



# PSAK-117 implementation: Data, system and process challenges

KPMG Siddharta Advisory

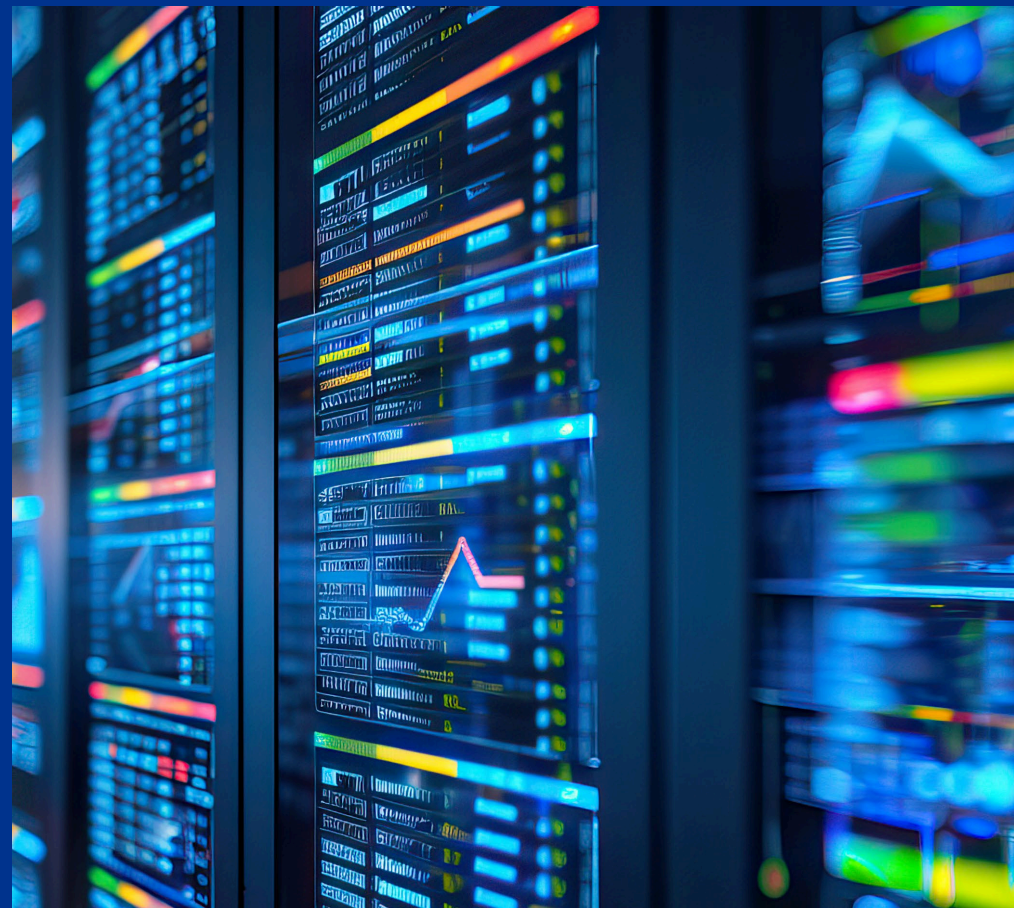
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# Executive summary

# Our key observations

Our observations in this report are based on our understanding and experience in assisting our clients throughout their PSAK-117 system implementation journey. We have discovered several key challenges around data, systems and processes which may impact the implementation timeline if not addressed and managed properly.



## Challenges in position and methodology implementation

Generally an out-of-the-box (OOTB) PSAK-117 system on the market comes with a pre-defined calculation and reporting template. This needs to be customized in order to address the insurer's position and methodology. In addition, a strong collaboration between the Actuarial, Accounting and IT teams are highly recommended to ensure the system is setup and aligned with the standard requirements stated in the Technical Position Papers (TPP) and the Actuarial and Accounting Methodology design.



## Challenges in data and system testing

The success of end-to-end data and system testing will depend on how well you plan ahead. This includes creating a detailed timeline of each activity, having proper governance, dedicating resources who will execute the testing, and making a test manager available to help monitor the system, log issues and keep everything on track.



