Accounting Practices between Takaful Operators in Indonesia: A Comparative Analysis

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Abstract. This study aims to compare and analyze the difference between AAOIFI standards and PSAK 111. The method used in this study in content analysis. This study found that AAOIFI standards cover almost all of the areas covered under PSAK 111. However, AAOIFI standards are argued to be more holistic, focused and specific compared to PSAK 111. AAOIFI tends to encourage takaful operators to use wakalah model. Pro-forma Statement of policyholders’ surplus and deficit in FAS 12 only recognized the distribution of underwriting surplus to policyholders, while PSAK 111 recognized distribution both to policyholders and takaful operators. PSAK 111 recognized modified wakalah model for takaful operators. Consequently, Pro-forma Income statement in FAS 12 only recognized three sources of revenue of takaful operators. They are investment revenue (from shareholder’s equity), wakalah fee (ujrah) and profit-sharing investment (from policyholder’s fund), while PSAK 111 also included income from distribution of underwriting surplus.

Keywords: Accounting Practices, Takaful Operators, AAOIFI, PSAK 111

I. Introduction

Takaful is a mutual protection scheme in which participants or policyholders will donate part or all of contribution funds as a pooling fund to share their right amongst themselves. There are two types of takaful, family and general takaful. Based on the business model, it is also divided into four categories. Namely, wakalah model, modified wakalah model, mudharabah model, modified mudharabah model. However, currently only modified wakalah model is used by takaful operators due to the potential profit that can be maximized by using this scheme.

Takaful was initially developed in Sudan in 1979. Malaysia then followed the path by establishing Syarikat Takaful Malaysia Berhad in 1984. In Indonesia, the emergence of Takaful started in 1994 due to the establishment of PT. Takaful Keluarga and PT. Takaful Umum, in which both are subsidiaries of Malaysian takaful company. The massive growth of takaful operators in Indonesia then attracts the interest of other big players in conventional insurance by tapping into takaful market. They start to open special business division that offers takaful products. Takaful industry in Indonesia keeps burgeoning. In 2015, there have been five full-fledged family takaful operators, three full-fledged general takaful operators, 19 conventional business units that offer family takaful products, and 25 conventional business units that provide general takaful products.

In this study, takaful accounting standards issued by AAOIFI are compared with Indonesian accounting standard (PSAK 111) which regulates accounting for takaful operators in Indonesia. Then, to get the real picture, two takaful operators in Indonesia are taken as samples. The first one is family takaful operator (PT. Takaful Keluarga) and another one is general takaful operator (PT. Takaful Umum), both are subsidiaries of Syarikat Takaful Malaysia Berhad.

There are two objectives of this study. First, to compare Takaful accounting standards issued by AAOIFI and takaful accounting standards issued by Indonesian Accounting Standard Boards (DSAK IAI). Second, to discover the accounting and reporting standards used by the Takaful Operator in Indonesia. The structure of this paper is organized as follows. Section 2 proceeds to briefly describe previous researches conducted in the field of takaful accounting and also provide accounting guidelines issued by AAOIFI and DSAK IAI. It is then followed by concise explanation regarding the research method used in section 3. The comparison between AAOIFI (FAS 12, 13, 15 and 19) and PSAK 111 is addressed in section 4, after that followed by section 5 which contains the analysis of annual reports of PT. Takaful Keluarga and PT. Takaful Umum. Finally, it is ended by presenting conclusions.

II. Literature Review

Noor Aimi Mohd. Puad and Nurjadianawati Irwani Abdullah (2014) have conducted a research about the comparison between takaful accounting standards (FAS 12, 13, 15) issued by AAOIFI and accounting guidelines for takaful operators issued by BNM (GPT-6). Afterwards, they try to do content analysis of seven Takaful operators in Malaysia. Hairul Suhaimi Nahar (2015) also conducted a research about the comparison between relevant takaful accounting standards of AAOIFI and Guidelines on
Financial Reporting for Takaful Operators (GFR-TO) issued by BNM. GFR-TO is the enhanced version of GPT-6.

