

Take5

for business

Volume 13 Issue 9 - 16 October 2024

The future of
financial reporting
for insurers

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. Above the 'Y' is a yellow chevron shape pointing to the right. The logo is positioned in the bottom right corner of the page, partially overlapping a blue circular graphic that contains a '26%' figure.

Building a better
working world

Accelerating demands for transparent financial reporting

Finance leaders face increasing demands from stakeholders to provide trusted, timely and increasingly transparent financial reporting to communicate their organization's progress in alignment with strategic priorities and to create long-term, sustainable value.

Among the key financial reporting standards that are driving the finance reporting transformation are the implementation of the Malaysian Financial Reporting Standard 17 (MFRS 17) for insurance contracts and the International Financial Reporting Standards (IFRS) S1 and S2 for sustainability and climate-related disclosures.

The implementation of a range of current and new accounting standards will require organizations to fast-track their finance reporting through digital solutions to optimize their performance analyses.

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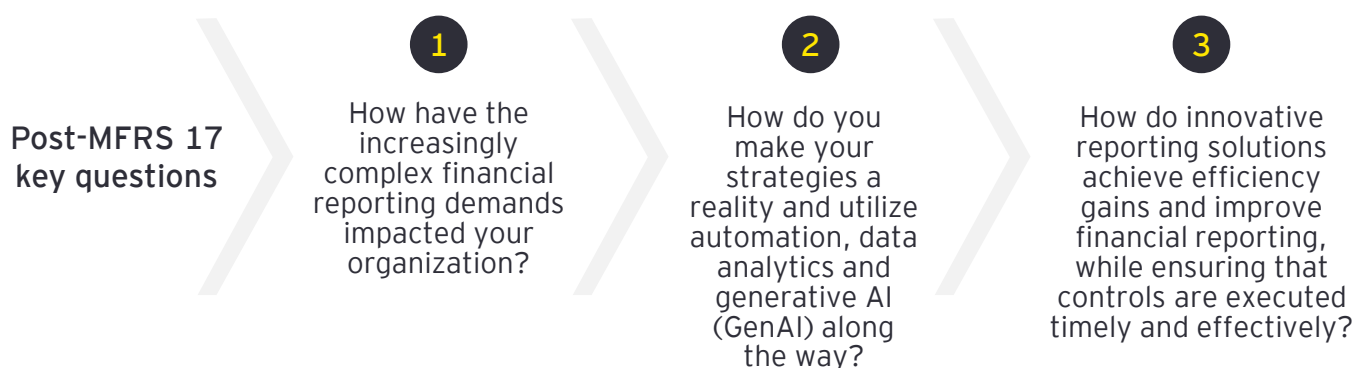
Increasing financial transparency demands are spurring CFOs to fast-track digitally driven finance transformation to optimize reporting efficiencies, including deeper and actionable analyses of financial performance.



Brandon Bruce

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Increasingly complex financial reporting catalyzes digital automation



