



SOCIETY OF FINANCIAL EXAMINERS®

AFE 4 – Property and Liability Insurance Accounting STUDY GUIDE

Effective July 2016

The passing score for this test is 70

Reference Guides:

*Property-Casualty Insurance Accounting, by IASA 2003, 9th Edition,
(including accounting pronouncements through 12-31-2014)*

*Accounting Practices and Procedures Manual, by NAIC, March
2016 publication*

*Audit and Accounting Guide: Property & Liability Insurance Entities,
by AICPA, updated as of July 1, 2015 (Updates to the AICPA Audit and
Accounting Guide: Property & Liability Insurance Entities guidance were
not significant, and members may study from either the 2015 edition or
2016 edition.)*

This study guide is a tool to assist you in learning the materials needed to study for this examination. The information provided indicates the areas on which you should focus. The study guide should be used as a starting point and not as a complete listing of topics that will be covered within the exam.

The study guide is in 3 sections, one section for each reference guide

© SOFE 2016 Permission to reproduce all or part of this publication is granted for the limited purpose of the user in preparing for the corresponding examination.

SECTION I - *Property-Casualty Insurance Accounting, by IASA 2003, 9th Edition, (including accounting pronouncements through 12-31-2014)*

Chapter 1: Evolution of Insurance Accounting and Annual Statement Reporting

Current Regulation:

The Federal Government

- Legislation

Annual Statement Reporting:

Annual Statement Supplements

- Insurance Expense Exhibit

Statement Uses

- Mandatory CPA Audits

Chapter 2: Assets

Introduction

Bonds

Cash and Short Term Investments

Premiums and Considerations

Amounts Receivable Relating to Uninsured Plans

Electronic Data Processing Equipment and Software

Chapter 3: Bonds and Stock

Bonds

- Bond Valuation

Preferred Stocks

- Preferred Stock Valuation

Common Stocks

- Common Stock Valuation

Derivative Securities

- Accounting and Hedging Overview

Chapter 5: Estimating Liabilities for Losses and Loss Adjustment Expenses

Background on Loss and Loss Adjustment Expense Liabilities

- Importance of Loss and Loss Adjustment Expense Liabilities

Definitions Used in Determining Unpaid Claims Estimates

- Dates
- Unpaid Claims Estimates

Considerations and Investigations in Developing Unpaid Claim Estimates

- Frequency and Severity of Loss

Chapter 6: Earned and Unearned Premiums

Introduction

Definitions

- Direct Written Premiums
- Assumed Reinsurance Premiums
- Net Written Premiums

Unearned Premium Liability

Configuration Techniques

- In-Force
- Direct
- Audit Premiums
- Respectively Rated Policies
- Summary

Chapter 7: Other Liabilities, Capital and Surplus

Commissions Payable, Contingent Commissions & Other Similar Charges

- Agents & General Agents
- Reinsurance Commissions

Dividends Declared and Unpaid

Ongoing Financial Requirements

- Treasury Stock

The Surplus Account

Chapter 8: Written Premiums

Introduction

Recording

- Date Recorded

Billing

- Reinsurance Premiums
- Other Premiums
 - Retrospectively Rated Contracts

Financing

- Premium Loans

Chapter 9: Losses and Loss Adjustment Expenses

Introduction

Characteristics & Categories of Loss & Loss Adjustment Expenses

Loss Characteristics

- Known versus Unknown
- Reported versus Unreported
- Short-Tail versus Long-Tail

Loss Categories

- Losses Incurred
- Losses Paid
- Losses Reserved for Future Payments
- Loss Offsets

Loss Adjustment Expenses

- Adjusting and Other

Claim Adjusting and Processing

Loss Settlement

Loss and Loss Adjustment Expense Accounting

Method for Recording Loss Transactions

Other Accounting Issues

- Structured Settlements

Bases for Reporting Financial Information

Loss Reporting

Basic Reports

Other Loss Reports

Chapter 10: Other Expenses

Introduction

Expense Accounting

Classification of Expenses

- NAIC Operating Expense Classifications & Allocations

Expense Reporting

National Association of Insurance Commissioners

- The Insurance Expense Exhibit

Chapter 11: Investment Income

Amortization of Premium and Accrual of Discount

Collectability of Investment Income

Unrealized Gains and (Losses)

