



# SOCIETY OF FINANCIAL EXAMINERS<sup>SM</sup>

## *Supplemental Background Material*

NAIC Examiner Project

**Course AFE 3**

### **Life & Health Insurance Accounting**

(Passing grade for this exam is 70)

Please note that this study guide is a tool for learning the materials you need to effectively study for this examination. As new editions of the textbooks are published, the SOFE Testing committee makes every effort to update the references in this guide, but it is not always possible to keep it current. Therefore, it is the student's responsibility to see the topic listed in the study guide and find it in the required textbooks. If you are unable to locate the topic anywhere in the textbook you are using, please e-mail SOFE headquarters at [info@sofe.org](mailto:info@sofe.org) and tell us the topic you cannot locate, where that topic is in the study guide and what version of the textbook you are using.

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**Life and Health Insurance Accounting**

Unit:	1
Topic:	Development of the Insurance Industry and Its Accounting Principles
Text Required:	Life and Accident and Health Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To provide a brief history of the insurance industry and introduce the new examiner to a basic overview of the machinations of the industry. This includes products, sales, types of insurance companies, company organization, regulation and accounting principles.
Assigned Readings:	Life and Accident and Health Insurance Accounting Chapter 1-Development of the Insurance Industry and Its Accounting Principles. Life and Accident and Health Insurance Accounting 2011 Addendum (LAH 2011 Addendum) Addendum to Chapter 1- Development of the Insurance Industry and Its Accounting Principles

*Unit Outline:*

- I. Brief History of the Insurance Industry
  - A. The Life Insurance Product
    - 1. Traditional Products
      - a. LAH 2011 Addendum – Traditional Products
    - 2. Non-Traditional Products
  - B. LAH 2011 Addendum – Brief History of the Insurance Industry
- II. Sales Methodology
  - A. Agents
    - 1. Home Service Agents
    - 2. Brokers
    - 3. General Agents
    - 4. Career Agents
  - B. Other
    - 1. Salary Savings/Payroll Deduction
    - 2. Direct Mail
    - 3. Credit Insurance Sales

- III. Types of Life Insurance Companies
  - A. Stock Companies
  - B. Mutual Companies
  - C. Fraternal Insurance Companies
  - D. Assessment Companies
  - E. Reinsurance Companies
  - F. Government Insurance
  
- IV. Organization of Insurance Companies
  - A. Agency Department
  - B. Underwriting Department
  - C. Actuarial Department
  - D. Claims Department
  
- V. Regulation
  - A. Mutual Holding Company Act
  - B. Demutualization
    - 4. LAH 2011 Addendum - Demutualization
  - C. Government Regulation of Insurance
  
- VI. Accounting and Reporting
  - A. Reporting Requirements and the NAIC
  - B. Statutory Accounting
  - C. Statutory Accounting vs. GAAP Accounting
  - D. Life Insurance Company Federal Income Tax
  - E. Asset and Liability Management
  - F. Codification of Statutory Accounting Principles
    - 5. LAH 2011 Addendum-Codification of Statutory Accounting Principles

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**Life and Health Insurance Accounting**

Unit:	2
Topic:	Bonds and Stocks
Text Required:	Life and Accident and Health Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	<p>To familiarize the financial examiner with the characteristics of stocks and bonds and the corresponding accounting practices, control procedures, and types of transactions; to briefly describe other investment instruments-such as options and futures-that are used to complement the overall investment strategy of an insurer.</p> <p>Discussions in this unit, along with units 3 and 4, relate to Page 2, and Schedules A, B, BA, D, DA, DB, DL, and E of the NAIC Annual Statement.</p>
Assigned Reading:	<p>Life Insurance Accounting Chapter 2-Bonds and Stocks Appendix- Sample Annual Statement Forms Life and Accident and Health Insurance Accounting 2011 Addendum (LAH 2011 Addendum) Addendum to Chapter 2- Bonds and Stocks</p>

*Unit Outline:*

- I. Regulatory Restrictions
  - A. Regulatory Reporting Requirements
  - B. Different Accounting Basis
  - C. LAH 2011 Addendum – Updates to forms and Regulatory Restrictions
  
- II. Bonds
  - A. Classifications
    - 1. Mortgage
    - 2. Debentures
    - 3. Sinking Fund
    - 4. Serial Bonds
    - 5. Convertible Bonds
    - 6. Mortgage-backed Securities
    - 7. Valuation
    - 8. Classifications
    - 9. Pricing and Yield

## 10. LAH 2011 Addendum – Bond Valuations

- III. Preferred Stocks
  - A. General
  - B. Characteristics
  - C. LAH 2011 Addendum – Preferred Stocks
  
- IV. Common Stocks
  - A. General
  - B. Stock Warrants
  
- V. Mutual Funds
  
- VI. Repurchase Agreements
  - A. LAH 2011 Addendum – Repurchase Agreements
  
- VII. Wash Sales
  - A. LAH 2011 Addendum – Wash Sales
  
- VIII. Disclosures
  - A. LAH 2011 Addendum - Disclosures
  
- IX. Bond and Stock Accounting
  - A. Basic Accounting
  - B. Unique Accounting Aspects
    - 1. Commitment Fees
    - 2. Stock Dividend
    - 3. Stock Splits
    - 4. LAH 2011 Addendum – Zero Coupon Convertible Bonds
  
- X. Derivative Securities
  - A. Description
    - 1. LAH 2011 Addendum - Description
  - B. Cash Market Derivative Security Terms
  - C. Collateralized Mortgage Obligations
  - D. SAP Accounting for CMO's
  - E. CMO Accounting
    - 1. LAH 2011 Addendum – CMO Accounting
  - F. Notional Derivatives
  - G. Accounting and Hedging Overview
    - 1. LAH 2011 Addendum – Accounting and Hedging Overview
  - H. Interest Rate Swaps
  
- XI. Financial Futures
  - A. Description
  - B. Regulatory Constraints
  - C. Accounting
    - 1. LAH 2011 Addendum- SAP Accounting
  - D. Tax Considerations
  - E. Futures Illustration

- F. Summary of Results
- G. Futures vs. Options
- H. Derivative Financial Reporting Disclosures
  - 1. LAH 2011 Addendum-Derivative Financial Reporting Disclosures

- XII. Other Topics
  - A. Tax Basis Accounting
  - B. Misc. Investment
    - I. LAH 2011 Addendum – Investment in Subsidiaries and Affiliates
  - C. Bond & Stock Systems

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**Life and Health Insurance Accounting**

