

Introduction to Insurance Financial Statements

A one-day workshop for those new to the analysis of insurance companies, covering the basics of insurance company financial statements, products and risks. This workshop is an appropriate preparation for the Insurance Company Analysis workshop, which gives a comprehensive analytic approach.

TARGET AUDIENCE

This programme is designed for analysts, regulators and insurance personnel who have limited or no experience in the interpretation and analysis of insurance company financial statements. The workshop is designed as a preparation for the Insurance Company Analysis workshop.

COURSE OBJECTIVES

Participants will be equipped to:

- Distinguish the risks inherent in the main products offered by life, non-life (P&C) and reinsurance companies and recognise how these are reflected in the financial statements
- Understand the components of an insurance company's income statement, balance sheet and cash flow statement
- Recognise the impact of differing accounting standards, reserving policies and changes in external variables (such as interest rates and asset prices) on the financial statements
- Calculate and apply basic ratios to quantify an insurance company's financial strength, performance and risk profile.

CONTENT

INSURANCE MARKET OVERVIEW

- This section focuses on the characteristics of the various lines of insurance business, and their inherent risks

Types of insurance company

- Life, non-life and reinsurance
- Composites, multi-line, monoline; listed versus mutual

Key activities and products

- Risks in each stage of the business model
- Non-life products - short tail and long tail lines; degree of riskiness
- Life and investment products – whole life, annuity, endowment, term assurance and health insurance
- Investment bases for life: fixed, unit-linked (variable), with profits, interest-sensitive
- Reinsurance - treaty and facultative, proportional and non-proportional, finite risk, excess of loss and catastrophe covers.

STATEMENT LOGIC

- This section explains the key accounting items specific to insurance companies
- Relating the business to the balance sheet and income statement
Key items of the balance sheet and income statement for life and non-life insurers.
- Premium accounting: gross versus net, written versus earned.
- Claim / loss accounting (non-life): claims incurred versus paid, incurred but not reported (IBNR) claims.
- Claim accounting (life): benefits and surrenders, annual and final bonuses.
- Technical reserves: loss reserves, unearned premiums, mathematical provisions
- Investment reserves – capital or liability? fund for future appropriations (FFA), RfB, unallocated divisible surplus, discretionary participation features (DPF)
- Impact of reinsurance on assets, liabilities, premiums and claims.
- Intangible and other assets: deferred acquisition costs, Value of Business Acquired, embedded value.
- Cash flow statement: operating versus investment cash flows, divergence from earnings.

ACCOUNTING AND DISCLOSURE

- This section provides an overview of the main international differences in accounting treatment for insurers, and the differences between the approaches for shareholder accounts and for statutory supervision
- Key differences between statutory (regulatory) accounts, IFRS (phases I and II) and other GAAP accounts.
- International differences in GAAP accounting.
- Investment accounting: mark to market versus cost accounting; treatment of unrealised gains & losses; impaired assets; IFRS fair value hierarchy.
- Overview of European Embedded Value (EEV) and Market-Consistent Embedded Value (MCEV)
- Sources of information and quality of disclosure; potential for distortion.

RATIO ANALYSIS

- This section provides an introduction to the basic analysis of insurance companies using key ratios from the financial statements and providing benchmarks of strong and weak performance.
- Key performance indicators for life, non-life and reinsurance companies: international benchmarks for strong and weak performance
- Investment risk and performance: market, credit and interest rate risk; appropriate asset allocations.
- Underwriting risk: claims / loss ratio, expense and combined ratio and other indicators of underwriting performance, reserve adequacy.
- Overall profitability: key profitability ratios.
- Capital adequacy: types of capital and ratios used to measure financial leverage (gearing) and solvency.

