

# General Insurance Financial and Regulatory Environment–US Exam

Spring 2018

## Important Exam Information:

### [Exam Registration](#)

Candidates may register online or with an application.

### [Order Study Notes](#)

Study notes are part of the required syllabus and are not available electronically but may be purchased through the online store.

### [Introductory Study Note](#)

The Introductory Study Note has a complete listing of all readings as well as errata and other important information.

### [Case Study](#)

A copy of the case study will be provided with the examinations. Candidates will not be allowed to bring their copy of the case study into the examination room.

### [Past Exams](#)

Past copies of this exam from 2014-present are available on the SOA website.

### [Updates](#)

Candidates should be sure to check the Updates page on the exam home page periodically for additional corrections or notices.

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**1. Topic: Financial Reporting**

**Learning Objective**

The candidate will understand the elements of financial reporting for general insurance companies.

**Learning Outcomes**

The candidate will be able to:

- a) Understand and apply the concepts of insurance accounting
- b) Understand and compare different financial reporting standards for general insurers including: U.S. Statutory Accounting Principles (SAP), U.S. Generally Accepted Accounting Principles (GAAP), Canadian Generally Accepted Accounting Principles (CGAAP), Solvency II and International Financial Reporting Standards (IFRS)
- c) Describe the elements of the NAIC Annual Statement
- d) Complete and interpret selected pages/schedules in the NAIC Annual Statement as included in the resources
- e) Understand and apply the concepts of reinsurance accounting
- f) Understand and apply the elements of discounting for general insurance loss reserves
- g) Demonstrate knowledge of taxation for general insurers in the U.S.
- h) Estimate the premium asset for retrospectively rated policies for financial reporting

**Resources**

- *General Insurance Financial Reporting Topics*, Society of Actuaries, Third Edition, 2016:
  - Chapter 1 Accounting Systems for General Insurers
  - Chapter 2 Accounting for Insurance Contracts
  - Chapter 3 Accounting for Financial Instruments
  - Chapter 4 Accounting for Reinsurance Contracts
  - Chapter 5 Accounting Perspectives for Non-Admitted Assets
  - Chapter 6 Schedule F, Statutory Credit for Reinsurance
  - Chapter 7 Schedule P, Statutory Loss Accounting
  - Chapter 8 Notes to Financial Statements
  - Chapter 9 Measuring Total Income by Line of Business
  - Chapter 10 Returns on Capital: Planning, Pricing and Performance
  - Chapter 15 Federal Income Taxes for General Insurers, excluding sections 15.10 and 15.11
- National Association of Insurance Commissioners, Official 2016 NAIC Annual Statement Blanks, Property and Casualty (individual and consolidated basis), pages 2-14, 17-19, 20-29 (Schedule F) and 33-93 (Schedule P)
- FRE-801-17: Excerpts from National Association of Insurance Commissioners, Accounting Practices and Procedures Manual, 2016,
  - Preamble
  - Statement of Statutory Accounting Principles 3, "Accounting Changes and Corrections of Errors"
  - Statement of Statutory Accounting Principles 5 Revised, "Liabilities, Contingencies, and Impairment of Assets," excluding paragraphs 15-24, 28-30 and Appendix A
  - Statement of Statutory Accounting Principles 9, "Subsequent Events"
  - Statement of Statutory Accounting Principles 53, "Property Casualty Contracts-Premiums"
  - Statement of Statutory Accounting Principles 55, "Unpaid Claims, Loss and Loss Adjustment Expenses," excluding paragraphs 7-9
  - Statement of Statutory Accounting Principles 62 Revised, "Property and Casualty Reinsurance"
  - Statement of Statutory Accounting Principles 65, "Property and Casualty Contracts"

*Resources for this topic continued on the next page*

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- *“Risk Transfer Testing of Reinsurance Contracts,”* Brehm, P. and Ruhm, D., *Variance*, 2007, Volume 01, Issue 01, pages 9-17

This article may be accessed at [www.casact.org](http://www.casact.org) through the following navigation:

- Publications

- Variance Journal

- Journal Issues

- 2007 Volume 01 Issue 01

- 9 Risk Transfer Testing of Reinsurance Contracts...

