

An Influence Of Psak 28, 36, & 62 Implementation To The Technical Reserve And Underwriting Revenue In General Insurance

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Abstract -The general insurance is a business with specialization in protection to the endured in overcome of risk on lost, revenue lost, and liability to the third party in due to the uncertainty event. The study intends to review on how influences the establishment of reserve on premise that was not become a revenue yet (unearned premium reserve or Technical Reserve) according to the PSAK 62, 36, & 28 has influences to the underwriting revenue in general insurance business.

Information reveal on influencing factor of total, period, and certainty level of future cash flow.

Information reveals on how characteristic and expanse the business uses a financial instrument and specific risk of business and the management policy to mitigate the risk.

By the result of differential t-test in found of unearned premium reserve, it is shows that there is a disparity with significance level of 5% arguing that unearner premium reserve had the powerful correlation and influences to the revenue. Moreover, under t-test has found that there is 95% of certainty level for unearner premium reserve variable that influences the revenue significantly.

Keywords: PSAK 28, 36, & 62, Technical Reserve, Underwriting Revenue

I. INTRODUCTION

I.1. Background

The development of insurance company in Indonesia is currently very rapid both viewed from the assets side and the insurance products offered. The basis of the accounting arrangement for the General insurance that has been previously adjusted in the PSAK 28 of General insurance, so after conducted a revision in 2011 the PSAK 28 become

Contract Accounting of General Insurance and PSAK 62 concerning Insurance Contract referring to IFRS 4 phase 1

IAS is an international accounting standard that has become a reference by many developed and developing countries so that it is predicted that it will become a global accounting standard that can expectedly encourage the process of the harmonization in the arrangement and analysis of financial report

The insurance company began from 1st January 2012 has made a published financial report arranged to follow Financial Accounting Standards issued by Indonesian Accountant Association (IAI), the practices of prevailed insurance industries and the reporting established by a financial service authority.

The objective of these PSAK 28,36 and 62 applications is to enhance the understanding of the financial report users about the importance of financial instrument for the positions of finance, performance and cash-flow, and presentation of financial instrument, identification of information that must be revealed as well as completing the provisions and measurement of financial assets and financial obligations.

The revealing of information on the factors influencing the number, time and level of cash-flow certainty in the future

The revealing of information on characteristic and the extent to which a company utilizes the company's financial instrument and specific risk as well as management policy for mitigating the risk.

The General insurance is essentially a protection system dealing with the risk of financial General, through a risk transfer to other parties, both personally and collectively in a society. The base of insurance business is a society's confidence, primarily in the company's financial capability (*bona fide*) to fulfill the claim obligation and

other obligations on time. For that the insurance business must be managed professionally, both in the risk management and in the financial management. Several characteristics of the General insurance accounting company among other things:

- a. The burden determining can't be fully associated with the premium income, because the emergence of claim burden is not always in conformity with the admission of premium income
- b. The report of loss-profit is strongly influenced by estimation element, such as estimation concerning the magnitude of premium that is not yet income (unearned premium income) and estimation concerning the magnitude of claim that has become a burden in the current period (estimation of one's own account claim).

The application of PSAK 28,36 and 62 gets various responses from the executor of General insurance because the General insurance justly applies the calculation of technical reserve according to the provisions that have previously only followed the calculation according to the Provisions of Financial Affairs Minister (KMK) no.424/KMK.06/2003 that were very simple, but the new calculation requiring the calculation is mostly similar with the life insurance where the calculation of technical reserve must use the gross premium valuation and its calculation by actuarial so that the General insurance company was not yet ready because the actuarial force was still limited and still has a hunch that the application of this provision will result in the General in the financial report in the early application.

According to the research of Indri Mashitah et al. with the title the determination of premium reserve using Fackler's method in the life insurance that strongly influencing the net premium.

In the implementation of PSAK 28, 36 and 62 the adjusted scopes are principally admission, measurement, value reduction and admission ceasing.

I.2. Identification of Problems

The problems of this research can be identified and formulated as follows:

- Can the GAP as a result of the PSAK 28, 36 and 62 applications be resolved?.
- Can the system for the applications of PSAK 28, 36 and 62 be made by internal staff or must use a special software.
- How large the influence of PSAK 28, 36 and 62 applications have on the formation of the technical reserve and underwriting revenue of General insurance company.

