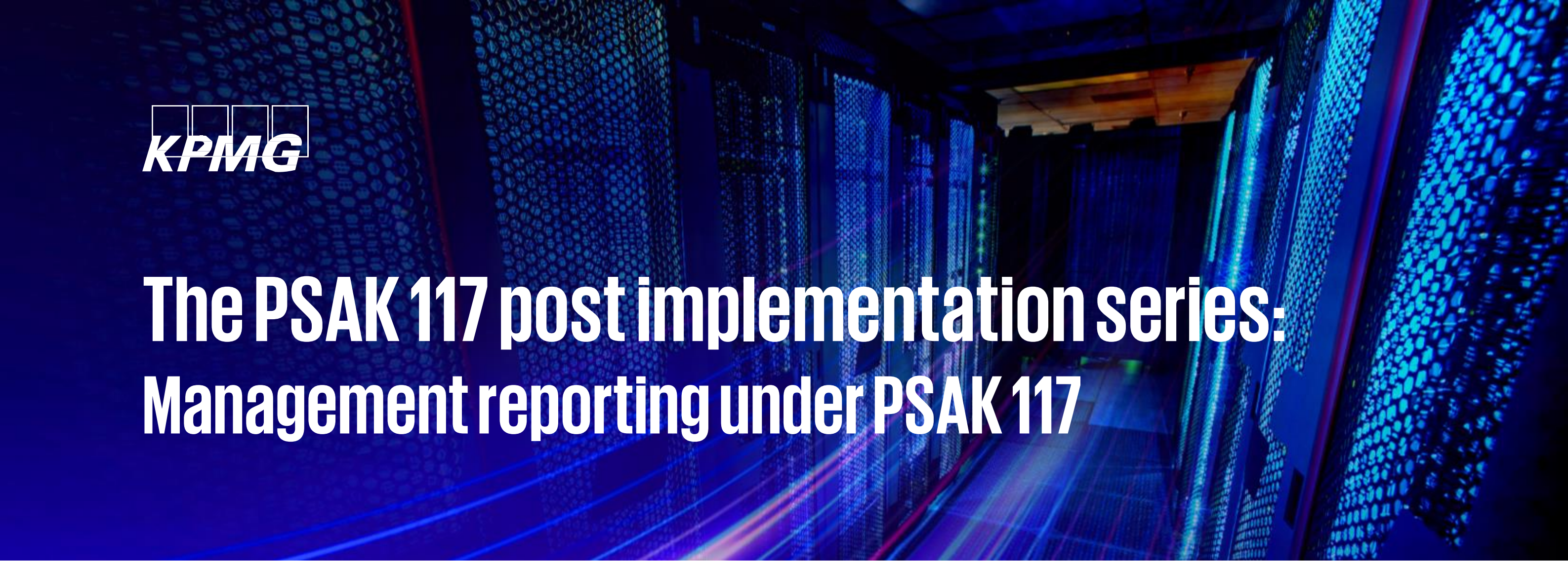


The PSAK 117 post implementation series: Management reporting under PSAK 117

Executive summary

PSAK 117 fundamentally transforms management reporting for insurance companies by reshaping the way insurance contracts are measured, reported and disclosed. Insurers are required to provide extensive disclosures with more detailed information and enhanced transparency.

This publication, part three of our five-part “PSAK 117 Post Implementation” series, builds on the insights from part one, which emphasized that insurers must first focus on building robust data management and data transformation processes to improve data quality. This will help insurers align with PSAK 117 for more accurate financial reporting and better decision-making. Part two discusses how insurers should also assess and define suitable Key Performance Indicators (KPIs) that reflect the new standard and best reflect their business. In part three, we will be highlighting the importance of developing robust management reporting under PSAK 117.

The impact of PSAK 117 on management reporting goes beyond the standard financial statements and disclosures. Management reporting can be a vital complement to the standard PSAK 117 financial statements and disclosures. It supplements the standard disclosures with additional analysis, such as KPIs and business plan monitoring, to give a more complete and nuanced picture of an insurer’s financial health and strategic direction. Built on a foundation of accurate data (as discussed in Part 1), well-defined KPIs (Part 2), and clear, targeted business plans (to be covered in Part 4), management reporting can become a vital tool for navigating the complexities of PSAK 117. It helps insurers monitor performance, assess progress toward strategic goals, enhance decision-making and drive the business forward.

