
# The future of Syariah insurance accounting in Indonesia: Understanding the proposed PSAK 408 standard

## Introduction

In December 2025, the Syariah Accounting Standards Board in Indonesia issued an Exposure Draft of the accounting standard ‘PSAK 408: Syariah Insurance Accounting’ (Exposure Draft or PSAK 408). PSAK 408 is an updated standard that will supersede PSAK 108 (the Indonesian equivalent to IFRS 4). Specifically, PSAK 408 proposes changes to the accounting treatment of Syariah insurance contracts in Indonesia for greater alignment with PSAK 117 (the Indonesian equivalent to the global IFRS 17 standard), which has been in effect for conventional insurers since 1 January 2025. Its proposed effective date is 1 January 2028.

Although the Exposure Draft adopts similar concepts to PSAK 117, such as grouping of contracts and fulfilment cash flows, it differs materially from PSAK 117 in some areas. This e-Alert attempts to discuss and highlight the key nuances in the requirements of this Exposure Draft. We will also compare and contrast some key requirements of PSAK 408 against PSAK 117 for conventional companies and, as a regional reference point, against MFRS 17 (the Malaysian equivalent to the global IFRS 17 standard) for Takaful Operators in Malaysia.

## Summary of requirements

**FIGURE 1: SUMMARY OF REQUIREMENTS**

| TOPIC | EXPOSURE DRAFT PSAK 408 REQUIREMENT | COMMENTARY |
|---|---|---|
| **Separation of components** | On initial recognition, contributions must be split into:<br>(i) Insurance risk portion – Tabarru’ charges that go into the Tabarru’ Fund or Tanahud Fund[1]<br>(ii) Fee portion – Wakalah fee that goes to the Operators’ Fund.<br>(iii) Participant investment portion – invested in the participants’ investment fund<br>PSAK 408 will only apply to (i), the insurance risk portion in the Tabarru’ and Tanahud Funds. Each fund needs to be measured separately. | PSAK 408 being applicable to only the Tabarru’ and Tanahud Funds implies that the Risk Adjustment (RA) and Contractual Service Margin (CSM) will be held within the Tabarru’ and Tanahud Funds separately. Thus, only cash flows that have a direct impact on the Tabarru’ and Tanahud Funds will be included in the measurement of the future cash flows, RA and CSM.<br>This differs materially from PSAK 117, where the RA and CSM reflect the risk and profits from the shareholder viewpoint and are considered at a policy level (i.e., the insurance contract) rather than fund level.<br>Although PSAK 408 does not provide any explicit provisions on the accounting treatment of the Operators’ Fund cash flows, the requirement for a straight-line basis for revenue recognition implies the need for a smoothing reserve in the Operators’ Fund. |
| **Measurement model** | Only two measurement models are required.<br>(i) General Measurement Model (GMM) – for contracts with a coverage period of more than 12 months<br>(ii) Premium Allocation Approach (PAA) – for other contracts | PSAK 408 does not apply the Variable Fee Approach (VFA) due to the separation of insurance and investment contributions at the outset, and the investment element is accounted for separately.<br>Additionally, the choice between GMM and PAA is strictly based on the coverage period of the contract. Thus, there is no need to perform PAA eligibility tests under PSAK 408. The coverage period may differ from the contract boundary, which would depend on the practical ability to reassess risk and fully reprice to reflect the risk. |

1 The Tanahud Fund is a separate risk-sharing pool used for long-term insurance contracts featuring survival or annuity benefits. Although commonly operated in Indonesia, Malaysian Takaful Operators do not manage a separate Tanahud Fund.