Unit:	3
Topic:	Mortgage Loans
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	<p>To familiarize the examiners with the nature and types of mortgages, the documentation required for life insurer investments in mortgage loans, the types of transactions related to investments in mortgage loans, and the general statutory investment regulations affecting mortgages; to describe the accounting principles and reporting requirements of life insurers related to their investments in mortgage loans.</p> <p>Discussion in this unit, along with units 2 and 4, relate to Page 2, and Schedules A, B, BA, D, DA, DB, DL, and E of the NAIC Annual Statement.</p>
Assigned Reading:	<p>Life Insurance Accounting Chapter 3-Mortgage Loans Appendix- Sample Annual Statement Forms Life and Accident and Health Insurance Accounting 2011 Addendum (LAH 2011 Addendum) Addendum to Chapter 3- Mortgage Loans</p>

*Unit Outline:*

- I. Introduction
- II. Definitions
  - A. Mortgage Loans
  - B. Promissory Note
  - C. Mortgagor
  - D. Mortgagee
- III. Types of Mortgage Loans
  - A. Classified by Lien
    - 1. Conventional Commercial Loans
    - 2. CMBS
    - 3. Subordinated Loans
    - 4. Conventional Residential Loans
    - 5. FHA Loans
    - 6. VA Loans

7. Privately Insured Loans

B. Classified by Real Estate Security

1. Residential Loans
2. Commercial Loans
3. Construction Loans
4. Development Loans
5. Undeveloped Land Loans
6. Farm Loans
7. Purchase Money Loans
8. LAH 2011 Addendum – Mezzanine Real Estate Loans

IV. Governmental Regulations Affecting Mortgage Loans

A. Limitations

1. Quality of Loans
2. First-Lien Loans
3. Basket Clauses
4. Loan-to-Market-Value Ratio
5. Concentration of Investments

V. Normal Documents for Mortgage Loans

A. Documents Generated During the Underwriting Process

1. Loan Application
2. Credit Report
3. Financial Statements
4. Verification of Employment
5. Verification of Deposit
6. Appraisal
7. Environmental Report
8. Commitment Letter
9. Other Documents

B. Documents Generated When Loan Funds Are Distributed

1. Original Note
2. Mortgage
3. Evidence of Lend First Lien
4. Survey
5. Closing Statement
6. Property Insurance Policy
7. Assignment of Rent
8. Participation Agreement
9. Other Documents

VI. Acquiring Mortgage Loans

- A. Secondary Markets
- B. Blocks of Loans During Acquisition or Merger
- C. In Lieu of Cash in a Reinsurance Transaction
- D. Through Brokers
- E. Through Participation or Joint Venture Loans
- F. Through Participation Certificates



- VII. Accounting for the Initial Investment
  - A. Original Recorded Amount
  - B. Expense of Initial Investment
  - C. Income from Initial Investment
  
- VIII. Servicing the Investment in Mortgage Loans
  - A. Loans Directly Serviced
    - 1. Functions of the Accounting Department
    - 2. Functions of the Investment Department
    - 3. Expenses and Income
  - B. Loans Serviced by Others
    - 1. Control over the Service
    - 2. Expenses Related to Serviced Loans
  
- IX. Accounting For Loans During the Servicing Period
  - A. Processing Transactions
    - 1. Recording Principal Receipts
    - 2. Recording Interest Income
    - 3. Earned Interest Income
    - 4. Recording Participation Income
    - 5. Escrow Accounts
    - 6. Recording Expenses
  - B. Special Transactions
    - 1. Nonadmittance of Principal or Accrued Interest
    - 2. Recording foreclosures
    - 3. Modified Mortgages
    - 4. Impairments
    - 5. Transfers/Securitizations
      - a. LAH 2011 Addendum- Transfers/Securitization of Loans
    - 6. Recording Transactions with Affiliated Companies or Joint Ventures
  
- X. Statutory Reporting of Mortgages
  - A. Exhibit of Net Investment Income
  - B. Exhibit of Capital Gains and Losses
  - C. Schedule B

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**Life and Health Insurance Accounting**

Unit:	4 and 5
Topic:	Real Estate, Joint Ventures, and Other Assets
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	<p>To familiarize the examiner with the nature and types of real estate investments of life insurers; to describe the other types of assets owned by life insurers; to describe the accounting principles and reporting requirement of life insurers related to their investments in real estate and assets other than stocks, bonds, and mortgage loans.</p> <p>Discussions in this unit, along with units 2 and 3, relate to Page 2 and Schedules A, B, BA, D, DA, DB, DL, and E of the NAIC Annual Statement.</p>
Assigned Readings:	<p>Life Insurance Accounting Chapter 4-Real Estate Investments and Joint Ventures Chapter 5-Other Assets Appendix-Sample Annual Statement Forms Life and Accident and Health Insurance Accounting 2011 Addendum (LAH 2011 Addendum) Addendum to Chapter 4- Real Estate Investments &amp; Joint Ventures Addendum to Chapter 5 – Other Assets</p>

*Unit Outline:*

- I. Real Estate Investments and Joint Ventures
  - A. Reasons for Real Estate Investments
    - 1. Long-term Profit
    - 2. Social Purposes
    - 3. LAH 2011 Addendum – Home and branch offices
  - B. Differences between Real Estate Investments and other Investments
    - 1. Fixed Location
    - 2. Value Dependent on Location
    - 3. Managerial Skills Required
  - C. Types of Real Estate Investments
  - D. Legal Limitations
  - E. Valuation

1. Cost
  2. Plus Capitalized Improvements
  3. Less Depreciation
  - F. Accounting for Real Estate
    1. Schedules A and BA
    2. Acquisition Accounting
      - a. Cash Purchases
      - b. Financed Purchases
      - c. Group Purchases
      - d. Property Acquired in Acquisition of Debt
      - e. Capital Improvements
        - i. LAH 2011 Addendum – Capital Improvements
      - f. Sale/Leaseback Arrangements
        - i. LAH 2011 Addendum – Sale/Leaseback Arrangements
    3. Sales Accounting
      - a. LAH 2011 Addendum – Sale Accounting
    4. Income and Expense Accounting
    5. Fair Value, Carrying Value, and Statement Value
      - a. LAH 2011 Addendum – Fair Value, Carrying Value and Statement Value
    6. NAIC Risk-based Capital
  - G. Home office Real Estate
    1. LAH 2011 Addendum – Home Office Real Estate
  - H. Real Estate Joint Ventures
    1. Types of Joint Ventures
      - a. Corporate
      - b. Limited Liability Company
      - c. Limited Partnership
      - d. General Partnership
      - e. Individual Interest
    2. Funding the Joint Venture
    3. Accounting Issues
      - a. LAH 2011 Addendum – Accounting Issues
    4. Tax Considerations
- II. Chapter 5 - Other Assets
- A. Admitted Assets
  - B. Non-ledger Assets
  - C. Non-admitted Assets
  - D. Valuation
  - E. Basket Assets
  - F. Principal Other Assets
    1. Policy Loans
    2. Premium Notes
    3. Collateral Loans
    4. Cash and Short-term Investments
      - a. LAH 2011 Addendum - Cash
    5. Other Invested Assets
    6. Reinsurance Ceded

