# The PSAK 117 post implementation series:
## Key performance indexes under PSAK 117

## Executive summary

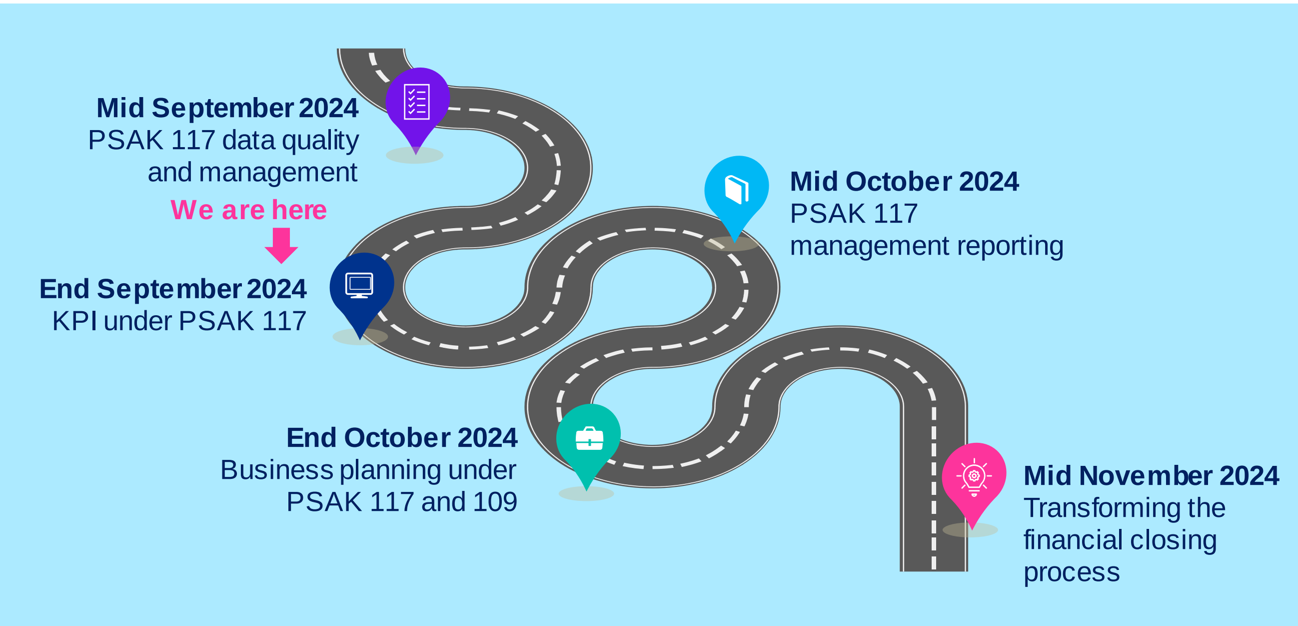
PSAK 117 will be implemented in Indonesia in January 2025 with the hopes of enhancing comparability between companies. PSAK 117 also provides new metrics that can unlock deeper insights into an insurer's growth and profit dynamics. However, incorporating PSAK 117 into performance metrics can be challenging due to the absence of a clear market consensus. Hence, there are differences between the various methodologies used, with differing impacts on insurers' key performance indexes (KPIs).

In this publication, which forms Part 2 of our five-part "PSAK 117 post implementation" series, we will:

- Highlight some potential changes and challenges insurers may face when incorporating PSAK 117 into their KPIs
- Share some key observations on the KPIs reported by insurers based on the insights in "Insurer's first annual reporting under IFRS 17 and IFRS 9" released by KPMG Global in April 2024
- Outline some of the key considerations and next steps for insurers.

## Release of the "PSAK 117 post implementation" series

On 12 September 2024, we released the first publication in our series about PSAK 117: Data quality and management. We hope this has provided meaningful insights into PSAK 117 implementation and has motivated you to continue exploring this important topic. We plan to adhere to the following timetable. Please follow us on social media to read all of the articles in our "PSAK 117 post implementation" series.



## Understanding the change

First wave adopters among global insurers have been incorporating IFRS 17 (PSAK 117) into their KPIs. However, it will take time to build a market consensus and to educate people on the different KPIs under PSAK 117. Below are some areas that insurers should carefully consider.