## Challenges in preparing for opening balance sheet calculations

Many insurers are juggling parallel milestones that occur within a very tight timeline. Usually, activities to implement the opening balance sheet (OBS) calculation are performed concurrently with system testing. A thorough transition assessment is required, and needs to be documented, before the OBS calculations are performed. Planning, appropriate strategies, dedicated resources, the availability of historical data and the readiness of supporting infrastructure are all needed to ensure OBS preparation and calculations can be carried out smoothly and accurately.



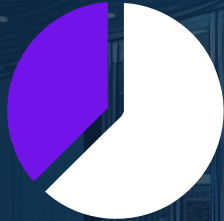
## Challenges in the financial closing processes

PSAK-117 is a complex standard that involves a new process and automation as part of business-as-usual (BAU) practice. This will impact currently heavily tasked financial closing processes. A well documented PSAK-117 target operating model (TOM) can help insurers to identify end to end processes, people, technology, and governance to meet their targeted timelines in the PSAK-117 financial closing process.

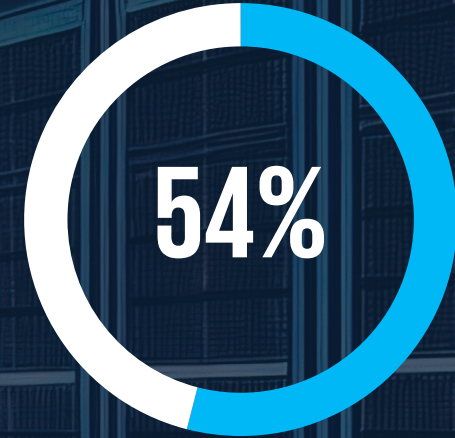
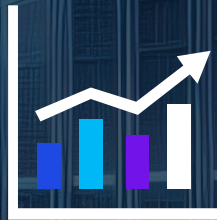


# Statistical\* insights: Here is what we have seen so far...

Over 32% have completed User Acceptance Testing



4% have started developing plans for Target Operating Models



No one has started updating KPIs, planning or forecasting



54% have completed reviews of their policy and methodology papers

\* As implementation is still ongoing among our clients, we expect further information to become available in future periods, which will enable us to provide more insightful analysis

# Overview of PSAK-117 implementation



# Overview of PSAK-117 implementation

PSAK-117 is a highly complex standard which completely reimagines insurance accounting, with the concurrent implementation of PSAK-109 for many clients. Some key challenges from data, systems and processes are identified below:



**Data management and integration:** PSAK-117 requires detailed data on insurance contracts, including historical data, to calculate present values, risk adjustments, and cash flows. Insurers often have complex data systems that need to be integrated and reconciled to comply with this standard which is applied on a fully retrospective basis unless it is too impractical (i.e., preparers must provide full financial statements including comparatives and notes as if PSAK-117 had always applied). This will involve a huge volume of historical data using robust data management systems and a high performing PSAK-117 engine for the OBS calculation.



**IT systems and infrastructure:** Many insurance companies have legacy IT systems that may not be capable of supporting the data and reporting requirements of PSAK-117. Significant changes are needed across the architecture of the entire financial system (from source systems to ledgers and consolidation/reporting tools), driven by complex posting logic (especially for contractual service margins, or CSM), tracking (e.g. movement tables) and new reporting requirements. Upgrading or replacing these systems can be costly and time consuming.

