

Introduction to Life Insurance Financial Statements

A one-day introductory level workshop, covering the key components of a life insurance 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 Property & Casualty Financial Statements covers the P&C sector. These workshops are designed as a preparation for the intermediate level Intensive Insurance Analysis workshop.

COURSE OBJECTIVES

- The overall goal of this workshop is to understand the key components of a life insurance 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 life insurance companies and recognise how they are reflected in the financial statements
 - Compare and contrast the statutory (SAP / blue 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 life company's performance, risk based solvency and risk profile.

CONTENT

INSURANCE MARKET INTRODUCTION

Key activities and products

- Risk profile for differing products: insurance versus investment products
 - Insurance products: individual term, group life and disability, income protection etc.
 - Investment products: fixed and variable annuities, guaranteed investment contracts, universal life, whole life, endowment, retirement and mutual funds etc.
- Contract type: term, permanent, annuity, continuous disability
- Premium type: single or regular; group or individual
- Investment basis: fixed, variable, stable value, interest-sensitive, with profits.

STATEMENT LOGIC

Financial statements

- Relating the business to the balance sheet, income statement and cash-flow
- Income recognition: premiums versus policyholder fees on deposits
- Benefits: death, annuities, maturities, surrenders, increase in reserves
- Reserves: life insurance reserves, policyholder deposits, policyholder dividends,
- Reinsurance impact on assets, liabilities, premiums and benefits.
- 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;
- Statutory reserves: XXX and AXXX life reserves; interest maintenance reserve, asset valuation reserve
- Reserving policies: realistic versus prudent assumptions; new business strain and other challenges of life reserves
- Expenses: deferral of acquisition costs;
- Key focal points: solvency versus profitability
 - SAP blue book: risk based capital, non admitted assets; reserve exhibits; schedules D, S and T; dividend capacity
 - GAAP accounts: on going profitability, group leverage
- Reconciliation of GAAP and SAP accounts.

RATIO ANALYSIS

Performance risk

- Key performance indicators, benchmarks and signals of strong and weak performance
- Income breakdown and expense control.

Investment risk

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

Financial risk

- Liquidity and leverage: liquidity ratio; 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 life insurer.

