

Introduction

You can perform comprehensive Source of Earnings (SOE) analysis using PolySystems' SOE financial reporting software. With this software, you develop the information needed to measure the sources of your company's profits in a way that enables the manager to take clear action to improve company performance.

What is SOE?

The typical GAAP income statement gives a logical development of the operational aspects of the insurance company's business; it shows totals for premium, investment income, benefits, and expenses. (Reinsurance may be identified separately or combined with each of the operational items.) However, the change in reserves/DAC in the income statement masks the true earnings by operational source. SOE tears off the mask by breaking up the reserve/DAC increases into their component pieces (including net premiums, required interest, benefit/expense costs, reserves released on death and reserves released on other terminations) and matching them with the corresponding income statement items to produce a meaningful analysis of earnings by source.

Common System Features

The SOE systems are different for the different lines of business. In this section we discuss the system processing underlying the source of earnings analysis for GAAP reporting standards. Source of earnings analysis is defined for statutory accounting, as well. Despite the accounting model differences, the SOE systems do have their similarities. These shared features are discussed before the accounting model distinctions are presented.

Inputs to the System

The SOE system uses the same history files and assumption coding used in the valuation, projection, and history systems. There is no additional set of information required. The analysis is created by computing additional information from the policy data and assumptions.

Selection Criteria

As the user, you are asked to specify the policies you want studied. The study can include all policies, as well as selections by plan code, issue age ranges, sex code, risk code, class code and calendar period. These selection criteria allow you to focus on portions of the business as desired.

Calculation Results

The system performs additional calculations for the policies you select. For FAS60 policies, the system computes the components of the actual increase in the reserves. This permits the basic source of earnings analysis for these products. The system also calculates a set of expected sources. These sources are often based on some sort of pricing assumptions. In this case, if actual equals expected, the pricing level results will emerge. By combining the reserve unbundling with the expected values, the system gives you an expected profitability by source, enabling you to easily create a set of deviations from expected.

Actual and Expected Explained

Let's clear up any questions about the terms "actual" and "expected" as they are used in the SOE context. SOE provides a comparison of actual to expected. For the expected results, the reserve assumptions provide the basis. Since actual history data exist, this is the source of the actual results for past period

