
Integrated Reporting <IR> : An Experience

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Good governance in disclosures

Over the years, PIDM has worked on enhancing our reporting approach, with a view to providing key stakeholders with meaningful information.

In 2018, PIDM commenced research on the Integrated Reporting (<IR>) Guiding Principles and Content Elements and considered how we might adopt them.[1] In the 2018 and the 2019 annual reports, PIDM incorporated some of these core elements. In 2019, PIDM resolved to have the Board of Directors sign off on a full <IR> approach by 2022, in relation to its annual report of 2021.

Integrating PIDM's strategy, risk and culture in the annual report

"Although initially developed with corporate users in mind, the emphasis of <IR> on value beyond profit has many benefits for public sector organisations. Unlike traditional corporate reporting, this more flexible approach enables organisations to focus clearly on how they and their stakeholders define value in the short, medium and long term."[2]

The <IR> approach works particularly well for a regulator, since it encourages the communication of value to society beyond financial numbers. In past annual reports, PIDM was already publishing data on non-financial impacts and reporting on performance in narrative form. So the question is, how is the <IR> approach different?

[1] <IR> Framework by the International Integrated Reporting Council (IIRC)

[2]<https://integratedreporting.org/wp-content/uploads/2016/09/IR-in-the-Public-Sector-CIMACGMA.pdf>

How is <IR> different – connectivity, capitals, material matters and time frame

The <IR> process connects strategy and planning with information on matters such as governance, key risks, capitals, drivers, environment, performance and impact. With <IR>, more attention is given to capitals other than financial capital.

A key objective of <IR> is to provide a more rounded explanation of an entity's ability to create and sustain value over time. The process is expected to achieve an understanding of an organisation's activities and its impact in a more cohesive way – ultimately resulting, it is hoped, in greater efficiency and effectiveness within the organisation.

From a reporting perspective, by identifying and focusing on things that materially affect an entity's strategy, governance, performance and prospects, a more concise and relevant report can be developed for stakeholders.

Challenges

The International Integrated Reporting Council's discussion paper[3] highlighted certain areas that would challenge an entity when switching from their current reporting practices to integrated reporting. This article describes our experiences against those challenges so far.



PIDM's learnings so far

When attempting to adopt <IR> principles, a key challenge was to connect all of the information in a clear and coherent manner. We discuss below some insights we have derived from our experiences.

(a) Thinking – “Integrated Reporting supports thinking outside of silos and recognises the complexity of an organisation’s value creation process.”

Integrated Reporting...

is a multi-capital management approach that enables organizations to deliver their purpose to the benefit of their key stakeholders over time

is about creating and protecting value. Linking purpose and values to strategy, risks, opportunities, objectives, plans, metrics and incentives throughout the organization enables better decision-making

requires effective governance, culture, accountability and transparency. It recognizes the importance of addressing value destruction, boundary conditions, changing conditions or context and feedback loops

[3] IIRC (2011) *Towards integrated reporting: Communicating value in the 21st Century*; www.theiirc.org/resources-2/discussion-paper

How the Integrated Thinking & Strategy Group view integrated thinking^[4]

From a process perspective, the starting point for drafting the annual report did not begin with the compilation of annual performance reports from the various divisions within our organisation. Instead, several key topics were first considered. In 2019, the following three (3) key topics were discussed at the Board and Management strategic risks and planning meetings:

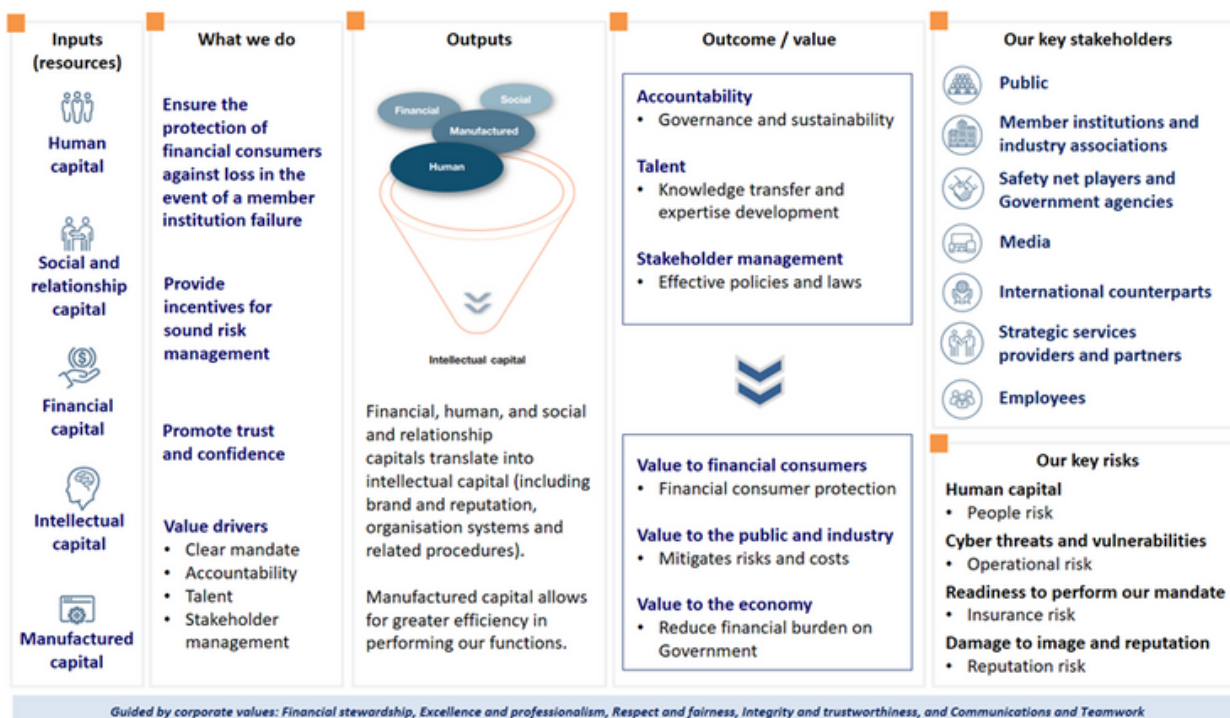
- (a) value creation;
- (b) capitals; and
- (c) material matters

