



# Implementation of IFRS 17 in the PSAK 108 Revision on Sharia Insurance Transactions in Indonesia

Abdul Ghoni<sup>1</sup>, Erny Arianty<sup>2</sup>

<sup>1</sup>Sharia Banking Study Program,  
Muhammadiyah University of  
Jakarta

<sup>2</sup>Politeknik Keuangan Negara STAN

\*[abdul.ghoni@umj.ac.id](mailto:abdul.ghoni@umj.ac.id)

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**ABSTRACT**

The Sharia insurance industry in Indonesia has shown significant growth, although in the past decade, there has been a decline in contribution growth, particularly in the general Sharia insurance sector. This study aims to analyze the impact of IFRS 17 implementation on the revision of PSAK 108. The research method employed is descriptive analysis using both qualitative and quantitative approaches. Qualitatively, the study applies a descriptive analysis approach through interviews, while quantitatively, it uses the Analytical Hierarchy Process (AHP) method. The findings reveal that 66% of respondents believe that the implementation of IFRS 17 will have a significant impact on the recording, measurement, and presentation of financial statements, with the level of impact varying based on the type of insurance business. Regarding the impact on the RBC (Risk-Based Capital) of insurance companies, 20% indicated a low impact, while 40% reported medium to high impacts. These findings suggest the need for operational system adjustments, capital strengthening, and enhancement of human resource capacity to address the challenges posed by IFRS 17 implementation in Indonesia.

## INTRODUCTION

The Sharia insurance industry in Indonesia has demonstrated positive progress over the past few decades, although in the last decade there has been a decline in contribution growth, especially in the general Sharia insurance sector, which at one point even experienced negative contributions. The average contribution growth rate of the Sharia insurance industry over the past 10 years is 15.20%, although during the period from 2002 to 2011, the average growth was significantly higher at 51.89%.

Currently, there are 58 Sharia insurance entities, with 43 operating as Sharia business units (UUS) and 15 functioning as fully-fledged Sharia insurance companies. Of these, there are 29 Sharia life insurance businesses, 25 general Sharia insurance businesses, and 4 Sharia reinsurance businesses. Out of the 25 general Sharia insurance businesses, 19 are UUS that have the potential for spin-off, while 6 have already become fully operational Sharia insurance companies (OJK, 2023).

**Table 1. Number of Sharia Insurance Business Entity, April 2023**

Type	Full	SBU	Total
Life Insurance	8	21	29
General Insurance	6	19	25
Reinsurance	1	3	4
<b>Total</b>	<b>15</b>	<b>43</b>	<b>58</b>

Source: OJK

However, the Sharia insurance industry still faces several challenges, such as market share, capital, a shortage of skilled professionals, and the need to implement accounting standards that must comply with international standards, particularly IFRS 17. PSAK, or the Statement of Financial Accounting Standards, is a standard used by public companies, including insurance companies, banks, state-owned enterprises (SOEs), and other public companies, as a guideline for preparing financial statements. PSAK can be adjusted annually to reflect evolving conditions, such as through the issuance of new PSAKs or revisions to older ones. One of the key considerations in issuing new PSAKs

is alignment with IFRS, the international financial reporting standard.

The convergence of IFRS with PSAK aims to facilitate the comparison of financial statements across countries. However, the process of adopting IFRS by a country becomes more complex due to differences in legal structures, regulations, and economic conditions that may differ from Western countries (Deyuu Alemi & Pasricha, 2016). Nonetheless, IFRS adoption provides more comprehensive information for stakeholders, enhancing the effectiveness and transparency of corporate financial reporting (Lema et al., 2017).

The implementation of IFRS 17 is designed to ensure that insurance companies in various countries can calculate insurance contracts using a consistent method that is easily understood by investors (Falah Al-Mohammadi Prof. Dr. Bushra Abdullah Al-Mashhdani, 2021). Firmansyah (2019) argues that IFRS convergence in Indonesia has not yet had an optimal impact on improving corporate financial statements. However, according to Sinatra et al. (2022), IFRS convergence in Indonesia has been able to enhance the relevance of financial statements and provide a stronger basis for investors in decision-making.