- *“Estimating the Premium Asset on Retrospectively Rated Policies,”* Teng, M. and Perkins, M., *Casualty Actuarial Society*, 1996 Proceedings, Vol. LXXXIII, pages 611-647, excluding Section 5

This article may be accessed at [www.casact.org](http://www.casact.org) through the following navigation:

- Publications

- Yearbook/Proceedings

- 1996 Proceedings of the Casualty Actuarial Society, Volume LXXXIII

- Estimating the Premium Asset on Retrospectively Rated Policies

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<b>2. Topic: Financial Health Measurement</b>
<b>Learning Objective</b>
The candidate will understand the analysis of a general insurer's financial health through prescribed formulas, ratios and other solvency regulation methods.
<b>Learning Outcomes</b>
The candidate will be able to: <ul style="list-style-type: none"><li>a) Evaluate the financial health of a general insurer using information contained in the Annual Statement</li><li>b) Understand and apply the elements of the NAIC RBC formula</li><li>c) Calculate and interpret the results of financial health ratios</li><li>d) Discuss the Canadian Minimum Capital Test and the Canadian Dynamic Capital Adequacy Test</li><li>e) Understand the development and principles of solvency regulation, including that in the U.S., Canada and the EU</li><li>f) Demonstrate knowledge of the EU Solvency II standard formula solvency capital requirement</li><li>g) Demonstrate knowledge of ORSA and its implementations</li><li>h) Compare different solvency standards</li><li>i) Discuss the function of credit rating agencies and their influence on general insurers</li></ul>
<b>Resources</b>
<ul style="list-style-type: none"><li>• <i>General Insurance Financial Reporting Topics</i>, Society of Actuaries, Third Edition, 2016:<ul style="list-style-type: none"><li>○ Chapter 11 Measuring Insurer Financial Strength</li><li>○ Chapter 12 Solvency Monitoring</li><li>○ Chapter 13 General Insurance Financial Ratings, excluding sections 13.7 to 13.9</li></ul></li><li>• <i>"The U.S. National State-Based System of Insurance Regulation and the Solvency Modernization Initiative,"</i> National Association of Insurance Commissioners, NAIC White Paper, 2013, excluding all Appendices, Section 4 and Section 5 paragraphs 30-45, 69-86 <a href="http://www.naic.org/documents/committees_e_isftf_related_white_paper_state-based_financial_reg_smi_130825.pdf">http://www.naic.org/documents/committees_e_isftf_related_white_paper_state-based_financial_reg_smi_130825.pdf</a></li><li>• <i>"NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual,"</i> National Association of Insurance Commissioners, as of July 2014 <a href="http://www.naic.org/store/free/ORSA_manual.pdf">http://www.naic.org/store/free/ORSA_manual.pdf</a></li><li>• <i>"The Implications of Solvency II for U.S. Insurance Regulation,"</i> Vaughan, T., Policy Brief, Networks Financial Institute at Indiana State University, 2009-PB-03, February 2009 <a href="http://www.naic.org/Releases/2009_docs/090305_vaughan_presentation.pdf">http://www.naic.org/Releases/2009_docs/090305_vaughan_presentation.pdf</a></li></ul>

