The Insurance Balance Sheet

New York University | Actuarial Society | Friday, September 14th, 2018

Stocks vs Bonds

Most companies issue both- what makes them different and why are they both important?

Stocks

- Stockholders are owners of a company
- Stockholders' returns are based on the company's performance
- Stockholders' returns are variable
- Stocks are a type of **equity**

Bonds

- Bondholders are lenders to the company
- Bondholders' returns are stated at issuance
- Bondholder's returns are fixed
- Bonds are a kind of **liability**

A company **owns** its equities and **owes** its liabilities!

The Balance Sheet

Every firm can qualify each of its “belongings” into one of two categories: what it owns and what it owes.

Resources obtained from the owners of a company

+

Resources obtained from third parties’ loans

=

Resources the company can claim; its *assets*

Equity

Shareholder’s equity includes the money issued in stock and earnings retained by the firm

Liabilities

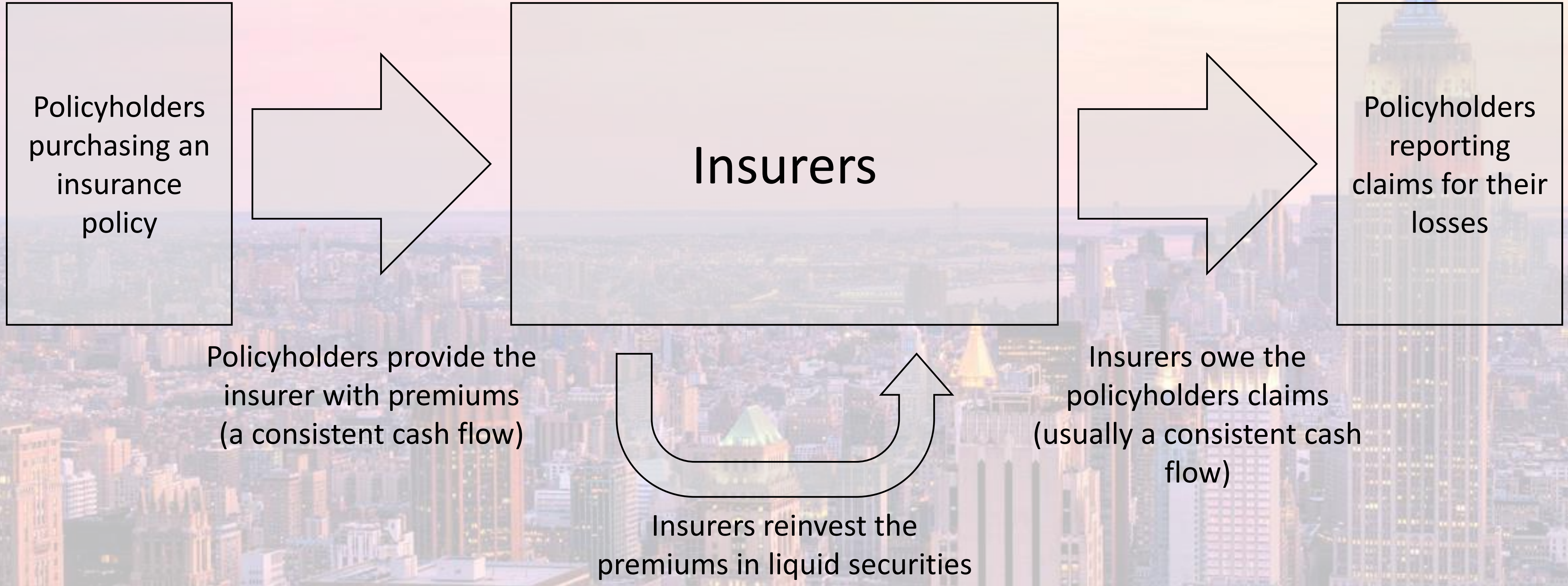
Liabilities include money borrowed from debtholders and obligations the company makes

Assets

Assets are what a company claims as its own, including infrastructure and other resources

The Insurance Model

The cash flow of capital through an insurance company revolves around its business model.



In the Context of an Insurance Company

From a <u>reporting</u> perspective

<u>Equity</u>

Amount of funds contributed by owners (stockholders) of the company
Includes money in stock and retained earnings generated from net income

<u>Liabilities</u>

What the company “owes” in future obligations
Includes loans, bond debt, and accounts payable

<u>Assets</u>

Resources the company has which create future value for the company

Includes land, property, cash, equipment, marketable securities, etc.

In the Context of an Insurance Company

From a <u>business</u> perspective

Capital

Insurers hold capital to protect against extreme & unexpected losses

- Risk-Based Capital (RBC)
- Economic Capital

Reserves

Current value of future obligations that must be paid to policyholders

- Covers expected future payments
- Usually includes additional margins

Assets

Resources created from insurance operations and used to support liabilities and surplus

Includes land, property, cash, equipment, marketable securities, etc.

Key Takeaways

I know you weren't paying attention…but its okay, now's your time to look smart!

1. A balance sheet is a useful tool for organizing what a company owns, owes, and lays claim to. All companies with half a brain use a balance sheet to organize their assets.

2. Insurance companies are focused around the idea of liability management- ensuring they always have enough liquid assets to pay future liabilities

3. Insurance companies can organize their assets into capital and reserves, which are useful for understanding the technicalities of the insurance business model

Upcoming Events

- **Saturday, September 15th, 2018**
  - Saturday Social! At either Central Park or Little Italy (TBD)
  - Meet at Gould at 2:30pm
- **Monday, September 17th, 2018**
  - Alumni Workshop Series- *Basic Ratemaking I*
  - 6:00pm in UC-09
- **Wednesday, September 19th, 2018**
  - Introductory Workshop Series- *Intro to Life Insurance*
  - 12:30pm in UC-19
- **Friday, September 21st, 2018**
  - Technical Workshop Series- *Intro to P.R.T.*
  - 5:00pm in UC-07