Management reporting serves as a tool for analyzing an insurance company's financial condition

Management reports can delve into different aspects or parameters that are not captured in PSAK 117's standard financial statements and disclosures (such as levels of granularity) by providing insights into specific business segments, product lines and risk exposures that are often aggregated in PSAK 117 disclosures. This detailed internal analysis enables management to identify trends, risks and opportunities that may not be evident in standard disclosures.

Management reporting helps monitor insurers' KPIs and track their business plans

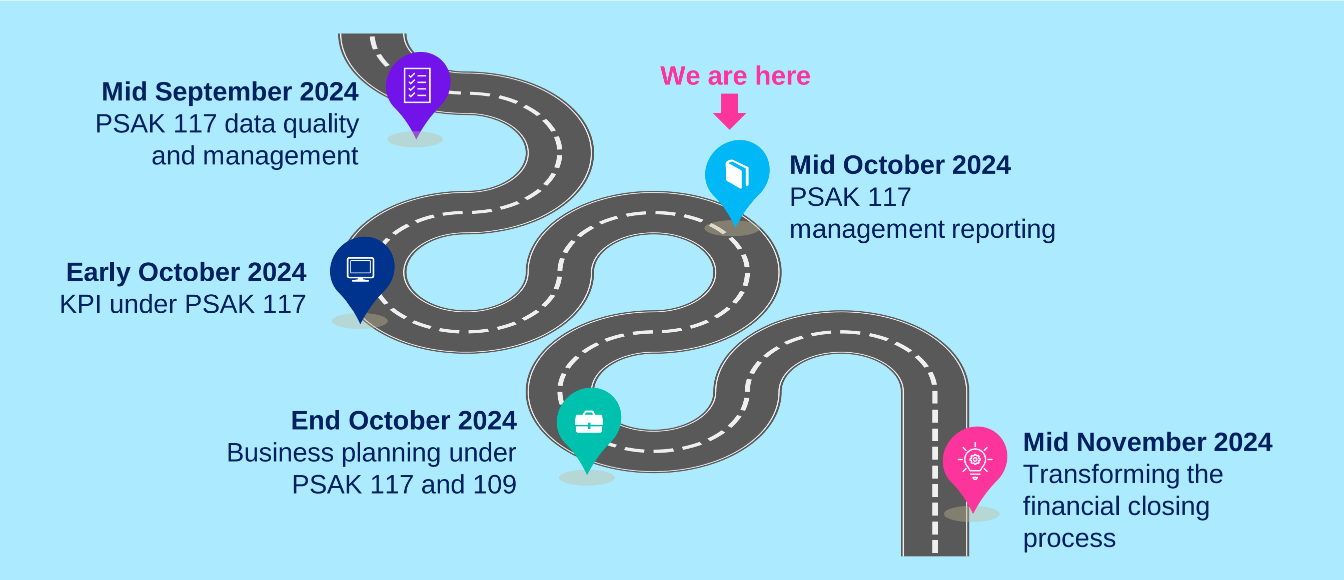
The new standard can significantly impact how certain KPIs are calculated and interpreted and requires a revised approach to performance monitoring. By incorporating these updated KPIs into management reports, companies can ensure that they are effectively tracking their performance in alignment with PSAK 117 requirements.

Management reports assist insurers in explaining the financial impacts of PSAK 117 to key stakeholders

Management reports are essential for communicating the new requirements, as well as the changes and complexities of PSAK 117 to key stakeholders. These reports can break down the technical aspects of IFRS 17, making it more accessible and understandable to stakeholders who might not yet be familiar with PSAK 117 financial statements and disclosures.

Release of the "PSAK 117 post implementation" series

From mid September until early October 2024, we have released the first publication in our series about PSAK 117: Data quality and management and the second publication in our series about Key Performance Index under PSAK 117 and PSAK 109. We hope the two publications have 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 for future releases. Please follow us on social media to read all of the articles in our "PSAK 117 post implementation" series.



Key components to be included in PSAK 117 Management Reporting

A PSAK 117 management report should provide an overview of an insurer's financial health, which should complement and supplement the insurer's financial statements and disclosures to provide management with a more comprehensive understanding of the company's performance.