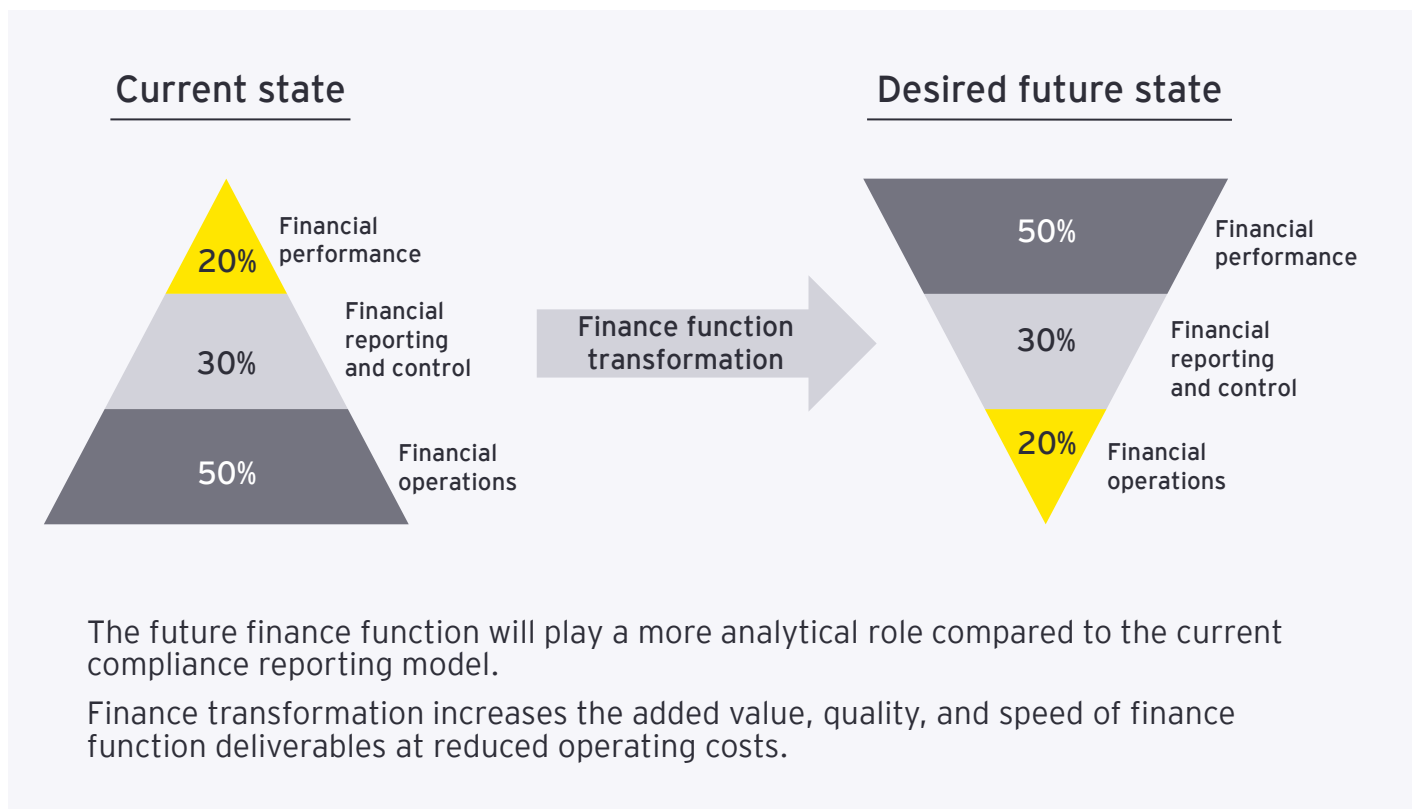
Source: *Insurance Finance: Today and challenges ahead*, EY FSO Insurance Forum, July 2024

Finance transformation: Optimizing financial performance

The age of digital transformation is demanding the transformation of finance function that is responsive, insightful and efficient to meet the financial performance reporting needs of organizations, stakeholders, and regulators.

In fact, the 2023 EY Global DNA of CFO report highlighted that transformation was ranked as the most important priority for chief financial officers (CFOs) over the next three years, moving away from the traditional finance focus on risk and regulatory compliance optimization.

Future focus is about optimizing financial performance



Sources:

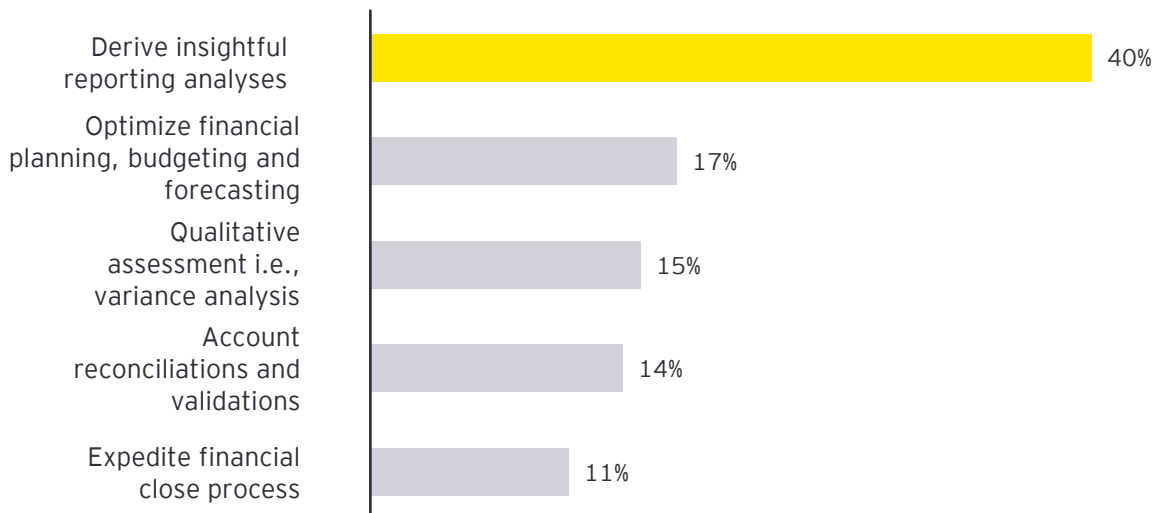
- ▶ EY Global DNA of the CFO Report, 2023
- ▶ EY analysis

How is GenAI being prioritized by insurers?

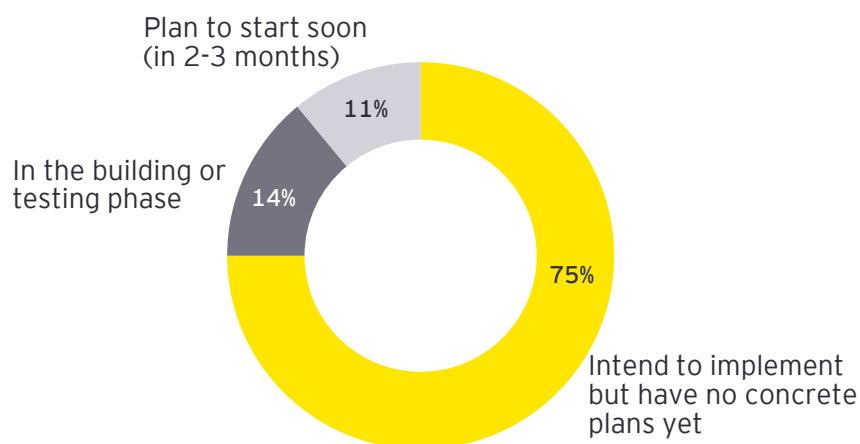
Malaysia's insurers are already considering the implementation of GenAI as a priority tool in their finance reporting functions. The EY FSO Insurance Forum 2024 survey of insurers highlighted that:

- ▶ A majority (92%) of participants concurred that GenAI is going to revolutionize finance operations and reporting to a large or very large extent.
- ▶ More than half of insurers (57%) expect GenAI to improve financial analyses and reporting, while four out of 10 (40%) consider GenAI implementation to benefit finance operations the most.
- ▶ Three-quarters (75%) of insurers intend to implement GenAI but have no concrete plans yet.

The expected benefits of GenAI and current adoption levels of insurers



Maturity level in adoption of GenAI in finance function for insurers



Source: *Insurance Finance: Today and challenges ahead*, EY FSO Insurance Forum, July 2024