**Metrics under PSAK 117 and PSAK 104**
Insurers should be able to explain the impact of the different metrics under PSAK 117 and PSAK 104. Also, insurers will need to explain whether the changes to their KPIs are reasonable.

**Different definition of KPI**
Insurers will need to align their KPIs with their PSAK 117 numbers, but there is a lack of guidance in interpreting the new KPIs. Hence, there are different opinions on the interpretation and definition of the KPIs.

**Interpretation of KPIs**
Insurers will need to interpret KPIs under PSAK 117. They should also know how to manage onerous contracts. The concept of onerous contracts was newly introduced under PSAK 117 and this will play a huge role in the assessment of whether any changes need to be made, such as to pricing strategy.

**Improve business strategies**
After putting a lot of effort into the implementation of PSAK 117, insurers will need to make use of the new accounting standard to improve their business strategies. Business planning under PSAK 117 will be discussed in our next publication.

**Explaining KPIs to stakeholders**
Insurers will need to explain the importance of the new KPIs under PSAK 117 to stakeholders and how they will be used to monitor the company's performance.

## KPIs reported under PSAK 117

In this section, we will share some key observations on the KPIs reported by insurers based on insights from "Insurer's first annual reporting under IFRS 17 and IFRS 9" released by KPMG Global in April 2024.

### Key highlights

- A diverse range of KPI metrics were adopted by global insurers in areas such as new business, profitability, and value and capital.
- Global insurers have started incorporating the contractual service margin (CSM) into their KPIs, either as a new standalone metric or as a component of an existing metric. We expect insurers in Indonesia to move in the same direction given the wide adoption of CSM-based measurement models such as the General Measurement Model (GMM) and the Variable Fee Approach (VFA) amongst both life and non-life insurers in the industry. Globally, this is more common for life insurers, however due to the long-term insurance contracts issued by non-life insurers in Indonesia, such as credit insurance, we expect the use of the CSM as a metric will slowly become common amongst non-life insurers in Indonesia as well.
- Profitability KPIs were most impacted since they are typically based on profit calculated under PSAK. PSAK 117 brings about a new look to the income statement and potential changes to profit recognition patterns causing profit calculated at a certain point in time to differ from PSAK 104. Hence, some global insurers have made adjustments to reflect these changes in the metrics. Similarly, insurers in Indonesia will need to think about the impact of PSAK 117 on their profitability KPIs, especially with the need to include a risk adjustment (RA). This may also defer the profits of non-life insurers given that there are no requirements for a similar margin (e.g. the margin for adverse deviation) under the current regulation.

- Several new metrics that consider CSM were introduced to measure business value. This includes:
  - CSM initially recognized in the period, to report on the value of new business
  - Comprehensive Equity or Adjusted Book Value, calculated as the aggregate of shareholder equity and the net of the CSM, to indicate the total value of an insurer's business
- Several existing metrics were updated to take into consideration PSAK 117 concepts or principles such as discounting cash flows using the PSAK 117 discount rate, removing investment components from insurance revenue, and re-defining insurance ratios (which will now be based on insurance revenue instead of premiums). Some metrics re-defined or updated include:
  - Return on Equity, Earnings per Share, and Operating Profit were updated to reflect the insurance service result and the net financial result.
  - Ratios such as the Claims Ratio, Expense Ratio, and Combined Ratio were re-defined so that they are now based on insurance revenue instead of premiums. This is not surprising given that premiums no longer exist in a PSAK 117 income statement.
  - The Combined Ratio was updated for PSAK 117 to consider the discounting of cash flows, the exclusion of non-attributable expenses from the expense ratio, and the exclusion of investment components from insurance revenue. The calculation methodology was also updated. It is now insurance service expenses divided by insurance revenue.
  - The Leverage Ratio was updated to incorporate CSM-post tax. This includes using total gross debt divided by the sum of shareholder's equity, CSM post-tax and total gross debt.
- The KPIs reported by the insurers surveyed are listed below:

**New Business Metrics**

- CSM initially recognized in the period (*)
- Embedded value
- Value of new business or value of the new business margin
- Annualized new premiums (ANP)
- Sales with no adjustments for IFRS 17 (PSAK 117)
- Written premium growth