I.3. The Scope.

The scope of research is restricted only in the applications of PSAK 28, 36 and 62 in the General insurance company its influence on the technical

reserve formation and underwriting revenue in the General insurance and personnel readiness of the insurance company in preparing the facilities and infrastructures, both in the system and implementing personnel.

I.3. The Purpose and Objective of Research

This research has a purpose to engage and participate actively in analyzing the applications of PSAK 28 & 62 in the General insurance company.

And the objective of this research is to identify the gap and influence of the application on the change of presentation in the Financial Report of insurance company.

I.4. The Utility of Research

The utility of this research can be expected to give some inputs particularly to the leader of General insurance company and the policy makers in establishing the policies of PSAK 28, 36 and 62 and for the inputs to the policy makers for the necessary of implementer and technician that are more comprehensive in order that in the implementation there is no multi-interpretation as well as for the interest parties with a knowledge in the implementation of PSAK policies.

II. LITERATURE REVIEW

II.1. The Conception of Implementation

Implementation is a process to make the policy formula into a policy action; from "Regulation" to "Application".

Pressman & Wildavsky said that the implementation as follows:

1. Implementation is a process of interaction between the objective and action to achieve.
2. Implementation needs the networks of implementer, effective bureaucracy
3. The effectiveness of implementation is determined by capability to make a logical relationship and cause-effect between action and objective.

II.2. The Conception of Financial Insurance

The conception of General insurance according to Molengraaff as quoted by Djojosoedarso (2000 : 74) :

The General insurance is an approval by which one insuring party binds itself to another insured to compensate the General that can be suffered by the insured, because the occurrence of an event that has been appointed and not yet certain accidentally, by which also the insured promises to pay the premium.

II.3. Financial Report of General Insurance

The conception of Financial Report

According to SAK

Financial Report is a part of the process of financial reporting. The complete financial report usually includes balance, loss-profit report, report of financial position change (that can presented in various ways such as cash-flow report, or fund-flow report), other records and reports as well as the explanatory material being an integral part of the financial report.

There are two basic assumptions in the arrangement of financial report: with accrual basis and business survival, meaning that the effects of transaction and other events are admitted in the time of occurrence (and not when the cash or cash equivalent is received or paid) and it is noted in the accounting records as well as reported in the financial report in the financial report in the concerned period.

The Qualitative Characteristics of Financial Report

The qualitative characteristics are typical features making some information in the financial report that is useful for the users. There are four basic qualitative characteristics as follows:

- Understandable
- Relevant
- Reliability
- Comparable

II.4. Underwriting Revenue.

The definition of income according to Indonesian Accountant Association (IAI) in The Financial Accounting Standard (2007 : 23.2) "Income is a gross inflow from an economic benefit emerging from the company's normal activities for a period when the inflow results in equity increment, not coming from the contribution of capital investment".

From the definition above the income can be consisted of gross inflow and economic benefit received and not coming from the loan or equity increase. The income obtained will result in the debt is increased or decreased that eventually will result in the increment of proprietary equity.

Whereas the conception of income in the General insurance company according to KMK No. PSAK No. 28 regulating about the General insurance accounting concerning the income received by the insurance company classifying into 3 (three):

1. Premium income, consisted of :
 - a. gross premium,
 - b. reinsurance premium,
 - c. premium increment (reduction) that is unearned premium reserve (PYBMP).
2. Investment income
3. Other incomes

The income admission obtained by the General insurance company according to PSAK No. 28 depends on the components or elements forming each income of the incomes. The premium income is admitted when the recording, when the policy has been issued. This is suitable to the income admission on the accrual basis. The type of income received by the General insurance company is premium income. Indonesian Accountant Association in The Financial Accounting Standard (2007 : 28.15) stated that "The premium obtained relating to the insurance and reinsurance contracts is admitted as premium revenue for the policy period (contract) based on the proportion of protection amount provided".

