compounding of value over time, ensuring that the company's value continues to grow beyond the present moment.
- Maximizing Financial Value:
  Maximizing financial value is a delicate balance that intertwines efficiency and profitability. Managers are tasked with optimizing resource productivity, ensuring that every investment decision is made with a clear understanding of the inherent risks involved and the time value of money [10]. This careful management of financial resources is crucial for ensuring that the company's operations are not only profitable but also sustainable in the long run. By making informed decisions that account for both current and future financial needs, management can help the organization navigate fluctuations in the market, generating consistent returns for stakeholders. Ultimately, effective financial value maximization supports the company's continued growth and resilience, creating a stable financial foundation for the future.
- Maximizing the Market Value of Shares:
  The market value of a company's shares is a key indicator of its financial health and investor confidence. To protect and maximize this value, companies must go beyond simply mitigating the risks of depreciation. Management must focus on enhancing operational efficiency, adopting technological innovations, and refining processes that lead to cost savings and improved productivity. These efforts help not only to preserve the company's position in the market but also to boost its competitive edge, making it more resilient to external threats such as acquisition attempts or market instability [11]. By maintaining a proactive approach to operational improvements and market positioning, companies can safeguard their market value, creating a stronger foundation for long-term success and stability.
- Maximizing the Company's Market Value:
  The goal for any company is to achieve the highest possible market value, a process that requires a nuanced balance between risk and return. Achieving this goal involves integrating the principles of wealth maximization with a commitment to social responsibility. Companies must ensure that their growth strategies not only lead to financial success but also promote sustainability and contribute positively to society [12]. In this way, the company's efforts are aligned with broader societal goals, ensuring that the business thrives while benefiting the community at large. By embracing this dual focus on financial growth and societal impact, companies create a robust platform for long-term success, cultivating an image of responsibility that attracts investors and strengthens their market value over time.

IFRS is much more than a set of accounting rules; it's a philosophy of transparency, resilience, and forward-thinking. By embracing these standards, companies can navigate the uncertainties of modern finance with confidence, turning challenges into opportunities and ensuring that their financial practices remain aligned with the expectations of a dynamic global economy. As businesses continue to evolve, the relevance of IFRS will only grow, underscoring its role as a cornerstone of sustainable financial success.

1.8. Valuation and IFRS

Companies seek to maximize their owners' wealth, viewing it as a fundamental measure of success and sustainability. To achieve this objective, businesses must enhance the value of their shares in financial markets. As such, companies aim to make informed and prudent decisions that maintain or even increase their share prices. A crucial aspect of this process is the adoption of International Financial Reporting Standards (IFRS), particularly IFRS 9, which helps to mitigate potential losses from various transactions such as futures contracts and asset purchases or sales. The policies under IFRS 9 are designed to recognize profits and losses stemming from these transactions, ultimately aiming to maintain or enhance market value [13]. Insurance companies, for instance, often utilize fair value hedges to counteract fluctuations in the fair value of assets or obligations, which, in turn, influences net income and comprehensive income. Other firms may adopt cash flow hedging policies to mitigate risks related to future cash flows, especially from customer contracts and their resulting obligations [14]. These strategies help safeguard against anticipated fluctuations in future cash flows, ensuring the company's stability and confidence among investors [15].

Moreover, companies often implement international financial reporting standards for net foreign investments to protect themselves from exchange rate fluctuations, thus reducing risks associated with foreign currency impacts on their net income. Hedging against these risks has proven effective in stabilizing the financial outlook and maintaining a steady growth trajectory [16].

Reviewing prior research in the realm of IFRS, several studies have played a pivotal role in shaping the methodology of this study, offering invaluable insights into the application of IFRS in real-world business settings. For instance, a study conducted by Abdul Sattar [17] focused on the utilization of futures contracts within the context of IFRS. The research highlighted the effectiveness of futures contracts as hedging tools, particularly in managing risks related to fluctuations in interest rates in financial markets. Consequently, many companies adopted IFRS as part of their risk management strategy to mitigate these fluctuations. The study suggested the integration of statistical and mathematical forecasting methods to enhance risk mitigation efforts [18].

