



SOCIETY OF FINANCIAL EXAMINERS®

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. We encourage candidates to study all of the suggested reading materials, as the test bank randomly pulls 50 questions from the Unit/Sections, and candidate should be familiar with all of the topics without concentrating on the percentage of questions being pulled. 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 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.

The following textbook is required for this course:

Life/Accident/Health Insurance Accounting, Insurance Accounting & Systems
Association, Inc., Durham, NC Fifth Edition, (2016)

Note: Material to be tested is not exclusive to Learning Objectives listed in the following pages. The Learning Objectives merely define areas that are likely to be covered.

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Society of Financial Examiners
Life and Health Insurance Accounting

AFE 3
 Rev. 2017

Chapter	Name
	Unit # 1 - (14 questions)
2	Assets
3	Bonds and Stock
4	Real Estate Investments & Joint Ventures
5	Mortgage Loans
	Unit # 2 - (11 questions)
6	Policy & Claim Reserve Liabilities
7	Liabilities for Other Policy Amounts Held Including Funds on Deposit
8	All Other Statement Liabilities, Including AVR and IMR
	Unit # 3 - (3 questions)
9	Capital & Surplus
	Unit # 4 - (4 questions)
10	Revenues
11	Benefits
12	Expenses and Dividends
	Unit # 5 - (9 questions)
13	Accounting for Lines of Business
14	Reinsurance
15	Separate Accounts
16	Federal Income Taxation
	Unit # 6 - (9 questions)
17	Risk-Based Capital
18	Treasury Management
19	Asset/Liability Management
21	Cost Accounting
22	Internal Controls
24	Generally Accepted Accounting Principles
26	Mergers, Acquisitions, Consolidations & Holding Companies

- Unit:** 1
- Topic:** Assets
- Text Required:** Life/Accident/Health Insurance Accounting, Insurance Accounting & Systems Association, Inc., Durham, NC Fifth Edition, (2016)
- Learning Objectives:** To familiarize the financial examiner with the characteristics of assets as defined in the Statement of Statutory Accounting Principle No. 4 – Assets and Nonadmitted Assets, as an asset that has “...probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events” including bonds, stock, real estate & mortgage loans.
- Assigned Reading:** Chapters 2, 3, 4, & 5

Chapter 2 Assets – Learning Objectives to Master:

- Define “Assets”, “Nonadmitted Assets,” and “Net admitted assets”
- Differentiate between “Assets”, “Nonadmitted Assets,” and their valuation
- Define individual categories of “Assets,” Bonds, Stock, etc.
- Understand what should be included on Schedule BA – Other Invested Assets
- Understand assets that can be categorized under “Premiums and Consideration Receivable”
- Understand assets that can be categorized under “Reinsurance”
- Define the various assets shown for “Health Care and Other Amounts Receivable”
- Define the various assets that can be shown under “Write-ins for Assets”

Chapter 3 Bonds and Stock – Learning Objectives to Master:

- Understand that stocks and bonds are the most common investments of insurers
- Obtain a general background in common regulatory restrictions, reporting and accounting bases of insurer investments
- Identify the characteristics and types of Bonds
- Understand statutory reporting classifications of Bonds
- Understand the accounting methods and valuation of Bonds
- Identify the characteristics and types of Preferred Stocks, along with their accounting and valuation
- Identify the characteristics and types of Common Stocks, along with their accounting and valuation
- Obtain and understanding of Derivative Securities for insurers
- Understand the treatment of Investments in Subsidiaries and Affiliates
- Understand investment systems, processes and controls

Chapter 4 Real Estate Investments & Joint Ventures – Learning Objectives to Master:

- Obtain an understanding of the history of real estate holdings for insurers
- Define types of Real Estate Investments
- Understand general legal limitations of Real Estate Investments
- Explain the valuation and accounting treatment for Real Estate
- Define types of Joint Venture Organizational Structures along with their funding, accounting treatment and tax considerations
- Develop an understanding of the Statutory Reporting of Real Estate

Chapter 5 Mortgage Loans – Learning Objectives to Master:

- Obtain an understanding of the history of Mortgage Loans for insurers
- Define types & classifications of Mortgage Loans
- Understand the affect that governmental regulations has on Mortgage Loans
- Develop and understanding of the normal documentation for Mortgage Loans
- Distinguish the sources and accounting for acquiring Mortgage Loans
- Understand the process of servicing and the accounting of the investment in Mortgage Loans
- Describe the Statutory Reporting of Mortgage Loans

Unit: 2

Topic: Liabilities

Text Required: Life/Accident/Health Insurance Accounting, Insurance Accounting & Systems Association, Inc., Durham, NC Fifth Edition, (2016)

Learning Objectives: To familiarize the examiner with the purpose and use of the liabilities that appear on insurers' financial statements for other policy amounts held including funds on deposit and other liabilities necessary; to discuss how these liabilities are calculated.

