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ANALYSIS OF IMPLEMENTATION OF PSAK 74 IN INSURANCE COMPANIES IN INDONESIA

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ABSTRACT

Statement of Financial Accounting Standards (PSAK) 74 was adopted from the International Financial Reporting Standard (IFRS) 17 which was published in 2020 and will become effective in 2025. IFRS 17 aims to provide an integrated basis for all types of insurance companies to improve financial reporting capabilities by means of which is easy for stakeholders to understand. PSAK 74 to replace PSAK 62, PSAK 36, and PSAK 28. This research aims to determine the preparation of insurance companies in Indonesia in implementing PSAK 74 as well as the obstacles that insurance companies in Indonesia will face in implementing PSAK 74. This research uses a literature review method. The results of this research show that insurance companies in Indonesia are ready to implement PSAK 74. The obstacles that occur do not prevent insurance companies in Indonesia from preparing to implement PSAK 74

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INTRODUCTION

Insurance companies in general are companies that provide risk liability services that provide compensation for loss, damage, costs incurred, lost profits, or legal liability to third parties that the policyholder may suffer due to the occurrence of an uncertain event. The insurance industry is essentially a company that collects funds from the public on a large scale which are then managed and used to provide coverage. So in this case, insurance companies play an important role in the economy because insurance policies help companies manage business risks through the risk transfer process (Alnajjar & Rashwan, 2019). Considering the urgent role of insurance companies in the world, establishing accounting standards in insurance company financial reports is very important and needed to support improvements in corporate governance (Alnodel, 2018). Before the issuance of IFRS 17 (International Finance Reporting Standard) regarding insurance contracts which was adopted into the Statement of Financial Accounting Standards (PSAK 74).

IFRS 4 or International Finance Reporting Standard 4 discusses insurance contracts which was then adopted in the Statement of Financial Accounting Standards (PSAK) 62 concerning insurance contracts which is currently being updated to IFRS 17 in this case being a better standard than the previous one. After implementing IFRS 17, the amount of profit/loss will become more stable and less volatile from year to year, this is as a result of amortized changes and deviations. There will be uniformity in changing the presentation of financial reports to be more transparent and more comparable by stakeholder parties in analyzing and making decisions. IFRS 17 aims to provide an integrated basis for all types of insurance companies to improve financial reporting capabilities in a way that is easily understood by stakeholders (Falah Al-Mohammadi Porf & DrBushra Abdullah Al-Mashhdani, 2021).

IFRS 17 ((International Finance Reporting Standard) regarding insurance contracts) globally has been established and will come into effect on January 1 2023, while the implementation of PSAK 74 in Indonesia is planned to be effective on January 1 2025. Thus, industrial companies have been asked to make preparations. as ready as possible to face this change by the Financial Services Authority (OJK). In fact, research that discusses the preparation of insurance companies in Indonesia with IFRS 17 is still very few and rarely found, but previous

research also states that there are obstacles to implementing PSAK 74, namely the existence of difficult points in collecting and adjusting company chronological data which will later be needed for calculating retrospection for actual accountants in implementing PSAK 74, insurance companies are required to carry out more actuarial calculations than when preparing reports using PSAK 62 (Qadri et al, 2022).

Essentially, the insurance industry collects large amounts of funds from the public and then manages them and uses them to provide coverage. Therefore, the insurance industry plays an important role in the economy because it helps companies manage their business risks through the risk transfer process (Alnajjar & Rashwan, 2019). Considering the important role of insurance companies, implementing accounting standards in financial reports is very important to improve corporate governance (Alnodel, 2018). Indonesian insurance companies currently still use Statement of Financial Accounting Standards (PSAK) 62 concerning Insurance Contracts, supplemented by PSAK 28 concerning Loss Insurance Accounting and PSAK 36 concerning Life Insurance Accounting. However, they are currently preparing to implement PSAK 74 to replace PSAK 62, PSAK 28, and PSAK 36.

PSAK 74 is an adoption of the International Financial Reporting Standards (IFRS 17: Insurance Contract), which was published in 2017 by the International Accounting Standards Board (IASB), and is planned to come into force internationally on January 1 2023. With the publication of PSAK 74, all entities those issuing or issuing insurance premium contracts, especially insurance companies, will be affected. However, materiality, application of fundamental qualitative characteristics, and application of enhancing qualitative characteristics are three qualitative characteristics that are not used to measure the quality of insurance company financial reports. This is because these three characteristics cannot be measured before the insurance company's financial statements are presented in accordance with PSAK 74.