Another key contribution came from Azi [19], who investigated the role of IFRS in reducing discrepancies in income statements. The study emphasized the significance of a comprehensive accounting approach that clearly illustrates the impact of risk coverage transactions on financial statements. Azi also underscored the need for updating documents related to accounting standards and IFRS to ensure alignment with contemporary risk disclosure practices [20]. In the insurance sector, Tabaibia [21] conducted a financial performance analysis of insurance companies using a variety of financial ratios such as solvency, liquidity, and yield ratios. The study concluded that profitability is a major determinant in the decision-making processes regarding future activities. Tabaibia [21] recommended the development of a robust supervisory system and legislation to foster competition within the insurance industry. This aligns with the broader theme that financial transparency, fostered by IFRS, can improve market performance, Joubert and Auret [22]. Zaher and Dribati [23]further explored the challenges faced by public and private insurance companies in the Syrian market, identifying factors that impacted their performance, such as qualification and training, economic influences, and the effectiveness of the judicial and financial systems. The study found that the quality of training and the strength of the financial system were positively correlated with better performance levels. In contrast, economic factors had a negative impact on performance, emphasizing the need for a stable economic environment to complement the adoption of IFRS [24]. On a broader scale, Kohling and Posch [25] explored the relationship between IFRS and the market value of German industrial companies, revealing that the adoption of IFRS has a positive impact on company value, particularly through the proper valuation of fair value and net foreign investments. This aligns with findings from Garba and Abubakar [24], who discovered that diversity in board members significantly improved the financial performance of Nigerian insurance companies, highlighting the role of governance in enhancing market valuation.

These studies underscore the centrality of IFRS in improving financial transparency, reducing information asymmetry, and enhancing corporate governance, all of which ultimately contribute to maximizing the market value of shares and ensuring the sustainability of companies. By integrating IFRS standards, companies not only improve their financial performance but also secure greater investor confidence, leading to long-term wealth maximization for owners and stakeholders alike.

2. Study Methodology

This study employs a descriptive analytical approach to explore the intricacies of International Financial Reporting Standards (IFRS), focusing on their significance, various types, motivations for adoption by companies, and the subsequent impact on company value. To gain a comprehensive understanding, the study adopts a quantitative analysis methodology, utilizing financial data from the Amman Financial Market website and official bulletins issued by the Securities Commission. The data were then subjected to appropriate statistical methods to ensure that the findings align with the study's objectives and provide meaningful insights.

2.1. Study Population and Sample

The study examines 21 insurance companies listed on the Amman Financial Market, with a specific focus on data from the period between 2017 and 2021. The entire population of insurance companies within the market was included in the analysis, offering a complete view of the sector's adoption of IFRS during the designated time frame.

2.2. Statistical Analysis Methods

To ensure robust analysis, several statistical techniques were applied to measure the study's key variables. The following outlines the measurement approach:

- Independent Variable (IFRS Adoption): The adoption of IFRS by the insurance companies was assessed by reviewing their financial statements to determine compliance with three key IFRS policies: cash flow, fair value, and net foreign investments. If a company adhered to any of these standards, it was assigned a value of 1; if not, the value was recorded as 0. This measurement method is crucial for testing the central hypothesis of the study.
- Sub-Hypotheses Testing: To test the sub-hypotheses, each component of IFRS was measured individually. Companies adhering to a specific component were assigned a value of 1, while companies not adopting that component received a value of 0. This approach allows for a granular understanding of how each aspect of IFRS adoption influences company value.
- Dependent Variable (Company Value): The dependent variable, company value (MV), is calculated by multiplying the number of shares outstanding by the market price per share at the end of each period under review. This provides an objective measure of the company's market value, reflecting investor sentiment and company performance.

2.3. Control Variables

To account for external factors that may influence the study’s outcomes, several control variables were incorporated into the analysis. These variables include:

- SIZE: Represented by the natural logarithm of the book value of total assets. This variable helps control the effects of company size on financial performance.

- CASH: Calculated as (Cash + Short-term Investments) / Total Assets at Book Value. This variable assesses liquidity, which may influence how financial reporting is perceived by investors.
- ROA (Return on Assets): This ratio measures how effectively a company uses its assets to generate profit.
- DVD (Dividends): Refers to the total dividends paid out for both ordinary and preferred shares, providing insights into a company's profitability and shareholder returns.
- LEV (Financial Leverage): Defined as the ratio of total debt to total assets, this variable gauges the company's reliance on debt financing.
- DEBT: The natural logarithm of total short- and long-term liabilities, used to understand a company's overall debt position.