**Profitability Metrics**

- Return on Equity (*)
- Earnings per Share (*)
- Operating Profit (*)
- Combined Ratio (*)

**Value and Capital Metrics**

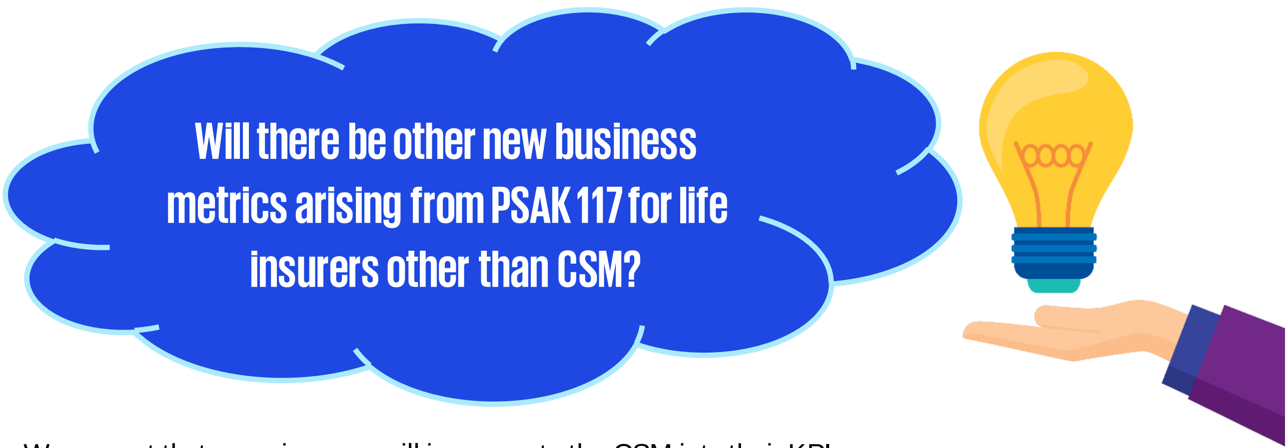
- Comprehensive Equity or Adjusted Book Value (*)
- Book Value, Equity or Net Asset Value per Share
- Leverage Ratio

(*) New or updated

## Life insurers

During the first year of implementation, the KPIs that were used among life insurers for new business metrics were still diverse. We expected that all life insurers would start incorporating the CSM into their KPIs. However, the results of our survey show that not all insurers have incorporated the CSM into their KPIs.

- Only **29** insurers, or **51 percent** of the insurers that we surveyed, used the CSM in the period. Some grouped the new CSM with new RA to present a 'deferred profit' or to make certain adjustments – e.g. adjustments for reinsurance or non-directly attributable expenses.
- **8** insurers continued with the embedded value basis
- **18** insurers reported the value of new business or the value of a new business margin
- **31** insurers continued reporting a non-GAAP volume metric – e.g. annualized new premiums (ANP) and sales with no adjustments for IFRS 17 (PSAK 117).