7. Electronic Data Processing Equipment and Software
  - a. LAH 2011 Addendum – EDP Equipment & Software
8. LAH 2011 Addendum – Sale/Leaseback other than Real Estate
9. Federal Income Tax Recoverable
  - a. LAH 2011 Addendum – Federal Income Tax Recoverable
10. Deferred and Uncollected Premiums
11. Investment Income Due and Accrued
12. Receivables for Securities
  - a. LAH 2011 Addendum – Receivable for Securities
13. Foreign-Exchange Assets
14. Separate Accounts
15. Write-in Assets
16. Non-admitted Assets

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**Life and Health Insurance Accounting**

Unit:	6
Topic:	Policy and Claim Reserve Liabilities
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with insurance contract guarantees and how these guarantees are valued and accounted for as reserves within balance sheets and supporting statements.  Discussions in this unit relates to Page 3, and Exhibits 5, 5A, 6, 7, 8 of the NAIC Annual Statement.
Assigned Reading:	Life Insurance Accounting Chapter 6-Policy and Claim Reserve Liabilities Appendix-Sample Annual Statement Forms Life and Accident and Health Insurance Accounting 2011 Addendum (LAH 2011 Addendum) Addendum to Chapter 6- Policy and Claim Reserve Liabilities

*Unit Outline:*

- I. Introduction
  - A. Nature of Reserves
  - B. Purpose of Reserves
- II. Individual Life Insurance Reserves
  - A. Net Level Reserves
  - B. Mean Reserves
  - C. Modified Reserves
  - D. Modification of Assumptions
  - E. Premium Adjustments
    - 1. LAH 2011 Addendum – Premium Adjustments
  - F. Methods of Calculating the Policy Reserve
- III. Indeterminate Premium Plans
- IV. Deposit Term Plans
- V. Universal Life Policies
- VI. Multiple Life Policies

- VII. Valuation of Life Insurance Model Regulations/A.K.A Regulation XXX
- VIII. Variable Insurance Products
- IX. Equity Indexed Insurance
- X. Miscellaneous Life Reserves
  - A. Supplemental Contracts with Life Contingencies
  - B. Accidental Death Benefit
  - C. Disability-Active Lives
  - D. Disability-Disabled Lives
  - E. Additional Mortality under Group Conversions
  - F. Additional Mortality under Term Conversions
  - G. Reserve for Excess of Valuation Net Premiums over Corresponding Gross Premiums on Respective Policies
  - H. Substandard Policies
  - I. Payor Benefits
- XI. Accelerated Benefits
- XII. Annuity Reserves
- XIII. Group Life Insurance Reserves
- XIV. Industrial Life Insurance Reserves
- XV. Other Reserve Considerations
  - A. LAH 2011 Addendum – Other Reserve Considerations
- XVI. Accident and Health insurance Reserves
  - A. Legal Requirements
  - B. Forms of Reserves
    - 1. Active Life Reserves
    - 2. Disabled Life Reserves
    - 3. Reserve for Present Value of Amounts Not Yet Due
    - 4. Reserve for Future Contingent Benefits
    - 5. Contingency Reserves
- XVII. Consumer Credit Life and Disability Insurance Reserves
- XVIII. Policy and Contract Claim Liability
  - A. Liability for Incurred but Unreported Claims (IBNR)
  - B. Liabilities for Claims in Course of Settlement (ICOS)
  - C. Liabilities for Due and Unpaid Claims
- XIX. Reinsurance

- XX. Statement of Actuarial Opinion
  - A. LAH 2011 Addendum – Statement of Actuarial Opinion
- XXI. LAH 2011 Addendum – Principle-Based Reserves

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**Life and Health Insurance Accounting**

Unit: 7 & 8

Topic: Other Liabilities

Text Required: Life Insurance Accounting  
(Insurance Accounting & Systems  
Association, Inc., Durham, NC, 2001)

Objectives: To familiarize the examiner with the purpose and use of the numerous miscellaneous liabilities that appear on insurers' financial statements; to discuss how these liabilities are calculated and what modifications to statutory accounting presentations are needed to comply with generally accepted accounting principles.

Discussions in this unit, relate to Page 3, and Exhibits 1, 2, 3, and 4 of the NAIC Annual Statement

Assigned Readings: Life Insurance Accounting  
Chapter 7-Liabilities for Other Policyholder Amounts Held Including Funds on Deposit.  
Chapter 8-All Other Statement Liabilities, Including Asset Valuation Reserve and Interest Maintenance Reserve  
Appendix-Sample Annual Statement Forms  
Life and Accident and Health Insurance Accounting 2011  
Addendum (LAH 2011 Addendum)  
Addendum to Chapter 7- Liabilities for Other Policyholder Amounts Held Including Funds on Deposit  
Addendum to Chapter 8 – All Other Statement Liabilities, Including Asset Valuation Reserve & Interest Maintenance Reserve

*Unit Outline:*

Chapter 7 – Liabilities for Other Policyholder Amounts Held Including Funds Held on Deposit

- I. Liabilities for Policyholders' Dividends
  - A. Provision for Policyholders' Dividends Payable
  - B. Policyholders' Dividends Due and Unpaid
  - C. Policyholders' Dividend Accumulations
  - D. Accounting for Dividend Accumulation Transactions
  - E. Policyholder Coupons
  - F. Provision for Experience Rating Refunds
    - 1. LAH 2011 Addendum – Accounting for Transactions
- II. Liabilities for Deposit-Type Contracts



- A. Supplementary Contracts Without Life Contingencies
  - B. Accounting for Supplementary Contract Transactions
  - C. Annuities Certain
  - D. Structured Settlements
  - E. Retained Asset Accounts
    - 1. Accounting for Retained Asset Transactions
  - F. Guaranteed Interest Contracts (GIC) and Funding Agreements
    - 1. Accounting for GIC Transactions
  - G. LAH 2011 Addendum – Liabilities for Deposit-Type Contracts
- III. Liabilities for Premium Amounts
- A. Premiums Received in Advance
    - 1. Accounting for Transactions
  - B. Premium Deposit Funds
    - 1. Accounting for Transactions