The underwriting revenue is strongly influenced by the process of the resolving and classifying the insured risks, because the purpose of the underwriting is to maximize the profits through the acceptance of risk distribution. In order to increase the profits the process of underwriting must consider and study from the following five resources:

1. The supplicant's statement covered into the form
2. Information from the agents or brokers
3. Investigation
4. Information bureau
5. Physical examination or inspection

II.5. Technical Reserve

In the presentation of financial report, IAI in The Financial Accounting Standard (2007 : 28.11) explains "Premium income is presented such that it indicates the amounts of gross premium, reinsurance premium, and premium increment (reduction) that is not yet the income. reinsurance premium presented as a decrease of gross premium".

- Gross premium is a premium obtained from the direct premium written and the indirect premium written. The direct premium written belongs to the premium obtained from the collective policy written.

- Reinsurance premium is a part of gross premium becoming the reinsurer's right based on the reinsurance contract
- The premium that unearned premium reserve is a part of the premium that is unearned premium reserve because the insured period is still run in the end of accounting period.

II.5.2 PYBMP according to PSAK 28 & 62 are

II.5.1. Unearned premium reserve according to The Decision of Financial Affairs Minister Indonesian Republic

The financial report of insurance company previously is not fully suitable to The Indonesian Accounting Principles (PAI), because in some cases it is regulated by the regulator or government, one of them is in the calculation of unearned premium reserve according to number 424/KMK.06/2003: The Technical Reserve of General Insurance, Article 28 stated that the amount of reserve for the premium that is not yet the income is at least:

- a. 10% (ten per a hundred) of the net premium for the policy with the insuring period is not more than 1 (one) month.
- b. 40% (forty per a hundred) the net premium for the policy with the insuring period is not more than 1 (one) month.

The formula of the calculation of unearned premium reserve according to the provisions is divided into 3 (three) methods :

1. Prorate method annually
2. Prorate method monthly
3. Prorate method daily

Gross Premium Reserve

$$\begin{array}{|c|} \hline \text{Current value} \\ \text{of cash-flow} \\ \text{estimation} \\ \text{for benefit} \\ \text{payment} \\ \hline \text{in the future} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Current value} \\ \text{of cash-flow} \\ \text{estimation} \\ \text{for cost} \\ \text{payment} \\ \hline \text{in the future} \\ \hline \end{array} + \begin{array}{|c|} \hline \text{Current value} \\ \text{of cash-flow} \\ \text{estimation} \\ \text{from gross} \\ \text{premium} \\ \text{receipt} \\ \hline \text{in the future} \\ \hline \end{array}$$