Assigned Reading: Chapters 6, 7, & 8

Chapter 6 Policy and Claim Reserve Liabilities – Learning Objectives to Master:

- Obtain an understanding of the history of Policy and Claim Reserves
- Describe the elements and methods of Individual Life Reserves including modifications and assumptions
- Understand the methods for computing Individual Life Reserves
- Define other types of plans and policies, such as indeterminate premium, deposit, universal life, multiple life, etc.
- Generally understand the valuation and regulation of XXX life insurance policies
- Define the other miscellaneous life reserves of a life insurer

Chapter 7 Liabilities for Other Policy Amounts Held including Funds on Deposit – Learning Objectives to Master:

- Understand the provisions of Liabilities for Policyholders' Dividends or Coupon Amounts
- Understand the provisions of Experience Rating Refunds
- Define the elements of the Liability for Deposit-Type Contracts
- Define the elements of the Liabilities for Premium Amounts and Premium Deposit Funds

Chapter 8 All Other Statement Liabilities, Including AVR and IMR – Learning Objectives to Master:

- Define the treatment of commissions to agents due or accrued
- Understand the provisions of various reinsurance liabilities that may be established
- Describe the elements of Taxes, Licenses and Fees Due or Accrued
- Describe the composition of Federal and Foreign Income Taxes
- Define other statement liabilities that can be shown and their statutory treatment
- Understand the composition and calculation of the IMR and AVR

Unit: 3

Topic: Capital and Surplus

Text Required: Life/Accident/Health Insurance Accounting, Insurance Accounting & Systems Association, Inc., Durham, NC Fifth Edition, (2016)

Learning Objectives: To familiarize the examiner with the capital and surplus accounts; to recognize how capital and surplus transactions are treated for statutory accounting purposes.

Assigned Readings: Chapter 9

Chapter 9 Capital and Surplus – Learning Objectives to Master:

- Understand the perspectives on capital and surplus by various stakeholders
- Comprehend the aspects of the initial financing of insurers
- Define the ongoing financial requirements to organizations for capital and surplus
- Understand the classifications of types of surplus
- Identify the elements in the Capital and Surplus reconciliation
- Identify other surplus considerations
- Describe other statutory requirements affecting surplus

Unit: 4

Topic: Revenues, Benefits & Expenses

Text Required: Life/Accident/Health Insurance Accounting, Insurance Accounting & Systems Association, Inc., Durham, NC Fifth Edition, (2016)

Learning Objectives: To familiarize the examiner with the revenues, benefits and expense accounts and to recognize how revenue, benefit and expense transactions are treated for statutory accounting purposes.

Assigned Readings: Chapter 10, 11, & 12

Chapter 10 Revenues – Learning Objectives to Master:

- Obtain a general understanding of the statutory treatment of life insurer revenues
- Identify the definitions and computation methods of premium income for life insurers
- Understand the treatment of various types of investment income for life insurers
- Describe the use of NAIC Model Investment Laws
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Chapter 11 Benefits – Learning Objectives to Master:

- Understand the history of life insurer product benefits
- Describe the types of Benefits (Claims) characteristics
- Define the categories and reporting of Benefits
- Understand Benefit (Claim) processing and reporting systems

Chapter 12 Expenses and Dividends – Learning Objectives to Master:

- Understand the history of life insurer Expenses and Dividends
- Define the process of Expense allocation
- Describe the classifications of Expense accounting
- Understand the process of statutory statement Expense reporting
- Define payment methods of Dividends

Unit: 5

Topic: Lines of Business, Reinsurance & Separate Accounts

Text Required: Life/Accident/Health Insurance Accounting, Insurance Accounting & Systems Association, Inc., Durham, NC Fifth Edition, (2016)

Learning Objectives: To familiarize the examiner with the lines of business of life insurers; the concept of reinsurance and the common reasons for obtaining reinsurance such as, financial or surplus relief, risk transfer and obtaining additional consulting services; concepts of separate accounts statements; and taxation of life insurers.