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<b>3. Topic: Responsibilities of the Actuary</b>
<b>Learning Objective</b>
The candidate will be able to apply the standards of practice regarding the responsibilities of the actuary as defined by regulators and the American Academy of Actuaries.
<b>Learning Outcomes</b>
The candidate will be able to: <ul style="list-style-type: none"><li>a) Describe, interpret and apply the applicable Standards of Practice</li><li>b) Describe, interpret and apply the responsibilities of the actuary with respect to the Statement of Actuarial Opinion and the Actuarial Report</li><li>c) Compare the Statements of Actuarial Opinion in the U.S. and Canada</li><li>d) Describe and apply the concept of materiality</li><li>e) Discuss the International Actuarial Association position on the function of the actuary in prudential supervision</li></ul>
<b>Resources</b>
<ul style="list-style-type: none"><li>• <i>General Insurance Financial Reporting Topics</i>, Society of Actuaries, Third Edition, 2016:<ul style="list-style-type: none"><li>○ Chapter 14 Overview of the General Insurance Statement of Actuarial Opinion</li></ul></li><li>• Actuarial Standards of Practice, Actuarial Standards Board of the American Academy of Actuaries,<ul style="list-style-type: none"><li>○ No. 1, Introductory Actuarial Standard of Practice, March 2013</li><li>○ No. 20, Discounting of Property/Casualty Unpaid Claim Estimates, September 2011</li><li>○ No. 21, Responding to or Assisting Auditors or Examiners in Connection with Financial Statements for All Practice Areas, September 2016</li><li>○ No. 23, Data Quality, December 2016</li><li>○ No. 36, Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves, December 2010</li><li>○ No. 41, Actuarial Communications, December 2010</li><li>○ No. 43, Property/Casualty Unpaid Claim Estimates, May 2011</li></ul><a href="http://www.actuarialstandardsboard.org/standards-of-practice/">http://www.actuarialstandardsboard.org/standards-of-practice/</a></li><li>• <i>"International Standard of Actuarial Practice 1, General Actuarial Practice,"</i> Approved by the IAA Council November 18, 2012 (reformatted October 2013), International Actuarial Association <a href="http://www.actuaries.org/CTTEES_ASC/Documents/ReformattedISAP1FINALOCTOBER_correctedJan2014.pdf">http://www.actuaries.org/CTTEES_ASC/Documents/ReformattedISAP1FINALOCTOBER_correctedJan2014.pdf</a></li><li>• <i>"International Standard of Actuarial Practice 1A, Governance of Models,"</i> Approved by the IAA Council November 21, 2016, International Actuarial Association <a href="http://www.actuaries.org/CTTEES_ASC/isaps/Final_ISAPs_posted/ISAP_1A_Final_November2016_Web.pdf">http://www.actuaries.org/CTTEES_ASC/isaps/Final_ISAPs_posted/ISAP_1A_Final_November2016_Web.pdf</a></li><li>• <i>"A Public Policy Practice Note, Statements of Actuarial Opinion on Property and Casualty Loss Reserves,"</i> American Academy of Actuaries, Committee on Property and Liability Financial Reporting, 2016, excluding Appendices I.3 and IV <a href="http://www.actuary.org/files/publications/COPLFR_2016_Loss_Reserve_Practice_Note.pdf">http://www.actuary.org/files/publications/COPLFR_2016_Loss_Reserve_Practice_Note.pdf</a></li><li>• <i>"Materiality, Concepts on Professionalism,"</i> American Academy of Actuaries, Task Force on Materiality, Discussion Paper, Professionalism Series, 2006, No. 8 <a href="http://www.actuary.org/files/materiality_06.8.pdf/materiality_06.8.pdf">http://www.actuary.org/files/materiality_06.8.pdf/materiality_06.8.pdf</a></li><li>• <i>"The Function of the Actuary in Prudential Supervision,"</i> International Actuarial Association, September 2002 <a href="http://www.actuaries.org/LIBRARY/Papers/Prudential_Supervision_EN.pdf">http://www.actuaries.org/LIBRARY/Papers/Prudential_Supervision_EN.pdf</a></li></ul>

