

FINANCIAL AND REGULATORY ENVIRONMENT – US  
FALL 2014

Important Exam Information:

<a href="#">Exam Date and Time</a>	A read-through time of 15 minutes will be given prior to the start of the exam.
<a href="#">Exam Registration</a>	Candidates may register online or with an application.
<a href="#">Order Study Notes</a>	Study notes are part of the required syllabus and are not available electronically but may be purchased through the online store.
<a href="#">Introductory Study Note</a>	The Introductory Study Note has a complete listing of all readings as well as errata and other important information.
<a href="#">Case Study</a>	There is no case study for this examination.
<a href="#">Past Exams</a>	There are no past exams for this examination. Past exams from 2000-present for other SOA exams are available on the SOA website.
<a href="#">Updates</a>	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) 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:
  - Part 1 Accounting Systems for General Insurers
  - Part 2 Accounting for Insurance Contracts
  - Part 3 Accounting for Financial Instruments
  - Part 4 Accounting Perspectives for Non-Admitted Assets
  - Part 5 Accounting for Reinsurance Contracts
  - Part 6 Schedule F, Statutory Credit for Reinsurance
  - Part 7 Statutory Loss Accounting and Schedule P
  - Part 8 Measuring Total Income for General Insurers
  - Part 9 Notes to the Financial Statements
  - Part 10 Statutory Surplus: Computation, Pricing, and Valuation
  - Part 15 Income Taxes for General Insurers
- National Association of Insurance Commissioners, Official 2012 NAIC Annual Statement Blanks, Property and Casualty (individual and consolidated basis), pages 2-14, 17-19, 20-30 (Schedule F) and 34-94 (Schedule P)
- FRE-801-14: Excerpts from National Association of Insurance Commissioners, Accounting Practices and Procedures Manual, 2012,
  - 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 6-8
  - 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
    - Past 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
    - Past Issues of the Proceedings of the Casualty Actuarial Society
      - 1996 Proceedings of the Casualty Actuarial Society, Volume LXXXIII
        - Estimating the Premium Asset on Retrospectively Rated Policies

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**2. Topic: Financial Health Measurement**

**Learning Objective**

The candidate will understand the analysis of a general insurer's financial health through prescribed formulas, ratios and other solvency regulation methods.

**Learning Outcomes**

The candidate will be able to:

- a) Evaluate the financial health of a general insurer using information contained in the Annual Statement
- b) Understand and apply the elements of the NAIC RBC formula
- c) Calculate and interpret the results of financial health ratios
- d) Discuss the Canadian Minimum Capital Test and the Canadian Dynamic Capital Adequacy Test
- e) Understand the development and principles of solvency regulation, including that in the U.S., Canada and the E.U.
- f) Demonstrate knowledge of the E.U. Solvency II standard formula solvency capital requirement
- g) Demonstrate knowledge of ORSA and its implementations
- h) Compare different solvency standards
- i) Discuss the function of credit rating agencies and their impact on general insurers

**Resources**

- *General Insurance Financial Reporting Topics*, Society of Actuaries:
  - Part 12 Solvency Monitoring
  - Part 13 General Insurance Financial Ratings
- FRE-102-14: "Insurance Regulatory Information System (IRIS) Ratios Manual," National Association of Insurance Commissioners, 2013 Edition, Pages 1-26
- *"The United States Insurance Financial Solvency Framework,"* National Association of Insurance Commissioners, 2010  
[http://www.naic.org/documents/committees\\_e\\_us\\_solvency\\_framework.pdf](http://www.naic.org/documents/committees_e_us_solvency_framework.pdf)
- *"NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual,"* National Association of Insurance Commissioners, as of March 2013  
[http://www.naic.org/documents/committees\\_e\\_orisa\\_wg\\_related\\_docs\\_guidance\\_manual\\_2013.pdf](http://www.naic.org/documents/committees_e_orisa_wg_related_docs_guidance_manual_2013.pdf)
- *"The Implications of Solvency II for U.S. Insurance Regulation,"* Vaughan, T., Policy Brief, Networks Financial Institute at Indiana State University, 2009-PB-03, February 2009  
[http://www.naic.org/Releases/2009\\_docs/090305\\_vaughan\\_presentation.pdf](http://www.naic.org/Releases/2009_docs/090305_vaughan_presentation.pdf)

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**3. Topic: Responsibilities of the Actuary**

**Learning Objective**

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.