PSAK 74 has included several provisions that were relaxed by the amendments to IFRS 17. These include the addition of exceptions to scope, implementation of risk mitigation options, presentation of adjusted financial statements, and changes to several transition provisions. Rajala (2020) said that insurance company financial reports that apply IFRS 17 can have "comparability" and openness. In addition, because PSAK 74 provides clear information about the separation between insurance business income and income from investment activities, it is hoped that all parties involved in the company's financial statements, including policyholders and investors, will have easy access to information about the company's financial statements. .

PSAK 74 concerning Insurance Contracts was issued on 26 November 2020 by the Financial Accounting Standards Board (DSAK) of the Indonesian Accountants Association (IAI) and came into effect on 1 January 2025. This is an adoption of IFRS 17, which will apply internationally on 1 January 2023. PSAK 74 replaces PSAK 28 concerning Contract Accounting and PSAK 36 concerning Life Insurance Contract Accounting, which has changed treatment in insurance contract accounting in PSAK 7.

Owais & Dahiyat (2021) conducted research entitled "Preparedness and Challenges for Implementing IFRS 17: The Case of Jordanian Insurance Companies." The results show that Jordanian insurance companies are not ready to implement IFRS 17. This shows that there are still challenges faced in implementing IFRS 17. "Readiness Analysis for Implementing IFRS 17 in Insurance Companies in Indonesia" is the title of research conducted by Muskita & Safitri in 2019. The research results explain that, if IFRS 17 is implemented, the appearance of the comprehensive income report will be very different from the model report currently used. However, the new report will be more in line with reporting forms for other similar industries, such as banks and securities companies. However, the implementation of PSAK 74 in Indonesia faces a number of challenges. One of them is that insurance companies face difficulties in collecting and adjusting historical company data needed for retrospective calculations for Contractual Service Margin (CSM).

All actions that must be taken by insurance companies in Indonesia to implement PSAK 74 are referred to as insurance company readiness. If employees make a voluntary effort to learn new things for the benefit of the company, the company will be better prepared to implement new standards. In the end, the more internal insurance companies who understand the scope of PSAK 74 will have a positive impact on the readiness of insurance companies in Indonesia. According to Pricewaterhouse Coopers (2020), companies can see how ready they are to

adopt IFRS by looking at implementation plans, employee training, effective impact evaluations, and financial impact evaluations of changes to accounting standards. Hobern et al. (2018) stated that companies must prepare IT infrastructure, actuarial models, transition methodologies, governance processes, and accounting systems when implementing IFRS 17. Thus, this research is important because there are differences in the results of research conducted by previous research in order to reveal whether insurance companies in Indonesia is ready or vice versa with obstacles which will later be studied further. So in this case the results of this research can be a reference for researchers in Indonesia.

LITERATURE REVIEW

In 2017, the IASB published IFRS 17—Insurance Contracts—after approximately twenty years of discussion of accounting standards regarding insurance contracts. IFRS 17 will be mandatory and effective on reporting dates starting on 1 January 2022 and will replace IFRS 4 Insurance Contracts because the long time gap between the date of issuance and the effective date indicates complexity in implementing IFRS 17. When compared with IFRS 4, IFRS 17 offers more. IFRS 4 (PSAK 62), which was published in the middle of the long journey in preparing IFRS 17, is an interim standard issued in the middle of the process. IFRS 4 does not provide clear information about the effect of insurance contracts on financial statements. IFRS 4 currently allows for a variety of different accounting policies, resulting in a lack of comparability between financial statements across countries and products, and companies. IFRS 17 is considered sufficient to improve accounting quality, and strong accounting standards are needed to cover the weaknesses of IFRS 4.