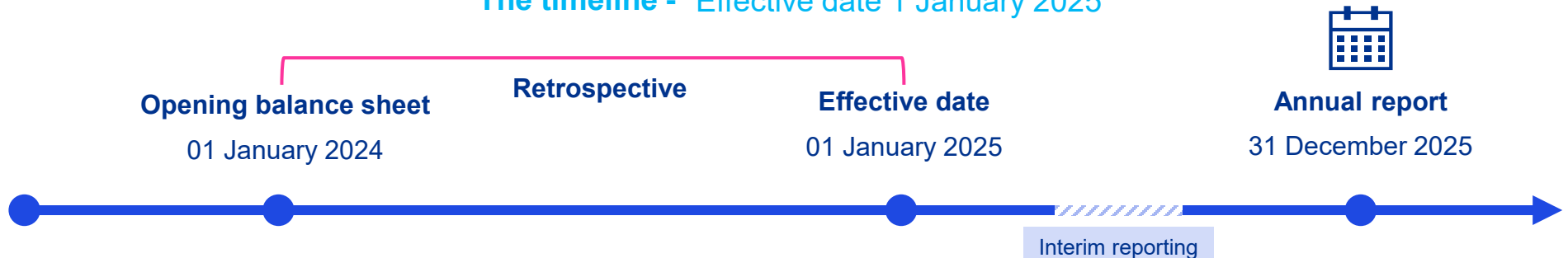


**Process changes:** Implementing PSAK-117 often requires changes to processes and procedures for data collection, financial reporting, and internal controls. Insurers need to ensure that their staff is trained on these changes and that new processes are effectively implemented. Strong controls over new processes and closer cooperation between teams is required to meet the new financial statement working day timetable



**Operational impacts:** Compliance with PSAK-117 may require significant changes to business operations, including product design, pricing strategies, and reinsurance arrangements. Insurers need to assess the operational impact of the standard and make adjustments as necessary.

## The timeline - Effective date 1 January 2025



# Potential challenges for insurers

01

Insurers are **still configuring their CSM solutions.**

Everything takes longer than expected

02

Insurers need **robust drafts of their future financial statements** and need to **update their chart of accounts and posting logic**

03

**Testing systems can take much longer than expected**

Most insurers have not yet completed end to end dry runs

04

Planning for **OBS and transition adjustments** is complex

Insurers need to **evaluate and plan their approach to the transition** and get started with their operational plans

05

Insurers need **firm plans on what information will be disclosed when**, to help users understand the impact of the transition to PSAK-117



The effective date is seven months away, the opening balance sheet should be ready by 1 January 2024....

**Are you ready?**



# Challenges in PSAK-117 implementation

# Challenges in position and methodology implementation (1/2)

Insurers must ensure that their system setup is aligned with the position taken and methodology designed.

## Why position & methodology are important?

TPP, methodologies, and other PSAK-117 related documents are essential in system implementation, as those documents will be based on the requirements and set the rules in the business requirement document (BRD) which will be used as a reference by the system implementor in configuring the system and required data transformation.



## Challenges in implementation

- 1 Positions and methodology documentations are usually assessed and designed in the early phases of the implementation journey and prior to the assessment of the entity's current data conditions, thus the approach/methodology is mostly stated on a high-level basis, or using assumptions of the entity in current documentation is usually made, and conditions/practice.

In addition, most of the documents have yet to consider how the system adopts the methodology and position stated in the documents.

Sample of use cases:

- Expense in PSAK-117 system is not allocated into a required granularity level that meets the outcome of expense study and TPP Level of Aggregation.



## What are the solutions?

- 1
  - Position and methodology documentation needs to be treated as a living document that will be regularly revisited and adjusted based on the infrastructure and the real data conditions in the implementation phase.
  - Strong team collaboration between the Actuary, Accounting, and IT workstreams to understand the condition of the data and ensure that the methodology stated in the document is aligned with the system configuration.
  - A robust data management can be leveraged to support the expense allocation that is aligned with the outcome of expense study and Level of Aggregation TPP. Moreover, a proper governance and control are necessary to ensure accuracy and adherence to correct procedures when allocating expenses into more granular levels across several dimensions.



# Challenges in position and methodology implementation (2/2)

Insurers must ensure that their system setup is aligned with the position taken and methodology designed.



## Challenges in implementation

- 2 The PSAK-117 system available on the market usually already has pre-defined calculations and templates. It needs to be adjusted and configured based on the position and methodology of each entity.
- Sample of use cases:
- Miss-alignment in Level of Aggregation between what has been stated in TPP and setup in PSAK-117 system
  - CSM is amortized differently between what has been stated in actuarial methodology and setup in PSAK-117 system
  - Liability incurred claim (LIC) and loss recovery component (LRECC) are not part of core calculation in PSAK-117 system. Those calculations are managed manually outside the system.