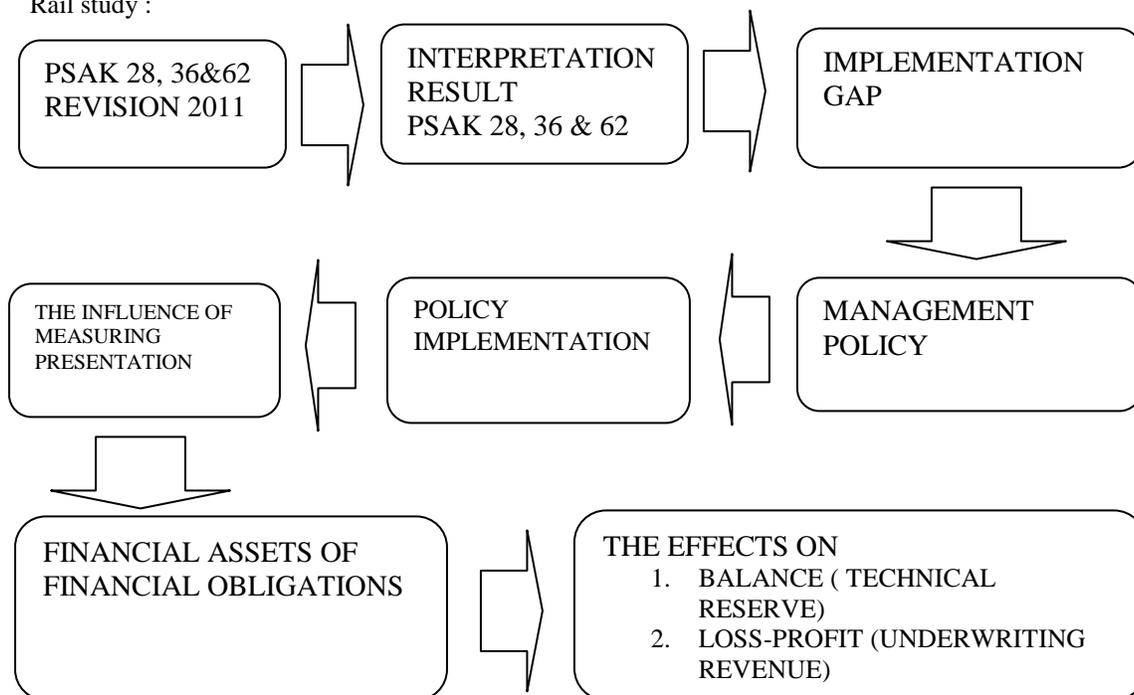
III. FRAMEWORK AND RESEARCH HYPOTHESIS

III.1. Framework of Thinking

Framework of Rail Study:

This study begins to do an interpretation on the legalization of revision result application in 2011 by IAI cooperating with Insurance Party legalizing this provision beginning from 2012 on PSAK 28, 36 & 62, so that the insurance company in arranging the financial report is obliged to refer to the standards of the financial accounting statement, and in the application of provision it will get the Gap before and after the application pointing to the establishment of new policy of insurance company's management, furthermore to make the implementation policy relating to the presentation, revealing, admission and measurement and to do the studying to the effects on the technical reserve that must be formed and the effect on the underwriting income.

Rail study :



III.2. Research methods

III.2 . Research methods.

The methods used in this research uses the survey, interview, documentary study, and literature review methods.

These methods can expectedly provide a description of the conditions before the application of PSAK 28 (1998) & 62 (1999) and after the implementation of PSAK 28 & 62 as the result of revision in 2011 beginning to be effective in 2012.

Data analysis used:

- Analysis of secondary data
Data to be analyzed are General from The Accounting Division and implementation Team of PSAK 28, 36 and 62 as well as business division associated directly with the change of presentation.
- Gap Analysis of PSAK 28, 36 & 62 with PSAK 28,36& 62 after revised
In order to see the extent to which the effects and obstacles faced by the company by legalizing or applying the PSAK policies 28,36 & 62
- Study of primary data
The primary data have been obtained from the result of the distribution of questionnaires, interviews, discussions and others at the Accounting Division and

Implementation Team of PSAK 28, 36 and 62 as well as business division concerned directly.

III.3. Hypothesis

Hypothesis in this research are as follows:

1. The application Gap for the implementation of PSAK 28, 36 and 62 can be resolved.
2. The software for the applications of PSAK 28, 36 and 62 can be made using the software integrated with the core system of existing insurance company.
3. The implementation of PSAK 28, 36 and 62 will influence the formation of technical reserve and underwriting revenue.

THE RESULTS OF RESEARCH AND DISCUSSION

IV.1. The implementation of PSAK 28, 36 and 62 in the General insurance company

The adjustment of profit balance in the early presentation period with the following prospective

- Prospective, where the new accounting policy as if has been applied for the transaction and other events occurred before the effective date.

The entity must implement the PSAK 28, 36 and 62 prospectively for the period annually beginning on or after dated 1st January 2012.

IV.2. Gap Analysis

The Gap Analysis comparing the conditions and situations existing in the General insurance company are currently compared with the requirements desired in the PSAK 28, 36 & 62.

Financial Instrument Accounting (According to PSAK 28,36 & 62)

Several important admissions and measurements required for PSAK 62 are as follows:

1. Insurance Contract issued (including the acquisition cost and the intangible assets)
2. Reinsurance contract owned
3. Don't admitting each provision for the possibility of the future claims as the liabilities if the claims emerge based on the Insurance Contract unavailable in the end of reporting period.
4. To do the test of liabilities adequacy
5. To eliminate the insurance liabilities from the financial position report if and only if the liabilities have been finished.
6. Don't mutually eliminating between the reinsurance assets and the insurance liabilities

IV.2. The Influence of PSAK 28 and 62 Implementation in the General Insurance Company

This section presents the result of analysis for the conditions and situations existing in the insurance company as compared with the requirements desired in the regulations of PSAK 28, 36 & 62 if this standard has been prevailed effectively, 1st January 2012.