Guidelines for Takaful accounting released by AAOIFI

Guidelines for Takaful accounting released by AAOIFI consist of several standards. Currently, there are four relevant standards that are related to Takaful or Islamic Insurance which are:

1. FAS No. 12 (General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies). Information that has to be disclosed in the financial statements of Takaful Operators are,
   a. A statement of financial position;
   b. A statement of policyholder’s revenue and expenses;
   c. An income statement;
   d. A statement of cash flow;
   e. A statement of changes in owners’ equity (Shareholder);
   f. A statement of policyholders’ surplus (deficit);
   g. A statement of sources and uses funds in the zakah and charity fund;
   h. Notes to the financial statement

2. Financial Accounting Standard (FAS) No. 13 (Disclosure of Bases for Determining and Allocating Surplus or Deficit in Islamic Insurance Companies)

3. Financial Accounting Standard (FAS) No. 15 (Provision and Reserves in Islamic Insurance Companies)

4. Financial Accounting Standard (FAS) No. 19 (Contributions in Islamic Insurance Companies)

Accounting Standard for Takaful released by Indonesian Accounting Standard Board (DSAK IAI)

Accounting standard for takaful which is known as PSAK 111 was issued by DSAK IAI. The PSAK 111 addresses the requirements on the application of Financial Reporting Standards. Information that has to be disclosed in the financial statements of Takaful Operators are,

1. Statement of financial position
2. Statement of underwriting surplus/deficit of tabarru’ fund
3. An income statement
4. Statement of changes in equity
5. Statement of changes in tabarru’ fund
6. Statement of cash flows
7. Statement of sources and uses funds in the zakah fund
8. Statement of sources and uses funds in the charity fund
9. Notes to the financial statement
10. Statement of changes in restricted investment fund
11. Statement of profit-sharing reconciliation

III. Research Method

Document content analysis is used in this study as the methodology of data collection. By utilising document analysis, the data are analysed and interpreted to obtain an understanding of the concepts and implementation of accounting practices in takaful operators (TOs). The data collected for this study consist of Financial Accounting Standards (FAS) issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), which are FAS No. 12 (General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies), FAS No. 13 (Disclosure of Bases for Determining and Allocating Surplus or Deficit in Islamic Insurance Companies), FAS No. 15 (Provision and Reserves in Islamic Insurance Companies), FAS No. 19 (Contributions in Takaful Companies).

The aforementioned standards are then critically reviewed and comparatively analysed with Indonesian accounting standards for TOs (PSAK 111) issued by Indonesian Accounting Standards Boards (DSAK IAI) which become mandatory accounting standards for family and general TOs in Indonesia. This has objective to check on (dis)similarities on recognition, measurement, presentation and disclosure aspects employed by both accounting standards.

Currently, there are five full-fledged family TOs and three full-fledged general TOs in Indonesia. However, only one family TOs (PT. Takaful Keluarga) and one general TOs (PT. Takaful Umum), both are subsidiaries of Syarikat Takaful Malaysia Berhad, which will be used as the samples in this study because other full-fledged TOs are relatively young and the financial reports are not publicly available. In
addition to this, actually, there are also 19 family TOs and 25 general TOs in Indonesia. But, since those TOs are only sub-units from conventional insurance which have no separate financial statements, those are excluded from this study. The annual reports from those two TOs are then analysed to identify the accounting treatment applied by TOs and compare with the prevailing accounting standards issued by DSAK IAI.

IV. Results and Discussion

Accounting for Takaful: Comparison between AAOIFI standards and PSAK 111

Accounting and reporting for Contributions

The contribution is the amount paid by participants based on the concept of tabarru’. In AAOIFI FAS 19, it stated that earned contributions will be recognized as a separate item under “Earned contributions” in the statement of policyholders’ revenue and expenses. To get the amount of earned contribution, the unearned contribution portion and share of retakaful from earned contributions should be deducted from gross contribution.

