

# Intensive Insurance Analysis

A two-day workshop for credit risk, origination, fixed income and insurance professionals. A systematic approach to assess the credit risks in US Property casualty and life insurance companies, using both statutory and GAAP accounting.

## TARGET AUDIENCE

The workshop is designed for fixed income, banking, insurance and credit risk professionals. It is targeted at an intermediate level and assumes a basic understanding of accounting and insurance products. The separate but preceding one-day workshop Introduction to Insurance Financial Statements is designed as a preparation for those with limited experience of insurance company accounts.

## COURSE OBJECTIVES

The goal of this workshop is a structured approach to identifying early warning signals of credit migration in P&C and life insurance companies. Specifically, participants will be equipped to:

- Distinguish the business and financial risks inherent in the different sub-segments of the insurance industry
- Evaluate both statutory and GAAP financial statements in order to distinguish strong and weak performers and recognise early signals of changing credit quality
- Appreciate how economic, competitive and regulatory issues impact strategy.

## CONTENT

### ANALYTIC OVERVIEW

#### Structured approach

- Purpose / payback model - a structured approach to credit
- Insurance ratings - insurer financial strength and security ratings; capital models and other tools of analysis
- Debt and equity investors - use of market indicators to evaluate credit risk

### OPERATING ENVIRONMENT

#### Macro economic issues

- Current state and outlook for the different sectors of the insurance industry - P&C, life and re/insurance
- Sector analysis - insurance versus economic cycles
- Product risks, growth dynamics and topical issues
- Competitive issues - barriers to entry, relative bargaining power of key players
- Re/insurance - risk profile of differing contract types

#### Regulation and supervision

- Regulation of insurance markets - availability, premium terms and rates etc.
- Risk-based capital model - impact on investment decisions, business growth and types of capital raising

### FINANCIAL FUNDAMENTALS

#### Statement logic

- Focal points of analysis - liability versus asset risk
- Key accounting issues - premiums, claims and reserves, investment valuation
- Statutory accounting principles (SAP) versus GAAP accounting

#### Business risk

- Underwriting risk - P&C - quality, diversity and growth of the underwriting portfolio, loss and combined ratios
- Reserve adequacy - adverse development, survival ratios
- Re/insurance: utilisation policy, credit and recovery risk
- Investment risk - quality and liquidity of the investment portfolio; asset and liability matching

#### Performance risk

- Diversity and stability of income - underwriting, investment and operating returns
- Product risk and migration-life - guarantees, variable annuities etc.
- Investment return - impact of cash yield, realised and unrealised gains and losses
- Control of distribution and operating expenses

#### Financial risk

- Liquidity - operating cash-flow and liquid investments to match potential drains
- Solvency - operating leverage, level and quality of statutory capital position at operating and consolidated levels; risk-based capital level, resilience of capital to unforeseen losses and high growth
- Gearing - financial leverage, refinancing, debt service

#### Sector / peer analysis

- P&C - focus on underwriting risk, reserve adequacy and capital strength
- Life - focus on investment risk and minimum guaranteed death and living benefits
- Re/insurance - focus on capital strength

#### Early warning signals

- Recognising financial and non-financial indicators
- Accounting discrepancies

### MANAGEMENT AND FRANCHISE

- Assessing management and operational risk
- Organisational concerns - double leverage, weak affiliates, inter-group support, capital and dividends
- Franchise - evaluating the business model.

### Learning Paths

