

Odomirok – CAS Financial Reporting Chapters 1-6: Overview

Odomirok – CAS Financial Reporting Chapter 7: The Statutory Balance Sheet—A Measure of Solvency

There are two distinctions within the assets held by insurers on the balance sheet: “Cash and invested assets” vs. “non-invested assets” as well as “admitted” vs. “non-admitted” assets. Non-admitted assets are not recognized by regulators in evaluating the solvency of insurers under SAP. Non-admitted assets are not readily convertible to meet liabilities and therefore should not be considered in evaluating solvency.

The most noteworthy classes of assets held by insurers include Bonds (Line 1), Stocks (Line 2), Real estate (Line 4), Cash, cash equivalents and short-term investments (Line 5), Uncollected and deferred premiums and agents’ balances (Lines 15.1 and 15.2), Amounts recoverable from reinsurers (Line 16.1), Net deferred tax assets (DTA) (Line 18.2), and Receivables from parent, subsidiaries and affiliates (Line 23).

The most noteworthy classes of liabilities held by insurers include Loss and loss adjustment expenses (Lines 1 and 3), Reinsurance payable on paid losses and loss adjustment expenses (Line 2), Other expenses (excluding taxes, licenses, and fees) (Line 5), Unearned premiums (Line 9), Ceded reinsurance premiums payable (net of ceding commissions) (Line 12), Funds held by company under reinsurance treaties (Line 13), and the Provision for reinsurance (Line 16).

The most noteworthy items recorded under the surplus items in Rows 29-37 of the Liabilities, Surplus and Other Funds exhibit (p. 3) include Common capital stock (Line 30), Gross paid in and contributed surplus (Line 34), and Unassigned funds (surplus) (Line 35).

Odomirok – CAS Financial Reporting Chapters 8-9: The Statutory Income Statement & Capital and Surplus Account

The income statement portion of the exhibit (Lines 1-20) is broken down into three sources of income: underwriting income (Lines 1-8), investment income (Lines 9-11), and other income (Lines 12-15). Each of the three sources of income are presented before policyholder dividends and federal and foreign income taxes, which are shown as separate line items on Lines 17 and 19, respectively.

Underwriting income is generally the most important and relevant income source to actuaries. Underwriting income (Line 8) is earned premium (Line 1) plus net income from protected cells (Line 7) minus loss and LAE incurred (Lines 2-3), other underwriting expenses incurred (Line 4), and write-ins for underwriting deductions (Line 5)—all during the time period covered by the financial statements. Incurred loss and LAE (Lines 2-3) during the period is equal to the ultimate from claims incurred in the current period plus the change in ultimate estimates on prior years. Equivalently, it is equal to the payments during the period (from all years) plus the change in unpaid (from all years). The other underwriting expenses incurred (Line 4) include all such expenses incurred during the current period, regardless of if they have been paid or not (i.e., their ultimate amount).

Net investment income (Line 11) is the sum of net investment income earned (Line 9) and net realized capital gains (Line 10). Net investment income earned (Line 9) is from interest and dividends earned on invested assets during the year (i.e., income earned during the period, even if paid/received after the period)—this amount is net of investment expenses and other costs, but gross of federal income taxes. Net realized capital gains (Line 10) are the result of selling an asset for more (or less) than the amortized original cost and presented after capital gains taxes (changes in asset values of held assets are not realized, but rather unrealized and are recorded in the capital and surplus account).

Net investment income earned (Line 9) from bonds is comprised of interest received during the year, the change in interest due and accrued, interest paid for accrued interest on dividends, and the current year's amortization/accretion. Net investment income earned (Line 9) from stocks is simply the dividends received during the year plus the change in accrual for dividends paid but not received (since recorded on an accrual basis). Net realized capital gains (Line 10) from bonds is comprised of realized gain (loss) on sale or maturity, foreign exchange gain (loss) on disposal, and other than temporary impairments recognized.

The final source of income is other income (Line 15) which is the sum of net gain or loss from agents' balances charged off (Line 12), finance and service charges not included in premiums (Line 13), and aggregate write-ins for miscellaneous income (Line 14).

To get net income we must remove dividends to policyholders (Line 17) and federal/foreign income taxes incurred (Line 19).

The capital and surplus account section (Lines 21-39) records changes in surplus that are not reflected in the income statement (Lines 1-20), reconciling the beginning surplus with the ending surplus. These items include change in unrealized capital gains (Losses) (Line 24), change in net unrealized foreign exchange capital gains (losses) (Line 25), change in net deferred income tax (Line 26), change in non-admitted assets (Line 27), change in provision for reinsurance (Line 28), cumulative effect of changes in accounting principles (Line 31), capital changes and surplus adjustments (Lines 32 and 33), and dividends to stockholders (Line 35).

Odomirok – CAS Financial Reporting Chapter 10: Notes to Financial Statements



Odomirok – CAS Financial Reporting Chapter 11: General Interrogatories

