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INDUSTRY-SPECIFIC MODELING

Insurance Company Financial Modeling

Format: 100% hands-on

Duration: 3 Days

Build a fully integrated, scalable, new insurance company model including detailed build-up by line of business from Gross Written Premiums to Net Premiums down to Underwriting Income. Consolidate the lines of business performance into a GAAP Income Statement with statutory adjustments. Integrate income statement projections with a self-balancing balance sheet, an automated cash flow statement and the balancing cash flow sweep schedule.

Learning Objectives:

- Build an integrated set of financials, including LOB, income statement, balance sheet & cash flow
- Project direct, ceded and net premiums and underwriting income based on assumed loss triangles
- Consolidate multiple lines of businesses, calculate GAAP and Stat Net Income with Tax Schedule
- Project self-balancing balance sheet including items such as premiums receivable and recoverables

Outline of Topics Covered

- **PRIMER: Insurance Industry Overview**
 - Types of Insurance: Property & Casualty vs Life & Health
 - Insurance industry players and their functions, roles and value-add
 - Modern insurance industry structure
 - Reinsurance and retrocession: types (quota-share vs. XOL) and their impact on financials
- **PRIMER: Insurance Financial Statement Terminology & Drivers**
 - IS: Premiums: Direct vs Ceded vs. Net and Written vs. Earned vs. UEPR
 - IS: Losses Incurred and LAE Incurred (ALAE vs ULAE) and Commissions vs. DAC
 - Statutory vs GAAP Net Income – main differences
 - BS Assets: Premiums Receivable, Reinsurance Recoverable, Prepaid Reinsurance Premiums
 - BS Liabilities: Loss & LAE Reserve, Unearned Premium Reserve
 - Valuation Parameters: key insurance multiples (PE, Book Value, Premium/Surplus)

INSURANCE FINANCIAL MODELING

- **Line of Business Breakdown:**
 - Project gross written and earned premiums
 - Calculate Loss & LAE and reserves
 - Estimate quota share and XOL amounts
 - Generate net premiums, losses, commission expense and underwriting income
 - Consolidate multiple lines of business into Consolidating Income Statement

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Insurance Company Financial Modeling (continued)

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INSURANCE FINANCIAL MODELING

- **Income Statement:**
 - Calculate all revenue items including premiums and investment income
 - Calculate total expenses including underwriting expenses and other relevant expenses
 - Tax schedule to properly adjust for deferred acquisition costs (DAC) and any NOLs
 - Adjust from GAAP Net Income to estimated Statutory Net Income
- **Balance Sheet:**
 - Project cash and invested assets balances
 - Project premiums receivable, reinsurance recoverables and other relevant insurance assets
 - Derive loss reserves, unearned premium reserves, and other relevant insurance liabilities
 - Project shareholders' equity account including APIC, retained earnings, etc
- **Cash Flow Statement and Sweep:**
 - Calculate CFO (including working capital), CFI and CFF
 - Build cash flow sweep to capture any shortfalls / build-up in cash to balance the entire model
 - Build interest schedule to fully integrate the model
 - What are circular references, why should they be avoided and how to get around circular references
- **Internal Rate of Return (IRR):**
 - Project returns to financial sponsor / investor based on financial model



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