| TOPIC | EXPOSURE DRAFT PSAK 408 REQUIREMENT | COMMENTARY |
|---|---|---|
| **Contract boundary** | The contract boundary ends when the Operator has the practical ability to reassess risk and fully reprice to reflect that risk. | This is consistent with the requirements of PSAK 117. |
| **Level of aggregation** | The contract is divided further into the Tabarru' and Tanahud contracts (or further until the lowest level of risk sharing). Portfolios are split into cohorts with similar risks and are managed together, with a further split subdivided by profitability.<br>Only two profitability groups (profitable and onerous) at inception are required, but Operators have the option to divide further. | Except for the number of profitability groups (two instead of three), this is similar to the requirements of PSAK 117, with the additional requirement to split out the Tabarru' and Tanahud portions of the contract. |
| **Discount rates** | The Exposure Draft requires companies to use the current investment return from the underlying the Tabarru' or Tanahud Funds, net of credit risk. | Using the current investment returns, net of credit risk, is a departure from the requirements of PSAK 117, which use discount rates reflecting the liability characteristics.<br>The specific definition of the current investment return is also unclear. |
| **Transition** | Transition balances would be calculated using a prospective approach. | It is unclear from the requirements of PSAK 408 how the transition balances for the insurance risk portion should be calculated. This is different from PSAK 117, where retrospective approaches or the fair value approach are applied. |
| **Insurance margin** | PSAK 408 requires calculating the insurance margin on inception of a contract. It reflects the expected underwriting surplus from the Tabarru' and Tanahud Funds (separately) such that there is no gain at inception, unless the group is onerous.<br>If a cohort is onerous at inception, this loss is recognised immediately. | The insurance margin functionally acts as the CSM of the Tabarru' and Tanahud Funds. This is released as revenue as insurance services are provided using coverage units as a driver.<br>The upfront recognition of loss is similar to the treatment of the loss component under PSAK 117.<br>It is also unclear how the insurance margin will affect the Tabarru' and Tanahud surplus distributions and whether this should be aligned. |
| **Fee element** | Wakalah fee and acquisition expenses are recognised on a straight-line basis.<br>Revenue from distributable underwriting surplus is recognised only when the surplus is declared. If the surplus declaration is made after the reporting period but before the financial statements are finalised (e.g., year-end 2026), then the surplus can be recognised only in the next reporting period (i.e., the 2027 financial year).<br>The same treatment is applied to variable fees, such as fund management charges, where they are recognised based on the charges that were received during the financial year only. | This is a new requirement specific to Syariah contracts. Typically, companies will declare surplus to be distributed at financial year-end. For example, if the financial year-end is December 2028, typically the underwriting surplus distribution amount would be determined in Q1 2029 as part of financial year-end reporting. In this new draft standard, the surplus declaration amount will not be recognised in 2028; thus, companies will either need to accept the lag in recognising the surplus distribution recognition or change existing processes to declare surplus prior to financial year-end, which will require good estimates of the year-end position and will create some financial risks.<br>This differs from PSAK 117 where fees, charges and expenses are included in the derivation of the CSM (as the insurance contract is valued as a whole, rather than by its contributions to different funds). In addition, revenue under PSAK 117 is recognised in line with the amortisation of the CSM (instead of on a straight-line basis). |
| **Disclosures** | Separate disclosures are required for fund movement for the Tabarru' Fund, Tanahud Fund (including sub-fund) and investment funds. | Syariah companies will be required to prepare many more disclosures than are currently required by PSAK 117 for conventional companies, owing to the fund structure of the Syariah contract. Each fund being measured under a different accounting standard also adds to the operational complexity.<br>There is no current requirement for columnar presentation (i.e., the result of each fund is shown in separate columns). |
| **Surplus sharing/Qardh** | Underwriting surplus sharing is recognised as revenue when the surplus is declared.<br>The Exposure Draft is silent on the accounting treatment of qardh payments. | The Exposure Draft only indicates the accounting treatment of the underwriting surplus sharing, but not the treatment of qardh. |

# Comparison to PSAK 117 and MFRS 17 (Takaful)

To place these requirements in greater context, Figure 2 compares and contrasts key elements of PSAK 408 with the requirements of PSAK 117 for conventional insurers in Indonesia (implemented 1 January 2025) and MFRS 17 for Takaful Operators in Malaysia (implemented 1 January 2023).

**FIGURE 2: COMPARISON TO PSAK 117 AND MFRS 17 (TAKAFUL)**

| ITEM | INDONESIA – CONVENTIONAL | MALAYSIA – TAKAFUL | INDONESIA – SYARIAH |
|---|---|---|---|
| **CSM** | CSM represents the expected future profits of the company.<br>The CSM sits within the Shareholders' Fund.<br>The valuation of an insurance contract typically includes cash flows pertaining to all relevant funds (unless separation of components applies). | CSM represents the expected future profits (including the shareholder portion of underwriting surplus) of the Operators' Fund.<br>The CSM is recognised within the Operators' Fund.<br>The valuation of a contract typically includes cash flows pertaining to all funds, including the Tabarru' and Operator Funds. | Termed as 'insurance margin' and represents the expected future underwriting surplus in the Tabarru' and Tanahud Funds.<br>The insurance margin is recognised within the Tabarru' and Tanahud Funds, respectively.<br>The valuation splits the policy/contract by its contribution to different funds. |
| **Risk Adjustment** | Recognised in the Shareholders' Fund. | Recognised in the Operators' Fund. | Recognised within the Tabarru' and Tanahud Funds, respectively. |
| **Discount rate** | Reflects the liability and cash flow characteristics. | Reflects the liability and cash flow characteristics. | Based on current investment returns, net of credit risk of the Tabarru' and Tanahud Funds, respectively. |
| **Measurement models** | GMM, PAA, VFA applicable with eligibility tests for PAA and VFA. | GMM, PAA, VFA applicable with eligibility tests for PAA and VFA. | GMM and PAA only, based on coverage period. Only applicable to the Tabarru' and Tanahud funds. |
| **Columnar presentation** | Not applicable. | Yes – separately for the Tabarru' Fund and Entity. | Not explicitly required, but separate disclosures are required for Tabarru', Tanahud and investment funds. |
| **Tabarru'/Tanahud Fund 'profit'** | Not applicable. | Zero Tabarru' profit recognition. Operators' distributions are recognised in the Operators' Fund revenue (as the revenue recognition is determined from the Operators' perspective for the entire contract).<br>Tanahud Fund is not applicable in Malaysia. | Actual – Expected claims, CSM + RA release.<br>The CSM is derived from the expected projected underwriting surplus in the Tabarru'/Tanahud Funds. |
| **Shareholder Fund profit** | Actual – Expected claims and expenses, CSM + RA release. | Actual – Expected expenses, CSM + RA release.<br>Operators' share of future distributable surplus from the Tabarru' Fund is reflected in the CSM. | Fees, charges and acquisition expenses are amortised on a straight-line basis.<br>Revenue from distributable underwriting surplus is recognised only when the surplus is declared, instead of when it arises. Refer to the 'Fee element' section in Figure 1 for further details.<br>The same treatment is applied to variable fees, such as fund management charges, where they are recognised based only on the charges that were received during the financial year. |
| **Level of aggregation** | Managed together and has similar risks, annual cohorting. | Managed together and has similar risks; annual cohorting. | Cohort determined at the lowest level of risk sharing. Separate cohorts for the Tabarru' and Tanahud funds. |
| **Surplus sharing/Qardh** | Not applicable. | Operators' portion of underwriting surplus sharing and qardh payments are part of the fulfilment cash flows. | Underwriting surplus sharing to shareholders is recognised as revenue only when the surplus is declared. The treatment of investment surplus is unclear.<br>Unclear on the treatment of qardh. |

