

# GI – Financial & Regulatory Environment U.S. Exam

Fall 2019

## 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 study notes 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 Exams from 2014-present are available on 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
- 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, Fourth Edition, 2018:
  - Chapter 1 Accounting Concepts for General Insurance
  - Chapter 2 Accounting for Insurance Contracts
  - Chapter 3 Accounting for Financial Instruments
  - Chapter 4 Accounting for Reinsurance Contracts
  - Chapter 5 Accounting Perspectives for Nonadmitted 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 15.11 and 15.12
- National Association of Insurance Commissioners, Official NAIC Annual Statement Blank, Property / Casualty, for the 2017 reporting year, pages 2--19, 20-29 (Schedule F) and 33-93 (Schedule P)
- FRE-802-19: National Association of Insurance Commissioners (NAIC), Accounting Practices and Procedures Manual, 2018, Preamble
- NAIC, Accounting Practices and Procedures Manual, 2018, Statements of Statutory Accounting Principles (SSAP)
  - SSAP 5 Revised, "Liabilities, Contingencies, and Impairment of Assets," paragraphs 1-12, 26-29 and 33
  - SSAP 9, "Subsequent Events," paragraphs 1-12
  - SSAP 53, "Property Casualty Contracts-Premiums," paragraphs 1-19
  - SSAP 55, "Unpaid Claims, Loss and Loss Adjustment Expenses," paragraphs 1-6 and 10-17
  - SSAP 62 Revised, "Property and Casualty Reinsurance," paragraphs 1-90.
  - SSAP 63, "Underwriting Pools and Associations Including Intercompany Pools," paragraphs 1-11
  - SSAP 65, "Property and Casualty Contracts," paragraphs 1-47
  - SSAP 66, "Retrospectively Rated Contracts," paragraphs 1-14 excluding 7.b, 9.b and 9.c

*Note: These SSAPs are included within Appendix IV of "A Public Policy Practice Note, Statements of Actuarial Opinion on Property and Casualty Loss Reserves." See Topic 3 (Responsibilities of the Actuary).*

*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
      - Volume 01 Issue 01
        - 9 Risk Transfer Testing of Reinsurance Contracts...
          - *Download PDF of Full Text*

- *“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) Understand the development and principles of solvency regulation
- e) Demonstrate knowledge of the EU Solvency II standard formula solvency capital requirement
- f) Discuss the Canadian solvency tests
- g) Compare different solvency standards
- h) Demonstrate knowledge of ORSA and its implementations
- i) Discuss the function of credit rating agencies and their influence on general insurers

**Resources**

- *General Insurance Financial Reporting Topics*, Society of Actuaries, Fourth Edition, 2018:
  - 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*,” 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*,” NAIC, 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—Available at SSRN, <https://ssrn.com/abstract=1350539> (Use link to *Open PDF in Browser*)

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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, Fourth Edition, 2018:
  - Chapter 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, 2013
  - No. 20, Discounting of Property/Casualty Unpaid Claim Estimates, 2011
  - No. 21, Responding to or Assisting Auditors or Examiners in Connection with Financial Statements for All Practice Areas, 2016
  - No. 23, Data Quality, 2016
  - No. 36, Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves, Updated 2011
  - No. 38, Using Models Outside the Actuary's Area of Expertise (Property/Casualty), Updated 2011.
  - No. 41, Actuarial Communications, 2010
  - No. 43, Property/Casualty Unpaid Claim Estimates, Updated 2011

<http://www.actuarialstandardsboard.org/standards-of-practice/>

- *"International Standard of Actuarial Practice 1, General Actuarial Practice,"* Revision adopted December 1, 2018, International Actuarial Association,  
[https://www.actuaries.org/IAA/Documents/CTTEES\\_ASC/Final\\_ISAPs\\_Posted/ISAP1\\_Review\\_adopted\\_1Dec2018.pdf](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018.pdf)

- *"Statements of Actuarial Opinion on Property and Casualty Loss Reserves,"* American Academy of Actuaries, Public Policy Practice Note, Casualty Practice Council's Committee on Property and Liability Financial Reporting, 2018, excluding Appendix I–Section 3, Appendix II–Section IV and Appendix IV,  
[http://www.actuary.org/files/publications/PC\\_Loss\\_Reserve\\_Practice\\_Note\\_2018.pdf](http://www.actuary.org/files/publications/PC_Loss_Reserve_Practice_Note_2018.pdf)

*Note: See Topic 1 (Financial Reporting) for SSAPs in Appendix IV to be included in the syllabus resources*

- *"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 the issues regarding usage based insurance and telematics in automobile insurance e) Describe the development of general insurance programs controlled by government or collective insurance industry organizations and their mechanisms of operation f) Understand the regulation of reinsurance g) 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, excluding Chapters 7, 9 and 10</li><li>• FRE-100-19: “<i>Government Provision of General Insurance</i>,” Cappelletti, A., Society of Actuaries Study Note, Revised November 2018</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>Use of Credit Scores by Insurers</i>,” Canadian Council of Insurance Regulators, Issues Paper, Credit Scoring Working Group, June 2011, <a href="https://www.ccir-ccra.org/CreditScoringWorkingGroup">https://www.ccir-ccra.org/CreditScoringWorkingGroup</a> (Use the link for <i>Issues Paper: Use of Credit Scores by Insurers</i>)</li><li>• “<i>Insurance and the discrimination laws: motor and travel insurance</i>,” Edmunds, T., House of Commons Library Standard Note SN04601, Published March 2013 (Date on the report is October 2015), <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> (Use the link on the page to download the full report)</li><li>• “<i>The National Flood Insurance Program: Challenges and Solutions</i>,” 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><li>• “<i>Considerations for Residual Market Regulation</i>,” Facility Association, Position Paper, November 2003, <a href="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</a></li><li>• “<i>Understanding the New Financial Reform Legislation: The Dodd-Frank Wall Street Reform and Consumer Protection Act</i>,” Mayer Brown, July 2010, Section on Title V – Insurance, <a href="https://www.mayerbrown.com/publications/The-Dodd-Frank-Wall-Street-Reform-and-Consumer-Protection-Act-07-09-2010/">https://www.mayerbrown.com/publications/The-Dodd-Frank-Wall-Street-Reform-and-Consumer-Protection-Act-07-09-2010/</a> (Use the link for <i>Download Document</i>)</li></ul>

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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-105-19: "Tort Law – Topics for General Insurance Actuaries," Cappelletti, A., Society of Actuaries Study Note, November 2018, excluding section 5.5</li></ul>