Detailed insights into an insurer's PSAK 117 financial analysis

- Management reports under PSAK 117 generally provide an overview of:
  - ❑ **Financial position**, such as assets and liabilities and any impacts to the balance sheet
  - ❑ **Performance metrics**, such as underwriting and investment performance under PSAK 117
  - ❑ **Contractual Service Margin (CSM) analysis**, to highlight CSM movement and profit recognition over a certain reporting period
  - ❑ **Risk Adjustments**, to see if there is movement and how it impacts an insurer's profit and loss
  - ❑ **Cashflow analysis**, to explain expected vs actual cashflows and future cashflow projections over the life of insurance contracts

- The information above might also be found within an insurer's financial statements and disclosures but in PSAK 117 management reports, it might be tailored to the needs of internal stakeholders. For instance, management might require a more granular analysis of insurance contract liabilities or CSM, broken down by specific aspects such as branches or distribution channels.
- Management reports can also include some other aspects and information as part of compliance and regulatory reporting, such as PSAK 109, the solvency ratio, Risk-Based Capital (capital adequacy), and summary reports for investors.

KPI and business plan achievements under PSAK 117

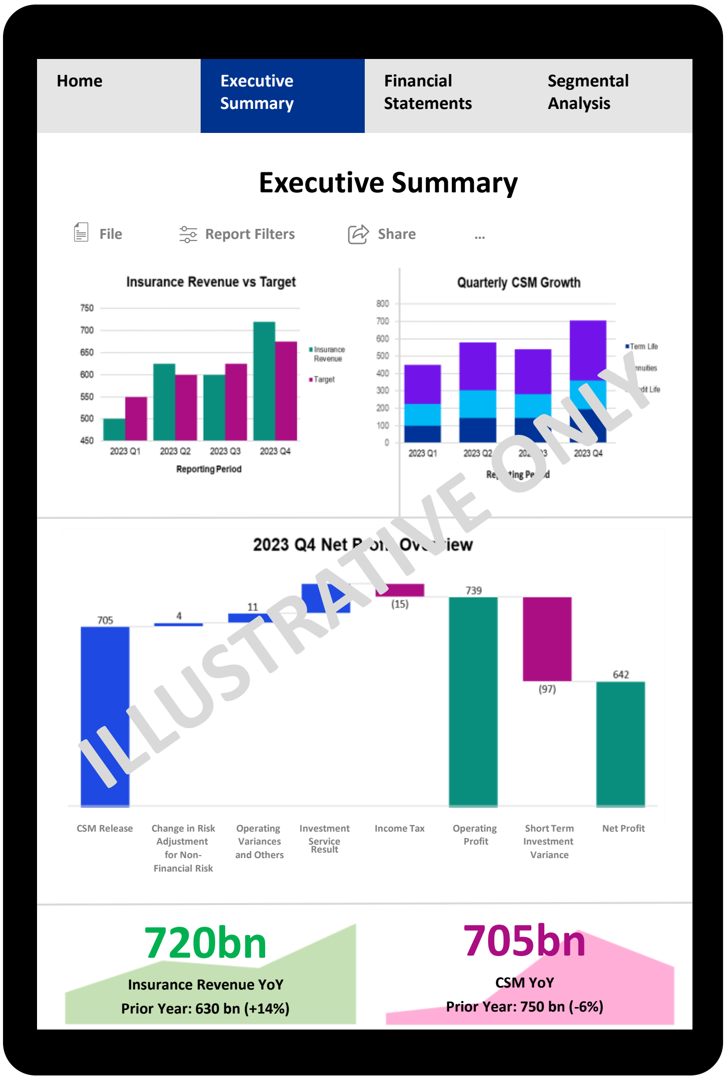
- Management reports usually also track KPIs and business plans under PSAK 117. This helps monitor the achievements of the KPIs and business plans at each stage in comparison to the targets set by the company. *Note: Further explanation of how business plans are defined under PSAK 117 will be discussed in Part 4 of the "PSAK 117 post implementation" series.*
- Some KPIs and business plans might remain consistent with those used under PSAK 104, but the formulas for calculating them might be adjusted to reflect the changes introduced by PSAK 117. For example, a commonly monitored KPI like the loss ratio might now be calculated to include a risk adjustment. Some traditional KPIs under PSAK 104 might also be kept, e.g., the Gross Written Premium (GWP).
- By capturing the new requirements in KPIs and business plans, management reports ensure that performance monitoring remains aligned with the new accounting framework, enabling more accurate assessments and strategic responses.