#### Chapter 8 – All Other Liabilities

- I. Commissions to Agents Due or Accrued
- II. Reinsurance Liabilities
  - A. Commission and Expense Allowance on Reinsurance Assumed
  - B. Reinsurance with Unauthorized Companies
  - C. Funds Held under Reinsurance Treaties
- III. General Expenses Due or Accrued
  - A. LAH 2011 Addendum – General Expenses Due or Accrued
- IV. Transfer to Separate Accounts
- V. Taxes, Licenses, and Fees Due or Accrued
  - A. LAH 2011 Addendum – Taxes, Licenses and Fees Due or Accrued
- VI. Federal Income Taxes Due
  - A. LAH 2011 Addendum – Federal Income Taxes Due
- VII. Unearned Investment Income
- VIII. Amounts Withheld or Retained by Company as Agent or Trustee
- IX. Amounts Held for Agent's Accounts
- X. Remittances and Items Not Allocated
- XI. Net Adjustment in Assets and Liabilities Due to Foreign Exchange Rate
- XII. Liability for Benefits for Employees and Agents if not Included Above
- XIII. Dividends to Stockholders Declared and Unpaid

- XIV. Debt
  - A. LAH 2011 Addendum – Debt
  
- XV. Asset Valuation Reserve (AVR) and Interest Maintenance Reserve (IMR)
  - A. Interest Maintenance Reserve (The text in this section is deleted in its entirety and replaced with the text in the LAH 2011 Addendum)
    - 1. Seriatim Method
    - 2. Grouped Method
  
- XVI. Asset Valuation Reserve
  
- XVII. Payable to Parent, Subsidiaries, and Affiliates
  
- XVIII. Drafts Outstanding
  
- XIX. Liability for Amounts Held under Uninsured Accident and Health Plans
  
- XX. Aggregate Write-ins for Liabilities
  
- XXI. From Separate Accounts Statement

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**Life and Health Insurance Accounting**

Unit:	9 and 10
Topic:	Capital and Surplus Accounts; Revenues
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the capital, surplus, and revenue accounts; to recognize how capital, surplus, and revenue transactions are treated for statutory accounting and generally accepted accounting purposes.  Discussions in this unit relate to Pages 3 and 4, Exhibits of Net Investment Income, Exhibit of Capital Gains, Exhibit 9 and Schedules H and T of the NAIC Annual Statement
Assigned Readings:	Life Insurance Accounting Chapter 9--Capital and Surplus Accounts Chapter 10-Revenues Appendix-Sample Annual Statement Forms Life and Accident and Health Insurance Accounting 2011 Addendum (LAH 2011 Addendum) Addendum to Chapter 9- Capital and Surplus Addendum to Chapter 10 – Revenues

*Unit Outline:*

Chapter 9 – Capital and Surplus

- I. Perspectives on Capital and Surplus
  - A. Policyholders and Agents
  - B. Stockholders
  - C. Regulators
  - D. Rating Agencies
  - E. Management
  
- II. Corporate Form of Organization
  - A. Stock Company
  - B. Mutual Company

- III. Capital Stock and Gross Paid in and Contributed Surplus
- IV. Surplus Notes
- V. Surplus
  - A. Definition
  - B. Special Surplus Funds
  - C. Unassigned Surplus
  - D. LAH 2011 Addendum – Unassigned surplus
- VI. Treasury Stock
  - A. LAH 2011 Addendum – Treasury Stock
- VII. Need for Surplus
  - A. Limitation on Accumulation of Surplus
  - B. LAH 2011 Addendum – Limitation on accumulation of surplus
  - C. Impairment of Surplus
- VIII. Capital & Surplus Account
  - A. Net Income
  - B. Change in New Unrealized Capital Gains or Losses
  - C. LAH 2011 Addendum – Change in net unrealized capital gains or losses
  - D. Change in Net Unrealized Foreign Exchange Capital Gain or Loss
  - E. Change in Net Deferred Income Tax
  - F. Change in Nonadmitted Assets and Related Items
  - G. Change in Liability for Reinsurance
  - H. Change in Reserve on Account of Change in Valuation basis
  - I. Change in AVR
  - J. Change in Treasury Stock
  - K. Surplus Contributed, Withdrawn-Separate Accounts
  - L. Change in Surplus Notes
  - M. Cumulative Effect of Changes in Accounting Principles
  - N. Capital Changes
  - O. Surplus Adjustments
  - P. Dividends to Stockholders
  - Q. Other Surplus Changes
- IX. Quasi Reorganization
  - A. LAH 2011 Addendum – Quasi-Reorganization
- X. Other Surplus Considerations
  - A. Management of capital
  - B. Ownership of Surplus
  - C. Levels of Capital and Surplus
  - D. Management of Surplus
  - E. Other Statutory Requirements Affecting Surplus

## Chapter 10 – Revenues

- I. Premium Income
  - A. Life, Individual and Group Accident & Health, and Credit Life
  - B. Deposit-Type Contracts
  - C. LAH 2011 Addendum – Deposit-type contracts
  
- II. Investment Income
  - A. Bond Interest
    - 1. Accrual of Discount on Bonds
    - 2. Amortization of Bond Premium
    - 3. Call Prices
    - 4. Accrual of Interest on Bonds
    - 5. LAH 2011 Addendum – Bond interest
  - B. Loan-Backed and Structured Securities
    - 1. LAH 2011 Addendum – Loan-Backed and Structured Securities
  - C. Dividend Income on Stock
  - D. Investments in Subsidiary, Controlled, and Affiliated Entities
    - 1. LAH 2011 Addendum – Investments in Subsidiary, Controlled and Affiliated Entities
  - E. Derivative Instruments
    - 1. LAH 2011 Addendum – Derivative Instruments
  - F. Mortgage Loans
  - G. Real Estate Investments
  - H. Repurchase Agreements
    - 1. LAH 2011 Addendum – Repurchase Agreements
  - I. Joint Ventures, Partnerships and Limited Liability Companies
  - J. Policy Loans
  
- III. Miscellaneous Income

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**Life and Health Insurance Accounting**

Unit:	11
Topic:	Benefits, Commissions, Expenses, and Dividends
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the types of benefits, commissions, expenses, and dividends incurred by life insurers; to describe the accounting process for benefits, commissions, expenses, and dividends and to explain how this process affects Annual Statement exhibits and schedules.  Discussions in this unit relate to Page 4, Exhibits 5, 6, 7, 11, and 12, and Schedules F, G, H, I, J, K, L, M, and O of the NAIC Annual Statement.
Assigned Reading:	Life Insurance Accounting Chapter 11-Benefits, Commissions, Expenses and Dividends Appendix-Sample Annual Statement Forms Life and Accident and Health Insurance Accounting 2011 Addendum (LAH 2011 Addendum) Addendum to Chapter 11- Benefits, Commissions, Expenses and Dividends