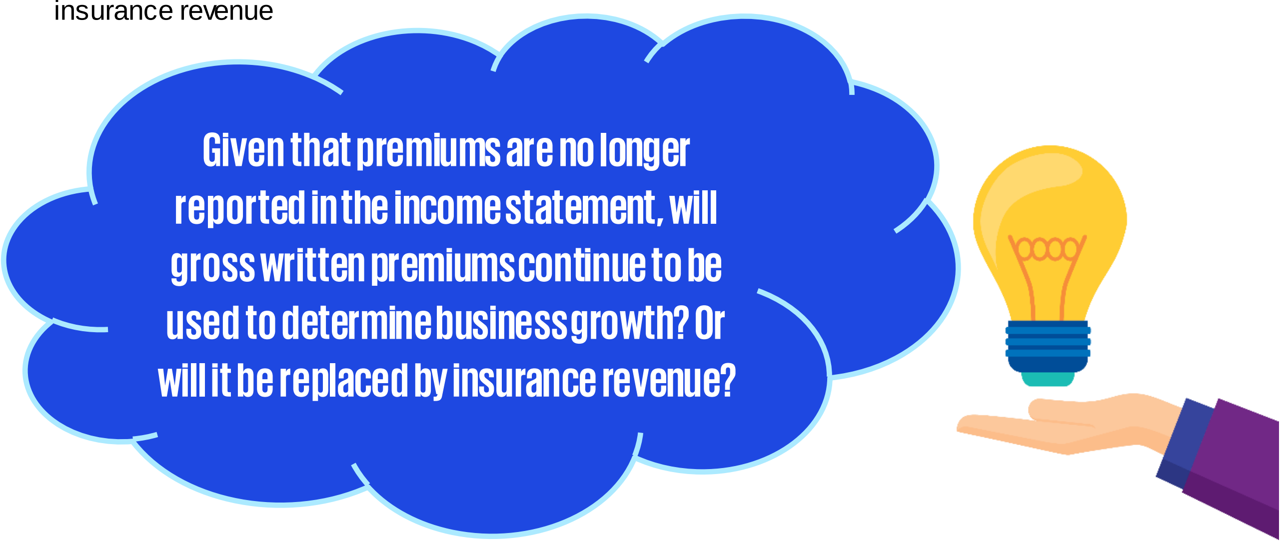

We expect that more insurers will incorporate the CSM into their KPIs.

## Non-life insurers

Based on the results of the global survey, most non-life insurers reported the same metrics as they did under IFRS 4 (PSAK 104). This includes the use of written premium growth to report the value of new business and the combined ratio to indicate profitability.

Specifically for profitability, even though the same metrics were used, adjustments were made to the combined ratio to update it for IFRS 17 (PSAK 117).

- 32 of the global insurers adjusted for the effect of reinsurance (i.e. the net of reinsurance), whether it was for insurance service expenses or insurance revenue (or both).
- 13 of the global insurers included both attributable and non-attributable expenses.
- 11 of the global insurers disclosed a discounted combined ratio and 6 of the insurers provided a combined ratio on both a discounted and undiscounted basis.
- 11 of the global insurers continued using a denominator comprising a revenue metric that was not based on IFRS 17 (PSAK 117) (e.g. earned premiums or gross written premiums)
- 9 of the global insurers made various other adjustments to insurance service expenses, such as excluding the impact of onerous or acquired contracts, or excluding certain costs.
- 2 of the global insurers calculated the combined ratio as insurance service expenses divided by insurance revenue




## Key considerations and next steps

- **Identify and determine the right or most suitable KPIs to report**
  Insurers will need to perform an assessment to evaluate and select suitable KPIs that best reflect their business. Decisions will also need to be made on whether existing KPIs will need to be re-defined or recalculated, or can be used as-is without adjustments.

- **Timeline for implementing and communicating new KPIs to the affected stakeholders**
  As insurers are focused on PSAK 117 implementation, the topic of KPI is often pushed down on the PSAK 117 agenda. However, implementing new KPIs will take time, as stakeholders will need to agree on the new KPIs to report. The methodology used to calculate the KPIs will also need to be updated, and stakeholders will need to be trained. As with any change, communication is the key to managing expectations. PSAK 117 is a complex standard and it is imperative that stakeholders understand how to interpret the new KPI metrics. Hence, insurers should start planning the implementation and communication of KPIs sooner rather than later.

- **Impact of the new KPIs on internal and management reporting**
  Insurers should not only think of PSAK 117 as a box-ticking exercise for financial reporting purposes, but use it to gain meaningful insights into their business. Insurers should consider incorporating PSAK 117 metrics in their planning and budgeting. Establishing a clear link between the new KPIs and performance targets would be beneficial.

## How KPMG can help

KPMG firms have dedicated teams who work with a broad range of clients across life and non-life insurers. KPMG also has local and global experts with strong technical and market experience at the forefront of PSAK 117 who can assist you on this journey.

### KPMG teams can help you to:

- Ensure that boards and stakeholders are properly trained to understand PSAK 117
- Assess management information/KPI's under PSAK 117 for reporting purposes
- Understand the impact of the KPIs under PSAK 117 and PSAK 104
- Implement the KPIs under PSAK 117 into your business planning process. This will also be discussed in our next publication

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