



Coverholder Financial Risk Assessment

Who would benefit?

Delegated authorities are a valuable and efficient source of premium revenue for insurers. However they bring in their wake risk: financial difficulties which prejudice the coverholder/MGA as a going concern and hence the premium volume and, worse, credit risk through default following insolvency. In a Solvency II world counterparty risk will have implications for an insurer's capital requirements.

This one day course is intended for people who have had little formal exposure to business finance, but who need to understand in-company risk assessment tools beyond. It aims to provide an understanding beyond purely accepting simple pass/fail scores through exploring how those scores are derived and what they mean. It will also encourage better use of expert advice and contribute to qualitative risk assessments.

Starting with simple models to demystify the sources and uses of money in business, its measurement and the terminology, the course introduces financial statements to uncover the financial characteristics and indicators which can be used to suggest the health (or otherwise!) of a company. This knowledge can then be translated back to in-house systems to reveal the messages behind the numbers.

Objective

By the end of the workshop, participants will be able to:

- Revise commercial cash flow, sources of funding and the issues, implications and consequences
- Outline the key financial principles, conventions and sources of applicable financial reporting standards
- Explain the purposes of, read and interpret financial statements
- Determine the critical indicators of financial health
- Apply key ratios to measure liquidity, solvency, capital adequacy and profitability and return.
- Assess the risk in an MGA business model

Approach

It assumes only a basic knowledge of business finance on the part of participants, and is therefore split into three main sessions,

- Revision of cashflow, funding, language
- Construction and interpretation of financial statements
- The tools of financial analysis.

Each session is a blend of input, discussion and short practical exercises to enable participants to learn by doing. More lengthy case studies are used for reinforcement. The course is supported by a set of reference notes on the financial basics for use during and after the course. It helps to incorporate and utilise internal tools and processes during the course.

Content

- Preparing a case and anticipation of questions
- Cashflow: keeping the money machine working
- The agent/MGA business model
- Funding through equity and debt, and the implications
- Cash v profit
- Assets, liabilities and the cost base
- Creditors and debtors
- Financial conventions and reporting standards (GAAP v IFRS)
- Financial statements
- Working, regulatory and economic capital
- Liquidity and solvency ratios
- Return on Capital and Return on Equity
- Credit risk protection: client money, risk transfer agreements or co-mingling?

Duration

One day