*Unit Outline:*

- I. Relationships
- II. Benefits
  - A. Types
    - 1. Death Benefits
    - 2. Matured Endowments
    - 3. Annuity Benefits
    - 4. Disability Benefits
    - 5. Accident and Health Policies
    - 6. LAH 2011 Addendum – Accident and Health Policies
    - 7. Coupons, Guaranteed Annual Endowments & Similar Benefits
    - 8. Surrender Benefits
    - 9. Group Conversions
    - 10. Interest on Policy or Contract funds
    - 11. Payments on Supplementary Contracts with Life Contingencies
    - 12. Payments on Supplementary Contracts without Life Contingencies

- III. Commissions on Premiums and Annuities
- IV. General Insurance Expenses
  - A. Accounting Processes, SSAPs No. 8, 11, 14, and 35
  - B. LAH 2011 Addendum – Accounting Processes, SSAPs No. 8, 89, 11, 14, 76, 82, 35 and 35R
  - C. Relationship with Exhibits and Schedules
- V. Insurance Taxes, Licenses and Fees
- VI. Dividends
  - A. Accounting Process
  - B. Relationship with Exhibits and Schedules

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**Life and Health Insurance Accounting**

Unit:	12
Topic:	Federal Income Taxation
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the taxation of life insurers; to explain how taxable income is determined for a life insurer by analyzing gross income, deductions, and special tax considerations.  Discussion in this unit refers to pages 3 and 4 of the NAIC Annual Statement.
Assigned Reading:	Life Insurance Accounting Chapter 12-Federal Income Taxes Life and Accident and Health Insurance Accounting 2011 Addendum (LAH 2011 Addendum) Addendum to Chapter 12- Federal Income Taxation

*Unit Outline:*

- I. Taxation of Insurance Companies in General
  - A. Definition of a Life Insurance Company
  - B. Qualification as a Life Insurance Company
  - C. LAH 2011 Addendum – Qualification as a Life Insurance Company
  - D. Determination of Life Insurance Company Taxable Income
  - E. LAH 2011 Addendum – Determination of Life Insurance Company Taxable Income
- II. Gross Income
  - A. Premiums
  - B. Decreases in Certain Reserves
  - C. Other Amounts
- III. Deductions
  - A. General
  - B. Special Deductions
  - C. Investment Income Accounting Rules
  - D. Policy Acquisition Expenses
  - E. LAH 2011 Addendum – Policy Acquisition Expenses
  - F. Reserves
  - G. LAH 2011 Addendum - Reserves
  - H. Claim Reserves on cancelable A&H Policies



- I. Special Rules in Calculating Life Reserves
  - J. Substandard Risks
  - K. Term Life and Annuity Benefits
  - L. Change in Reserve Basis
  - M. Reserves under Foreign Law
  - N. Reserves: Special Elections
  - O. Policyholder Dividends
  - P. Tax on Mutual Company Equity
  - Q. Accounting Provisions
  - R. Reinsurance
  - S. LAH 2011 Addendum - Reinsurance
  - T. Proration: Company Share and Policyholder Share
  - U. LAH 2011 Addendum – Proration: Company Share and Policyholder Share
  - V. Foreign Life Insurers
  - W. Contiguous Country Branches
  - X. Policyholders' and Shareholders' Surplus Accounts
  - Y. Variable Contracts
  - Z. Assumption Reinsurance
  - AA. LAH 2011 Addendum – Assumption Reinsurance
  - BB. Allocation for Purposes of Foreign Tax Credit
- IV. Life Insurance Products
- A. Reasonable Mortality Charges
  - B. Modified Endowment Contracts (MEC)
  - C. MEC Correction
  - D. LAH 2011 Addendum – MEC Correction
  - E. Treatment of Certain Annuity Contracts
  - F. Determination of Life Insurance Company AMT
- V. Accounting for Income Taxes
- A. GAAP
  - B. Statutory
  - C. LAH 2011 Addendum - Statutory
- VI. Consolidated Federal Income Tax Returns
- A. Tax Allocation
  - B. Methods
    - 1. Income Method
    - 2. Separate Return Method
    - 3. Allocation of Tax Increases
    - 4. Catch All
    - 5. Complementary Method I
    - 6. Complementary Method II
    - 7. Complementary Method II
- VII. Life-Nonlife Consolidated Tax Return Overview
- A. LAH 2011 Addendum – Life-Nonlife Consolidated Tax Return Overview

Society of Financial Examiners  
**Life and Health Insurance Accounting**

Unit:	13
Topic:	Accounting for Lines of Business
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the lines of business of life insurers; to explain how revenue, investment income, and expenses are allocated among lines of business.
Assigned Reading:	Life Insurance Accounting Chapter 13-Accounting for Lines of Business Life and Accident and Health Insurance Accounting 2011 Addendum (LAH 2011 Addendum) Addendum to Chapter 13- Accounting for Lines of Business

*Unit Outline:*

- I. Statutory Reporting Requirements
  - A. LAH 2011 Addendum – Statutory Reporting Requirements
- II. Revenues
  - A. Life and A&H Policies and Contracts; Fees for Deposit-Type Contracts
  - B. Net Investment Income
  - C. Other Income
- III. Policy Benefits
  - A. Death Benefits
  - B. Matured Endowments
  - C. Annuity Benefits
  - D. Disability Benefits and Benefits under Accident and Health Policies
  - E. Coupons, Guaranteed Annual Pure Endowments, and Similar Benefits
  - F. Surrender Benefits and Other Fund Withdrawals
  - G. Group Conversions
  - H. Interest on Policy or Contract Funds
  - I. Supplemental Contracts
- IV. Changes in Policy Reserves
  - A. Life Insurance Policy Reserves
  - B. Accident and Health Reserves
  - C. LAH 2011 Addendum – Accident and Health Reserves
  - D. Special Reserves

- V. Commissions
- VI. General Insurance Expenses
- VII. Taxes, Licenses, and Fees
- VIII. Dividends to Policyholders
- IX. Federal Income Tax

Society of Financial Examiners  
**Life and Health Insurance Accounting**

Unit:	14
Topic:	Cost Accounting
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with how cost accounting can provide information needed to make crucial business decisions; to describe the methods to accumulate and use departmental and functional costs.
Assigned Reading:	Life Insurance Accounting Chapter 14-Cost Allocation Life and Accident and Health Insurance Accounting 2011 Addendum (LAH 2011 Addendum) Addendum to Chapter 14- Cost Accounting

*Unit Outline:*

- I. Cost Accounting
  - A. Definition
  - B. Life Insurance Cost Accounting
  - C. Factors Affecting Choice of Cost Accounting System
  
