

# The PSAK 117 post implementation series: Transforming the financial reporting process



## Executive summary

The implementation of PSAK 117 in Indonesia represents a transformative shift in how insurance companies report financial performance and position. The new standard mandates a detailed approach to measuring and reporting insurance contracts, which will lead to significant changes in financial statements and disclosures.

Most insurance companies are taking a tactical approach, focusing on temporary solutions to ensure PSAK 117 compliance by 1 January 2025, since significant manual processes and workarounds remain. During the transition, companies have been getting familiar with their new financial statement figures while also performing dual-reporting to maintain the previous accounting standard (i.e., PSAK 104) for other reporting purposes (e.g. taxation, regulatory, etc.).

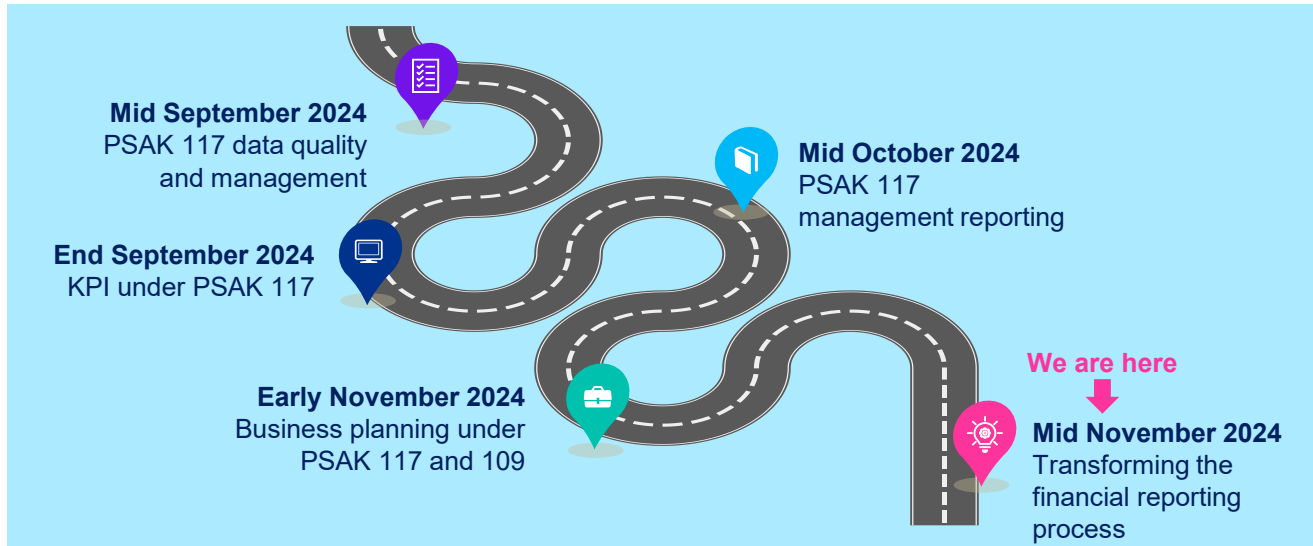
Post-PSAK 117 implementation, companies should assess whether their processes (performing dual-reporting and reconciliation) are sustainable for the long-run based on their initial reporting experiences in terms of time, resources, data and systems. Companies need to consider performing a current state analysis to identify the current financial reporting challenges and prioritize improvement initiatives to shift the focus from mere compliance to transforming the financial reporting process in a more holistic way. This transformation requires companies to revisit and refine their financial reporting processes and systems, ensuring that they are robust, efficient, and future-proof.

In this publication, which forms the last part of our five-part “PSAK 117 post implementation” series, we will highlight:

- Common challenges in PSAK 117 financial reporting;
- Action items to address financial reporting challenges;
- Reshaping the finance function;
- Steps toward transforming financial reporting; and
- The benefits of transforming the financial reporting process.

## Release of the “PSAK 117 post implementation” series

From September – November 2024, we released the previous topics in our PSAK 117 post implementation series. With the release of this final chapter, we hope this series has achieved its objective in providing meaningful insights into PSAK 117 post implementation and clearly conveys this information to relevant stakeholders. Please follow us on social media to read all of the articles in our “PSAK 117 post implementation” series.





## Common challenges in PSAK 117 financial reporting

Implementing PSAK 117 – Insurance Contracts, presents numerous challenges for insurance companies and financial institutions. This standard, which replaces PSAK 104, aims to enhance the transparency and comparability of financial statements. Faced with this daunting task, those implementing PSAK 117 have been grappling with several challenges in the following areas:



### Data and technology

A fundamental shift in the underlying technology and the sourcing of more granular data is necessary for reporting under PSAK 117.

**Our observation:** Identifying, sourcing, integrating, cleansing and storing high quality data has yet to be adequately addressed by many insurers. Insurers are also realizing that the technology they selected may require more substantial configuration and tailoring efforts than expected. Insurers in Indonesia are also faced by the challenge of dual reporting: PSAK 117 for statutory financial reporting and PSAK 104 for other reporting purposes (e.g. tax and regulatory).