2.4. Hypothesis Testing

2.4.1. Main Hypothesis Test

The central hypothesis of the study is as follows:

H0: There is no statistically significant effect at the α level of 0.05 or greater ($0.05 \geq \alpha$) of IFRS adoption, specifically its components of cash flows, fair value, and net foreign investments on the value of insurance companies listed on the Amman Stock Exchange.

To test this hypothesis, a regression equation, adapted from Kohling and Posch [25], was employed. The equation helps in assessing the relationship between IFRS adoption and company valuation, with a particular focus on how each IFRS component influences market perceptions and company performance.

$$HA\ t\text{-}I = \beta0 + \beta1\ MV\ t\text{-}I + \beta2\ SIZE\ j\text{-}t + \beta3\ CASH\ j\text{-}t + \beta4\ ROA\ t\text{-}I + \beta5\ DVD\ t\text{-}I + \beta6\ LEVi\text{-}t + \beta6\ DEBT\ i\text{-}t$$

The results indicate that, on average, insurance companies listed on the Amman Stock Exchange applied international financial reporting standards (IFRS) policies with a score of 0.77 and a standard deviation of 0.50. This percentage increased by 20% from 2017 to 2021, and a further 40% increase was observed in 2022. The increased application of IFRS in 2022 can be attributed to the adoption of Financial Reporting Standard No. 9. Cash flow hedging was the most widely applied policy by insurance companies in the sample (50%), followed by fair value hedging (40%). The hedge of net foreign investments received less attention. The average market value of the companies in the sample was 5.04 with a standard deviation of 0.66. Market value showed a positive increase of 0.05 during the study years and saw a 10% increase in 2018 compared to previous years.

Table 1.
Descriptive Statistics.

	Mean	Std. Deviation	N
Hege Accounting	0.7724	0.50709	21
Market Value	5.0434	0.66965	21
Log of Assets	6.4731	1.59732	21
Cash &Short-term investments	0.2665	0.05025	21
Return on Assets	4.5303	1.02473	21
Dividends	0.5953	0.23636	21
Leverage	0.402	1.28597	21
Debt	0.3713	0.28265	21

The results of the multiple linear regression analysis presented in Table 2 reveal a Beta value of 0.909. This value signifies a positive relationship between the adoption of International Financial Reporting Standards (IFRS) and the value of insurance companies listed on the Amman Financial Market. In other words, as companies increasingly utilize IFRS policies as risk management tools in their investments and activities, this positively correlates with their market value. This conclusion is substantiated by a p-value significance of 0.000, which is less than the significance level of 0.05, indicating a statistically significant effect. Consequently, we reject the null hypothesis (H0), which posits no impact of IFRS, including its various dimensions (cash flows, fair value, net foreign investments), on the value of insurance companies listed on the Amman Stock Exchange. Instead, we accept the alternative hypothesis (H1), which asserts the existence of a substantial effect.

Table 2.
Regression Coefficients (Model 1).

Predictor	B	Std. Error	Beta	t	p
(Constant)	–2.181	0.446		–4.891	0
Market Value	0.689	0.089	0.909	7.703	0
Log of Assets	0.008	0.034	0.026	0.245	0.81
Cash & Short-term Investments	–0.925	1.102	–0.092	–0.839	0.42
Return on Assets	–0.029	0.053	–0.059	–0.549	0.59
Dividends	–0.408	0.205	–0.190	–1.992	0.07
Leverage	–0.034	0.041	–0.087	–0.835	0.42
Debt	–0.370	0.185	–0.207	–2.003	0.07

2.5. Examining the First Sub-Hypothesis

H01: There is no statistically significant effect at the level of α (0.05) on cash flow risk in relation to the value of insurance companies listed on the Amman Stock Exchange.

For this analysis, the equation utilized was derived from Kohling and Posch [25] as follows:

CFH t-I = βo + β1MV t-I + β2 SIZE jt + β3 CASH jt + β4 ROA t-I + β5 DVD t-I + β6 LEVit + β6 DEBTi-t

Table 3.
Regression Coefficients (Model 2).