IFRS 17 has two main objectives: increasing the transparency of insurance companies' financial statements and improving the alignment of accounting practices across jurisdictions. These new accounting standards for insurance contracts affect a company's financial position on a specific date and its performance for years to come. the income stream shown in its financial statements by a company. According to the key principles found in IFRS 17, an entity:

1. Identified as an insurance contract in which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder in the event of a future event that uncertain (insured event) adversely affects the policyholder;
2. Separate certain embedded derivatives, different investment components, and different performance obligations from insurance contracts;
3. Divide contracts into several groups, each of which will be identified and measured;
4. Identify and calculate the following groups of insurance contracts:
 - a. The risk-adjusted present value of future cash flows (fulfillment cash flows), which combines all available information about fulfillment cash flows according to observable market information; plus (if this value is a liability) or minus (if this value is an asset);
 - b. A value indicating unearned profit in the contract group (contract service margin); and
 - c. Values indicating significant profits;
5. Recognize a gain from a group of insurance contracts during the period the entity provides insurance contract services, and because the entity is protected from risk, the entity immediately recognizes such a loss if the group of contracts is or becomes loss-making;
6. Present separately insurance income (excluding receipts of any investment components), insurance service fees (excluding payments of any investment components), and insurance income or expenses; and
7. Provide information that enables users of financial statements to assess the impact of contracts within the scope of IFRS 17 on the financial position, financial performance and cash flows of an entity. IFRS 17 includes an explanation of how such contracts impact the financial position.

IFRS 17 will replace the old insurance accounting standard, IFRS 4, along with all its amendments and amendments. Although IFRS 17 was legalized in 2017, its development history is more than a year old. In the provisions of IFRS 17, expected profits when a policy is closed and the impact of changes in assumptions and deviations from expectations and actuals (only for the investment portion) are not recognized immediately. On the other hand, the liability component called Unrecognized Contractual Service Margin (CSM), or unrecognized profit margin, is amortized through this liability component.

In calculating liabilities and recognizing profits for insurance companies, IFRS 17 sets firmer and clearer accounting standards. The author found that the appropriate criteria to ensure that insurance companies in Indonesia are ready to implement IFRS 17 are as follows: conducting a

pre-impact analysis, analyzing the differences between the company's development and the implementation of IFRS 17, finding any deficiencies that need to be prepared to implement IFRS 17, and then create strategies to cover these deficiencies. IFRS 17 Contract Insurance is a new accounting standard that entities are expected to apply for reporting periods beginning on or after 1 January 2023. However, it is permissible to apply it earlier. It replaces IFRS 4 for Insurance Contracts.

PSAK 74 concerning Insurance Contracts was issued on 26 November 2020 by the Financial Accounting Standards Board (DSAK) of the Indonesian Accountants Association (IAI) and came into effect on 1 January 2025. This is an adoption of IFRS 17, which will apply internationally on 1 January 2023. PSAK 74 replaces PSAK 28 concerning Contract Accounting and PSAK 36 concerning Accounting for Life Insurance Contracts, which has changed treatment in insurance contract accounting in PSAK 7. PSAK 74: Insurance Contracts is an adoption of IFRS 17: Insurance Contracts, and is planned to effectively come into force for international on January 1, 2023. PSAK 74 includes several provisions relaxed by the amendments to IFRS 17, including the addition of exceptions for scope, the implementation of risk mitigation options, and several transition provisions. Rajala (2020) said that insurance company financial reports that apply IFRS 17 can have "comparability" and openness. In addition, PSAK 74 provides clear information about the separation between insurance business income and income from investment activities. Therefore, it is expected that everyone involved in the company's financial reports, including policyholders and investors, will have easy access to information about the company's financial reports. When PSAK 74 is implemented, there will be greater emphasis on the recognition, provision and measurement of insurance contracts. PSAK 74 replaces PSAK 28 concerning Contract Accounting and PSAK 36 concerning Life Insurance Contract Accounting. The purpose of the changes to insurance contract accounting in PSAK 74 is to provide the latest information related to the obligations, risks and performance of insurance contracts which are measured based on the latest and unlimited information.