Assigned Reading: Chapter 13, 14, 15, & 16

Chapter 13 Accounting for Lines of Business – Learning Objectives to Master:

- Understand the statutory reporting requirements of Accounting for Lines of Business
- Define the elements of the Analysis of Operations by Lines of Business exhibit
- Understand the purpose and elements of Schedule H – A & H Insurance exhibit
- Understand the Line-of-Business Supplements to the statutory statement filings

Chapter 14 Reinsurance – Learning Objectives to Master:

- Define the uses of Reinsurance for life insurers
- Understand risk transfer in reinsurance transactions
- Establish an understanding of the Reinsurance business, including types of reinsurers
- Understand the types of indemnity reinsurance
- Describe the accounting treatment of Assumption Reinsurance (or novation)
- Become familiar with important reinsurance treaty clauses
- Understand Reinsurance reporting in statutory statements

Chapter 15 Separate Accounts – Learning Objectives to Master:

- Understand the origin and purpose of Separate Accounts
- Understand the general characteristics of Separate Accounts
- Describe the balance sheet treatment of Separate Accounts
- Describe the Summary of Operations treatment of Separate Accounts
- Understand the application of SSAP No. 52 – Deposit-Type Contracts

Chapter 16 Federal Income Taxation – Learning Objectives to Master:

- Understand the general taxation of life insurance companies
- Describe the treatment and elements of gross income for life insurers
- Describe the many types of deductions for life insurers
- Understand the accounting of income taxes under GAAP, SAP and for Federal Tax Purposes
- Describe the allocation methods used on consolidated federal income tax returns
- Be familiar with the Life-Non-Life Consolidated Tax Return

Unit: 6

Topic: Financial & Operational Management

Text Required: Life/Accident/Health Insurance Accounting, Insurance Accounting & Systems Association, Inc., Durham, NC Fifth Edition, (2016)

Learning Objectives: To familiarize the examiner with the application of risk-based capital calculations of life insurers; the importance of cash management; the procedures for planning cash needs and collecting, controlling, and investing cash; the concept of asset/liability matching and to explain the risks and strategies associated with asset/liability matching and cost accounting; the objectives of internal control systems; the principles of GAAP accounting; and the purposes and limitations of consolidated financial statements.

Assigned Reading: Chapter 17, 18, 19, 21, 22, 24, & 26

Chapter 17 Risk-Based Capital – Learning Objectives to Master:

- Understand the history of the establishment of RBC calculations and the categories of risk
- Define the RBC elements of C1 - Asset Risk
- Define the RBC elements of C2 - Insurance risk
- Define the RBC elements of C3 - Interest and Market Rate Risk
- Define the RBC elements of C4 – Business Risk
- Understand the elements of Total Adjusted Capital
- Understand the action levels of regulatory control under RBC
- Explain the use of trend and sensitivity tests
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Chapter 18 Treasury Management – Learning Objectives to Master:

- Understand the history of life insurer treasury management and its purpose
- Describe elements of the U.S. banking environment
- Understand the elements of a life insurer premium collection and concentration systems
- Define the application of cash flow forecasting and financial risk management

Chapter 19 Asset/Liability Management – Learning Objectives to Master:

- Understand the history of life insurer Asset/Liability Management and its purpose
- Describe the life insurance company setting of Asset/Liability Management
- Describe the basic principles of Asset/Liability Management for life insurers
- Describe the approaches to Asset/Liability Management for life insurers

- Understand the evolution Asset/Liability Management techniques
- Become familiar with emerging methods and metrics of Asset/Liability Management
- Describe best practices in Asset/Liability Management of life insurers

Chapter 21 Cost Accounting – Learning Objectives to Master:

- Understand the use of Cost Accounting for life insurers
- Describe the Classification of expenses under Cost Accounting
- Detail the definitions of expenses under Cost Accounting
- Describe the determination of functional expenses

Chapter 22 Internal Controls – Learning Objectives to Master:

- Describe the definition of Internal Controls
- Explain the importance of “Tone at the Top”
- Understand the objectives of Internal Control Systems
- Describe the elements of an Internal Control System
- Explain the NAIC Model Regulation’s requirements in regards to Internal Controls
- Understand life insurance industry considerations of Internal Controls
- Describe the importance of cybersecurity
- Explain Internal Control roles and responsibilities
- Understand the coordination of Internal Control with independent auditors

Chapter 24 Generally Accepted Accounting Principles – Learning Objectives to Master:

- Describe the sources of Accounting Principles
- Understand the history of GAAP for life and health insurance companies
- Explain the differences between SAP and GAAP
- Describe GAAP disclosures of public companies
- Understand private company alternatives of disclosure
- Become familiar with the possible future of GAAP

Chapter 26 Mergers, Acquisitions, Consolidations & Holding Companies – Learning Objectives to Master:

- Describe the benefits and risks of insurer acquisitions
- Understand the Mergers & Acquisitions lifecycle
- Discuss the requirements of purchase accounting
- Become familiar with integration
- Become familiar with demutualization and mutual holding companies
- Understand general requirements of statutory accounting & reporting Mergers & Acquisitions
- Explain the purposes of consolidated financial statements
- Detail the methods of reporting affiliated investments under GAAP
- Discuss statutory accounting principles guidance for affiliated investments