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The Case for Distributable Earnings

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Abstract

In the past several years several separate approaches have been taken to assign value to insurance. "Value" has been defined functionally as the present value of either cash flows or distributable earnings. The primary difference between these is that cash flow valuation excludes the impact of reserves and required surplus, whereas distributable earnings are cash flows less the increase of the change in reserves and/or required surplus. Our assertion is that economic value is best defined by distributable earnings and that risk management processes must focus on distributable earnings or run the risk of misalignment. In this paper, we will discuss the differences between cash flows and distributable earnings, as well as the concept of a required balance that expands the usability of the Distributable Earnings framework.

[1] The design, use and conclusions of this paper and its related research reflect only the personal opinions of the authors. They do not reflect any opinions or positions of CNO Financial Group or Pacific Life Insurance.