Leveraging dynamic dashboards and Artificial Intelligence (AI) for more strategic insights

Many insurers seized the implementation of PSAK 117 as an opportunity to integrate new dynamic management reporting analytical tools and dashboards into their updated data infrastructure.

These analytical tools and dashboards can supplement the capabilities of the PSAK 117 CSM engines typically employed by insurers. While CSM engines are generally designed to produce the standard financial statements and disclosures required under PSAK 117, management reporting can provide management with the **flexibility to view the business from various perspectives and gain a deeper understanding of key performance areas**, such as segmenting results by measurement model, branches, distribution channels, or switching between gross and net of reinsurance, among other aspects.

To enhance the functionality of these tools and dashboards, insurers are increasingly incorporating the latest technologies, such as **Artificial Intelligence (AI)**. AI can significantly elevate the effectiveness of management reporting by automating data analysis, identifying patterns, and generating predictive insights. For example, AI can be used to analyze large volumes of data in real-time, detecting emerging trends or potential risks that may not be immediately apparent through traditional analysis.



Additionally, AI-driven tools can provide scenario modeling, allowing management to simulate the impact of different strategies or market conditions on the company's performance, thus enabling more informed decision-making.

Key considerations and next steps

- **Define objective of management reporting**
  Before developing a management report, firstly insurers will need to define the objective of their management report. This will help in shaping the general framework of their management reporting such as format, frequency and content of the report. Insurers need to ensure that their reports align with PSAK 117 requirements and are tailored to the needs and objectives of different stakeholders, in alignment with the company's overall business strategy, KPIs and objectives to maximize the function of management reporting.

- **Develop management reporting tools**
  Insurers will need to perform an assessment and determine the tools and technologies suitable for supporting their need for data management reporting. Insurers might need to upgrade their current reporting system (if available) to cater to the additional and updated requirements for PSAK 117 management reporting, or to select the appropriate reporting tools or software that can handle PSAK 117 calculations and management reporting requirements. This might include the PSAK 117 engine and business intelligence tools. Insurers then need to integrate their management reporting tools with existing systems to ensure seamless data flow and consistency.

- **Conduct training for management and related key stakeholders**
  Educate management and key stakeholders on the implications of PSAK 117 reporting and how to interpret the new financial statements and dashboards as reflected in the management reporting tools.

- **Continuous improvement and monitoring**
  Establish continuous improvement mechanisms to enhance management reporting quality and ensure compliance with any future changes to PSAK 117. This is to adapt to evolving business needs and regulatory requirements, ensuring the reporting remains relevant and efficient.

How KPMG can help

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

KPMG can help you to:

- Identify and define the objective of management reporting and work with stakeholders to **identify their reporting needs**, company goals, and desired outcomes.
- Develop a **comprehensive management reporting framework** and assess the related KPI and metrics under PSAK 117 for reporting purposes.
- Create a **standardized template for management reporting visualization** to present data effectively, making reports more intuitive and engaging.
- **Develop a data management strategy** and the robust **automation of data transformation** processes to ensure the quality and integration of the data required to establish PSAK 117 management reporting.
- Assess **current reporting process and tools** (if any), then **design and develop dynamic management reporting dashboards** using visual tools (e.g., Power BI, Tableau), including the customization of dashboards to meet the company's specific reporting requirements under PSAK 117.
- Provide **training to the board and management** to help them understand how PSAK 117 will impact financial results and strategic decisions.
- Carry out **post-implementation reviews of PSAK 117 management reporting tools/ dashboards** to assess what is working and where further improvements can be made.

Contact us

KPMG Siddharta Advisory
21st Floor Menara Astra
5-6, Jl. Jend. Sudirman
Jakarta 10220, Indonesia
T: +62 (21) 8060 2828

Susanto
Insurance Practice Leader
KPMG Indonesia
Susanto@kpmg.co.id

Denny Hanafy
Head of Risk Consulting
KPMG Indonesia
Denny.Hanafy@kpmg.co.id

Hengcky Hiwarno
Head of Accounting Advisory Services
KPMG Indonesia
Hengcky.Hiwarno@kpmg.co.id

Susiyani Setiowati
Director of Risk and Regulatory Technology
KPMG Indonesia
Susiyani.Setiowati@kpmg.co.id

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/id