### Processes, controls and governance

The complexity of PSAK 117 means that a complete overhaul of the financial reporting process for insurance accounting is necessary.

**Our observation:** Many insurers have already gone live with significant process and control issues, which have been compounded by prioritization, time and capacity challenges. This has led to an increase in errors, which are often being corrected via manual workarounds which increase the risk of potential misstatements. There are also significant dependencies in the current PSAK 104 operational and reporting processes when producing PSAK 117 financial reports.



### People

Resource demand has been substantial due to labor intensive processes, manual adjustments, workarounds, and spreadsheet dependence.

**Our observation:** Most insurers have reported instances of fatigue, burnout, and turnover within their teams. There is a lack of resources to support the implementation of PSAK 117, as companies rely heavily on their existing operational teams.



### Policies and methodologies

PSAK 117 also necessitates a significant overhaul of accounting policies and actuarial methodologies.

**Our observation:** In many cases, spurious results have required insurers to iterate policies and revise results multiple times. In other cases, some insurers are attempting to plug any remaining significant policy gaps with unsustainable workarounds.

## Action items to address financial reporting challenges

The current situation is pivotal for insurers adopting PSAK 117. To date, many insurers have been focusing their efforts on meeting the regulatory and financial reporting deadlines. The following are some key action items to help companies when facing these financial reporting challenges:

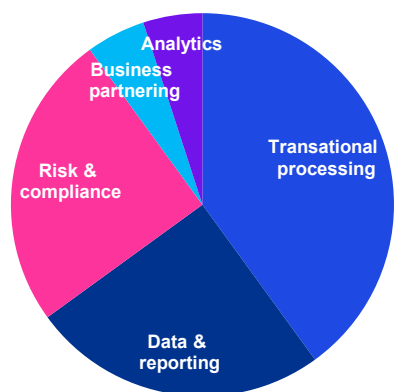


## Reshaping the finance function

PSAK 117 has changed the way insurance companies present and measure their financial position and results. Insurance companies should consider moving beyond PSAK 117 compliance for financial reporting to help navigate the complexity of PSAK 117's requirements and to anticipate its financial impacts. This requires rethinking the finance function to shift its focus from transactional processing to a more strategic role as a true business partner.

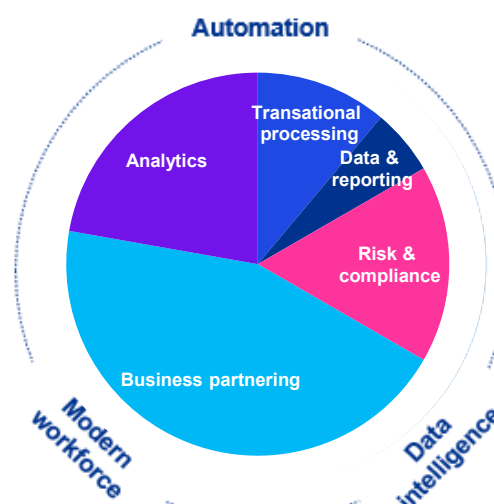
### Transitional processes

Some business as usual processes may not have been operationally ready by PSAK 117's effective date, causing companies to implement temporary transitional processes that focus on **traditional finance**.



### The future of finance

To achieve a business-as-usual state, the transactional scorekeeping function for PSAK 117 needs to be replaced by a dynamic **future of finance** that can deliver tangible value by enabling new technology, managing data, modernizing skills and capabilities, being adaptable and leading company performance.



Looking toward the future of finance, companies need to enhance process efficiency and effectiveness to reduce effort in transactional processing and focus more on value creation:

Estimated change in effort	Scope
(50-70%)	Transactional processing
(25-35%)	Data & reporting
(10-15%)	Risk & compliance
+35-45%	Business partnering
+15-25%	Analytics

Reshaping the finance function will enable greater insights for management, improving overall performance and enhancing the value of services provided to the business. On the next page, we outline key steps to help companies achieve this transformation.

## Steps toward a finance function transformation

To move toward the future of finance, the transformational journey a company's finance function will require new skills, capabilities, manners, environments, partnerships, collaborations, and thought processes.