## What are the solutions?

- 2
- Ideally, system PSAK-117 should be able to cater the end-to-end requirements under PSAK 117, including LIC and LRECC for consistency and accuracy, given its dependencies on other components calculated, such as expected cash flow generation and LRC computation.
  - However, to support the gap that may occur, a robust data management is often required to support data transformation and core calculations, such as LIC and LRECC, that are not performed in PSAK-117 system. Data validation and control are important key to ensure that a proper data quality and governance is performed in a correct manner throughout testing period and later in the BAU processes. Those requirements should be well documented in a form of BRD and functional specification design (FSD), as part of system implementation deliverables.

***A proper fit-gap analysis needs to be performed for any potentially selected system, so an accurate estimation of the customizations needed and the impact to the effort and timeline can be measured accordingly.***

# Challenges in data and system testing (1/3)

End-to-end testing involves the readiness of upstream and downstream infrastructure

## What outcome is testing trying to achieve?

After the system is setup and configured based on the requirements and design in PSAK-117, it needs to be tested to ensure end-users can run new processes within the expected working day timetable supported by new system functionalities and data flows to cover all possible business scenarios and produce accurate results



## What are the components of a successful testing program?

End-to-end system testing can be a never ending cycle, if not planned properly. To ensure a successful testing program, key components need to be taken into account during execution. These components are listed below:

### A Test planning

- Test plan creation, issuance and walkthrough
- Testing preparation planning
- Test execution schedule preparation
- Testing process & control implementation (e.g. Test execution tools)
- Test result tool implementation & set up
- Test progress management information (MI) preparation
- Testing & test tool training

### B Test preparation

- Test case definition and test script authoring
- Test result exit criteria definition
- Defect management remediation strategies
- Requirements for traceability mapping to test scripts
- Expected results tools setup (CSM, account posting framework)
- Test readiness review & criteria delivery management

### C Test execution

- Test script execution and testing of test cases
- Analysis of actual vs expected results
- Account posting & disclosure mapping comparisons
- Root cause analysis & defect management
- Test progress MI preparation & issuance

### D Presentation of results

- Evaluation of test results and presentation preparation
- Presentation of test results

### E Test closure

- Test result finalization and presentation
- Requirement traceability matrix finalized & completed
- Documentation and audit trail finalization
- Test closure certificate finalization and issuance



# Challenges in data and system testing (2/3)

## Why is testing challenging?

There are several factors that can cause testing execution to be challenging, such as a tight testing timeline, levels of complexity, system readiness, existing manual processes, unfamiliar PSAK-117 solutions, undedicated human resources, and the unavailability of data or poor data quality.



### Tight testing timeline 1

There's only a small window for conducting the testing since insurers are trying to do parallel runs in 2024 and go-live in 2025

### Manual/not standardized existing processes 5

Manual/not standardized existing processes can cause data inconsistencies and make it difficult to map the target process.

### Level of testing coverage complexity 2

PSAK-117 is a complex topic and will have an impact on the entire reporting landscape. A proper assessment needs to be conducted to understand the impact.

### Unfamiliar PSAK-117 solutions 6

Since user training is provided only for a limited time, the client won't necessarily have a proper understanding of how the solution works.

### Related systems are not ready 3

It's possible that not all components will be properly tested prior to the execution of the testing which could cause system related issues later during test execution.

### Limited & undedicated human resource 7

The resources who are involved in testing activities still handle BAU activities and changes in personnel. Without proper knowledge transfer, these resources could cause a delay in test execution.

### Data is not available for PSAK-117 input 4

The data required by PSAK-117 might not be available, which would require system enhancements and data transformation. Aside from that, the input data might not be reconciled.



# Challenges in data and system testing (3/3)

## How to overcome testing challenges?

There are several things that need to be considered when trying to overcome challenges in testing execution, such as selecting representative data samples, performing incremental tests in key risk areas, creating test plans & strategy, ensuring system readiness, providing dedicated human resources, and conducting test governance & management.



### Selecting representative data samples

1

Focus on a sample population that represents all business scenarios as the basis of the test data – using the whole population can sometimes be time consuming and ineffective.

### Incremental test areas

2

Identify operating models and key risk areas to test incrementally. This will allow insurers to focus on the high priority areas first, and cover the next priority gradually.

### Defining test plans & strategy

3

Define the outline of end-to-end (E2E) scenarios that all systems should deliver and agree on a test plan prior to execution

### Ensuring system readiness

4

Monitor system readiness and embed target processes to minimize any system based issues and ensure that all processes are covered.