Technical Reserve

The Admission and Measurement of The Financial Assets and Liabilities

The further phases after the determination of financial assets and liabilities classification are:

- The initial admission and measurement
- The measurement after initial admission
- The interest income admission
- Value reduction

Premium revenue admission

The premium mentioned above:

The insurance company is currently recording and admitting the premium income based on the contractual interest level by using the interest allocation method that is flat, effective daily, effective monthly and annuity in the financial report. Whereas based on PSAK 28 the insurance company must uses

IV.3. The barriers of PSAK 28, 36 and 62 Implementation in The Insurance Company

1. The problems or obstacles for the General insurance company: a mechanism change of technical reserve traditionally in the calculation according to KMK /242.06 2003 but it is currently using the calculation with the gross premium valuation method,
2. There is not yet a technical manual for the uniformity in calculating the technical reserve issued by a formal institution.
3. The General insurance company has still not yet an actuarial force
4. The procurement of Information Technology that has been ready to use for calculating the reserving.
5. The change of admission and measurement methods has an effect on the recording system, so that it will indirectly need an adjustment to the company's internal system.
6. The Information Technology and Human Resources where the IT investment cost, specially PSAK, is not yet available and expensive and the Human Resources (HR) having a competency in the implementation area is still less.

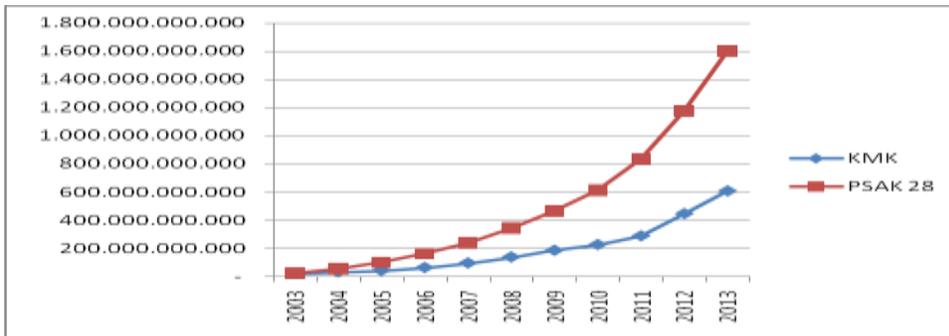
IV.4. The influence of Implementation of PSAK 28, 36 and PSAK 62 in the formations of technical reserve and Underwriting revenue

The presentation of initial balance in the applications of PSAK 28, 36 and 62, according to the provisions, is in a prospective manner, implicated to the presentation of technical reserve that must be formed and presented as the balance recorded in the time of prevailing PSAK 28, 36 and 62:

IV.4.1 The influence of the reserve's initial balance for the premium that is earned premium reserve

In fact, not all unearned premium reserve have used the Gross Premium Valuation method, but some have used the old method because the reserve has been nil, so that in the time of prevailing the provisions of PSAK 28, 36&62 it would be conducted a conversion in advance such as the following graph:

Graph

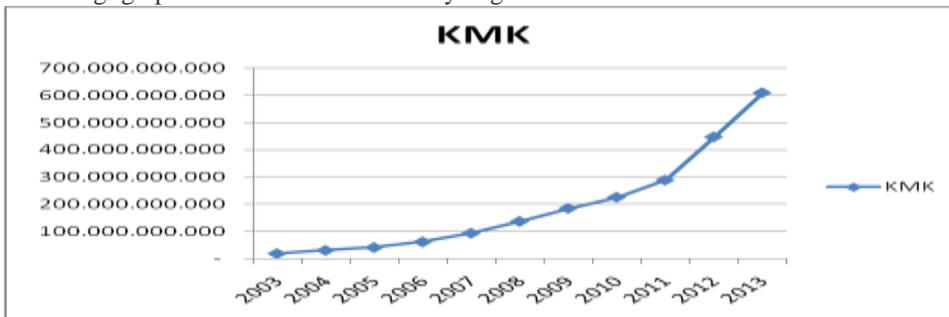


IV.4.2 The influence of Technical Reserve Formation

The presentation of prevailing this provision with the prospective prevailing will has an effect on the technical reserve that must be formed such as the following graph where there is a fairly significant

difference between the calculation and prospective by KMK/424.06/2003 method, strongly influencing the presentations of technical reserve and underwriting income.