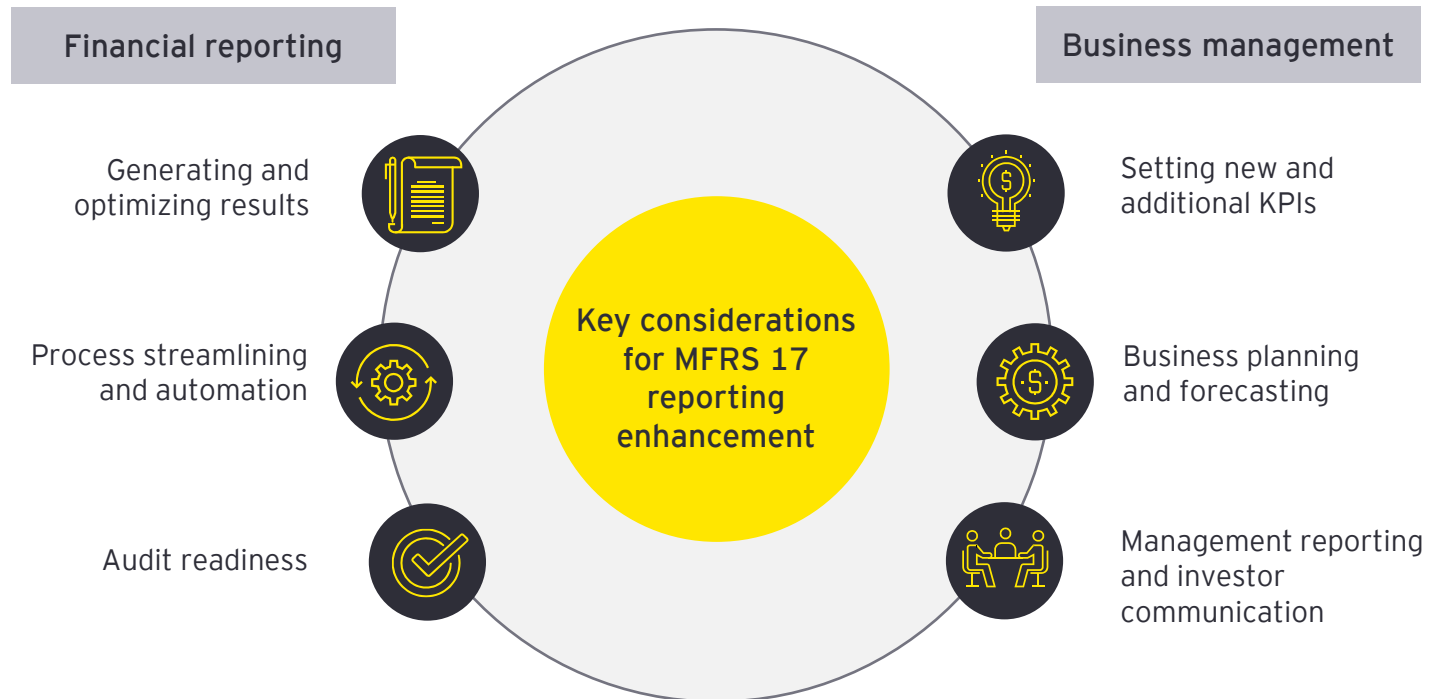
MFRS 17: Implementation experiences to date

With tougher compliance standards, MFRS 17 implementers continue to grapple with several challenges that serve as useful references and lessons learnt. The range of experiences of insurers and *takaful* operators face when developing their financial statements include:

| Impact areas | What happened? | Why? |
|---|--|---|
| Team structure and resources | Challenges in ensuring adequate and sufficient resources with relevant skill sets and defining clear roles and responsibilities; talent retention is also a key issue. | <ul style="list-style-type: none"> ▶ Resource attrition increased particularly for MFRS 17 reporting skills. ▶ Lack of clarity on historical accounting policies has caused unexpected outcomes and communication issues. ▶ Reliance on opaque MFRS 17 solutions and a loss of contractor knowledge post-implementation. |
| Actuarial model and MFRS 17 solution | Increased complexity in actuarial modeling and granularity has led to extended Financial Statement Close Process (FSCP) times and a greater maintenance effort. | <ul style="list-style-type: none"> ▶ MFRS 17 processes are vulnerable because external contractors or consultants hold most of the knowledge. ▶ Fragmented understanding of MFRS 17 financial reporting because separate business units perform tasks. ▶ Large amount of manual intervention is still required to complete the FSCP. |
| Assumptions setting and data gathering | Complexity and granularity of data have significantly increased requiring additional processes and checks. | <ul style="list-style-type: none"> ▶ No direct interface between systems. ▶ Lack in the overall control environment and data governance during the implementation stage. |
| Substantiation and reconciliation for financial statement | Increased complexity to understand MFRS 17 financial statements numbers. | <ul style="list-style-type: none"> ▶ Inability to utilize system applications resulting in numerous manual workarounds. ▶ Reliance on manual Excel functions instead of with end-to-end automation. |
| Overall control environment | Increased need for robust financial control frameworks and automation for an end-to-end reporting process. | <ul style="list-style-type: none"> ▶ Efforts are still focused on the preparation of the MFRS 17 compliant financial statements and/or management account. ▶ Inadequate attention on the internal control setting with the MFRS 17 reporting. ▶ Ineffective change management program. |