Chapter 13: Reinsurance Accounting

The Reinsurance Business

- Multiple Purposes or Functions of Reinsurance
- Reinsurance Forms and Placement Methods
- Statutory Versus GAAP Accounting

Accounting Differences Between Primary Insurance and Reinsurance

Loss and Loss Adjustment Expense Reserves

Recording

Underwriting Income

Reporting

External Reporting

- Annual Statement Requirements
- Reporting to Governments

International Reinsurance Accounting Practices

Leveraging

Summary

Chapter 14: Taxation

Defining “Insurance Company” & “Insurance” for Federal Income Tax

Purposes Investment Income

- Dividends

Alternate Minimum Tax: Preferences Affecting Insurers

Tax Rules Applicable to Mutual, Reciprocal, and Other Special Entities

Reciprocals and Interinsurers

Exchange Syndicates

General Corporate Tax Rules Fundamental to Insurers

Depreciation

Net Operating Loss Carrybacks & Carryforwards

Issues Affecting Employers and Employees

Foreign Corporations

Controlled Foreign Corporations

Domestic Company Election

Other Tax Issues

Federal Excise Taxes

Dealing with the IRS

Examinations, Appeals Procedures, and Technical Advice

Chapter 15: Accounting for Income Taxes

Accounting Standards Codification 740 (ASC 740)

Temporary Differences

Identification of Temporary Differences

Chapter 16: Risk Based Capital

R1 – Asset Risk - Fixed Income

Asset Concentration Risk

Action Levels

Trend Test

Chapter 17: Generally Accepted Accounting Principles (GAAP)

Differences Between SAP and GAAP

Assets

- Mortgage Loans on Real Estate
- Real Estate
- Nonadmitted Assets

Liabilities

- Loss & Loss Adjustment Expense Reserves
 - Salvage & Subrogation

GAAP Disclosures of Public Companies

Earnings Per Share

Summary

Chapter 19: SEC Reporting

Federal Regulations and Statutes

Sarbanes-Oxley Act of 2002

Chapter 20: Financial Strength

Introduction

Security and Financial Analysis – Recent Events

Steps in the Financial Analysis Process

- Information Gathering
- Review of Operations
- Review of Financial Information

NAIC Insurance Regulatory Information System (IRIS)

GAAP Information

Chapter 21: Financial Management

Overall Financial Management

- Audit Committees/Board of Director Relationships
- Financial Reporting Responsibilities
 - Own Risk Solvency Assessment (ORSA)

Financial Policy and Planning

- Financial Planning

Investment and Treasury Functions

- Investment Risks

SECTION II - Accounting Practices and Procedures Manual, by NAIC, March 2016 publication, Volume I

<u>No.</u>	<u>Title</u>
-	Preamble
1	Accounting Policies, Risks & Uncertainties, and Other Disclosures
2	Cash, Drafts, and Short-Term Investments
3	Accounting Changes and Corrections of Errors
4	Assets and Nonadmitted Assets
5R	Liabilities, Contingencies and Impairments of Assets
6	Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers
9	Subsequent Events
11	Postemployment Benefits and Compensated Absences
12	Employee Stock Ownership Plans
15	Debt and Holding Company Obligations
16R	Electronic Data Processing Equipment and Software
17	Preoperating and Research and Development Costs
19	Furniture, Fixtures, Equipment and Leasehold Improvements
20	Nonadmitted Assets
21	Other Admitted Assets
22	Leases
23	Foreign Currency Transactions and Translations