Graph

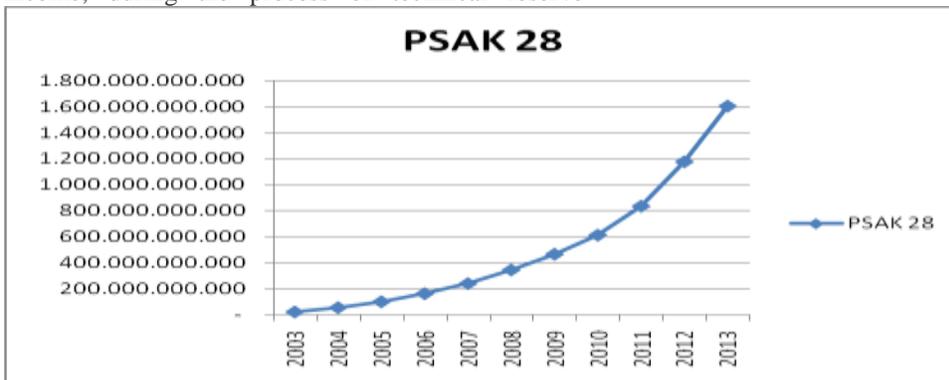


IV.4.3 The Influence of Underwriting Revenue

The influence of the applications of PSAK 28, 36 and 62 by using the very high prospective it has been seen from the calculation in the effective calculation 17 % but by using an effective method of interest rate (IER) So that the opinion report doesn't indicate the actual income, during the process of technical reserve

calculation, being most influential on the financial report applying the gross premium valuation method. Dari the result of monitoring the most insurance companies applying the gross premium valuation it has been seen in the time of the application of PSAK 28,36 & 62, occurred the enhancement of unearned premium reserve and the reduction of underwriting revenue.

Graph



IV.4.4. The influence of Initial Balance of Reinsurance Assets

Whereas the application of PSAK 28 & 62 in the calculation of reinsurance assets in the early implementation there is no effect on the initial profit balance. As regulated in the technical provisions of the early application of PSAK 28, 36 & 62, the entity determines the formation of reinsurance asset based

on the conditions at that time, the difference between this value reduction and the value reduction determined based on the principles of accounting prevailed previously admitted directly to the early application of PSAK 28, so that what to be necessarily adjusted is the initial balance before the application of PSAK 28, 36 & 62 nil must be formed as the difference of the gross premium income subtracted by the gross premium income after subtracted by the commission

V. CONCLUSIONS AND SUGGESTIONS

Conclusions

In the application of PSAK 28, 36 and 62 it is a regulation that is objective to regulate the performance of General insurance company in order that it is more directed to the market discipline with there are several changes in the existing policies such as there is the technical reserve insuring the availability of funds when the insured conducts a claim and the availability of information from the historical data.

The obstacles that are most impeding in the application of PSAK are the readiness of human resources, the warehouse of historical data and the availability of Information Technology for processing the historical data as a main support for the success of the implementation of PSAK 28, 36 and 62

Conclusions from this research:

1. Gap can be resolved by using the software.
2. Relating to the applications of PSAK 28, 36 and 62 is very complex in the General insurance in the technical reserve calculation by the software integrated with the core system owned by the company still needs time for developing the software.
 - a. The implementation of PSAK 28, 36 and PSAK 62 is very influential on the technical reserve formation and the underwriting revenue in the early implementation.

Suggestions

The applications of PSAK 28,36 & 62 have been prevailed as wholly beginning from 1st January 2012, so that the author suggests:

1. The technology for supporting the implementation of PSAK must become a main priority, because the implementation without supported by the technology will be useless.

2. The human resources conducting this implementation must be prepared carefully, because without a job clarity, it will decelerate the process of implementation, by providing a training and the training associated with the application of PSAK 28,36 and 62.
3. All parties from the management level to lower level must participate in completing this implementation, and the Special Team for the Implementation of PSAK 28, 36 and 62 releasing the team from the routine activities becoming its task function.
4. The General insurance company must has the data warehouse minimally 10 years backward in order that the risk mitigation is maximal.
5. The calculation of underwriting year and accounting year must be compared to determine the policy of each product's pricing.
6. The requirements of acceptance must be continuously revised specially the examination of the insured's health.

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