PSAK 74 discusses insurance contracts and offers three ways to measure contract value: Approach Building Block (BBA), also known as General Measurement Model (GMM), Approach Premium Allocation (PAA), and Approach Variable Fee (VFA). The Financial Services Authority (OJK) has asked insurance industry players to prepare themselves as quickly as possible. Very little research has been conducted regarding the preparation of insurance companies to implement PSAK 74, especially in Indonesia. PSAK 74 concerning Insurance Contracts, which was previously regulated in PSAK 62 concerning Insurance Contracts, regulates insurance contracts for life insurance companies in Indonesia. One of the reasons why insurance contract guidelines have changed is because Indonesia adopted IFRS 17: Insurance Contracts, which was published by the IASB as PSAK 74 to replace the previous standard, namely PSAK 62 which was adopted from IFRS 4: Insurance Contract. The focus of this research is to determine the potential impact of implementing PSAK 74 on the quality of financial reports. Apart from that, this research will also provide information about the perceptions of insurance companies and investors regarding the implementation of PSAK 74. Before PSAK 74 comes into effect in 2025, insurance companies in Indonesia must resolve this problem. Insurance companies will have no problem with the new standards if their employees volunteer to help their coworkers outside of their jobs. This is because existing problems can be solved by teams rather than individuals.

Changes in the measurement of insurance and reinsurance contracts, risk management, and technical issues affecting actuarial teams are some of the obstacles to implementing IFRS 17 (Heijnen, 2018). Furthermore, based on research conducted by Ehlscheid & Wolf (2016), it was found that obstacles in implementing IFRS 17 include the data needed to calculate insurance contracts, the system used to calculate insurance contracts, and systems that affect the actuarial team. Edeigba et al. (2018) stated that the legal system, company characteristics, and ownership structure are some of the issues that hinder the acceptance of IFRS. Shiferaw & Assefa (2020) stated that several difficulties in implementing IFRS include high costs for the adoption process, lack of knowledge, and lack of training. Owais & Dahiyat (2021) said that insurance companies in Jordan face difficulties in implementing IFRS 17. This is due to data, systems, first time implementation, and results shown in financial reports. Insurance companies in Indonesia may face problems with sharia insurance contract calculations because the companies do not have sufficient data to carry out CSM calculations.

According to research conducted by Muskita & Safitri (2019; Qadri et al. (2022), there are difficulties in collecting and adjusting historical company data required for retrospective calculations for service margin (CSM) contracts. An additional question is the shortage of actuarial personnel and accounting expertise. This occurs even though insurance companies are required to perform more actuarial calculations than preparing financial reports according to PSAK 62.

Owais & Dahiyat (2021) conducted research entitled "Readiness and Challenges for Implementing IFRS 17: The Case of a Jordanian Insurance Company." The results show that Jordanian insurance companies are not ready to implement IFRS 17. This shows that there are still challenges faced in implementing IFRS 17. Due to the absence of creating a portfolio of insurance contracts and separating profitable or risky insurance contracts at initial recognition, as well as the use of measurement approaches that in contrast to IFRS 17, insurance companies do not have the ability to explain the scope of IFRS 17.

A study conducted by Muskita & Safitri in 2019 entitled "Analysis of Readiness for Implementing IFRS 17 in Insurance Companies in Indonesia" found that, if IFRS 17 was implemented, the appearance of the overall income report would be very different from the model report currently used. However, the new report will be more in line with reporting forms for similar industries (such as banks or securities companies). Insurance companies in Indonesia have benefited greatly from the implementation of IFRS 17. However, the implementation of PSAK 74 in Indonesia faces a number of challenges. One of them is that insurance companies face difficulties in collecting and adjusting historical company data required for retrospective calculations for service margin (CSM) contracts. While insurance companies are required to perform more actuarial calculations under PSAK 74, a shortage of actuarial personnel is an additional problem. Apart from that, it is known that the implementation of PSAK 74 in insurance companies in Indonesia will definitely take longer than the time set by the International Accounting Standards Board (IASB).

Furthermore, Mitrašević and Lalić (2019) investigated the obstacles faced by the insurance sector of developed countries in Europe in implementing new insurance accounting standards. The research results show that the changes that impact the implementation of new standards are highly dependent on the type and characteristics of insurance contracts offered by insurance companies. The extent to which new standards are applied will also be influenced by differences between the applicable accounting policies and the new policies. Because the application is expected to affect long-term insurance contracts, any information used to calculate insurance costs must be updated periodically.

After PSAK 74 was implemented as an insurance contract, the financial performance of the three companies showed a worse condition regarding the ratio value that reflects the company's assets and liabilities compared to PSAK 62. It can be seen that the debt-to-asset ratio (DAR) and debt-to-equity ratio (DER) showed a decrease in percentages compared to older standards, while financial performance calculations measure the company's ability to meet requirements.