### Dedicated human resources

5

The resources that are involved in testing activities need to allocate their time fully during the initiation phase (user training, planning & strategy socialization), through the execution phase, until the end of the testing phase.

### Proper test governance & management

6

Proper test governance is required to identify the roles and responsibilities of each of the relevant parties, monitor their progress and ensure that the target is on track. Appointing a test manager who handles the daily progress updates, and issues escalation and coordination between related parties will help to align the test execution to the defined timeline



# Challenges in opening balance sheet preparation (1/2)

## Providing the history and assumptions behind the actual data can be very challenging

Insurers in Indonesia are required to prepare the PSAK-117 OBS as of 1 January 2024, to facilitate comparative reporting of their positions as of 1 January 2025, which marks the effective date of PSAK-117 in Indonesia. PSAK-117 offers three transitional approaches for determining the OBS, such as the full retrospective approach (FRA), the modified retrospective approach (MRA) and the fair value approach (FVA). An evaluation of these transitional approaches entails assessing the availability and completeness of the historical data to determine the appropriate method. Each transitional approach presents unique complexities and challenges in calculating the opening balance.

## What are the common challenges?

### Incomplete historical data

1

Both the FRA and MRA transition approaches necessitate the utilization of historical data for the calculation of the opening balance. Beyond policy attributes and actual policy transaction data, historical assumptions for reserve calculations and expense data are also essential. However, in certain instances, clients have encountered challenges wherein historical assumptions and expense data are inadequately maintained. Consequently, opting for the FVA approach, which circumvents the need for historical data, becomes necessary.

### Data not at the required level of granularity

2

The granularity requirements stipulated by current accounting standards and PSAK-117 differ significantly. All data utilized for the OBS calculation must align with the granularity levels mandated by PSAK-117. Despite the availability of historical data, in some cases it may not adhere to the required granularity levels, necessitating data transformation to achieve compliance.

### Limited system capabilities and unreadiness to support the OBS calculation

3

Given the complexity and voluminous nature of the data required for the calculation process, it is advisable to employ systems or tools for accuracy and efficiency. However, not all PSAK-117 solutions on the market are equipped to handle the calculation of all the transitional approaches, particularly FVA, which may require external calculations or the use of alternative tools. Additionally, the development and testing phases of such solutions typically entail a considerable time investment. Consequently, some clients embark on system development, testing, and opening balance calculation concurrently, which can lead to inefficiencies and inaccuracies due to the system not being completely ready.

### Tight timeline

4

PSAK-117 implementation would normally take about two years considering the complexity of the new requirements that require insurers to make significant adjustments to their current practices. For some of our clients, those that started the implementation process in 2023, the calculation of the opening balance and the ongoing period will be conducted simultaneously, which could lead to delays in the commencement of opening balance calculations (e.g., the calculation of the opening balance for 1 January 2024 will commence in Q3 2024, and calculations for Q3 2024 onwards will also be underway in parallel).

# Challenges in opening balance sheet preparation (2/2)

## How to overcome these challenges?

### 1 Plan ahead



A comprehensive and well-defined project plan is imperative for the successful implementation of PSAK-117. This plan should outline a clear timeline and identify all interdependencies among the implementation activities. For instance, the calculation of the opening balance is contingent upon both the assessment of the transitional approaches and the timeline for system implementation. It is essential that these activities be concluded before the opening balance calculation to ensure accuracy and alignment with the company's objectives.

Furthermore, it is advisable for insurance firms to strategize resource allocation dedicated specifically to the PSAK-117 project, considering the involvement of various workstreams or departments, such as Data & Systems, Actuarial, Accounting and Finance, and Reinsurance.

### 2 Thorough transition approach assessment



A meticulous assessment of the transitional approaches is necessary to ascertain the availability and completeness of the requisite historical data and to determine the appropriate transitional approach based on this evaluation. In certain instances, sometimes the assessment is not done properly and is not well documented. The assessment should also identify any potential discrepancies resulting from system changes or migrations in the past that could result in missing historical data.

A thorough evaluation of historical data availability streamlines the data collection process for the opening balance calculation.