Navigating the complexity of MFRS 17 reporting: Collective responsibility essential

To navigate the complexity of MFRS17 reporting, boards, audit committees and C-suite executives should respond to key business management and financial reporting questions.



Key questions for board or audit committees and C-suite executives

Board or audit committees

Strategy

What is your organization's strategy post-MFRS 17?

Governance

Does your organization have a dedicated governance framework to monitor new processes under MFRS 17?

Visibility

Do you have visibility on the new initiatives being deployed across your organization?

Risk management

How is your organization identifying and addressing potential risks associated with the new initiatives?

C-suite executives

CEO or COO

Does MFRS 17 impact your organization's strategy and market position?

CFO

Can you leverage current strategy to create value and increase shareholder returns?

CTO or CIO

Can you integrate AI/automation into your teams' skill sets as well as your core technology and information systems?

CRO

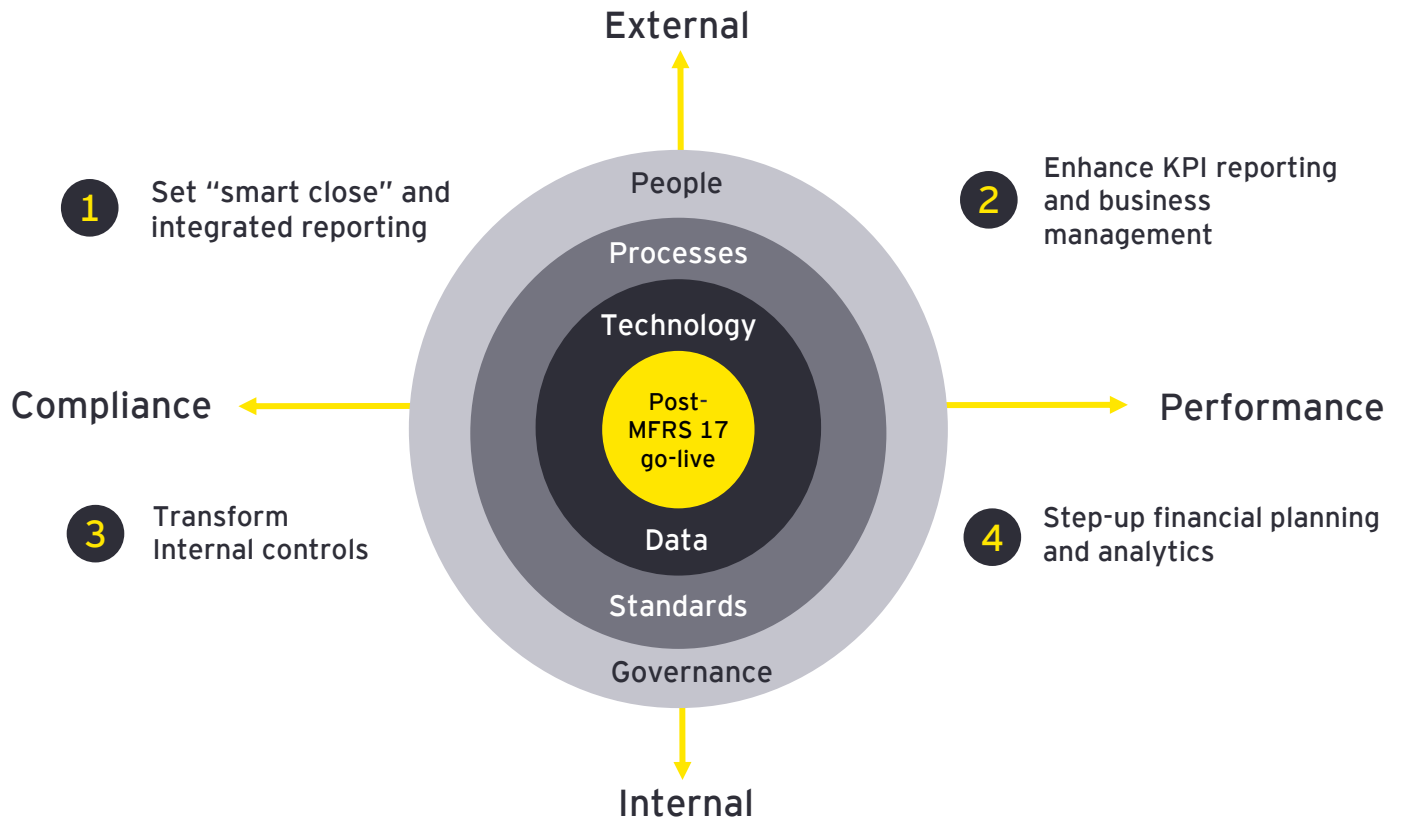
Do you place the right safeguards and controls to operationalize current initiatives?

