Impact of PSAK 117 implementation to insurance rating methodology

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Financial Accounting Standards 117 (PSAK 117) has become effective starting January 1, 2025, replacing PSAK 104 for companies operating in the insurance industry, including those in general insurance, life insurance, and reinsurance. In our observation, companies with long-term contracts are likely to experience more significant changes in their financial reporting results. PSAK 117 adopts a measurement approach based on the current fulfillment value of contractual cash flows and the Contractual Service Margin (CSM), while also requiring the immediate recognition of losses from onerous contracts. This approach inherently has a greater impact on long-term policy portfolios compared to short-term contracts, as the measurement of liabilities heavily depends on future cash flow estimates and dynamic long-term economic assumptions.

In our view, the implementation of PSAK 117 will require some time to achieve reporting stability and consistency. Experiences from various countries that have adopted similar standards (IFRS 17) indicate that the transition process requires a considerable adjustment period to refine measurement models and improve the accuracy of accounting estimates. This situation is also relevant in Indonesia, as audited financial statements prepared in accordance with PSAK 117 are not yet available to serve as a credible basis for validation and comparison.

Considering the rating principles that emphasize accuracy and comparability, for the time being PEFINDO will continue to use PSAK 104 as the primary reference framework in the rating process. This approach aims to maintain inter-period consistency and avoid potential distortions that may arise from differences in accounting treatment before the audited financial statements, which fully reflect the implementation of PSAK 117, become available.

PEFINDO will continue to consider any material factors that arise during the transition process in our assessment to ensure that rating outcomes accurately reflect each entity's risk profile and financial fundamentals. We will also continue to monitor the progress of PSAK 117 implementation and its impact on the insurance industry, including on the first audited financial statements for 2025. At the same time, necessary adjustments to the rating methodologies and assigned ratings will be conducted to ensure that the outcomes remain relevant, consistent, and objective.

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