### 3 Prepare sufficient system infrastructure



To ensure the accuracy of the opening balance calculations, it is advisable to employ tools or systems to support the calculation processes. Prior to performing the opening balance calculation, it is essential to confirm the readiness of the necessary systems and infrastructure. This includes ensuring that your PSAK-117 solution is capable of supporting all three transitional approaches (including FVA).

From an infrastructure perspective, given the substantial volume of historical data required for the opening balance calculation, the size of the data should be taken into consideration when selecting and preparing the system and infrastructure. Failure to do so, as observed in some instances, may lead to inadequate system support for large data volumes, thereby impacting the implementation of the project timeline and necessitating unforeseen investments in hardware, resources, and fees.



# Shortening the time for the PSAK-117 financial closing process

# Shortening the time for the PSAK-117 financial closing process

Some insurers require three weeks to one month to implement PSAK-117 in BAU operations in the first place



For some insurers, implementing PSAK-117 in BAU operations require approximately three weeks to one month to generate reports, necessitating further assessments and improvement efforts to expedite their processes. This is also attributed to the introduction of new procedures, resulting in a shift in the timeframe for financial report generation.

To improve the financial closing process, it is important for insurer to start designing the target operating model (TOM) to optimize operational efficiency, enhance risk management capabilities, ensure compliance with regulatory standards, and ultimately support accurate financial reporting in accordance with the PSAK-117 guidelines.

Moreover, TOM can be a guide for Insurers to help continue with the BAU process to meet targeted financial closing timelines after system implementation is done. TOM itself is a living document that needs to be updated as improvements are made in subsequent phases after the system goes-live.

**What is TOM for the PSAK-117 financial closing process?**

TOM for PSAK-117 refers to the framework and set of processes that an organization puts in place to ensure compliance with PSAK-117. This includes several components, such as data management, actuarial modeling, various accounting processes, financial reporting, and systems and technology.



# Shortening the closing time for the PSAK-117 financial process

Some insurers require three weeks to one month to implement PSAK 117 in BAU operations in the first place

**What were the practical challenges that we encountered during our TOM design discussions?**

**Why is it difficult to meet the targeted timeline?**

- The complexity of PSAK-117 can result in needing more time to define its requirements, particularly for insurers with extensive and complex insurance portfolios.
- Manual processes (which could potentially be automated), manual reconciliation, manual adjustments made during closing.
- Introduction of new or additional processes to implement PSAK-117.
- Issues with data availability and quality: untimely data input, lack of organization, and insufficient detail.
- A data transformation which involves converting and adjusting current data structures, formats, or content to adhere to the specifications and standards in PSAK-117.
- Lack of system centralization or integration between systems.
- Dependency on external parties for closing processes.
- Resource constraints. New processes require new headcounts to operate.