**Learning Outcomes**

The candidate will be able to:

- a) Describe, interpret and apply the applicable Standards of Practice
- b) Describe, interpret and apply the responsibilities of the actuary with respect to the Statement of Actuarial Opinion and the Actuarial Report
- c) Compare the Statements of Actuarial Opinion in the U.S. and Canada
- d) Describe and apply the concept of materiality
- e) Discuss the International Actuarial Association position on the function of the actuary in prudential supervision

**Resources**

- *General Insurance Financial Reporting Topics*, Society of Actuaries:
  - Part 14 Overview of the General Insurance Statement of Actuarial Opinion
- Actuarial Standards of Practice, Actuarial Standards Board of the American Academy of Actuaries,
  - No. 1, Introductory Actuarial Standard of Practice, March 2013
  - No. 20, Discounting of Property/Casualty Unpaid Claim Estimates, September 2011
  - No. 21, Responding to or Assisting Auditors or Examiners in Connection with Financial Statements for All Practice Areas, May 2011
  - No. 36, Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves, May 2011
  - No. 41, Actuarial Communications, December 2010
  - No. 43, Property/Casualty Unpaid Claim Estimates, May 2011

<http://www.actuarialstandardsboard.org/asops.asp>
- *"International Standard of Actuarial Practice 1, General Actuarial Practice,"* Approved by the IAA Council November 18, 2012, International Actuarial Association  
[http://www.actuaries.org/ISAP1/ISAP1\\_Final\\_WebVersion.pdf](http://www.actuaries.org/ISAP1/ISAP1_Final_WebVersion.pdf)
- *"A Public Policy Practice Note, Statements of Actuarial Opinion on Property and Casualty Loss Reserves,"* American Academy of Actuaries, Committee on Property and Liability Financial Reporting, 2012  
[http://www.actuary.org/files/COPLFR\\_PN\\_Dec17\\_2012.pdf](http://www.actuary.org/files/COPLFR_PN_Dec17_2012.pdf)
- *"Materiality, Concepts on Professionalism,"* American Academy of Actuaries, Task Force on Materiality, Discussion Paper, Professionalism Series, 2006, No. 8  
[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)
- *"The Function of the Actuary in Prudential Supervision,"* International Actuarial Association, September 2002  
[http://www.actuaries.org/LIBRARY/Papers/Prudential\\_Supervision\\_EN.pdf](http://www.actuaries.org/LIBRARY/Papers/Prudential_Supervision_EN.pdf)

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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:  a) Describe the functions of key regulatory bodies in the U.S. including the NAIC and SEC b) Describe and interpret the current state of general insurance regulation in the U.S. and its development c) Compare different forms of rate regulation d) Discuss market conduct regulation e) Discuss the issues regarding usage based insurance and telematics in automobile insurance f) Describe the development of general insurance programs controlled by government or collective insurance industry organizations g) Describe the mechanisms of operation for government and/or collective insurance industry controlled programs as included in the resources h) Discuss the concept of no-fault laws and its application in general insurance i) Understand the regulation of reinsurance j) Outline the function and regulation of captives
<b>Resources</b>
<ul style="list-style-type: none"><li>• <i>Insurance Regulation</i>, Porter, K., The Institutes, 1st Edition, 2008</li><li>• FRE-100-14: “Government Provision of General Insurance,” Cappelletti, A., Society of Actuaries Study Note</li><li>• FRE-104-14: “Usage Based Insurance and Telematics,” Cappelletti, A., Society of Actuaries Study Note</li><li>• “The Economic Crisis and Lessons from (and for) U.S. Insurance Regulation,” 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/cipr_jir_vaughan.pdf">http://www.naic.org/documents/cipr_jir_vaughan.pdf</a></li><li>• “Code of Conduct for Insurers’ use of Credit Information (CODE),” Insurance Bureau of Canada <a href="http://www.ibc.ca/en/consumer_protection/documents/code_of_conduct.pdf">http://www.ibc.ca/en/consumer_protection/documents/code_of_conduct.pdf</a></li><li>• “Use of Credit Scores by Insurers,” 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>• “Insurance and the discrimination laws: motor and travel insurance,” Edmunds, T., House of Commons Library Standard Note SN04601, March 13, 2013 <a href="http://www.parliament.uk/briefing-papers/SN04601">http://www.parliament.uk/briefing-papers/SN04601</a></li><li>• “The National Flood Insurance Program: Past, Present ... and Future?,” American Academy of Actuaries Flood Insurance Subcommittee, A Public Policy Monograph, American Academy of Actuaries, July 2011, excluding Appendices <a href="http://www.actuary.org/pdf/casualty/AcademyFloodInsurance_Monograph_110715.pdf">http://www.actuary.org/pdf/casualty/AcademyFloodInsurance_Monograph_110715.pdf</a></li><li>• “Biggert-Waters Flood Insurance Reform Act of 2012,” Pankow, S. and Robben, S., National Association of Insurance Commissioners, The Center for Insurance Policy and Research, CIPR Newsletter, October 2012 <a href="http://www.naic.org/cipr_newsletter_archive/vol5_biggert-waters_flood_reform_act_2012.pdf">http://www.naic.org/cipr_newsletter_archive/vol5_biggert-waters_flood_reform_act_2012.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  
<http://www.mayerbrown.com/files/Publication/1ec275f4-5618-4a63-9d38-3129010c06db/Presentation/PublicationAttachment/ef42ecce-49ff-44b2-b37a-72b81d87fb79/Final-FSRE-Outlinev2.pdf>
- *“Recent Developments in the Captive Insurance Industry,”* Hall, S., National Association of Insurance Commissioners, The Center for Insurance Policy and Research, CIPR Newsletter, January 2012  
[http://www.naic.org/cipr\\_newsletter\\_archive/vol2\\_captive.htm](http://www.naic.org/cipr_newsletter_archive/vol2_captive.htm)

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**5. Topic: Law**

**Learning Objective**

The candidate will be able to understand tort law and insurance law with respect to its impact on the general insurance industry.

