

THE COMPARATIVE STUDY OF THE APPLICATION OF FINANCIAL ACCOUNTING STANDARDS BETWEEN SHARIA AND CONVENTIONAL INSURANCE IN INDONESIA

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Abstract

Participating in insurance can help mitigate the risks that arise in life, such as the consequences of unforeseen losses on one's health or property ownership. There are two categories of insurance that are distinguished by their underlying principles: conventional insurance and sharia-compliant insurance. The fundamental concept behind the utilization of traditional insurance involves a transactional approach, necessitating compliance with a financial accounting standard known as PSAK. Hence, the objective of this study is to analyze the contrast between the implementation of financial accounting standards in sharia and conventional insurance. The employed approach is a systematic literature review that relies on scientific literature data. The data collection process involves three stages: identification, screening, and inclusion. The PSAK commonly utilized by sharia insurance companies comprises PSAK 108, 101, and 105. Moreover, the commonly employed PSAK (Indonesian Financial Accounting Standards) in the context of traditional insurance encompasses PSAK 28, 36, and 62. The application of PSAK has a significant impact on both sharia and conventional insurance by enhancing the acknowledgment and examination of an accounting report. In addition, PSAK facilitates the assessment of the effectiveness of insurance implementation in relation to the fundamental principles upon which the company is established.

Keywords: *conventional accounting, financial standard accounting, sharia accounting, Indonesia*

1. INTRODUCTION

The impact of unexpected losses on aspects of health or property ownership, for example, can be reduced by participating in insurance. Insurance differentiation is classified into several focus areas based on the field of implementation, such as business-economic activities, health, and education. In practice, business insurance is based on four risk management techniques: (1) avoiding risk, (2) storing risk, (3) transferring risk, and (4) mitigating risk (Feng, 2023). Health insurance provides medical coverage by financing treatment and operations. The availability of health insurance is bolstered by statutory lawfulness, which ensures the settlement of insurance policy claims that customers expect (Suryati & Agustianto, 2023). Education insurance is the next type of insurance aimed at students. This insurance, which generally consists of dual-purpose and unit-link education insurance, plays a role in providing education guarantees for a child (Nasution, 2020). When the insured experiences something unfavorable, the savings are given according to the value stated in the contract, whereas unit-link education insurance cannot guarantee that the investment disbursement value will be in accordance with the contract, generally the value is not guaranteed. This is influenced by poor development results.

Insurance is a contract between two parties, the insurance policy holder and the insurance provider. An insurance policy is a contract-based agreement between the insurer and the insured to participate in insurance activities (Dewi et al., 2020). Insurance consists of four components. These

mutually associated elements include (1) an agreement in the form of overall or periodic premium payments to the insurer, known as an insured, (2) an agreement to provide compensation to the insured in a lump sum or on a regular basis, known as an insurer, (3) a sudden occurrence, known as an accident, and (4) the likelihood of an impact that will be experienced as a result of the insurer, known as an interest (Wulansari, 2017). When the insurer and the insured have both officially approved the insurance policy, the insured is obligated to pay the insurance costs. The cost scheme used in each insurance is unique, particularly when comparing conventional insurance to sharia one.

The principles of collection, appropriateness, and render are the ones underlying the implementation of traditional insurance (Abrar, 2020). Equilibrium, legal firmness, timely insurance payments and withdrawals, efficiency, and economics are all examples of propriety principles. Propriety is associated with carrying capacity, welfare, suitability, and minimizing burdens and benefits. The supply principle is related to monetary policy, law, economics, administration, and justice. There are differences between sharia and conventional insurance in terms of loss compensation. In conventional insurance, the insurance provider and insurer are responsible for compensating the insured party who suffers a loss, whereas in sharia insurance, the insurer (second party) can delegate responsibility to a third party to fulfill the insurer's obligations. The other party acts as guarantor, and the guarantor has the right to compensation from the guaranteed party for these services (Jannah & Nugroho, 2019). More specifically, aspects of essential principles, profits, accounting system, ownership of funds, supervision, contracts, payment of insurance claims, and ownership of funds distinguish conventional insurance from sharia insurance (General Guidelines for Sharia Insurance, 2001).