CMO

Can the current initiative help your organization stay ahead of the competition and enhance customer engagement?

Automating financial reporting processes: What areas to improve?

Financial reporting momentum will inevitably shift from compliance to performance, as insurers look for opportunities to leverage the investments made in earlier IFRS 17 initiatives. For post-MFRS17 financial reporting, we have identified the following areas to improve.



1 Smart close and integrated reporting

- ▶ Build an automated workflow for any business process tailored to your needs.
- ▶ Work with data engineers to build automated workflows based on existing use cases.
- ▶ Streamline existing business processes using automated workflows from end-to-end.
- ▶ Ideate potential areas for automation as part of the process improvement initiative.

2 KPI reporting and business management

- ▶ Leverage insights from business process and analytics for granular review of business plans, and related KPIs.
- ▶ Bottom-up view of executional KPIs adding up to business outcomes.
- ▶ Homogeneity of metrics across functions results in clear prioritization of goals and execution.

3 Transform internal controls

- ▶ Identify process and control areas through an integrated approach of rationalization, optimization and automation.
- ▶ Select high-impact process and controls areas for proof of concept and business case.
- ▶ Design, build and deploy automation technologies with the EY Financial & Actuarial Controls Transformation (FACT) approach to measure and track success.

4 Financial planning and analytics

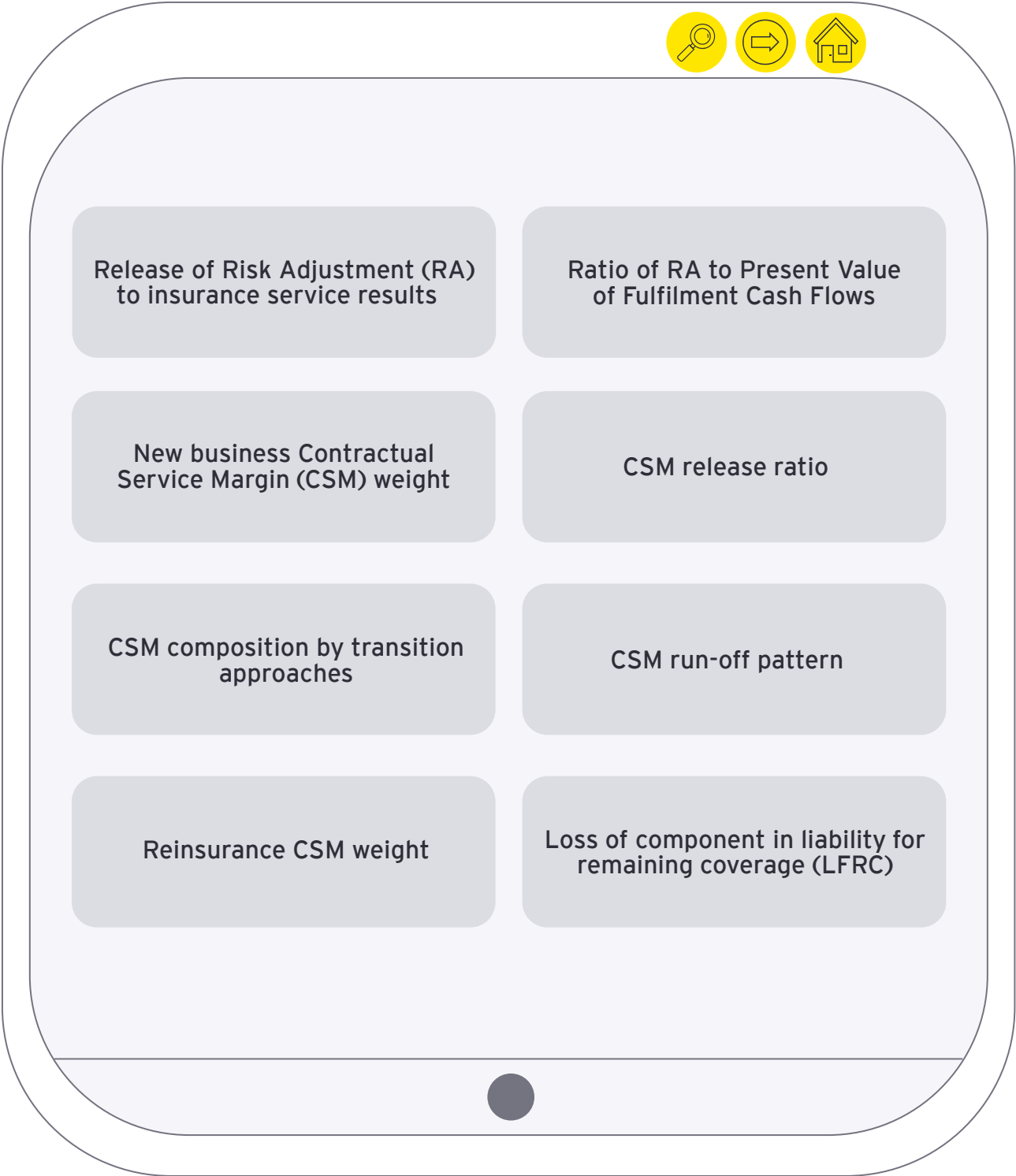
- ▶ Identify revenue leakage and system gaps by comparing actual vs. expected cashflows.
- ▶ Data from multiple sources are consolidated into centralized data warehouse and harmonized across all policy administration systems at contract level.
- ▶ Maintain the reference data and expected and actual transaction data historically.

Industry benchmarking: How is your company performing compared to industry peers?



With their domain knowledge and controls-based mindset, the finance function is well placed to be an agent of change. EY teams has developed insurance performance dashboards that are designed to provide faster and better-integrated finance analytics and insights on key financial performance indicators (KPIs).

Integrating finance analytics through a digital dashboard



Source: EY analysis

Next steps

In managing the demands of the new MFRS17 and related reporting developments, organizations can consider the following actions:

1

Analyze talent pool competencies and strategically hire or upskill talent pool to meet reporting requirements.

2

Adopt new technologies to automate routine tasks, allowing focus on reporting efficiency.

3

Enhance critical skill sets, focusing on value-added tasks to reduce turnover in financial reporting.

4

Formulate better internal controls to improve confidence in financial reporting accuracy.

5

Empower finance teams to actively contribute to business decisions with tools and strategic insights.

6

Adopt a risk management framework for timely financial information and set clear report delivery deadlines.

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Today's market challenges demand new mandates with bold transformation and stronger focus on managing risks and regulatory compliance.



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