One form of IFRS convergence into PSAK is the revision of PSAK 108, which relates to Sharia insurance transactions and adopts principles from IFRS 17 regarding insurance contracts. Although PSAK 108 is considered to be similar to IFRS 17, several aspects still require further adjustments

## LITERATURE REVIEW

Sharia insurance is a set of agreements consisting of a contract between the Sharia insurance company and policyholders, as well as agreements among the policyholders, aimed at managing contributions based on Sharia principles to provide mutual help and protection (Law No. 40, 2014). According to the National Sharia Board of the Indonesian Ulema Council (DSN MUI), Sharia insurance is governed by the general foundation outlined in its fatwa, specifically Fatwa DSN MUI No. 21/DSN-MUI/X/2001, which states: "Sharia insurance (ta'min, takaful, and tadhomun) is an effort for protection and mutual assistance among a group of people in the form of investment of

tabarru' funds that provide risk-sharing patterns through Sharia-compliant contracts" (Antoni, Syafrul, 2021).

IFRS 17 – Insurance Contracts was issued by the IASB in 2017 after nearly two decades of discussions regarding accounting standards for insurance contracts. IFRS 17 has two main objectives: to enhance the transparency of insurance companies' financial statements and to align accounting practices across different countries (Muskita, C. R., & Safitri, K. A., 2019).

For Sharia insurance, the Financial Accounting Standards Board of the Indonesian Institute of Accountants has established PSAK 108, which regulates Sharia insurance transactions. In Paragraph 1, it is stated that this standard is designed to govern the recognition, measurement, presentation, and disclosure

related to Sharia insurance transactions (Siregar, L. M., 2019).

RESEARCH METHODOLOGY

This study employs a descriptive analysis research method with both qualitative and quantitative approaches (Emzir, 2012). Qualitatively, the research uses a descriptive analysis approach through interviews, while quantitatively, it applies the Analytical Hierarchy Process (AHP) method.

AHP (Analytic Hierarchy Process) is a model used to simplify complex problems. It is a mathematics-based procedure that is highly effective and suitable for evaluating qualitative attributes. This method features a hierarchical structure, starting from selected criteria and moving to more specific sub-criteria.

Hierarchy of Priorities - AHP

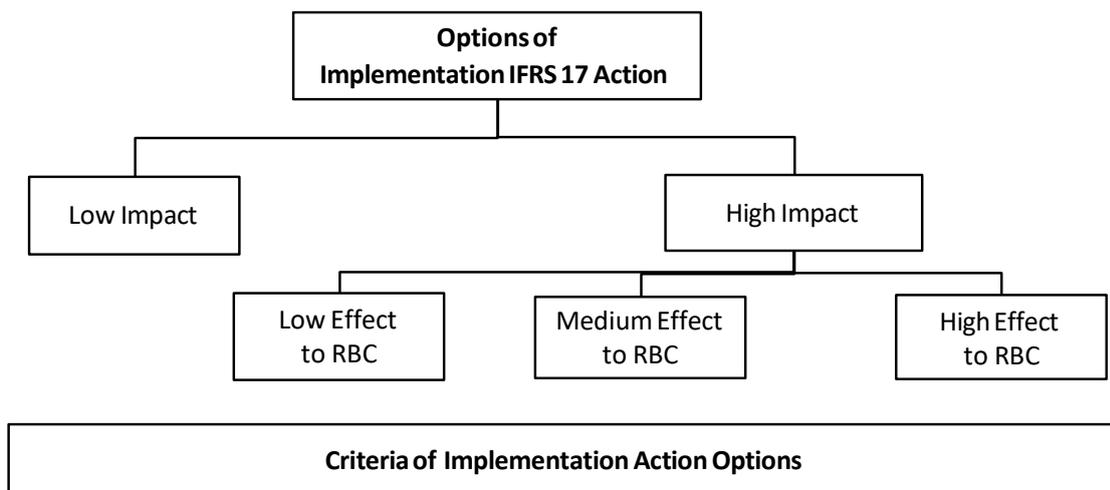


Figure 1. Criteria Selection Diagram for IFRS 17 Implementation Actions

Source: M. Firdaus. Application of Quantitative Methods for Management and Business.

