



## Financial Analysis of Insurance Companies

Analyzing insurance companies is very different from analyzing other companies and thus presents unique challenges and industry specific issues. In this fast-paced two-day seminar, participants learn financial analytical techniques to assess financial strength and operating performance of property & casualty and life & health insurance companies domiciled in the United States.

Beginning with an overview of accounting fundamentals for insurance companies, the seminar progresses to reviews & evaluations of the financial statements, including reinsurance, reserves, capital & surplus, investment valuation and impairment testing. This course provides an excellent foundation for evaluating insurance company financial statements, industry ratios, capital adequacy, regulatory issues, rating agency assessments, and early warning signs of financial distress.

### Targeted Audience

Financial analysts, credit analysts, ratings analysts, underwriting managers, risk managers, consultants, accountants, auditors, regulators, and others who seek a fundamental, yet comprehensive, understanding of the tools & techniques used to analyze an insurance company's financial condition and operating performance.

### Special Offer

Clients who register for this course will receive a complimentary 3 month subscription to the Financial Times and FT.com. The Financial Times is the world's most respected financial newspaper, providing a broad assessment on finance, business and the industrial sector. Subscriptions will start within 6-8 weeks of the application process and are limited to one per client. For questions about your subscription, call 800-628-8088 or email [uscirculation@ft.com](mailto:uscirculation@ft.com). U.S. enrollees only. (All non-U.S. enrollees will receive a subscription to FT.com only.) Lunch included for all students taking day classes.

### Advance Preparation

No advance preparation required.

### Prerequisites

A basic understanding of U.S. GAAP accounting principals and property/casualty & life/health insurance products (including annuities). Financial calculator required.

## **Learning Objectives**

Students will be able to:

- . Describe major industry trends and challenges
- . Explain the insurance industry's regulatory environment
- . Describe the operating cycle of an insurance company
- . Compare and contrast statutory and U.S. GAAP accounting
- . Describe the impairment tests for invested assets
- . Differentiate between loss reserves, policy reserves, UPR and IBNR reserves
- . Identify the components on an insurer's capital and surplus
- . Describe the nature and purpose of reinsurance
- . Identify the key elements of risk transfer in a reinsurance agreement
- . Conduct ratio analysis tests to assess an insurer's financial condition and operating results
- . Explain the methodologies used by rating agencies
- . Describe the key components of the NAIC's risk-based capital (RBC) formula
- . Identify warning signs of an insurer experiencing financial distress
- . Predict how changes in key variables might affect an insurer's financial results
- . Describe the likely impact of international accounting (IFRS) in the insurance industry
- . Refresh your knowledge of key insurance terms and concepts

**Level: Basic**

**CPE Credits: 14.0**

**Instructional Method: Group-Live**

# Detailed Outline

## Day One

### Introduction

- . Industry overview and analysis
- . Recent scandals and shenanigans
- . Emerging issues and challenges

### Regulatory Environment

- . Evolution & Background
- . Role of the NAIC
- . State vs. federal regulation
- . Likely outcomes of the financial crisis

### The Insurance Operating Cycle

- . Premiums
- . Claims
- . Reserving
- . Investment income
- . Operating expenses
- . Adjustments

### Statutory vs. GAAP Comparisons

- . Solvency vs. going concern concept
- . Admitted vs. non-admitted assets
- . Reserving methods
- . Statutory liabilities
- . Acquisition costs
- . Revenues & expenses
- . Capital & surplus

### Asset Valuation

- . Invested assets: bonds, stocks, real estate, mortgage loans, receivables, deferred taxes, goodwill and intangibles
- . Impairment tests

## Day Two

### Reinsurance Transactions

- . Reasons for reinsurance
- . Types of reinsurance
- . Affect of reinsurance on operations
- . Reinsurance assets
- . Reinsurance liabilities
- . SAP vs. GAAP differences
- . Finite risk reinsurance
- . Testing for risk transfer
- . Accounting for finite reinsurance

### Financial & Rating Agency

#### Measures

- . Capacity ratios
- . Liquidity ratios
- . Leverage ratios
- . Profitability ratios
- . Affect of holding companies
- . Financial ratings: What do they mean?

### Capital Adequacy Analysis

- . Statutory solvency analysis
- . NAIC's risk-based capital (RBC) formula
- . Rating agency capital adequacy measures (BCAR)
- . Warning signs of financial difficulties

### Financial Forecasting

- . Establishing required rates of return
- . Correlating combines ratios with ROE
- . Life & health forecasting methods

- . Receivables
- . Deferred acquisition costs (DAC)

### **Liability Valuation**

- . Case & IBNR reserves
- . Policyholder benefits
- . Claim reserves
- . Annuity reserves
- . Loss adjustment expense (LAE)
- . Unearned premium reserve (UPR)
- . Deposit liabilities

### **Capital & Surplus**

- . Capital stock
- . Surplus notes
- . Unassigned funds
- . Treasury stock
- . Risk-based capital (RBC)

- . Economic value analysis

### **IFRS: A Looming Challenge**

- . Evolution and background
- . Insurance Project Phase I
- . Insurance Project Phase II
- . Exposure draft
- . Industry comments
- . Current developments

### **Case Problems for Review & Analysis**

### **Summary & Conclusion**

For more information regarding administrative policies such as complaints and refunds, please contact our offices at 212-641-6616.