# Implications

The exact implementation requirements of PSAK 408 are unclear in several critical areas. These include:

- How the Tabarru' and Tanahud funds' profits are recognised, especially in the context of any investment surpluses
- How the transition CSM should be determined
- The treatment of qardh
- The accounting of cross-subsidies between different contract groups in the Tabarru' funds arising from risk pooling (i.e., mutualisation)

Further clarity on these will be required to assess the full extent of the differences between PSAK 408 and PSAK 117. Nevertheless, we can observe the following key differences, although the following list is not exhaustive:

- Syariah contracts are required to be split into Tabarru', Tanahud and shareholder fund components, each with separate profit recognition approaches. This differs from PSAK 117, where shareholder profits are determined at an insurance contract level in its entirety, and they are deferred and recognised using the CSM.
- PSAK 408 does not allow the use of the VFA. Although it remains unclear how the investment element should be allowed for, this may lead to accounting mismatches between asset and liability movements, even for products where a substantial proportion of investment surpluses are shared with participants (e.g., investment-linked contracts).
- The CSM and RA are calculated with respect to the Tabarru' and Tanahud funds only, as opposed to under PSAK 117, where they represent the shareholders' view.
- Separate fund-level disclosures for Tabarru', Tanahud and investment funds are required.

Because of these differences, we expect several unique challenges to implementing PSAK 408:

- Insurers will not be able to use off-the-shelf or existing internal IFRS 17 reporting solutions, as heavy modification will be required.
- Dual reporting will be required for multinational insurers who separately report Syariah business under IFRS 17 at group level and under PSAK 408 on the local accounting basis, and will likely show materially different results under the two bases.

Profit profiles for similar conventional and Syariah products may differ significantly, which may have strategic implications for companies that underwrite both conventional and Syariah business.

# Conclusion

The draft PSAK 408 sets out requirements that are intended to reflect the distinctive features of Syariah insurance arrangements, whilst supporting greater consistency, transparency and relevance in financial reporting across the Syariah insurance industry. However, significant differences exist between PSAK 408, PSAK 117 and the reporting requirements for Syariah insurers in Malaysia.

The Indonesian Syariah industry is currently in a transitional phase, with some companies yet to complete their spin-off or divestment plans, ahead of the 31 December 2026 deadline. Looking ahead, we expect the industry to focus on growth and the positioning of Syariah within the broader insurance industry in the short term. Although PSAK 408 is an opportunity for the Syariah industry to strengthen reporting processes, we expect full implementation by 1 January 2028 to be challenging, particularly in view of the material differences between the PSAK 408 draft requirements and PSAK 117. We understand the industry is in consultation with the Institute of Indonesia Chartered Accountants, which may result in further changes to the draft PSAK 408.

Milliman has supported Takaful/Syariah insurers in Malaysia and across Asia with their IFRS 17 implementation and strategy-related work, demonstrating in-depth understanding of the nuances of Syariah business and its requirements. For further information or to discuss how these insights may apply to your business, please contact the authors of this e-Alert or your usual Milliman consultant.

## Solutions for a world at risk™

Milliman leverages deep expertise, actuarial rigor, and advanced technology to develop solutions for a world at risk. We help clients in the public and private sectors navigate urgent, complex challenges—from extreme weather and market volatility to financial insecurity and rising health costs—so they can meet their business, financial, and social objectives. Our solutions encompass insurance, financial services, healthcare, life sciences, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

**milliman.com**

**CONTACT**

Chong Wen Ang
ChongWen.Ang@milliman.com

Johnathan Mei
Johnathan.Mei@milliman.com

Milliman