- II. Classifying Expenses
  - A. Expense Classifications
    - 1. By Class or Nature
    - 2. By Organizational Unit
    - 3. By Purpose or Benefit
    - 4. Interrelationship between Expense Classifications
    - 5. Reasons for Expense Analysis
  - B. LAH 2011 Addendum – Classifying Expenses

- III. Departmental Expenses
  - A. Definitions
  - B. Use of Departmental Costs
  - C. Operating vs. Service Departments
  - D. Expense Items Charged by Department
  - E. Reporting
  
- IV. Functional expenses
  - A. Relationship of Functional Costs and Lines of Business
  - B. Benchmarking to Improve Company's Performance
  - C. Procedures for Functional Lines of Business Analysis
  
- V. Intercompany Allocations and Noninsurance Functions
  - A. Definitions
  - B. General Guidelines
  - C. Accumulation Techniques

Society of Financial Examiners  
**Life and Health Insurance Accounting**

Unit:	15
Topic:	GAAP Accounting
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the rationale for and the principles of GAAP accounting; to describe the ways in which accounting for life insurance companies follows and departs from GAAP.
Assigned Reading:	Life Insurance Accounting Chapter 15 - GAAP Accounting Life and Accident and Health Insurance Accounting 2011 Addendum (LAH 2011 Addendum) Addendum to Chapter 15- GAAP Accounting

*Unit Outline:*

- I. LAH 2011 Addendum – FASB Accounting Standards Codification
  - A. ASU 2010-26
  - B. Convergence of IASB and FASB Accounting for Insurance Contracts
- II. General Standards
  - A. LAH 2011 Addendum – Securities and Exchange Commission
- III. Conceptual Elements of GAAP
  - A. Going Concern
  - B. Matching Principle
  - C. Cost-Basis
  - D. Objectivity
  - E. Full Disclosure
- IV. General Reporting Standards
  - A. Revenue Recognition
  - B. Cost Basis
  - C. Adjustments to Cost Basis
  - D. Impaired Loans
  - E. Impaired Long-Lived Assets
- V. Debt and Equity Securities
  - A. Bond and Stock Accounting Disclosures
  - B. Collateralized Mortgage Obligations

- VI. Hedge Accounting
- VII. FASB Statement No. 133
  - A. Overview
  - B. Scope
  - C. Recognition and Measurement
  - D. Hedgeable Risks and Hedge Criteria
  - E. Hedges of the Fair Value of Existing Assets, Liabilities and Firm Commitments
  - F. Cash Flow Hedges
  - G. Hedges of Foreign Currency Exposure of Net Investment in Foreign Operations
- VIII. Disclosures
  - A. Transition and Effective Date
- IX. Asset and Liability Determinations
- X. Retirement Benefits
- XI. Post Retirement Benefits
- XII. Post Employment Benefits
- XIII. Statutory Life Insurance Accounting- Departures from GAAP
  - A. Premium Recognition
  - B. Accrual of Investment Income
  - C. Accrued Expenses
  - D. Nonadmitted Assets
  - E. Reserves for Policy Liabilities
  - F. Appropriateness of Surplus
- XIV. GAAP for Life Insurance Companies
  - A. Statements of Financial Accounting Standards Board
  - B. Types of Contracts Covered
  - C. Universal Life Type Policies
  - D. Investment Contracts
  - E. Limited Payment Contracts
  - F. Other Contracts
  - G. Participating Life Policies
  - H. Limited Pay Participating Plans
  - I. Reinsurance Ceded
  - J. Benefit Reserves
  - K. Deferred Acquisition Costs
  - L. Deferrable Acquisition Costs
  - M. Amortization under Statements No, 60, 97 and 120
  - N. Deferred Revenue
  - O. Policy vs. Block
  - P. Basis for Assumptions
  - Q. Changing Assumptions
  - R. Loss Recognition

- XV. Product Related Requirements
  - A. Annuity Policies
  - B. Limited Payment Contracts
  - C. Accident and Health Policies
  - D. Credit Life and Health Policies
  
- XVI. Financial Statement Presentation
  - A. Exhibit 15-1 and 15-2



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**Life and Health Insurance Accounting**

Unit:	16
Topic:	Treasury Management
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the importance of cash management; to describe the procedures for planning cash needs and collecting, controlling, and investing cash.
Assigned Reading:	Life Insurance Accounting Chapter 16-Treasury Management

*Unit Outline:*

- I. U S Banking Environment
  - A. Regulation
  - B. The Fed
  - C. Legislative Trends in the Bank Environment
  - D. Trends in Banking Activity
- II. Collection System
  - A. Collection Float
  - B. Collection System Considerations
  - C. Collection System Methods
- III. Concentration System
  - A. Concentration Considerations
  - B. Concentration Alternatives
  - C. Techniques to Improve Concentration Efficiency
- IV. Disbursement System
  - A. Disbursement Float
  - B. Centralized and Decentralized Disbursements
  - C. Disbursement Methods
  - D. Disbursement Support Services
- V. Reconciliation System

- VI. Cash Flow Forecasting
  - A. Credit
  - B. Lines of Credit
  - C. Standby Letters of Credit
  - D. Financial Risk Management
  - E. Derivatives
  - F. Derivatives Addressing Interest Rate Risk
  - G. Derivatives Addressing Exchange Rate Risk
  
- VII. Information Management
  
- VIII. Banking Relationships

Society of Financial Examiners  
**Life and Health Insurance Accounting**

Unit:	17
Topic:	Budgeting
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the importance of budgeting and planning, the different methods involved and their preparation.
Assigned Reading:	Life Insurance Accounting Chapter 17-Budgeting Life and Accident and Health Insurance Accounting 2011

*Unit Outline:*

- I. Introduction
  - A. Budgeting
  - B. Planning
- II. Budget Types
  - A. Fixed Budget
  - B. Flexible Budget
- III. Methods of Budgeting
- IV. Objectives of Budgeting
- V. Development of Budgets
  - A. Budgeting Philosophy
  - B. Zero-based Budgeting
  - C. Historically-based budgeting
  - D. Activity-based Budgeting
  - E. Life Insurance Budgets
  - F. Sales Budget
  - G. Expense Budget
  - H. Allowable Expenses
  - I. Staff-based Budgeting
  - J. Departmental Budgets
  - K. Cash Budget
  - L. Investment Budget
  - M. Capital Expenditures Budget
- VI. Non-Discounting Models

- VII. Discounting Models
- VIII. Evaluating and Selecting Projects
- IX. Budget as a Management Tool
  - A. Follow-up Variance Control
  - B. Variations Measure Validity of Planning
- X. Types of Budget Reports
- XI. Forecasting
- XII. Other Factors in the Budget Process
  - A. Line Organization
  - B. Budget Timetable
  - C. Adequate Accounting System
- XIII. Practical Considerations in Budgeting
  - A. Period Covered by Budget
  - B. Realism
  - C. Flexibility
  - D. Information or Uncertainty
- XIV. Human Relationships in Budgeting