24	Discontinued Operations and Unusual or Infrequent Items
25	Affiliates and Other Related Parties
26	Bonds
27	Off-Balance-Sheet and Credit Risk Disclosures
29	Prepaid Expenses
30	Unaffiliated Common Stock
32	Preferred Stock
34	Investment Income Due and Accrued
35R	Guaranty Fund and Other Assessments
36	Troubled Debt Restructuring
37	Mortgage Loans
38	Acquisition, Development and Construction Arrangements
39	Reverse Mortgages
40R	Real Estate Investments
41	Surplus Notes
42	Sale of Premium Receivables
43R	Loan-Backed and Structured Securities
44	Capitalization of Interest
47	Uninsured Plans
48	Joint Ventures, Partnerships and Limited Liability Companies
53	Property Casualty Contracts—Premiums
55	Unpaid Claims, Losses and Loss Adjustment Expenses
58	Mortgage Guaranty Insurance

- 60 Financial Guaranty Insurance
- 62R Property and Casualty Reinsurance
- 63 Underwriting Pools
- 64 Offsetting and Netting of Assets and Liabilities
- 65 Property and Casualty Contracts
- 66 Retrospectively Rated Contracts
- 67 Other Liabilities
- 68 Business Combinations and Goodwill
- 69 Statement of Cash Flow
- 70 Allocation of Expenses
- 71 Policy Acquisition Costs and Commissions
- 72 Surplus and Quasi-reorganizations
- 74 Insurance-Linked Securities Issued Through a Protected Cell
- 76 Start-Up Costs
- 78 Multiple Peril Crop Insurance
- 83 Mezzanine Real Estate Loans
- 86 Derivatives
- 90 Impairment or Disposal of Real Estate Investments
- 92 Postretirement Benefits Other than Pensions
- 93 Low Income Housing Tax Credit Property Investments
- 94R Transferable and Non-Transferable State Tax Credits
- 95 Nonmonetary Transactions
- 97 Investments in Subsidiary, Controlled and Affiliated Entities

100 Fair Value

101 Income Taxes

102 Pensions

103 Transfers and Servicing of Financial Assets and Extinguishments of

Liabilities 104R Share-Based Payments

105 Working Capital Finance Investments

SECTION III - *Audit and Accounting Guide: Property & Liability Insurance Entities, by AICPA, updated as of July 1, 2015*

Chapter 1 – Nature, Conduct, and Regulation of the Business

General Nature of the Business:

- Kinds of Insurance
- Legal Forms of Organization
- Methods of Producing Business

Major Transaction Cycles:

- Underwriting of Risks
- Pooling, Captives, and Syndicates

Accounting Practices:

- State Insurance Regulation
- National Association of Insurance Commissioners
- Federal Regulation – Terrorism
- Statutory Accounting Practices
- Permitted Statutory Accounting Practices
- Generally Accepted Accounting Principles
- Comparison of SAP and GAAP
- Table 1-1 & Exhibit 1-1

Chapter 2 – Audit Considerations

Understanding the Entity, Its Environment, and Its Internal Control:

- Risk-Based Capital
- Use of Assertions in Obtaining Audit Evidence

Other Risk Assessment Activities and Considerations:

- Discussion Among Engagement Personnel Regarding the Risks of Material Misstatement Due to Fraud
- Use of Information Technology
- SEC Requirements for Management’s Report on Internal Control Over Financial Reporting

Chapter 3 – Premiums

General:

- Background
- Types of Premiums Adjustments
- Evaluating and Accepting Risks
- Billing and Collecting Premiums

Premium Revenue and Premium Adjustments:

- Generally Accepted Accounting Principles
- Statutory Accounting Principles

Acquisition Costs:

- Generally Accepted Accounting Principles

Chapter 4 – The Loss Reserving and Claims Cycle

- Kinds of Insurance Underwritten: Line of Business or Type of Risk
- Claim Adjustment and Estimation
- Illustrative Projection Data

Chapter 5 – Investments and Fair Value Considerations

- The Fair Value Hierarchy
- Fair Value Determination When the Volume or Level of Activity Has Significantly Decreased
- GAAP Accounting

Chapter 6 - Reinsurance

- Introduction
- Reinsurance Contracts
- Bases of Reinsurance Transactions
- Special Risk Considerations

Chapter 7 – Income Taxes

- Special Income Tax Provisions
- Basic Principles of GAAP Accounting for Income Taxes
- Control Environment

Chapter 9 – Captive Insurance Entities

- Types of Captive Organizations