Predictor	B	Std. Error	Beta	t	p
(Constant)	–1.582	0.517		–3.062	0
Market Value	0.693	0.104	0.932	6.686	0
Log of Assets	0.015	0.04	0.05	0.391	0.7
Cash & Short-term Investments	–2.025	1.277	–0.204	–1.586	0.14
Return on Assets	–0.087	0.062	–0.179	–1.404	0.18
Dividends	–0.582	0.238	–0.277	–2.451	0.03
Leverage	–0.037	0.048	–0.096	–0.773	0.45
Debt	–0.261	0.214	–0.148	–1.216	0.25

The multiple linear regression analysis results provided in Table 3 demonstrate a Beta value of 0.932. This value indicates a positive association between hedging cash flows and the market value of insurance companies. This finding suggests that the adoption of (IFRS) regarding cash flow risk and their associated risks in contracts held by insurance companies with their customers, which are recognized as assets or liabilities, positively impacts the net income of these companies. It also leads to the recognition of profits and losses arising from changes in the value of IFRS mechanisms, such as financial derivatives, which further bolster equity and eventually raise the market value of these insurance companies. Additionally, the p-value Sig, reaching 0.000, which is lower than the significance level of 0.05, signifies a statistically significant effect of cash flow hedging on the value of insurance companies. Consequently, we reject the null hypothesis (H0), which posits no impact of cash flow risk on the value of insurance companies listed on the Amman Stock Exchange, and accept the alternative hypothesis (H1), which asserts the existence of such an effect.

2.6. Testing The First Sub-Hypothesis

H01: There is no statistically significant effect at the α level (0.05) regarding cash flow risk concerning the value of insurance companies listed on the Amman Stock Exchange.

In this analysis, we employed an equation adapted from Kohling and Posch [25] presented as:

CFH t-I = βo + β1MV t-I + β2 SIZE jt + β3 CASH jt + β4 ROA t-I + β5 DVD t-I + β6 LEVit + β6 DEBTi-t

The results of the multiple linear regression analysis, as detailed in Table 4, reveal a Beta value of 0.191. This value indicates a positive correlation between hedging cash flows and the market value of insurance companies. It suggests that implementing International Financial Reporting Standards (IFRS) to address cash flow risk and related risks in contracts held by insurance companies with their customers (recognized as assets or liabilities) has a positive impact on the net income of these companies. Furthermore, it results in the recognition of profits and losses stemming from changes in the value of IFRS instruments, including financial derivatives, which strengthen equity and, in turn, elevate the market value of these insurance companies. The p-value Sig, recorded at 0.000, is lower than the significance level of 0.05, indicating a statistically significant effect of cash flow hedging on the value of insurance companies. Thus, we reject the null hypothesis (H0), which suggests no influence of cash flow risk on the value of insurance companies listed on the Amman Stock Exchange, and accept the alternative hypothesis (H1), affirming the existence of such an effect.

Table 4.
Regression Coefficients (Model 3).

Predictor	B	Std. Error	Beta	t	p
(Constant)	–1.402	0.955		–1.469	0.17
Market Value	0.41	0.191	0.552	2.142	0
Log of Assets	0.055	0.073	0.176	0.75	0.47
Cash & Short-term Investments	0.507	2.358	0.051	0.215	0.83
Return on Assets	–0.151	0.114	–0.311	–1.323	0.21
Dividends	0.125	0.439	0.059	0.285	0.78
Leverage	–0.069	0.088	–0.178	–0.779	0.45
Debt	–0.366	0.396	–0.208	–0.924	0.37

2.7. Testing The Third Sub-Hypothesis

H03: There is no statistically significant effect at a significant level ($\alpha \leq 0.05$) of net foreign investment risk in relation to the value of insurance companies listed on the Amman Stock Exchange.

For this analysis, the equation used is derived from Kohling and Posch [25] as follows:

FNIHt-i = βo + β1MV t-I + β2 SIZE jt + β3 CASH jt + β4 ROA t-I + β5 DVD t-I + β6 LEVit + β6 DEBT it

Table 5.
Regression Coefficients (Model 4).