The buying and selling orientation is the underlying principle underlying the application of traditional insurance. This is in contrast to sharia insurance, which is based on mutual assistance (Prudential, 2023). In sharia insurance, profits are distributed evenly to the company and all participants, whereas profits in conventional insurance are entirely aimed at the company. The obligation to pay zakat is also implemented in sharia insurance, but it is not enforced in conventional insurance. Sharia insurance risk management is shared by the company and participants, emphasizing the insurance's guiding principle of mutual assistance. In the case of traditional insurance, the risk is transferred to the insurance provider. Sharia insurance does not apply to forfeited funds, so customers can withdraw funds that have been handed over. This differs from traditional insurance, which assumes that if the customer fails to pay the premiums, the funds will be forfeited. This difference in application suggests that the financial reporting systems used for conventional and sharia insurance should ideally be differentiated so that errors in interpretation and decision making do not occur. Keep in mind that the financial transaction posts for the two insurances are distinct.

Efforts can be made to adapt financial reports to the characteristics of the type and principles of business by determining Statement of Financial Accounting Standards (PSAK). This is because SAK will make financial planning more efficient, precise, and well-organized. As a result, the purpose of this study is to compare the application of financial accounting standards to sharia and conventional insurance. The findings of this study will benefit readers by providing a standard comparative representation used in the process of preparing financial reports, allowing them to understand the extent of insurance service providers' adaptation efforts in optimizing the company's financial role. This data can also be used to set socialization goals for the role of financial

accounting standards in communicating transactions and determining appropriate SAK for each type of insurance.

2. RESEARCH METHODS

The method used in this study was a systematic literature review. This method is based on the process of searching for data through specific search engines in a systematic and binding manner. This method requires data in the form of reliable scientific literature. Scientific articles, books, scientific proceedings, and theses make up the scientific literature data in question. The following table 1 lists the tools and materials used.

Table 1. Research Software

No	Software	Utility
1	Publish or Perish 8 and Google Scholar	<ul style="list-style-type: none"> a. Collect scientific literature in accordance with criteria or conditions. b. Carry out a selection of scientific literature in accordance with the criteria or conditions.
2	Ms. Excel	Take inventory of scientific literature
3	Ms. Word	Carry out data analysis using a qualitative approach, namely the descriptive analysis method.

The criteria for scientific literature are determined to ensure the suitability of the data with the research objectives, so that the content of the research data can answer the research objectives. The literature criteria that can be used are as follows:

1. The types of scientific literature used are scientific articles, scientific proceedings, books and theses.
2. The scientific literature used must contain topics regarding the application of financial accounting standards to sharia and conventional insurance.
3. The scope raised in scientific literature is only in Indonesia.
4. The methods used in scientific literature must be structured, systematic, and in accordance with scientific procedural.
5. The period for publication of scientific literature is from 2013 to 2023.

The systematic literature review search process is divided into three stages: identification, screening, and inclusion. The identification stage is the activity of recording identified scientific literature. When an article that is not in accordance with the provisions is discovered during this process, it is deleted from the publish or perish software. The screening stage is an activity that involves categorizing scientific literature. Peer-reviewed activities and articles from the study are included. This stage refers to the research of Kalfin et al. (2022), as depicted in figure 1.