Measurement of contributions is based on actuarial techniques and statistical methods relating to takaful operations, in addition to the existing international practices and regulations issued by the company’s country of origin. While the presentation of earned contributions shall be net of the amount of retakaful share and the amount of change in the unearned contributions.

Disclosure of accounting policies in case of withdrawal of a policyholder during the insurance period. It should disclose about the eligibility and ineligibility for any part of the contributions based on the remaining period. The same disclosure should be provided in case of cancellation of the insurance policy and eligibility of policyholders for part or whole of the contributions.

In PSAK 111, the contributions from policyholders will become revenue in the “Statement of underwriting surplus/deficit of tabarru’ fund”. PSAK 111 uses the name of “statement of underwriting surplus/deficit of tabarru’ fund” instead of “statement of policyholders’ revenue and expenses”. Even though both are similar. Presentation aspect of PSAK 111 is similar to FAS 19. The amount of gross contribution is recorded in the Statement of underwriting surplus/deficit of tabarru’ fund and then deducted by wakalah fee, retakaful share and unearned contribution. Disclosure is also about the accounting policies in case of cancellation of the insurance policy and eligibility of policyholders for part or whole of the contributions during the insurance period.

Accounting and reporting for Claims

Claims and settlement costs incurred during the financial year are recognized when a claimable event occurs and the company is notified. For the treatment of claims, in both standards; AAOIFI and PSAK 111, they have same requirements. In FAS 12, Claims paid and claims in process are recognized as expenses in the statement of policyholders’ revenues and expenses. Claims or benefits expenses comprise claims paid and claims payable such as for death, surrender, medical and others.

Pro-forma statement of policyholders’ revenue and expenses also presented gross claims paid, retakaful share of claims paid, outstanding claims, retakaful share of outstanding claims and claims incurred but not reported (CIBNR) in order. In FAS 13, claims and compensation and also outstanding claims recovered from retakaful companies should be disclosed. While in PSAK 111, claims paid and claims in process (payable) are also recognized as expenses in Statement of underwriting surplus/deficit of tabarru’ fund.

Accounting for underwriting surplus/deficit

In AAOIFI standards, the requirement for the disclosure of underwriting surplus or deficit is more detailed than what is required in PSAK 111. FAS 13 was issued by AAOIFI to deal with the issue of determining and allocating of surplus or deficit in takaful companies. It requires takaful operator to provide the statement of policyholders’ Surplus or deficit. Takaful operator also should disclose the methods used in distributing the underwriting surplus. The methods are:

1. Allocation to all policyholders based on pro-rata share of contributions without differentiating between those who made claims or not during the financial year
2. Allocation only among policyholders who did not make claims during the financial period
3. Allocation to policyholders after deducting the claims paid to them during the financial period
4. Allocation between policyholders and shareholders
5. Allocation using other methods

Other requirements of disclosure in the notes of financial statements include the basis that governs the contractual relationship between the policyholders and shareholders, party that manage the
takaful operations and the remuneration it receives, party that manages the investment policyholders’ fund and shareholders’ funds, and the remuneration received, basis applied by the company in determining the remuneration of the party manage the company investments on the basis of Mudharabah or agency and basis applied by the company in allocating the profit generated from investing policyholders’ fund and shareholders’ fund. Besides, the disclosure also should be made if there is any deduction from the remuneration paid to the party that manages the investment insurance operations or any expenses borne by the party that manages the investment funds. These are all among the important elements that required to be disclosed in the notes of financial statement.

In PSAK 111, there are three methods employed to utilize the underwriting surplus/deficit. First, all surplus will be assigned as a reserve for tabarru’ fund. Second, part of the surplus will be reserved and another part will be distributed to policyholders. Third, part of the surplus will be reserved and another part is distributed to policyholders and takaful operator.