### Starting point: mere compliance

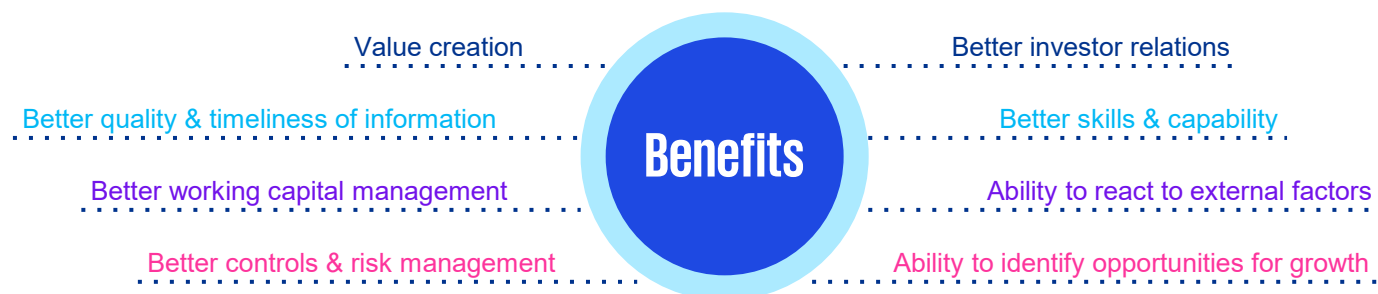
	Objectives	Target Outcomes
<b>Vision</b> Make it clear	Develop and align key stakeholders around a common vision of a future state that includes measurable short and long-term success criteria.	<ul style="list-style-type: none"> <li>Leadership is aligned around vision, objectives, guiding principles, and success criteria for the program</li> <li>Leaders and the project team are aligned and engaged with the scope and governance of the transformation</li> <li>High level strategies (technical, environment, change management, design principles, etc.) are starting to be developed to support an understanding of how future work will be executed</li> </ul>
<b>Validate</b> Make it known	Validate and document the comprehensive to-be state design layer components, finalize the solution design and obtain approval to proceed to the Construct phase.	<ul style="list-style-type: none"> <li>All KPIs and measurements align with the business strategy</li> <li>The design and implementation strategy for the solution is clearly defined</li> <li>The integration/conversion approach has been validated with relevant stakeholders</li> <li>Impacted audiences understand the vision and case for change</li> <li>Impacts for each role are documented and validated</li> </ul>
<b>Construct</b> Make it real	Build and test the technology solution and design each layer of the to-be state using an iterative testing process that translates the vision into a reality so people understand what the change means to them.	<ul style="list-style-type: none"> <li>Environments and configuration are completed</li> <li>Testing is completed</li> <li>Designs for the to-be state, controls, processes, and reporting framework are accepted</li> <li>A detailed cutover plan is drafted</li> <li>Learning programs are defined and training assets are built</li> <li>Execute on and iterate a change plan</li> <li>Define an ongoing post go-live release management support model</li> </ul>
<b>Deploy</b> Make it happen	Deploy the solution and its relevant components and implement the to-be state to users who are equipped for their new ways of working and ready to transition to the future state.	<ul style="list-style-type: none"> <li>Transition phase conducted</li> <li>End users are prepared for new ways of working through stakeholder engagement and mobilizing learner journeys</li> <li>Activate the ongoing post go-live release management support model</li> <li>Deploy solutions to production</li> <li>Transition to go-live and the new organizational structure</li> <li>Insights from stakeholder experience activities and assessments utilized to monitor change readiness</li> </ul>
<b>Evolve</b> Make it stick	Complete post go-live support, value realization analyses, project closure procedures, and transition to managed service programs as applicable.	<ul style="list-style-type: none"> <li>Operate the ongoing post go-live release management support model</li> <li>Go-live and post-production support activities are live</li> <li>Adoption measured to identify areas of opportunity</li> <li>Pre-defined solution adoption metrics monitored and reported on</li> <li>Transition change, communication, and ongoing learning knowledge to clients</li> </ul>

### End goal: beyond compliance



## Benefits in transforming the finance function

With the shift toward going beyond compliance with PSAK 117 requirements, insurance leaders recognize the need to modernize their finance function, technologies, processes and models to support growth and achieve strategic objectives. By doing so, companies can develop a stronger, more efficient infrastructure and better equip finance teams to deliver strategic direction and operational excellence across the value chain.



## Key next steps

Insurance companies need to revisit and refine their current financial reporting processes in particular and their finance function overall. By transforming financial reporting processes and the finance function, insurance companies can achieve a more efficient and streamlined financial reporting system, allowing more time for reviewing and analyzing financial performance results, which could provide valuable insights for management. Key action items for transformation include the following:

- **Perform a current state analysis** to understand current challenges in the financial reporting process.
- **Identify improvement opportunities and quick wins** to solve current financial reporting challenges faced by the company and build an ideal future finance function.
- **Start the transformation journey** to modernize current financial reporting processes and the finance function ensuring that they are robust, efficient, and future-proof.
- **Establish governance processes** to monitor and ensure that the implementation of initiatives is appropriate.

## 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 implementation who can assist you on your journey.

### KPMG's team can help you in the finance function transformation by:

- **Performing a current state analysis** to understand the challenges faced by the company over the financial reporting process.
- **Designing the to-be process** or target operating model of the company for the financial reporting process according to leading practices and peer benchmarks.
- **Remediating the challenges** by outlining quick-wins and long-term solutions as well as an internal control and monitoring plan.
- **Guiding and monitoring the implementation** of the to-be design and performing the change management process.

# Contact us

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