The criteria are then compared using the AHP scale table, as shown in Table 2.

Table 2. AHP Scale and Definitions

Scale	Definition of "importance"
1	Equal Importance
3	Slightly more importance
5	Materiality more Importance
7	Significantly more Importance
9	Absolutely more important
2,4,6,8	Indecisive between two close values

Source: Saaty, TL. Saati, TL, The Analytical Hierarchy Process: Planning, Priority Setting, Resource Allocation)

Suryadi and Ramdhani define AHP as a comprehensive decision-making model. AHP has the ability to address problems involving multiple objectives and criteria, based on preference comparisons of each element within the hierarchy. The following are some advantages of the AHP model:

- 1) A hierarchical structure, as a consequence of the selected criteria, extending down to the deepest sub-criteria.
- 2) Considers the validity up to the tolerance limits of inconsistency across various criteria and alternatives chosen by decision-makers.
- 3) Takes into account the durability or resilience of the analysis output.

The principle of AHP is to simplify complex, unstructured, strategic, and dynamic problems into smaller components and arrange them in a hierarchical structure. Each variable is then assigned a numerical value subjectively to indicate its relative importance compared to other variables. Based on various considerations, a synthesis is conducted to determine the variables that have high priority and the most significant impact on the outcomes within the system.

The use of AHP begins with creating a hierarchical structure of the problem (decomposition), conducting pairwise comparisons between variables, performing analysis/evaluation, and determining the best alternative. Furthermore, Suryadi and Ramdhani outline that the steps in the AHP method are as follows:

- 1) Constructing a hierarchy of the problem at hand. The problem to be solved is broken down into elements, namely criteria and alternatives, and then organized into a hierarchical structure, as shown in Figure 2.
- 2) Assessment of criteria and alternatives (M. Firdaus, 2013).

Criteria and alternatives are assessed through pairwise comparisons. According to Saaty, for various problems, a scale of 1 to 9 is the best scale for expressing opinions. Comparisons are made based on the decision-maker's judgment by evaluating the importance level of one element relative to another. The pairwise comparison process begins at the top level of the hierarchy aimed at selecting criteria, for

example, A, followed by selecting elements to be compared, such as A1, A2, and A3. The arrangement of the compared elements will appear as shown in the matrix table below:

**Table 3. Example of Pairwise Comparison Matrix**

	A1	A2	A3
A1	1		
A2		1	
A3			1

Source: M. Firdaus. 2013

To determine the relative importance of elements, a numerical scale from 1 to 9 is used. When an element is compared to itself, it is assigned a value of 1. If element *iii* is compared to element *jjj* and receives a certain value, then element *jjj* compared to element *iii* will have the inverse value. In this AHP, the assessment of alternatives can be done using the direct method, which is a method used to input quantitative data. Typically, these values come from prior analysis or from a detailed understanding and experience of the decision problem. If the decision-maker has substantial experience or understanding of the decision problem at hand, they can directly input the weighting for each alternative.

- 1) Determination of Priorities
  - For each criterion and alternative, pairwise comparisons must be conducted. The relative comparison values are then processed to determine the ranking of all alternatives. Both qualitative and quantitative criteria can be compared according to the established assessments to generate weights and priorities. The weights or priorities are calculated through matrix manipulation or by solving mathematical equations. Considerations for the pairwise comparisons are synthesized to obtain the overall priorities through the following steps:
    - a. Square the matrix resulting from the pairwise comparisons.
    - b. Calculate the sum of values for each row, and then normalize the matrix.
- 2) Logical Consistency
  - All elements are logically grouped and consistently ranked according to a logical criterion. The weight matrix obtained from the pairwise comparisons must have cardinal and ordinal

relationships. These relationships can be represented as follows (Suryadi and Ramdhani, 2008):

- a. Cardinal Relationship:  $a_{ij} \cdot a_{ik} = a_{ik}$
- b. Ordinal Relationship: if  $A_i > A_j, A_j > A_k$ , then  $A_i > A_k$

In practice, some deviations occur, resulting in the matrix not being perfectly consistent. This inconsistency arises from an individual's preferences. The calculation of logical consistency is performed by following these steps:

- a. Multiply the matrix by the corresponding priorities.
- b. Sum the results of the multiplication for each row.
- c. Divide the sum of each row by the corresponding priority and then sum the results.
- d. Divide the result from step c by the number of elements to obtain maximum.
- e. The Consistency Index (CI) is calculated as  $(CI) = (A \max - n) / (n - 1)$
- f. The Consistency Ratio is calculated as  $= CI / RI$ , where RI is the random consistency index.