Part of surplus distributed to policyholders and takaful operator will become deduction in the statement of changes in tabarru’ fund. Surplus distributed to takaful operators will be recognized as revenue in the income statement, while surplus distributed to policyholders will be recognized as a liability on the balance sheet. In case of deficiency of tabarru’ fund, takaful operators will provide a benevolent loan (qardh) which will be returned by using future receipt of tabarru’ fund.

**Accounting and reporting or Zakat**

In AAOIFI, Takaful operator is obliged to present the statement of sources and uses of funds in the zakat and charity fund. FAS 12 stated that the period covered by the statement of sources and uses of funds should be disclosed. The disclosure also should be made of the company’s responsibility for payment of zakat on behalf of owners and whether the company collects and pays zakat on behalf of their policyholders. Besides, the imperative elements that should be revealed are the funds paid by the company from the zakat and charity fund during the period and the funds available in the fund at the end of period. The amount of zakat payable then should be disclosed in the statement of financial position of the Takaful Operators. Then, the gross income in the income statement should be deducted by zakat payable before arriving at the amount of income before tax and net income.

Unlike AAOIFI which combines the statement of zakat and charity funds, in PSAK 111 zakat and charity funds are separated and should have a separate statement of sources and uses. Zakat requirements are elaborated in PSAK 101 which stated that period covered by the statement of sources and uses of funds should be disclosed. Zakat fund should not be used as a benevolent loan (qardhul hasan). Takaful operators are required to disclose sources of zakat collection from internal entity, sources of zakat collection from external entity, policies regarding zakat distribution to the eligible (eight) beneficiaries and zakat allocation to each category of recipients.

PSAK 111 also gives a detailed explanation of the statement of sources and uses of the charity fund. Unlike zakat, the collection of charity fund comes from donations, the profit share of waqf investment, return of the benevolent loan, fine/penalty and non-halal income. While the disbursement of the fund consists of the benevolent loan, donation and others.

**Accounting and reporting for investment surplus/deficit.**

Investment income also becomes one of income sources to both takaful operators and policyholders. FAS 13 stated that disclosure should be made of the party that manages the investment of policyholders’ funds and shareholders’ funds, and remuneration it receives (a percentage of investment profit in case of mudharabah or a specified fee in case of agency). The disclosure also should be made of the basis applied by the company in allocating the profit generated from investing policyholders’ funds and shareholders’ funds.

PSAK 111 also stated that in addition to contributions received from the policyholder, investment profit can become an additional source of income. Treatment of profit sharing in mudharabah model makes a portion of the investment surplus is considered as income in takaful operators’ income statement. Participants’ mudharabah portion of the investment surplus will instead be transferred to policyholders’ fund. In cases of deficit (losses), it will be entirely borne by policyholders. It is in accordance with the mudharabah principle. In the case of the wakalah model, the whole portion of investment surplus will go to policyholders.
Accounting for Takaful: Analysis of Annual Reports of PT. Takaful Keluarga & PT. Takaful Umum

Based on the analysis of two takaful operators which are PT. Takaful Keluarga as family takaful and PT. Takaful Umum as general takaful, both are implementing PSAK 111. They managed to provide almost all minimum disclosure requirements by PSAK 111, which are the statement of financial position, statement of underwriting surplus/deficit of tabarru’ fund, statement of changes in tabarru’ fund, statement of comprehensive income, statement of changes in equity, statement of cash flows, statement of sources and uses funds in the zakah fund, statement of sources and uses funds in the charity fund, and notes to the financial statements.

Furthermore, PT. Takaful Keluarga also provides a statement of changes in restricted investment fund, while PT. Takaful Umum does not provide it since PT. Takaful Umum only manages tabarru’ fund. Both takaful also do not provide a statement of profit-sharing reconciliation. It can be assumed that the distribution of profit is based on accrual basis, not cash basis.