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**Life and Health Insurance Accounting**

Unit:	18
Topic:	Strategic Planning: An Insurance Perspective
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the development of strategic planning concepts and applying these concepts, formulating the plan and implementation of the plan.
Assigned Reading:	Life Insurance Accounting Chapter 18-Strategic Planning: An Insurance Perspective

*Unit Outline:*

- I. Conceptual Framework
  - A. Senior Management Viewpoint
- II. Key Elements in Strategic Planning
  - A. Definition of Business/Activity
  - B. Analysis of Environment and Capabilities
  - C. Determination of Assumptions
  - D. Determination of Objectives
  - E. Examination of Policies/Procedures
  - F. Strategies and Programs/Projects
- III. Strategy Formulation
  - A. Major Strategic Concepts
  - B. Generic Competitive Strategies
  - C. Overall Cost Leadership
  - D. Differentiation
  - E. Focus
- IV. Strategic Planning for the Future
  - A. Product Differentiation Strategy
  - B. Low Cost Strategy
- V. Implementation
  - A. Priorities and Schedules
  - B. Organization and Delegation
  - C. Budgets/Resources

Society of Financial Examiners  
**Life and Health Insurance Accounting**

Unit:	19
Topic:	Management Reports and Reports to Regulatory Bodies
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the elements of management reporting and the requirements of reports filed with the regulatory bodies.
Assigned Reading:	Life Insurance Accounting Chapter 19-Management Reports and Reports to Regulatory Bodies Life and Accident and Health Insurance Accounting 2011 Addendum (LAH 2011 Addendum) Addendum to Chapter 19- Management Reports and Reports to Regulatory Bodies

*Unit Outline:*

- I. Management Reporting
  - A. Reporting for External Readers
  - B. LAH 2011 Addendum – Reporting for External Readers
  - C. LAH 2011 Addendum – The Sarbanes-Oxley Act
  - D. Reporting for Management Control
  - E. Reporting to the Securities & Exchange Commission
  - F. The Securities and Exchange Commission
  - G. Reporting Under the Securities Act of 1933
  - H. Securities Registration Statements
    - I. Form S-1
    - J. Selected Financial Data
    - K. Supplementary Financial Information
  - L. Management’s Discussion and Analysis of Financial Condition
  - M. Financial Statements
  - N. Other Registrations
  - O. Shelf Registrations
  - P. Regulation S-X
  - Q. The Significance of Financial Reporting Releases
  - R. Reporting Under the Securities Act of 1934
  - S. Regulation S-B and S-B Forms
  - T. Electronic Filing

- II. Reporting to Other Regulatory Agencies
  - A. Reporting to Stock Exchanges
  - B. Periodic Reporting to State Insurance Departments
    - 1. LAH 2011 Addendum – Periodic Reporting to State Insurance Departments.
  - C. Statutory Codification
    - 1. LAH 2011 Addendum – Statutory Codification
  - D. Insurance Regulatory Information System
  - E. Financial Tests
    - 1. LAH 2011 Addendum – Financial Tests
  - F. Stability Tests
- III. Management’s Discussion and Analysis
- IV. Special Reporting to the Internal Revenue Service

Society of Financial Examiners  
**Life and Health Insurance Accounting**

Unit:	20
Topic:	Mergers and Acquisitions
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To provide the examiner with an overview of the acquisition/merger processes, valuating the target company, taxation of the acquisition, regulation by state authorities and accounting for the acquisition in accordance with GAAP.
Assigned Reading:	Life Insurance Accounting Chapter 20-Mergers and Acquisitions Life and Accident and Health Insurance Accounting 2011 Addendum (LAH 2011 Addendum) Addendum to Chapter 20-Mergers and Acquisitions

*Unit Outline:*

- I. Valuing an Insurance Company
  - A. Market Appraisal
  - B. Actuarial Valuation
  - C. Adjusted Statutory Net Worth
  - D. Insurance in Force
  - E. Agency Force or Distribution System
  - F. Other Intangible Assets
- II. Acquisition Techniques and Their Tax Consequences
  - A. Acquisition Methods
- III. Purchase of Assets
- IV. Purchase of Stock Treated as an Asset Purchase
- V. Purchase of Stock Not Treated as an Asset Purchase
- VI. Taxable Nonstock Mergers
- VII. Nontaxable Transactions
- VIII. Statutory Merger of Consolidation: Type A Reorganization
- IX. Stock-for-Stock: Type B Reorganization



- X. Stock-for-Assets: Type c Reorganization
- XI. Demutualization and Mutual Holding Companies
- XII. State Regulations
  - A. Acquisition Statutes
  - B. Related Party Transactions
  - C. LAH 2011 Addendum – Related Party Transactions
- XIII. GAAP Considerations
- XIV. Existing Accounting Authority

Society of Financial Examiners  
**Life and Health Insurance Accounting**

Unit:	21
Topic:	Consolidations and Holding Companies
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the purposes and limitations of consolidated financial statements; to describe the concepts of consolidated statements and identify the special issues involved in their preparation.
Assigned Reading:	Life Insurance Accounting Chapter 21-Consolidations and Holding Companies Life and Accident and Health Insurance Accounting 2011 Addendum (LAH 2011 Addendum) Addendum to Chapter 21-Consolidations and Holding Companies

*Unit Outline:*

- I. Purposes of Consolidated Financial Statements
- II. GAAP
- III. Authoritative Guidance
  - A. Control
  - B. Minority Interests
- IV. Accounting Practice for Consolidation Accounting
- V. The Equity Method
- VI. Accounting Practice for the Equity Method
- VII. Parent Company Financial Statements
- VIII. GAAP Segment Disclosure
- IX. Difference in Fiscal Periods

- X. Statutory Accounting Principles (SAP)
  - A. LAH 2011 Addendum - SAP
- XI. Market Value Accounting
- XII. Limited Partnership Investments
- XIII. Statutory Impairment
- XIV. SAP Disclosures
  - A. LAH 2011 Addendum – SAP Disclosures
- XV. Internal Revenue Code
- XVI. Special Issues
  - A. Installment Acquisition of Subsidiary
  - B. Parent Company Acquisition of Minority Interest
  - C. Parent Company Sale of a Portion of Subsidiary
  - D. Subsidiary’s Issuance of Additional Shares to Outsiders
- XVII. Current Developments