**How to improve?**

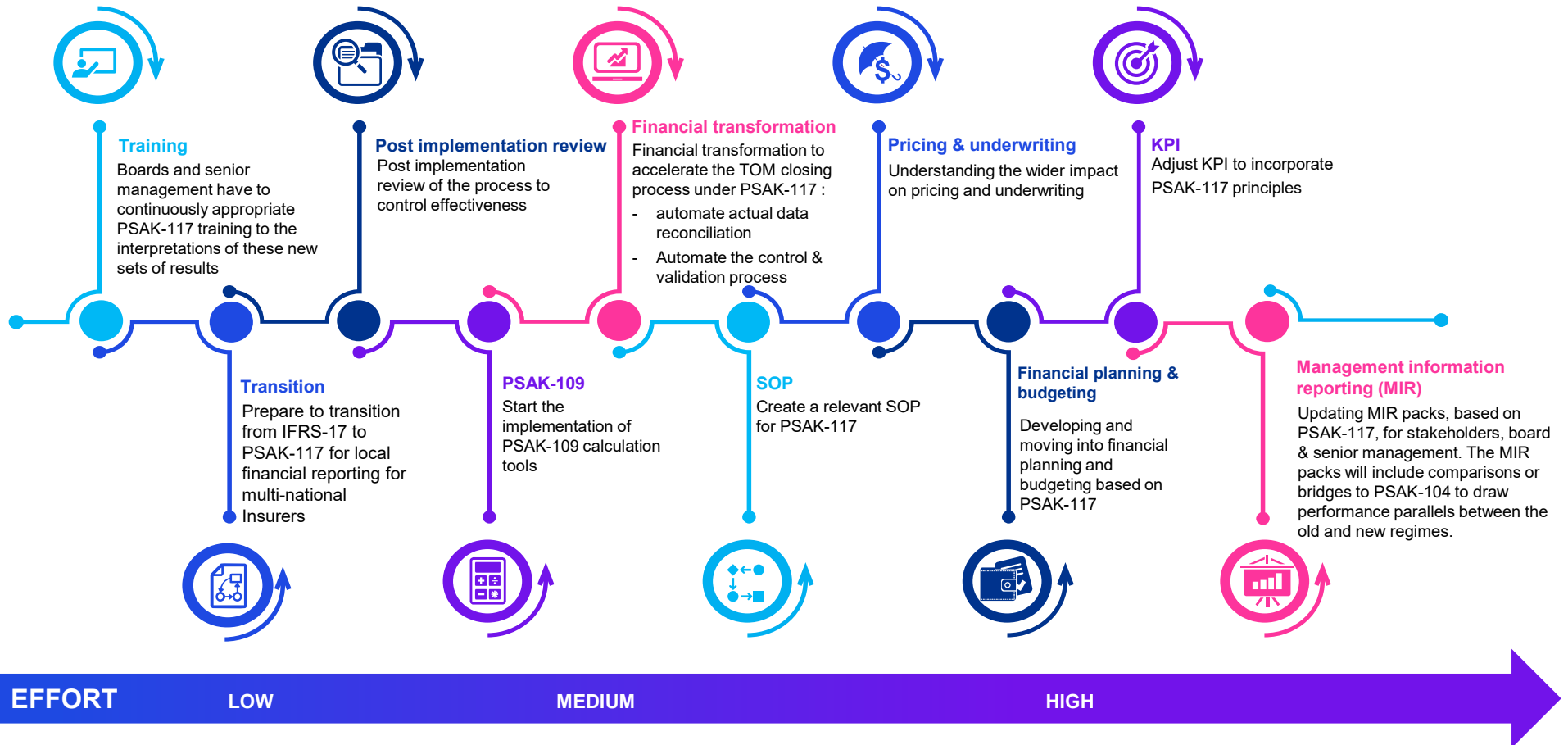
- Enhance business processes including data input methods, frequency of data input, rules/standard operating procedures (SOP)s for obtaining data from third-party or external sources, and operational improvements.
- Enhance operational efficiency and reduce errors by automating manual processes wherever possible, while also integrating multiple systems to ensure seamless data flow.
- The implementation of robust data management practices hinges on the methodology and transitional assessment outcome, as well as the potential necessity for extensive historical data. This initiative aims to ensure the availability, quality, and consistency of data by instituting data integration processes to combine information from varied sources, alongside the implementation of validation and cleansing procedures to enhance data accuracy.
- Provide training and implement a change in management strategies to educate employees about PSAK-117 requirements and their impact on their respective roles.
- Manage change effectively to ensure the smooth adoption of new processes and systems.



# What's next?

# What's next after PSAK-117 implementation?

Despite the changes and transformation necessary to comply with the regulations, there are some key aspects that Insurers can consider going forward to improve E2E processes and bring high-impact and beneficial outcomes to the organization:



# Glossary

BAU	Business-as-usual
BRD	Business requirement document
CSM	Contractual service margin
E2E	End-to-end
FRA	Full retrospective approach
FSD	Functional specification design
FVA	Fair value approach
KPI	Key performance indicator
LIC	Liability incurred claim
LRECC	Loss recovery component
MI	Management information
MIR	Management information report
MRA	Medium retrospective approach
OBS	Opening balance sheet
OOTB	Out-of-the-box
SOP	Standard operating procedures
TOM	Target operating model
TPP	Technical Position Papers



# Keeping in touch

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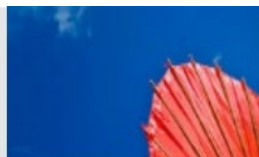
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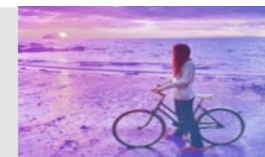
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