RESEARCH METHODS

This research uses a literature review or literature review method. Library research is a type of research that studies or reviews academically oriented literature critically and defines its theoretical and methodological contributions to a particular topic (Cooper, 2010). To support research activities, literature reviews include descriptions of theories, results, and other research materials obtained from reference materials. Literature analysis includes reviews, summaries, and author's opinions about the topics discussed from various library sources, such as articles, books, information from the internet, etc. A good literature review must be relevant, current, and adequate.

Some ways to conduct a literature review include a theoretical basis, theory review, and literature review. To compile this article or research, we used literature reviews from national and international journal websites such as Google Scholar, Science Direct, and Scopus. The article search method consists of searching via the internet and searching in research journal databases. From 2018 to 2022, Google Scholar, Science Direct, and Scopus were used for

database searches. "PSAK 74 dan IFRS 17 pada Perusahaan Asuransi di Indonesia" is another keyword used in data collection for article searches.

DISCUSSION

PSAK 74 was issued in 2020 by the Financial Accounting Standards Board (DSAK) of the Indonesian Accountants Association (IAI) and came into effect on January 1 2025 which was adopted from IFRS 17. PSAK 74 was issued to replace PSAK 62 concerning Insurance Contracts, PSAK 28 concerning Accounting for Insurance Losses and PSAK 36 concerning Life Insurance Accounting. With the issuance of PSAK 74, all entities that issue or publish insurance premium contracts, especially insurance companies, will be affected. However, materiality, application of fundamental qualitative characteristics, and application of enhancing qualitative characteristics are three qualitative characteristics that are not used to measure the quality of insurance company financial reports. This is because these three characteristics cannot be measured before the insurance company's financial statements are presented by PSAK 74.

According to research conducted by Hartojo and Purnamasari (2022) with the title: Readiness and Challenges of Insurance Companies in Indonesia in Implementing PSAK 74 which resulted in insurance companies in Indonesia being ready to implement PSAK 74, apart from the effective implementation of PSAK 74 causes problems. Apart from that, additional benefits can encourage academics to become additional references for PSAK 74 research in Indonesia. This insurance company readiness means that employees who work in insurance companies have understood the scope of PSAK 74, and employees are able to calculate contract recognition in accordance with PSAK 74. Apart from that, insurance companies have also prepared technical infrastructure and designed internal controls that can support the implementation of PSAK 74. Research results This is supported by research conducted by Anjani and Wondabio (2022) which shows that changes that impact the implementation of new standards are very dependent on the type and characteristics of insurance contracts offered by insurance companies. The extent to which new standards are applied will also be influenced by differences between the applicable accounting policies and the new policies. Because the application is expected to affect long-term insurance contracts, any information used to calculate insurance costs must be updated periodically.

The application of PSAK 74 to the quality of insurance companies' financial reports in Indonesia will be very large or significant. The main focus of implementing PSAK 74 will be on the recognition, presentation and measurement of insurance contracts. All insurance companies in Indonesia have been preparing for the implementation of PSAK 74 since 2023, so when it is implemented in 2025, there will be no significant impact for insurance companies in Indonesia. The research results show that insurance companies in Indonesia are ready to implement PSAK 74. Companies do not experience difficulties in implementing it. If PSAK 74 begins to be implemented in 2025, there will be no significant impact on insurance companies in Indonesia because all companies have been preparing to implement it since 2023.

During preparations for the implementation of PSAK 74, the insurance industry in Indonesia has experienced many difficulties regarding accountant competency. In addition, to fulfill all PSAK 74 requirements, a major overhaul of the company's accounting information system is required. This research increases the knowledge of the Indonesian insurance industry about significant changes in corporate financial reporting systems caused by the implementation of PSAK 74.

CONCLUSION

Based on the explanation above, it can be concluded that insurance companies in Indonesia are ready to implement PSAK 74 to replace PSAK 62, PSAK 28, and PSAK 36. This can be obtained based on a literature review carried out by the author. The obstacles that arise regarding the implementation of PSAK 74 in Indonesia can be overcome by insurance companies in Indonesia so that this does not become a problem for insurance companies in Indonesia in implementing PSAK 74.

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