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<b>4. Topic: Regulation</b>
<b>Learning Objective</b>
The candidate will be able to describe the current and historical regulatory environment.
<b>Learning Outcomes</b>
The candidate will be able to: <ul style="list-style-type: none"><li>a) Describe the functions of key regulatory bodies in the U.S. including the NAIC and SEC</li><li>b) Describe and interpret the current state of general insurance regulation in the U.S. and its development</li><li>c) Compare different forms of rate regulation</li><li>d) Discuss market conduct regulation</li><li>e) Discuss the issues regarding usage based insurance and telematics in automobile insurance</li><li>f) Describe the development of general insurance programs controlled by government or collective insurance industry organizations</li><li>g) Describe the mechanisms of operation for government and/or collective insurance industry controlled programs as included in the resources</li><li>h) Understand the regulation of reinsurance</li><li>i) Outline the function and regulation of captives</li></ul>
<b>Resources</b>
<ul style="list-style-type: none"><li>• <i>Insurance Regulation</i>, Porter, K., The Institutes, 1st Edition, 2008</li><li>• FRE-100-18: “<i>Government Provision of General Insurance</i>,” Cappelletti, A., Society of Actuaries Study Note, Revised October 2017</li><li>• FRE-104-17: “<i>Usage Based Insurance and Telematics</i>,” Cappelletti, A., Society of Actuaries Study Note, Revised October 2016</li><li>• FRE-106-18: “<i>Captive Insurance</i>,” Cappelletti, A., Society of Actuaries Study Note, October 2017</li><li>• “<i>The Economic Crisis and Lessons from (and for) U.S. Insurance Regulation</i>,” Vaughan, T., Journal of Insurance Regulation, National Association of Insurance Commissioners, Volume 28, No. 1, Fall/Winter 2009 <a href="http://www.naic.org/documents/cjpr_jir_vaughan.pdf">http://www.naic.org/documents/cjpr_jir_vaughan.pdf</a></li><li>• “<i>Code of Conduct for Insurers’ use of Credit Information (CODE)</i>,” Insurance Bureau of Canada <a href="http://assets.ibc.ca/Documents/Consumer%20Protection/Code_of_Conduct.pdf">http://assets.ibc.ca/Documents/Consumer%20Protection/Code_of_Conduct.pdf</a></li><li>• “<i>Use of Credit Scores by Insurers</i>,” Canadian Council of Insurance Regulators, Issues Paper, Credit Scoring Working Group, June 2011 <a href="http://www.ccir-ccrra.org/en/init/credit_scor/CCIR%20credit%20scores%20issues%20paper(En).pdf">http://www.ccir-ccrra.org/en/init/credit_scor/CCIR%20credit%20scores%20issues%20paper(En).pdf</a></li><li>• “<i>Insurance and the discrimination laws: motor and travel insurance</i>,” Edmunds, T., House of Commons Library Standard Note SN04601, March 13, 2013 <a href="http://www.parliament.uk/business/publications/research/briefing-papers/SN04601/insurance-and-discrimination-laws-motor-and-travel-insurance">http://www.parliament.uk/business/publications/research/briefing-papers/SN04601/insurance-and-discrimination-laws-motor-and-travel-insurance</a> (Click the link on this page to download the full report in pdf format)</li><li>• “<i>The National Flood Insurance Program: Challenges and Solutions</i>,” American Academy of Actuaries Flood Insurance Work Group, Public Policy Monograph, American Academy of Actuaries, April 2017, excluding Sections 7 and 8, and the Appendices <a href="http://www.actuary.org/files/publications/FloodMonograph.04192017.pdf">http://www.actuary.org/files/publications/FloodMonograph.04192017.pdf</a></li></ul>
<i>Resources for this topic continued on the next page</i>

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- *“Considerations for Residual Market Regulation,”* Facility Association, Position Paper, November 2003  
[http://www.facilityassociation.com/docs/position\\_paper/Considerations\\_for\\_Residual\\_Market\\_Regulation-Nov24.pdf](http://www.facilityassociation.com/docs/position_paper/Considerations_for_Residual_Market_Regulation-Nov24.pdf)
- *“Understanding the New Financial Reform Legislation: The Dodd-Frank Wall Street Reform and Consumer Protection Act,”* Mayer Brown, July 2010, Section on Title V – Insurance  
<https://www.mayerbrown.com/publications/The-Dodd-Frank-Wall-Street-Reform-and-Consumer-Protection-Act-07-09-2010/> (Click the link on this page to download document)

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<b>5. Topic: Law</b>
<b>Learning Objective</b>
The candidate will be able to understand tort law and insurance law with respect to its impact on the general insurance industry.
<b>Learning Outcomes</b>
The candidate will be able to: <ul style="list-style-type: none"><li>a) Describe and interpret the key elements of tort law and the underlying principles of insurance law</li><li>b) Discuss the influence of the U.S. tort law environment in other countries</li><li>c) Discuss the issues of tort trends and tort reform as it applies to the general insurance industry</li><li>d) Understand mass torts/class action suits and discuss their impact on the general insurance industry</li><li>e) Describe and interpret legal cases/issues included in the syllabus resources</li></ul>
<b>Resources</b>
<ul style="list-style-type: none"><li>• FRE-103-14: <i>Excerpts from Business Law for Insurance Professionals</i>, The Institutes, Institutes Custom Publishing, 1st edition, 2013</li><li>• FRE-105-16: "Tort Law – Topics for General Insurance Actuaries," Cappelletti, A., Society of Actuaries Study Note, April 2016</li></ul>