The challenge we faced in 2019 was how to articulate a value that would reflect the diverging interests of some of the key stakeholders (i.e., what is the “value” for some stakeholder groups may not be value for others). However, we were guided by our mandate, which highlights key priority - to protect relevant financial consumers in a member institution failure and to promote or contribute to the stability of the financial system. With integrated reporting, the time horizon is also a long-term one.

(b) Stewardship – “An Integrated Report provides information on an organisation’s accountability not only for financial capital, but also for other ‘capitals’ (e.g. manufactured, human, intellectual, natural and social).”

Another key challenge we found was in connecting and understanding the interdependencies of our different capitals, inputs and outputs, and describing how these translate into PIDM’s value.

PIDM Value Creation



[4]https://integratedreporting.org/wp-content/uploads/2020/01/Integrated-Thinking-and-Strategy-State-of-Play-Report_2020.pdf

We concluded that the major capitals must necessarily revolve around intellectual and social capital. As a regulator, PIDM's employees must collectively have the know-how and the ability to carry out its mandate effectively and this needed to be sustainable. Equally, to promote confidence in the financial system, it must co-operate and coordinate with other safety net players, and build credibility and trust among other key stakeholders. At its core, building these capitals depends critically on human capital.

At the same time, we remain conscious of the need for financial stewardship. Our report tries to address how we balance these various capitals, and discusses our progress with our human, intellectual and social capital-related initiatives.

(c) Focus – “An Integrated Report connects past performance and financial risks with an organisation’s strategic objectives and its ability to create and sustain value in the future, thereby providing a more complete perspective.”

The 2018 Annual Report contains a section that illustrates PIDM's past performance with its future direction and goals. This was to provide readers with a sense of its past development, current progress, and medium to long term plans. This section will likely continue to form part of our next few annual reports. Financial risks and plans to address them will continue to be reported in our key risks and material matters discussions. In our 2019 report, we worked on using signposts to direct readers to other, more detailed information about PIDM and our value creation capabilities.

(d) Timeframe – “Integrated Reporting factors in short, medium and long term considerations, avoiding an excessively short term perspective.”

The <IR> approach discourages excessively short-term perspectives. In practice, our strategic direction has always taken a long-term perspective. For example, we had been working on developing a learning organisation to acquire, capture and transfer knowledge for long-term sustainability for a number of years prior to our <IR> journey.

(e) Trust – “Integrated Reporting emphasises transparency, covering a broad range of issues and disclosing both positive and negative information.”

Since 2006, PIDM's practice has been to voluntarily publish a corporate plan, which includes our financial plan. Each year, we report on our performance in our annual report, which is laid in Parliament and widely circulated. As a matter of governance, PIDM has adhered to the principle of transparency (including international financial reporting standards) as a means to demonstrate accountability to our key stakeholders. Our adherence to this principle has not changed with the <IR> approach.

(f) Adaptive – “Integrated Reporting promotes a principles-based approach with an emphasis on an organisation identifying what is material to its particular sector and activities.”

The <IR> approach is a principles-based one. Thus, apart from financial reporting standards, we found that we were not constrained by structure or format. We were guided by the need to make things clearer and information more connected for the reader. Deciding what was material in the context of our environment, mandate, capitals, and strategic objectives, was a good starting point to trim the volume of information provided and to reduce repetition.

(g) Concise – “By focusing on only the most material information, Integrated Reporting aims to be concise, clear and readily understandable. The prospect is a more accessible report that clarifies key aspects and activities.”

In the 2019 Annual Report, we removed some information in the final report that would have been, in past practices, found in the report itself, such as a long-form “Statement of Risk Management and Internal Controls”. This Statement for 2019 is found instead at PIDM’s website (www.pidm.gov.my). The 2019 Annual Report contains a summary of the Statement and provides a link that directs readers to the PIDM website for the long-form statement.

(h) Technology enabled – “Integrated Reporting seeks to take advantage of new and emerging technologies to link information within the integrated report and to facilitate access to further detail online.”

Other than hard copies for submissions to Parliament, since 2019, we have begun publishing our annual reports digitally. We plan to work on taking advantage of technology to link information going forward.

Conclusion

Our <IR> journey to-date has compelled us to think harder about our value creation proposition, and how it connects with our different resources and relationships. It has also encouraged us to explore how to provide a more focused and concise narrative for our key stakeholders. As pointed out by the former Chief Executive of the IIRC, Paul Druckman, reaching our destination will take more than one reporting cycle. We look forward to continuing this journey so that we will better able to carry out our role, as well as to engage better with our key stakeholders.

“<IR> is a journey and it will take more than one reporting cycle to get there. As businesses start to use <IR> as a tool to better understand the connections between key resources and relationships that contribute to their success, and as a result make more informed decisions, the real value of integrated thinking and the integrated report will be realized.”

–Paul Druckman, IIRC Chief Executive, 2014
