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**DETERMINANTS OF VOLUNTARY DISCLOSURE BY NEW ZEALAND
LIFE INSURANCE COMPANIES**

A thesis presented in partial
fulfilment of the requirements
for the degree of
Doctor of Philosophy
in
Accountancy
at Massey University

Michael Bryan Adams

1996

**This study is dedicated to my wife, Lesley,
for her unwavering love and support.**

*“ The challenge . . . is to gain insight into the motives
and means by which management exercises discretion
over financial reporting. ”*

(Lev, 1989, p. 189).

A C K N O W L E D G E M E N T S

This study could not have been completed without the guidance, help and support of many people. I owe a great debt of gratitude to my supervisors at Massey University New Zealand, Associate Professor Asheq Rahman and Professor Hector Perera, for their wisdom and considerable assistance at all stages of this project. Special thanks are extended to my external supervisor, Dr Greg Tower (Murdoch University, Perth, Western Australia), who first encouraged me to pursue doctoral study and who has provided boundless enthusiasm and unwavering support ever since. I am also grateful for the financial assistance provided by the Massey University Research Fund, and in particular, the Price Waterhouse Doctoral Research Scholarship. I also acknowledge the help given to me by my former colleagues at Massey University, particularly Mahmud Hossain, Steven Cahan and Mike Pickford, and by my contemporary peers at the University of Glasgow, United Kingdom. The typing assistance of Judith Brooker and Sheryl Osbourne is also very much appreciated.

Many outsiders also furnished me with great assistance during the completion of this project. In particular, I am grateful to Keith Brown (Prudential), Arthur Davis (Life Office Association of New Zealand), Pat Gallagher (New Zealand Department of Justice), Phil Gendall (Department of Marketing, Massey University), Dick Jessup (Melville Jessup Weaver), Boyd Klap (Price Waterhouse), April McKenzie (New Zealand Society of Accountants), John Melville (Melville Jessup Weaver), Jeff Wilson (Price Waterhouse), and Quentin Wilson (AMP). I also appreciate the assistance of senior managers and staff from New Zealand's life insurance industry who so willingly provided me with the information needed to complete this study.

I also acknowledge the support of my family during the course of this project. I am indebted to my parents Elvira and Brian, and my parents-in-law Bob and Rita Dunstone for their unwavering encouragement and support. My two young children, Daniel and Rebecca, also played their part by helping me to maintain my humour and sense of perspective during this project. Finally, this study could not have been carried out without the love and support of my wife, Lesley. She is, and always will be, my main support in this life. It is therefore appropriate that this study should be dedicated to her.

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ABSTRACT

Surveys carried out in international insurance markets, including New Zealand, indicate that there is considerable diversity in the levels of voluntary disclosure made by companies in their annual reports. Critics argue that such disparity diminishes the stewardship and decision-usefulness value of annual reports for users such as policyholders, shareholders and industry regulators. However, a major deficiency with the prior surveys is that they do not explain the different reporting practices observed in insurance markets. Drawing a framework from the *managerial-discretion hypothesis*, this thesis thus seeks to explain the level of information voluntarily disclosed in the annual reports of New Zealand-based life insurance companies.

The *managerial-discretion hypothesis* holds that the diffused nature of policyholders' ownership rights in mutuals makes it more difficult for them to monitor and control managerial behaviour compared with the relatively more closely-held shareholdings of stock companies. In such a situation, policyholders are likely to control managerial discretion across a range of business activities by means of restrictive mechanisms such as internal regulations. The relationship between the level of voluntary disclosure and eight explanatory variables - organisational form, assets-in-place, product concentration, reinsurance, localisation of operations, non-executive directors, firm size and distribution system - each representing the major constructs of the *managerial-discretion hypothesis*, is tested empirically in this study using data-triangulation. This methodology comprises a statistical analysis of pooled 1988-1993 data drawn from New Zealand's life insurance industry as well as an evaluation of field interviews and documentation obtained from 12 companies representing a cross-section of the industry. Data-triangulation helps to test the validity of the constructs used and evaluate the reliability of the evidence collected.

Consistent with what was hypothesised, the empirical results indicate that the level of information voluntarily disclosed by life insurance companies in their annual reports is positively associated with stock companies, firm size, product diversity and reliance on independent sales agents/brokers. Contrary to expectations, the evidence suggest that non-executive directors complement rather than substitute for voluntary disclosure. Also contrary to what was hypothesised, the statistical analysis indicate that reinsurance had a positive influence on voluntary disclosure, but this observation was not supported by the fieldwork. Furthermore, two variables - assets-in-place and localisation of operations - were found not to be important determinants of voluntary disclosure in both the statistical analysis and field-based research. The study thus provides mixed support for the *managerial-discretion hypothesis*. The field-based research also reveals that other factors such as company culture and market competition could be important determinants of voluntary disclosure. Finally, a major contribution of this study is that the empirical results could assist industry regulators to better understand the disclosure practices of life insurance companies and so enable them to gauge the likely success of new reporting rules.