

Introduction to Property & Casualty Financial Statements

A one-day introductory level workshop, covering the key components of a property and casualty (P&C) company's statutory (SAP) and GAAP financial statements and the key ratios to analyse financial strength.

TARGET AUDIENCE

This programme is designed for analysts, who have limited experience in the analysis of insurance company financial statements. A parallel workshop Introduction to Life Insurance Financial Statements covers the life sector. These workshops are designed as a preparation for the intermediate level US Insurance Company Analysis workshop.

COURSE OBJECTIVES

The overall goal of this workshop is to understand the key components of a property and casualty (P&C) company's statutory (SAP) and GAAP financial statements and apply key ratios to analyse financial strength.

Specifically, participants will learn to:

- Evaluate the risks inherent in the main products offered by P&C and reinsurance companies and recognise how they are reflected in the financial statements
- Compare and contrast the statutory (SAP / yellow book) and GAAP statements in order to assess balance sheet, income statement and cash flow financial strength
- Calculate and apply basic ratios to quantify a P&C company's performance, risk based solvency and risk profile.

CONTENT

INSURANCE MARKET INTRODUCTION

Types of company

- Composite, multi-line and monolines
- Mutual versus listed.

Key activities and products

- Risk profile for differing products: personal, commercial and speciality
 - Auto: own damage and third party liability
 - Fire and accident: commercial and personal property, allied coverage
 - Accident and health: personal accident, medical and creditor cover
 - Casualty: worker's compensation; directors' & officers; product liability, medical malpractice etc.
 - Marine, aviation and transport
 - Credit and financial guaranty.
- Long tail versus short tail business: risk in the tail
- Catastrophe risk: challenges in modelling and pricing
- Reinsurance: treaty and facultative reinsurance, proportional v non-proportional, finite risk.

STATEMENT LOGIC

Financial statements

- Relating the business to the balance sheet, income statement and cash-flow
- Premiums: direct versus indirect; gross versus net, written versus earned
- Losses / claims: losses incurred versus paid, IBNR; current year versus prior year losses; calendar year versus accident year
- Reserves: loss and loss adjustment reserves, unearned premiums; reserve discounting; loss reserve triangles; reserve development
- Reinsurance impact on assets, liabilities, premiums and losses
- Intangible and other assets: deferred acquisition costs, goodwill.

Accounting and disclosure

- Key differences statutory accounting practices (SAP) versus GAAP: solvency versus going concern
- Investment accounting: cost versus fair value; impairment rules, unrealised gains and losses
- Reserving policies: discounting, realistic versus prudent assumptions etc.
- Expenses: deferral of acquisition costs
- Key focal points: solvency versus profitability
 - SAP yellow book: risk based capital, non admitted assets; underwriting exhibit; schedules D, F and P; dividend capacity
 - GAAP accounts: on going profitability.
- Reconciliation of GAAP and SAP accounts.

RATIO ANALYSIS

Underwriting risk

- Loss ratio, expense and combined ratio
- Reserve adequacy: reserve development, survival ratio
- Reinsurance: retention ratio, credit quality and reinsurance leverage.

Performance risk

- Key performance indicators, benchmarks and signals of strong and weak performance.

Investment risk

- Asset and liability management: duration, liquidity
- Investment leverage: stress testing for write downs
- Investment returns and operating ratio.

Financial risk

- Liquidity and leverage: liquidity ratio; operating, liability and financial leverage
- Solvency: risk based capital and ratio guidelines; quality of capital: core capital and surplus notes.

Closing case study

- Financial analysis of a property and casualty insurer.