If the consistency ratio is  $< 0.1$ , the data calculation results can be justified. The value of RI is based on research conducted by Saaty, as shown in Figure 2.2 below:

**Table 4. Random Consistency Index**

Size	1	2	3	4	5	6	7	8	9	10
RI	0.00	0.00	0.52	0.89	1.11	1.25	1.35	1.40	1.45	1.49

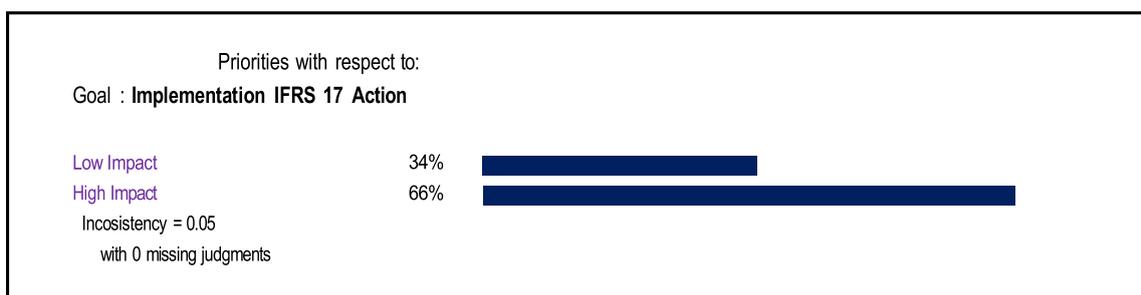
Source: M. Firdaus. 2013

## RESULT AND DISCUSSION

The analysis of the two options for the implementation of IFRS 17 in Islamic insurance was conducted using the AHP (Analytic Hierarchy Process) method, consisting of two stages: level 1 and level 2. Level 1 includes the initial level of the two options, which are classified as having low or high impact. Subsequently, the analysis proceeds to level 2, which involves examining the sub-criteria of the implementation action options that affect the RBC, consisting of three choices: low impact, medium impact, or high impact (Rio Eldianson, 2024), as illustrated in Figure 1.

The respondents consisted of five experts in Islamic insurance, particularly in the field of accounting. Two respondents were directors of Islamic life insurance companies overseeing accounting, two others were heads of accounting from Islamic general insurance companies, and one respondent was from the Sharia Standards Board of the Indonesian Institute of Accountants (IAI).

During the data collection process, the method employed was a questionnaire. This method was used to solicit the opinions of respondents regarding the importance of each criterion related to the implementation actions. Respondents were asked to fill out the questionnaire and provide ratings on the relative importance between one factor and another, using a predetermined scale or level of assessment.



**Figure 2. Output Results of Priority Elements for IFRS 17 Implementation Action**

Source: AHP Processing Results

Based on the output results above, it can be concluded that in the implementation action of IFRS 17 from the changes to PSAK 108, 34%

indicate a low impact, while 66% predominantly indicate a high impact. The revision of PSAK 108 by the Sharia Standards Board of the Indonesian

Institute of Accountants (IAI) not only follows IFRS 17 but also adds the structure for land funds, which had not been included in the standard previously,

even though it is mentioned in the DSN fatwa (Rio Eldianson, 2024).

