



# SOCIETY OF FINANCIAL EXAMINERS™

## CFE 4 Financial Analysis

## STUDY GUIDE

Required Text: *NAIC Financial Analysis Handbook – 2019 Annual/2020 Quarterly*

**NOTE:** 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, with each section labeled as an area of High (H), Moderate (M) or Low (L) importance in preparing for the examination. In addition, specific topics of interest that may be covered by exam questions are noted for certain sections. Sections of the Handbook not shown on the study guide are not covered in the examination.

### **I. Introduction**

- A.** Department Organization and Communication (M) – Market Conduct; Consumer Affairs; Intra-Departmental Communication;
- B.** Interstate Communication and Cooperation (L) – FAWG
- C.** External Information (L) – SEC; Rating Agencies
- D.** NAIC Information (M) – FAST (IRIS, Scoring); RIRS; GRID
- E.** SAP vs. GAAP (L) – Focus of SAP; Permitted practices; Conservatism; Differences from GAAP
- F.** Prioritization of Work (L) – Prioritization tools; Priority Levels

### **II. Risk-Focused Financial Analysis Framework (H) – Financial Analysis process; Risk-Focused Surveillance Cycle; Risk Assessment Framework; Scope and Depth of Analysis; Application to Companies; Group-wide Supervision**

### **III. Annual/Quarterly Worksheets, Repositories and Analyst Reference Guides**

- A. Risk Assessment (All Statement Types) (H) – Risk Assessment Levels and Trends; Sections of Annual Worksheet; Quarterly Non-Troubled Process; Preliminary Analysis; Background Analysis; Current Period Analysis; Use of Risk Repositories; Understanding the Insurer; Analysis for Intercompany Pooling Arrangements; Non-Routine Analysis; Analyst/Examiner Planning Meeting Template**
- B. Risk Classification Repositories**
  - 1. Credit (M) – Definition; SVO designations; Non-Investment Grade; Mortgage Loans; Schedule BA investments
  - 2. Legal (M) – Audit Opinion; Audit Requirements; MD&A Filings;
  - 3. Liquidity (L) – Private Placements; Liquidity Ratio; Sources of Liquidity

4. Market (L) – Valuation of Bonds; Derivatives; Asset Diversification; SVO Filing Requirements
5. Operational (M) – Human Capital; Changes in Officers; Dividends; Affiliated Agreements; Insurance Expense Exhibit;
6. Pricing & Underwriting (M) – Measuring Underwriting Performance; Risk Components; Commissions
7. Reputation (L) – News Sources; Market Conduct Issues
8. Reserving (H) – Unpaid Losses; Reserve Development; Reserve Ratios; Salvage and Subrogation; Actuarial Qualifications; RAAIS; Life and Annuity Policies; PBR; Types of Opinions; IBNR
9. Strategic (M) – Affiliated Reinsurance; Assumption Reinsurance; MLR Ratio; Parental Guarantee/Capital Maintenance Agreement

#### **IV. Supplemental Analysis Guidance**

- A.** Financial Analysis and Reporting Considerations
  1. Invested Assets (M) – State Investment Laws; Asset Concentrations; Historical Industry Investment Trends
  2. Primer on Derivatives (L)
  3. Health Receivables (L)
  4. Separate Accounts (L)
  5. Risk Transfer Other Than Reinsurance (L)
  6. Other Provider Liabilities (L)
  7. Income Statement and Surplus (M) – Profitability; Operating Performance; Surplus Notes
  8. Risk-Based Capital (H) – RBC Ratio and Calculation; RBC Factors and Components; Action Levels and Required Steps; Focus in Reviewing RBC
  9. Affiliated Transactions (L)
  10. Insurers in Run-Off (L)
  11. TPAs and MGAs (L)
  12. Reinsurance (M) – Types of Reinsurance; Goals of Reinsurance
  13. Audited Financial Report (M) – Audit Opinion; Notification Requirements
  14. Management’s Discussion and Analysis (L)
  15. Management Considerations (M) – Corporate Governance; Risk Management

- V.** **Non-Lead State Analysis (M)** – Holding Company Act; Holding Company Forms (A, B, D); Dividend Approval Process

#### **VI. Group-wide Supervision Procedures and Analyst Reference Guide**

- A.** Framework (L)
- B.** Roles and Responsibilities of Group-wide Supervisor/Lead State (M) – Determination of Lead State; Role and Responsibilities of Lead State and Non-Lead State
- C.** Insurance Holding Company System Analysis Guidance (H) – Purpose of HC Analysis; Group Profile Summary; Focus of analyst in holding company analysis; Financial position; Control; Lead State designation and role; Sources of information; Use of Form B information
- D.** Corporate Governance Disclosure Procedures (L)
- E.** Enterprise Risk Management (M) – Key principles; Form F; ORSA Sections; ORSA Goals
- H.** Periodic Meeting with the Group Procedures (L)
- I.** Targeted Examination Procedures (L)
- J.** Supervisory Colleges Guidance (M) – Selecting Group-Wide Supervisor; Roles and duties; College membership
- K.** Group Code Assignment (L)
- L.** Holding Company Best Practices (L)