Society of Financial Examiners  
**Life and Health Insurance Accounting**

Unit:	22
Topic:	Asset/Liability Management
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the concept of asset/liability matching; to explain the risks and strategies associated with asset/liability matching.
Assigned Reading:	Life Insurance Accounting Chapter 22- Asset/Liability Management Life and Accident and Health Insurance Accounting 2011 Addendum (LAH 2011 Addendum) Addendum to Chapter 22-Asset/Liability Management

*Unit Outline:*

- I. The Life Insurance Company Setting
- II. Basic Principles of Asset/Liability Management
  - A. Requirements for Investment Returns
  - B. Requirements for Investment Values
- III. Interest Rate Risks
  - A. A Case Study of Interest Rate Risk
- IV. Equity Market Risk
  - A. LAH 2011 Addendum – Equity Market Risk
- V. Challenges in Asset/Liability Management
  - A. Measurement Basis
  - B. Analytical Platform
  - C. Communication
- VI. Approaches to Asset/Liability Management
  - A. Investment Strategy
  - B. Product Design
  - C. Reinsurance
  - D. Holism
  - E. A Case Study of Holistic Asset/Liability Management
- VII. Historical Methods
  - A. Immunization
  - B. Limitations of Duration

- VIII. Emerging Methods and Metrics
  - A. Option Pricing
  - B. Dynamic Hedging
  - C. Value at Risk and Its Brethren
  
- IX. The Rise of Derivatives Usage
  - A. Derivatives Basics
  - B. Considerations for Life Insurers
  - C. A Case Study of Equity Market Risk Mitigation
  
- X. The Regulator and Rating Agency Perspective
  
- XI. Best Practices in ALM
  - A. Secure Senior Management Commitment
  - B. Ensure a Clear Assignment of Roles and Responsibilities
  - C. Leverage the Cash Flow Testing Platform
  - D. Select the Most Appropriate Metric
  - E. Ensure a Responsive and Effective Mitigation Process
  
- XII. Future Challenges & Opportunities
  - A. Industry Consolidation
  - B. Fair Value Accounting
    - 1. LAH 2011 Addendum – Fair Value Accounting
  - C. Other Developments

Society of Financial Examiners  
**Life and Health Insurance Accounting**

Unit:	24
Topic:	Internal Control
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To provide the examiner with a definition of internal control, describe the objectives of internal control systems, identify the elements of internal control systems and the roles and responsibilities of five key groups in the development and maintenance of an internal control system.
Assigned Reading:	Life Insurance Accounting Chapter 24- Internal Control Life and Accident and Health Insurance Accounting 2011 Addendum (LAH 2011 Addendum) Addendum to Chapter 24-Internal Control

*Unit Outline:*

- I. LAH 2011 Addendum – Impact of Sarbanes-Oxley
- II. Definition
- III. Tone at the Top
- IV. Objectives of Internal Control System
  - A. Accomplishment of Organizational Objectives
  - B. Safeguard Assets
  - C. Compliance with Laws and Regulations and Company
  - D. Integrity and Reliability of Reporting
    1. Financial Reporting
    2. Management Information
  - E. Effectiveness and Efficiency of Operations
  - F. Cost/Benefit Considerations
- V. Elements of an Internal Control System

- VI. Basic Internal Control Features
  - A. Budgeting
  - B. Authorization Procedures
  - C. Personnel Policies and Practices
  - D. Segregation of Duties
  - E. Physical Controls
  - F. Documentation and Communication
  - G. Monitoring
  - H. Information Systems Controls
  
- VII. Life Insurance Industry Considerations
  
- VIII. Specific Life Insurance Accounts and Activities
  - A. Underwriting and Premium Income
  - B. Benefits and Claim Liabilities
  - C. Policy Reserves and Insurance In-force
  - D. Agent Commissions
  - E. Reinsurance
  
- IX. Roles and Responsibilities
  - A. Board of Directors
  - B. Audit Committees
    - 1. LAH 2011 Addendum – Audit Committees
  - C. Operating Management
    - 1. LAH 2011 Addendum – Operating Management
  - D. Internal Auditors
  
- X. Independent Auditors
  - A. LAH 2011 Addendum – Independent Auditors
  
- XI. Insurance Marketplace Standards and Associations

Society of Financial Examiners  
**Life and Health Insurance Accounting**

Unit:	25
Topic:	Life Reinsurance
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the concept of reinsurance and the common reasons for obtaining reinsurance such as, financial or surplus relief, risk transfer and obtaining additional consulting services
Assigned Reading:	Life Insurance Accounting Chapter 25- Life Reinsurance Life and Accident and Health Insurance Accounting 2011 Addendum (LAH 2011 Addendum) Addendum to Chapter 25-Life Reinsurance

*Unit Outline:*

- I. Uses of Reinsurance
  - A. Financial
  - B. Risk Transfer
  - C. Consulting Services
  
- II. Reinsurance Agreements
  - A. Indemnity Reinsurance
    - 1. LAH 2011 Addendum – Indemnity Reinsurance
  - B. Nonproportional
  - C. Proportional
  - D. Yearly Renewable Term
  - E. Coinsurance
  - F. Modco
  - G. Quota Share and Excess Share
  - H. Types of Underwriting
  
- III. Accounting for Reinsurance
  - A. LAH 2011 Addendum – Accounting for Reinsurance
  - B. Reinsurance Premiums
  - C. Reinsurance Benefit Payments
  - D. Reinsurance Policy and Claim Reserves
  - E. Mirror Reserving
  - F. Commissions and Expense Allowances on Reinsurance
  - G. Accounting Process
  - H. Deposit Accounting



- IV. Other Reinsurance Activity
  - A. Recapture
  - B. Unauthorized Reinsurance
  
- V. Assumption Reinsurance
  
- VI. Important Treaty Clauses
  - A. Parties to Agreement Clause
  - B. Oversight Clause
  - C. Extra Contractual Damages (ECO)
  - D. Jumbo Limit
  - E. Termination
  - F. Follow the Fortunes
  - G. Regulations
  - H. Insolvency Clause

Society of Financial Examiners  
**Life and Health Insurance Accounting**

Unit:	26
Topic:	Separate Accounts
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the NAIC separate accounts statement as the vehicle for transacting and accounting for business where all or most of the risk and rewards of investment performance general accrue to the benefit or detriment of the customer and not the company.
Assigned Reading:	Life Insurance Accounting Chapter 26- Separate Accounts Life and Accident and Health Insurance Accounting 2011 Addendum (LAH 2011 Addendum) Addendum to Chapter 26-Separate Accounts

*Unit Outline:*

- I. Origin and Purpose
- II. General Characteristics
- III. Balance Sheet
- IV. Summary of Operations and Surplus Account
- V. Other
  - A. LAH 2011 Addendum - Other