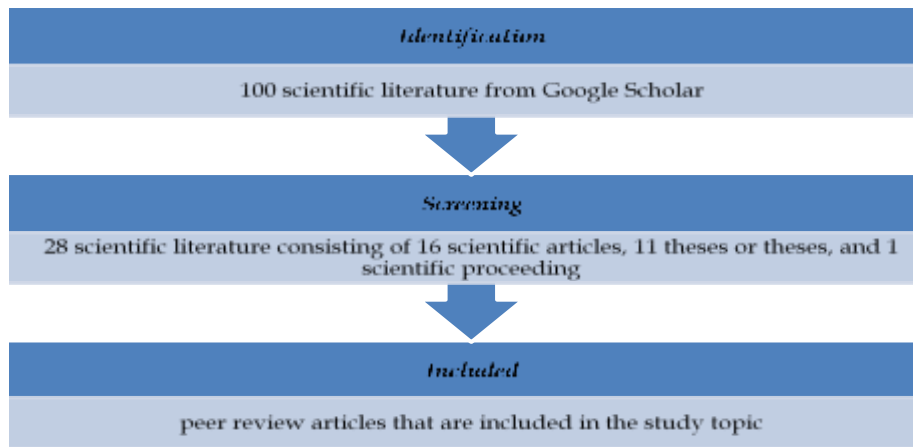


Figure 1. Flow diagram of the data collection process

3. RESULTS AND DISCUSSION

3.1 Results

Based on the research findings, 100 pieces of scientific literature containing the research topic keywords "financial accounting standards," "syariah insurance," and "conventional accounting" were discovered. However, after screening, only 27 of the 100 scientific papers discussed the topic of applying financial accounting standards to sharia and conventional insurance. The 28 pieces of scientific literature include 16 articles, 11 theses, and 1 scientific proceeding. From 2014 to 2023, the year of publication of scientific literature with the highest level of conformity to the topic discussed is used. Table 2 delves deeper into financial accounting standards. This table demonstrates that the application of SAK to sharia insurance and conventional insurance differs. Sharia insurance reporting is primarily based on PSAK 108, PSAK 101, and PSAK 105, whereas conventional insurance reporting is primarily based on PSAK 28, PSAK 36, and PSAK 62. PSAK 108 keeps track of sharia insurance transactions pertaining to profitability and minus underwriting, contributions paid by insurance participants, allowance for technical needs, and the most recent remaining funds.

PSAK 108 categorizes fund income into two time periods: short term and long term. In the short term, participant contributions are pledged as income or revenue during the insurance contract period, while in the long term, participant contributions are pledged as income or revenue when the participant's payment deadline is due. PSAK 101, which has a normal presentation character and complies with SAK, is another accounting standard used in sharia insurance. It is based on accrualization, mutual write-offs, reporting amounts, comparative information, consistent presentation, as well as materiality and combinations. PSAK 101 governs the structure and content of accounting reports, which include reports of financial position, reports of losses and profits, as well as other holistic income, equity dynamics reports, reports of cash flow transactions, and notes to financial reports. PSAK 105, which governs the legitimacy, measurement, delivery, and disclosure of mudharabah transactions, is the final type of accounting standard that is frequently used in the implementation of sharia insurance. PSAK 28 reports conventional insurance transactions on a loss basis, as opposed to the accounting standards used in the application of conventional insurance. In conventional insurance, reporting on life insurance is generally based on PSAK 36, which governs life insurance contracts.

Table 2. Scientific Literature Findings

No	Types of insurance institutions	The type of accounting standard used	Description
1	Sharia insurance	a. Statement of Accounting Standards Finance (PSAK) 108	Accounting intended for insurance transactions is based on sharia principles.
		b. Statement of Accounting Standards Finance (PSAK) 101	Accounting for communicating sharia-based financial reports, for sharia insurance.
		c. Statement of Accounting Standards Finance (PSAK) 105	Accounting aimed at mudharabah funding.
2	Conventional insurance	a. Statement of Accounting Standards Finance (PSAK) 28	Contract accounting for insurance reporting aimed at dealing with losses.
		b. Statement of Accounting Standards Finance (PSAK) 36	Contract accounting for insurance reporting aimed at dealing with life.
		c. Statement of Accounting Standards Finance (PSAK) 62	Accounting for insurance contracts

Source: Authors' data processing (2023)

3.2 Discussion

The difference between sharia and conventional insurance in the use of financial accounting standards is based on the accountant's adaptation efforts to report the company's financial transactions so that they match the headings in each transaction. Most accountants in sharia insurance communicate the company's financial position and situation through financial reports. This financial report is based on PSAK no. 108, 101, and 105 of the Statement of Financial Accounting Standards (PSAK). The Limited Liability Company (PT) Prudential Life Insurance Indonesia is an example of a financial company that uses PSAK no. 108 (Annazhi et al., 2022). This investigation revealed that the financial report of this PT included a tabarru fund report, which was reviewed from the standpoint of underwriting profits and losses. The financial report items at this PT are in accordance with PSAK 108, based on the evaluation results. However, there are additional accounts for each post in the reporting, both for other income, other expenses, and taxes derived from income and expenses from investment activities. This incompatibility between PSAK 108 and insurance business reports is also demonstrated by the absence of asset accounts that show *ijarah*, despite the fact that PSAK 108, theoretically, must include *ijarah* accounts in reporting the company's financial position. The absence of asset account information in the statement of financial position makes determining the condition of the company's assets difficult for report readers. As a result, reader errors in predicting the company's financial condition in the future are possible.