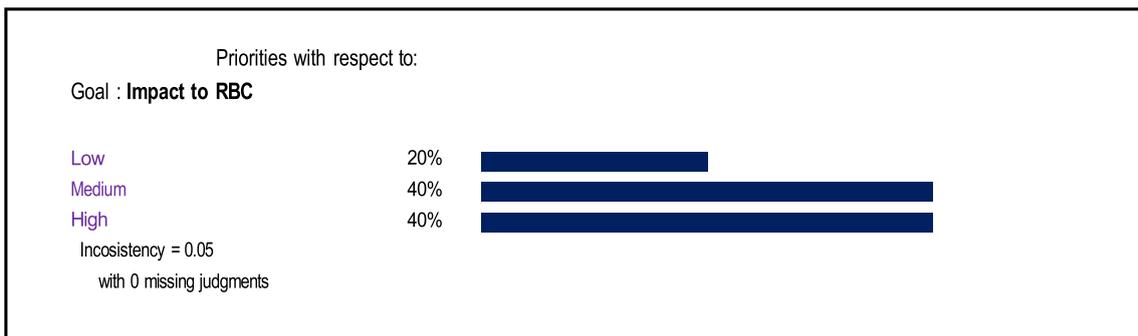


Figure 3. Output Results of Sub-Impact Priorities on RBC

Source: AHP Processing Results

As shown in Figure 7, the Sub-Action Options for Impact on RBC generated through the AHP method are Low (20%) and Medium and High both at 40%. The potential impacts of the revision of

PSAK 108 related to IFRS 17 may require the sharia insurance industry to make changes to existing application systems, in addition to adjustments in their accounting records (Erwin Noekman, 2023).

### Hierarchy of Priorities - AHP

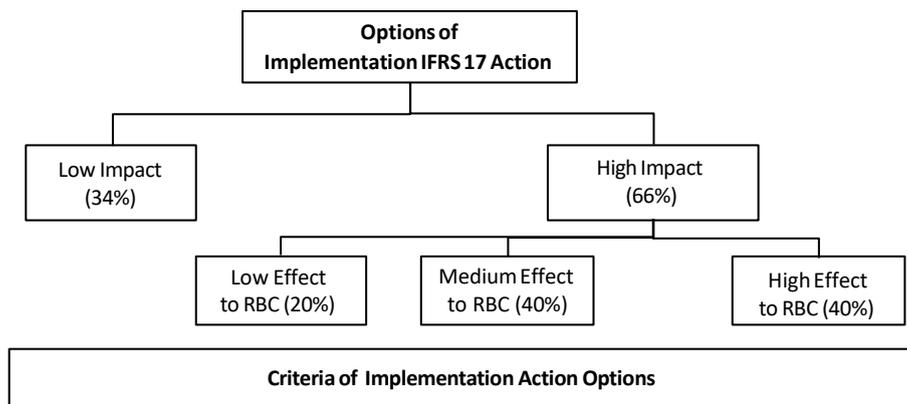


Figure 4. Hierarchy of Importance Level Analysis for IFRS 17 Implementation Action

Source: AHP Processing Results

Based on the AHP analysis results above, it can be seen that 66% of the implementation of IFRS 17 concerning the revision of PSAK 108 will have a significant impact on changes in the recording, measurement, and presentation of financial statements of Islamic insurance companies. The impact of these changes on the RBC (Risk-Based Capital) of insurance companies, both for the company's RBC and the tabarru RBC, shows that 20% indicate a low impact, while 40% state a medium and high impact.

However, the actual impact largely depends on the type of insurance business; the effects differ between Islamic life insurance companies and Islamic general insurance companies, as well as the impact on the dominant products held by each company. Other impacts include changes in the company's operating systems, an increasing demand for actuarial human resources, as well as the adequacy of capital strength and tabarru fund balances (Soleman, Ricky, et al., 2023).

## CONCLUSION

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Based on the analysis, the implementation of IFRS 17 in the revision of PSAK 108 in the Indonesian Islamic insurance industry can have a significant impact on the recording, measurement, and presentation of financial statements for Islamic insurance companies. Approximately 66% believe that the implementation of IFRS 17 has a high impact on companies, while the remaining respondents assess this impact as low. Regarding the changes in RBC (Risk-Based Capital) for insurance

companies, 20% indicate a low impact, while 40% each that the impact is medium and high.

The impact of implementing IFRS 17 also varies between Islamic life and general insurance companies, particularly concerning the risk-based capital (RBC) of the company's funds and the RBC of the tabarru' fund. Additionally, the implementation of this standard requires adjustments in the company's operating systems, an increase in actuarial expertise, and strengthening of capital.

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