

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

The overall goal of this one-day workshop is for participants to understand the key components of an insurance company's financial statements and to apply key ratios to analyse financial strength. Specifically, participants will learn 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 key 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

Section Aims: This section focuses on the characteristics of the main various lines of insurance business, and their inherent risks.

Types of insurance company

- Life, non-life and reinsurance
- Types of insurance co: mutual vs. proprietary, multi-line vs. monoline, underwriters vs. brokers, captives and composites.

Key activities and products

- Risks in each stage of the business model
- Non life products: short tail and long tail lines; degrees of riskiness
- Life and investment products: whole life, annuity, endowment, term insurance and health products; legal and accounting definitions of life insurance
- Investment bases for life products: fixed (stable value), unit-linked (variable), with profits, interest-sensitive
- Reinsurance products: treaty vs. facultative reinsurance, proportional vs. non-proportional, finite risk, excess of loss and catastrophe covers
- *Exercises:* Life and non-life insurance product risks.

STATEMENT LOGIC

Section Aims: This section explains the key financial items in insurance company financial statements and how the business model is reflected in the balance sheet.

- 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 vs. net, written vs. earned
- Claim / loss accounting (non-life): claims incurred vs. paid, IBNR claims
- Claim / benefit 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, 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 vs. investment cash-flows, divergence from earnings
- *Exercises:* claims accounting and non-life accounting from scratch (a simplified worked example).

ACCOUNTING AND DISCLOSURES

Section Aims: This section explains the key areas of divergence between insurance accounting standards: international differences; the differences between the approaches for shareholder accounts and for statutory supervision; and embedded value reporting for life insurance.

- 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 vs. 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) reporting and analysis
- Sources of information and quality of disclosure; potential for distortion
- *Case study:* IFRS vs. regulatory available capital.

RATIO ANALYSIS

Section Aims: 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 and credit risk;
- Underwriting risk: claims / loss ratio, expense and combined ratio and other indicators of underwriting performance, reserve adequacy and reinsurance risk
- Overall profitability: key profitability ratios
- Capital adequacy: types of capital and ratios used to measure financial leverage (gearing) and solvency
- *Case study:* Basic ratio analysis for a major composite insurer.

Learning Paths