PSAK 101 is a financial accounting standard (SAK) used in the implementation of sharia insurance, particularly PT. Family Takaful Insurance. Based on the findings of interviews in Bahri's (2014) research, it was discovered that this PT had implemented PSAK 101 in report 101. The presence of tabarru funds that included in the financial reports in 2011 and 2012 indicated this implementation. The distinction between company funds and funds paid by participants has been well executed, and the loss and profit reports have also been presented holistically in 2012. Aside from that, there was a dynamic shift in terminology from balance sheet to statement of financial position in the 2012 report, liability terminology has also shifted to liability, and a distinction between company funds and funds owned by insurance participants has also been implemented. The implementation of PSAK 101 is a strategic step for companies to adapt to the concept of sharia insurance, making it easier to evaluate the suitability of the company's financial operations with sharia insurance. This is reinforced by terminology geared toward sharia insurance principles.

Separating company funds from customer funds also reduces the likelihood of fraud and makes it easier for businesses to determine how much profit or expense the company has.

Following that, Khotijah (2019) investigated the application of PSAK 101 to sharia insurance. Sharia insurance is based on the principle of helping one another for the greater good. As a result, participants in this insurance system are required to pay zakat, which is a mutual benefit tax. PSAK's presence allows it to monitor the flow of zakat transactions in the company. According to Khotijah (2019), sharia insurance financial reports at Indonesian sharia banks are still not being implemented optimally. The implementation of PSAK 101 in Indonesia in 2014, on the other hand, has had a significant impact because it can reveal zakat transactions. Zakat disclosure provides insurance companies with financial transparency, reducing misunderstandings between customers and insurance providers. Furthermore, when zakat funds are reported, responsibility and accountability towards customers will be optimally implemented. Unlike sharia insurance, the PSAK used in conventional insurance is primarily based on PSAK 28, 36, and 62. Tangkere et al. (2020) conducted research on the application of PSAK 28 to conventional insurance from the standpoint of income and expense recognition. Based on this analysis, it is clear that PT Asuransi General Bumiputera Muda 1967 used the accrual basis to record its financial history. There are two components to the accrual basis method in question. The first point is to record when an obligation to fulfill a claim arises or when the head office publishes a loss report. The second point to mention is that this PT was recorded using software, so no physical or manual recording exists. As a result, this PT has met the PSAK 28 ideal criteria. Because it can be accessed from various locations and places, this registration provides flexibility for those accessing insurance financial information, such as company leaders, investors, and customers. Aside from that, this recording system is more functional.

Tangkere et al. (2020) investigated PSAK 36 in their research. The research was based on income recognition, expense recognition, liability recognition and measurement, and disclosure. The revenue recognition aspect was shown to fall short of the PSAK 36 criteria. This is demonstrated by the lack of reinsurance implemented by the PT. Jiwasraya Insurance Head Office. PSAK 36 implementation issues also arise in the areas of recognizing and measuring liabilities, as well as disclosure. However, when it comes to expense recognition, this PT used the accrual basis method, so it satisfied the expense recognition aspect of PSAK 36. PSAK 62 is the final PSAK that is commonly used in the world of conventional insurance, such as PT AXA Indonesia. PSAK 62 has been used by PT AXA Indonesia to prepare its financial reports. This affects the company's financial reports, such as revenue recognition, liability adequacy tests, and the recognition of company expenses (Firmansyah & Cesara, 2020).

4. CONCLUSION

The findings and discussion of this study indicate that PSAK 108, 101, and 105 are frequently used by sharia insurance companies. Furthermore, PSAK 28, 36, and 62 are frequently used in the scope of conventional insurance. The impact of implementing PSAK for sharia and conventional insurance, specifically strengthening accounting report recognition and testing. PSAK can also help businesses evaluate how successful the implementation of each insurance is in comparison to the principles on which the business was founded

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