Accounting and reporting for contribution

In terms of accounting treatment for contributions, both takaful operators stated the amount of gross contribution before arriving at the amount of net contribution. According to the accounting policies, contribution income for family Takaful fund is recognized as soon as the amount of contributions can be reliably measured. Contribution receivables consist of receivables from policyholders/agents resulting from a takaful transaction. In conditions where the Company gives contributions discount to policyholders, the discount is deducted directly from the related contributions receivable. Gross contributions come from three sources in PT. Takaful Keluarga, namely individual life insurance, group life insurance, medical insurance. While in PT. Takaful Umum, it comes from six sources, namely fire, marine cargo, motor vehicle, marine hull, engineering and others.

To find the amount of earned contribution, the unearned contribution portion, the share of retakaful from earned contributions and wakalah fee for takaful operators should be deducted from gross contribution. The net contribution then will be deducted to meet all net claims paid, net claims payable, technical reserve expense and other income/expenses before deriving surplus or deficit on that particular period. The amount of Unearned Contribution Reserves (UCR) are also recorded on the liability side of the balance sheet of family and general takaful. Unearned contribution reserves represent the policy liability for short-term products which are computed based on estimated of risk which not incurred yet because of the outstanding term insurance coverage at the end of period.

Accounting and reporting for claim

Net claims incurred are commonly disclosed by Takaful operators in the statement of underwriting surplus/deficit of tabarru’ fund. The details of net claims incurred should be disclosed in the notes of financial statement. Based on the analysis, PT. Takaful Keluarga and PT. Takaful Umum disclosed the details of claims paid and claims payable and then deducted with the retakaful share. Claims paid and payable in PT. Takaful Keluarga consists of death, health and accident claims. While for PT. Takaful Umum, the claims come from fire, marine cargo, motor vehicle, marine hull, engineering and others.

Accounting for Underwriting surplus/deficit

There are three methods to distribute underwriting surplus/deficit. First, all surplus will be assigned as a reserve for tabarru’ fund. Second, part of the surplus will be reserved and another part will be distributed to policyholders. Third, part of the surplus will be reserved and another part is distributed to policyholders and takaful operator. Based on the analysis of the statement of changes in tabarru’ fund, PT. Takaful Keluarga uses the third option in distributing the surplus of underwriting. The portion of tabarru’ fund underwriting surplus, which is distributed to participants and the takaful operator, is recognized as a deduction from the surplus in the statement of changes in tabarru’ fund. The surplus on tabarru’ fund, which is distributed to the participants, is recognized as a liability in the statement of financial position, if unpaid.

The determination of underwriting surplus sharing of tabarru’ fund distributed to participants, tabarru’ fund reserve and to the Company as the manager is based on contract. The sharing of tabarru’ fund surplus underwriting to the Company is recognized as revenue on the statement of comprehensive income. Any deficit on underwriting tabarru’ fund has to be covered by a loan (qardh) from the Company. The loan will be settled once there is a surplus in tabarru’ fund. The return on qardh comes from future surplus of tabarru’ fund. The qardh loan is recognized in the statement of financial position and a revenue is recorded in the statement of underwriting surplus (deficit) tabarru’ fund when the loan is being
distributed. Similar to PT. Takaful Keluarga, The reserve in PT. Takaful Umum is based on operational surplus and divided based on “nisbah”. The surplus tabarru’ is given to Takaful participants at the end of takaful period as long as no claims occurred. This payment decreases reserve for surplus underwriting tabarru’ distributed to participants.

**Accounting and reporting for zakat**

Takaful operators are required to disclose sources of zakat collection from internal entity, sources of zakat collection from external entity, policies regarding zakat distribution to the eligible (eight) beneficiaries and zakat allocation to each category of recipients. In case of PT. Takaful Keluarga, there are only two sources of fund for zakat, namely collection from takaful itself and another one from external party which is not mentioned in the statement of sources and distribution of zakat fund and notes on the financial statements. Company’s Zakah and calculated by using Islamic sharia method representing 2.577% of net income of the Company, Zahak received from employees, and unit link participants for a year, as an Islamic calendar. Similar to the collection, the distribution is presented only in the single line of a sentence without elaborating the beneficiaries that obtained zakat. The remaining amount of undistributed zakat is disclosed in the balance sheet as zakat payable.