**Learning Outcomes**

The candidate will be able to:

- a) Describe and interpret the key elements of tort law and the underlying principles of insurance law
- b) Discuss the influence of the U.S. tort litigation environment in Canada
- c) Discuss the issues of tort trends and tort reform as it applies to the general insurance industry
- d) Understand mass torts/class action suits and discuss their impact on the general insurance industry
- e) Describe and interpret legal cases/issues from *Important Legal Cases with Respect to the U.S. General Insurance Industry*

**Resources**

- [FRE-101-14: "Tort Law Issues for General Insurance Actuaries,"](#) Cappelletti, A., Society of Actuaries Study Note
- FRE-103-14: *Excerpts from Business Law for Insurance Professionals*, The Institutes, Institutes Custom Publishing, 1st edition, 2013
- "The Impact of U.S. Tort Law in Canada," Klar, L., Pepperdine Law Review, Volume 38, Issue 2, Article 9, 2011  
<http://digitalcommons.pepperdine.edu/plr/vol38/iss2/9/>
- "Asbestos and the Future of Mass Torts," White, M., Journal of Economic Perspectives," Volume 18, Number 2, Spring 2004, Pages 183–204  
<http://www.econ.ucsd.edu/~miwhite/asbestos-jep-final.pdf>
- *Important Legal Cases with Respect to the U.S. General Insurance Industry*
  - "Changes in the Standards for Admitting Expert Evidence," RAND Institute for Civil Justice, RB-9037-ICJ, RAND Corporation, 2002  
[http://www.rand.org/pubs/research\\_briefs/RB9037/index1.html](http://www.rand.org/pubs/research_briefs/RB9037/index1.html)
  - "Res Ipsa Loquitur in Medical Malpractice Cases," Zeppieri, L., Kelly, Rode & Kelly, LLP, Counsellors at Law, August 7, 2003  
<http://www.krklaw.com/cases/cases/print/32.html>
  - "Insurer Bad Faith Damages: A USA-Canada Comparison," Kent, N., Clark Wilson LLP, 2005  
<http://www.cwilson.com/publications/insurance/insurer-bad-faith-damages.pdf>
  - "Supreme Court Reverses Ninth Circuit's Loss Causation Standard in Dura Pharmaceuticals, Inc. v. Broudo," Gibson Dunn, Publications, April 20, 2005  
<http://www.gibsondunn.com/publications/pages/SupremeCourtReversesNinthCircuitsLossCausationStandandiniDuraPharmaceuticalsIncvBroudoi.aspx>
  - "Constitutional Limits on Punitive Damages Awards: An Analysis of the Supreme Court Case Philip Morris USA v. Williams," Burrows, V., Congressional Research Service, Report for the Congress, Order Code RL33773, July 2007  
<http://www.fas.org/sgp/crs/misc/RL33773.pdf>

*Resources for this topic continued on the next page*



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- *“Wyeth v. Levine: Where Do We Go From Here?”* Rose, B. and Falletta, C., Sills Cummis & Gross P.C., The National Law Review, Article, 2009  
<http://www.natlawreview.com/print/article/wyeth-v-levine-where-do-we-go-here>
- *“Supreme Court Unanimously Rejects Fifth Circuit’s Loss Causation Standard,”* Foster, B. and Nielsen, M., Andrews Kurth LLP, The National Law Review, Article, 2011  
<http://www.natlawreview.com/print/article/supreme-court-unanimously-rejects-fifth-circuit-s-loss-causation-standard>
- *“The Effects of Wal-Mart v. Dukes on Class Certification,”* Bell, R. and Haskins, T., Securities Litigation, Articles, American Bar Association, ABA Section of Litigation, January 31, 2012  
<http://apps.americanbar.org/litigation/committees/securities/email/winter2012/winter2012-wal-mart-dukes-initial-effects-securities-fraud-class-certification.html>
- *“Insurer Has Duty to Settle Even in Absence of Settlement Demand,”* Haney, C., Litigation News, Top Stories, American Bar Association, ABA Section of Litigation, September 10, 2012  
[http://apps.americanbar.org/litigation/litigationnews/top\\_stories/091012-insurer-duty-to-settle.html](http://apps.americanbar.org/litigation/litigationnews/top_stories/091012-insurer-duty-to-settle.html)
- *“Courts Are Now Rejecting Insurers’ Reimbursement for Defending Non-covered Claims,”* Morgan, B., Insurance Coverage Litigation, Articles, American Bar Association, ABA Section of Litigation, September 12, 2012  
<http://apps.americanbar.org/litigation/committees/insurance/articles/julyaug2012-courts-rejecting-reimbursement2.html>