Predictor	B	Std. Error	Beta	t	p
(Constant)	–0.271	1.133		–0.239	0.81
Market Value	0.178	0.227	0.234	0.782	0.01
Log of Assets	0.136	0.087	0.429	1.571	0.14
Cash & Short-term Investments	–1.074	2.798	–0.106	–0.384	0.71
Return on Assets	–0.166	0.135	–0.336	–1.229	0.24
Dividends	0.224	0.521	0.105	0.431	0.67
Leverage	–0.124	0.105	–0.315	–1.182	0.26
Debt	–0.325	0.47	–0.181	–0.692	0.5

3. Results and Discussion

The results of the multiple linear regression analysis, as presented in Table 5, highlight a Beta value of 0.234, indicating a positive relationship between the implementation of the net foreign investment policy and the market value of insurance companies. This suggests that when insurance companies integrate foreign operations as part of their net investments and effectively manage the associated risks, it leads to enhanced returns from IFRS instruments reflected in the comprehensive income statement. These gains, in turn, elevate the market value of the companies' shares. Furthermore, the p-value of 0.005, which is below the significance threshold of 0.05, demonstrates a statistically significant effect of hedging net foreign investments on the value of insurance companies. Based on this result, we reject the null hypothesis (H0), which suggests that net foreign investment risk has no impact on the value of companies listed on the Amman Stock Exchange. Instead, we accept the alternative hypothesis (H1), confirming that net foreign investment risk indeed influences company value.

4. Study Limitations

While the study provides valuable insights, several limitations must be acknowledged. The research is based on quantitative data sourced from the Amman Financial Market, which introduces potential challenges related to the accuracy, completeness, and reliability of the data. Any discrepancies in the quality of the data could impact the validity and robustness of the results, limiting the generalizability of the findings. Future studies might consider broadening the data sources or employing qualitative methods to cross-verify the quantitative findings.

5. Recommendations

Based on the findings of this study, the following recommendations are proposed to enhance the effectiveness of IFRS adoption and risk management practices in Jordanian insurance companies:

1. Encourage Comprehensive IFRS Adoption. Regulatory authorities, including the Jordan Securities Commission, should promote the widespread adoption of IFRS by offering incentives such as tax benefits or reduced compliance costs for companies that implement IFRS-based financial reporting. This would ensure greater consistency in financial disclosures and improve market confidence.
2. Enhance IFRS Training and Awareness. Many companies struggle with IFRS implementation due to a lack of expertise. To address this, businesses should invest in continuous training programs for finance professionals, accountants, and executives. Universities and professional organizations can also play a role by integrating IFRS courses into accounting and finance curricula.
3. Strengthening Regulatory Oversight and Alignment. Policymakers should work towards aligning local financial regulations with IFRS to minimize inconsistencies. Clearer guidelines on IFRS compliance and regular monitoring can help ensure smoother adoption and enforcement of financial reporting standards.
4. Improve Financial Technology and Data Management. Implementing IFRS requires robust financial reporting systems. Companies should adopt modern accounting software and digital tools to streamline IFRS reporting processes. Investing in technology will not only enhance accuracy but also reduce compliance burdens.
5. Encourage IFRS Adoption Among SMEs. While large corporations often have the resources to implement IFRS, small and medium-sized enterprises (SMEs) may struggle with adoption due to cost constraints. Government agencies should consider offering financial support or simplified IFRS frameworks tailored to SMEs to ensure broader participation in standardized financial reporting.
6. Promote Research and Collaboration. There is a need for ongoing research into the impact of IFRS adoption on financial stability, particularly in emerging markets like Jordan. Collaboration between academic institutions, financial organizations, and regulatory bodies can help identify best practices and refine IFRS policies over time.
7. Develop Risk Management Strategies Linked to IFRS. Companies should integrate IFRS principles into their broader risk management strategies. By proactively using IFRS-compliant financial instruments, such as hedging techniques, firms can better manage economic volatility and enhance their financial resilience.

6. Conclusion

IFRS is much more than an accounting standard; it is a strategic financial management tool that enhances risk management, financial transparency, and investor confidence. By incorporating IFRS into their financial practices, companies can navigate the uncertainties of modern finance with greater stability, ensuring long-term growth and sustainability. As businesses continue to expand in a globalized economy, the relevance of IFRS will only increase, making it a fundamental pillar of financial decision-making in the years ahead.

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