In case of PT. Takaful Umum, it collected zakat only from internal entity and then distributed without explaining which categories of beneficiaries that get zakat. The remaining amount of undistributed zakat is disclosed in the balance sheet as zakat payable. Takaful Umum did not collect zakat from internal entity due to loss in the current year. However, they still pay zakat by using zakat money from the previous year. Besides the report on zakat, PT. Takaful Keluarga and PT. Takaful Umum also disclosed the statement of sources and uses of the charity fund. Unlike zakat, the collection of charity fund comes from non-permissible income. However, there is no further explanation regarding the activities that can generate non-permissible income. The remaining amount of undistributed charity fund is disclosed in the balance sheet as other payable.

**Accounting for investment surplus/deficit**

The investment part from contributions is recognized as temporary syirakah fund when using mudharabah contract or mudharabah musyarakhah. The income from investments is allocated to the Company, and the participants, based on the agreement. Based on the analysis, the portion of investment income which is distributed to PT. Takaful Keluarga is recognized as revenue in the statement of comprehensive income. On the other hand, the portion of investment income which is distributed to participants is recognized as an additional amount of temporary syirakah fund/investment account holders (in between liability and equity sections) in the balance sheet. However, for PT. Takaful Umum, since there is no investment fund in general takaful, PT. Takaful Umum consequently did not receive any investment income, except investment income of tabarru’ fund which is accumulated as underwriting surplus, not investment surplus.

**V. Conclusion**

Overall, if we see in terms of scope, AAOIFI standards cover almost all of the areas covered under PSAK 111. The areas which AAOIFI standards do not address on the specific accounting treatment on retakaful, management expenses and acquisition costs, also not covered by PSAK 111. However, AAOIFI standards are argued to be more holistic, focused and specific compared to PSAK 111. This can be proven by the existence of AAOIFI FAS 13 and 15 which covers comprehensively the specific and important areas of surplus or deficit in takaful companies and provisions and reserves respectively. In terms of explanatory notes required by AAOIFI, it is also more detailed.

AAOIFI tends to encourage takaful operators to use wakalah model. Pro-forma Statement of policyholders’ surplus and deficit in FAS 12 only recognized the distribution of underwriting surplus to policyholders, while PSAK 111 recognized distribution both to policyholders and takaful operators. PSAK 111 recognized modified wakalah model for takaful operators. Consequently, Pro-forma Income statement in FAS 12 only recognized three sources of revenue of takaful operators. They are investment revenue (from shareholder’s equity), wakalah fee (ujrah) and profit-sharing investment (from policyholder’s fund), while PSAK 111 also included income from distribution of underwriting surplus. Looking at the annual reports of two takaful operators, PT. Takaful Keluarga and PT. Takaful Umum, both takaful operators do not disclose Statement of profit-sharing reconciliation. It can be assumed that the distribution of profit is based on accrual basis, not cash basis. In the aspect of the distribution of underwriting surplus, among three options provided by PSAK 111, both takaful operators are using the third option in distributing underwriting surplus, in which part of the surplus will be reserved and another
part is distributed to policyholders and takaful operator. The surplus of tabarru’ fund in PT. Takaful Umum (general takaful) is only given to Takaful participants at the end of takaful period as long as no claims occurred.

The portion of investment income which is distributed to PT. Takaful Keluarga is recognized as revenue in the statement of comprehensive income. However, for PT. Takaful Umum, since there is no investment income, it charged management expense of portfolio investment and recognized it as revenue from the management of portfolio investment. Lastly, it is found that charity fund is separate from zakat fund. A charity fund is only used for receipt of non-halal income. However, there is no additional disclosure provided by both takaful operators regarding the activities that can generate prohibited income.

References