

FINANCIAL AND REGULATORY ENVIRONMENT – US  
FALL 2015

Important Exam Information:

<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.
Case Study	There is no case study for this examination.
<a href="#">Past Exams</a>	Past copies of this exam from 2014-present 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) Understand and compare different financial reporting standards for general insurers including: US Statutory Accounting Principles (SAP), US 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 US
- h) Estimate the premium asset for retrospectively rated policies for financial reporting

**Resources**

- *General Insurance Financial Reporting Topics*, Society of Actuaries, Second Edition, 2015:
  - 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 Statutory Loss Accounting and Schedule P
  - Chapter 8 Notes to Financial Statements
  - Chapter 9 Measuring Total Income for General Insurers
  - Chapter 10 Statutory Surplus, Capital and Income: Measuring Value and Performance
  - Chapter 15 Federal Income Taxes for General Insurers, excluding sections 15.10 and 15.11
- National Association of Insurance Commissioners, Official 2013 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-801-15: Excerpts from National Association of Insurance Commissioners, Accounting Practices and Procedures Manual, 2013,
  - 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
    - 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
    - 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 US, Canada and the EU
- f) Demonstrate knowledge of the EU 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, Second Edition, 2015:
  - Chapter 11 Measuring Insurer Financial Strength
  - Chapter 12 Solvency Monitoring
  - Chapter 13 General Insurance Financial Ratings, excluding sections 13.7 to 13.9
- *"The U.S. National State-Based System of Insurance Regulation and the Solvency Modernization Initiative,"* National Association of Insurance Commissioners, NAIC White Paper, 2013, excluding all Appendices, Section 4 and Section 5 paragraphs 30-45, 69-86  
[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)
- *"NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual,"* National Association of Insurance Commissioners, as of July 2014  
[http://www.naic.org/store/free/ORSA\\_manual.pdf](http://www.naic.org/store/free/ORSA_manual.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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<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 US 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, Second Edition, 2015:<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, May 2011</li><li>○ No. 36, Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves, May 2011</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, International Actuarial Association <a href="http://www.actuaries.org/ISAP1/ISAP1_Final_WebVersion.pdf">http://www.actuaries.org/ISAP1/ISAP1_Final_WebVersion.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, 2013 <a href="http://www.actuary.org/files/2013_PC_Loss_Reserve_Practice_Note_12.23.13.pdf">http://www.actuary.org/files/2013_PC_Loss_Reserve_Practice_Note_12.23.13.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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**4. Topic: Regulation**

**Learning Objective**

The candidate will be able to describe the current and historical regulatory environment.

**Learning Outcomes**

The candidate will be able to:

- a) Describe the functions of key regulatory bodies in the US including the NAIC and SEC
- b) Describe and interpret the current state of general insurance regulation in the US 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) Understand the regulation of reinsurance
- i) Outline the function and regulation of captives

**Resources**

- *Insurance Regulation*, Porter, K., The Institutes, 1st Edition, 2008
- FRE-100-14: "Government Provision of General Insurance," Cappelletti, A., Society of Actuaries Study Note
- FRE-104-14: "Usage Based Insurance and Telematics," Cappelletti, A., Society of Actuaries Study Note
- "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  
[http://www.naic.org/documents/cipr\\_jir\\_vaughan.pdf](http://www.naic.org/documents/cipr_jir_vaughan.pdf)
- "Code of Conduct for Insurers' use of Credit Information (CODE)," Insurance Bureau of Canada  
[http://assets.ibc.ca/Documents/Consumer%20Protection/Code\\_of\\_Conduct.pdf](http://assets.ibc.ca/Documents/Consumer%20Protection/Code_of_Conduct.pdf)
- "Use of Credit Scores by Insurers," Canadian Council of Insurance Regulators, Issues Paper, Credit Scoring Working Group, June 2011  
[http://www.ccir-ccra.org/en/init/credit\\_scor/CCIR%20credit%20scores%20issues%20paper\(En\).pdf](http://www.ccir-ccra.org/en/init/credit_scor/CCIR%20credit%20scores%20issues%20paper(En).pdf)
- "Insurance and the discrimination laws: motor and travel insurance," Edmunds, T., House of Commons Library Standard Note SN04601, March 13, 2013  
<http://www.parliament.uk/business/publications/research/briefing-papers/SN04601/insurance-and-discrimination-laws-motor-and-travel-insurance> (Click the link on this page to download the full report in pdf format)
- "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  
[http://www.actuary.org/pdf/casualty/AcademyFloodInsurance\\_Monograph\\_110715.pdf](http://www.actuary.org/pdf/casualty/AcademyFloodInsurance_Monograph_110715.pdf)
- "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  
[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)

*Resources for this topic continued on the next page*

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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 US 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 US General Insurance Industry*

**Resources**

- FRE-101-14: "Tort 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/> (Click the link on this page to download the full paper in pdf format)
- "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 US 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>
  - "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>
  - "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>

*Resources for this topic continued on the next page*



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- *“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>