

General Insurance Introduction to General Insurance
AUGUST 2014

Item 1 - General
Insurance Introduction
Exam - August 2014

Important Exam Information:

[Exam Registration](#)

Candidates may register online or with an application.

[Order Study Notes](#)

There is no study note package for this examination.

[Introductory Study Note](#)

The Introductory Study Note has a complete listing of all readings as well as errata and other important information.

[Case Study](#)

There is no case study for this examination.

[Past Exams](#)

The February 2014 exam is available.

[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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The following shorthand is used for the three required text books published by The Institutes:

CPCU 520 – x indicates Assignment x from *Insurance Operations*, Edited by Susan Kearney **NOTE – There are two editions of this text. Only the first edition should be used for this exam. See the Introductory Study Note for Details.**

CPCU 553 – x indicates Assignment x from *Survey of Personal Insurance and Financial Planning*, Edited by Mary Ann Cook

CPCU 557 – x indicates Assignment x from *Survey of Commercial Insurance*, Edited by Arthur Flitner

EXAM: GI-INTRO	TOPIC: Overview of Insurance Operations
Learning Objective	
1. The candidate will understand how insurance companies are organized, their goals, how success is measured, and their functions.	
Learning Outcomes	
The candidate will be able to: a) Explain how insurers have organized to provide property-casualty insurance b) Describe the major goals of an insurer c) Describe the internal and external constraints that impede insurers from achieving their major goals d) Describe the measurements used to evaluate how successful an insurer is at meeting its established goals e) Describe the core and supporting functions performed by insurers	
Syllabus Resources	
• CPCU 520 – 1 Overview of Insurance Operations	

EXAM: GI-INTRO	TOPIC: Insurance Regulation
Learning Objective	
2. The candidate will understand the reasons for and the types of regulation.	
Learning Outcomes	
The candidate will be able to: a) Describe the effect each of the following acts and legal decisions have had on insurance regulation: Paul v. Virginia, Sherman Antitrust Act, South-Eastern Underwriters Association, McCarran-Ferguson Act, Insurance Services Office and the Attorneys General Lawsuit, and Gramm-Leach-Bliley Act b) Explain how insurance regulation protects consumers, contributes to maintain insurer solvency, and assists in preventing destructive competition c) Identify the regulatory activities of state insurance departments and the duties typically performed by state insurance commissioners d) Describe the arguments for and against federal regulation of insurance e) Describe the licensing requirements for insurers and insurance personnel f) Describe the methods that regulators use to maintain the solvency of insurers and to manage insolvencies, and the reasons why insurers become insolvent g) Describe the goals of insurance rate regulation, the major types of state rating laws, and the reasons supporting and opposing rate regulation h) Explain how the contract language contained in insurance policies is regulated i) Explain how the market conduct areas in insurance are regulated and how regulatory activities protect consumers j) Explain how organizations that act as unofficial regulators affect insurance activities	
Syllabus Resources	
• CPCU 520 – 2 Insurance Regulation	

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EXAM: GI-INTRO	TOPIC: Insurance Marketing and Distribution
Learning Objective	
3. The candidate will understand the insurance marketplace and marketing and distribution systems.	
Learning Outcomes	
The candidate will be able to: a) Describe the following attributes of the competitive property-casualty insurance marketplace: distinguishing characteristics of insurance customers, insurer marketing differentiations, and unique factors in the insurance marketplace b) Explain how typical insurer marketing activities are performed and why they are performed c) Describe the main types of insurance distribution systems and channels, including the principal characteristics that distinguish one distribution system from another d) Describe the functions performed by insurance producers e) Describe the key factors an insurer should evaluate during the distribution-system and distribution-channel selection process	
Syllabus Resources	
• CPCU 520 – 3 Insurance Marketing and Distribution	

EXAM: GI-INTRO	TOPIC: The Underwriting Function
Learning Objective	
4. The candidate will understand the purpose, role, and function of underwriting.	
Learning Outcomes	
The candidate will be able to: a) Describe the purpose of underwriting b) Describe the underwriting activities typically performed by line and staff underwriters c) Describe the importance of compliance with underwriting authority in individual account selection d) Describe the constraining factors considered in the establishment of underwriting policy e) Describe the purposes that underwriting guidelines and underwriting audits serve f) Describe the steps in the underwriting process g) Explain how an insurer's underwriting results are measured and how financial measures can be distorted	
Syllabus Resources	
• CPCU 520 – 4 The Underwriting Function	

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EXAM: GI-INTRO	TOPIC: Underwriting Property and Liability Insurance
Learning Objective	
5. The candidate will understand the different policy considerations in underwriting property and liability insurance policies.	
Learning Outcomes	
The candidate will be able to: - Describe in detail each of the COPE factors used to evaluate property loss exposures - Explain how insurable interest, policy provisions for valuing losses, and insurance to value affect a loss payment amount under property insurance - Explain how underwriters use policy amount, amount subject, normal loss expectancy (NLE), probable maximum loss (PML), and maximum foreseeable loss (MFL) to measure potential loss severity - Describe the underwriting considerations for business income and extra expense coverage - Describe the underwriting considerations and risk control techniques associated with employee dishonesty and crimes committed by others - Describe the loss exposures and the underwriting considerations for commercial general liability insurance - Describe the underwriting considerations for personal and commercial auto insurance - Describe the key underwriting considerations relevant to the evaluation of submissions for workers compensation insurance - Describe the underwriting considerations for umbrella and excess liability insurance	
Syllabus Resources	
CPCU 520 – 5 Underwriting Property and Liability Insurance	

EXAM: GI-INTRO	TOPIC: Risk Control and Premium Auditing
Learning Objective	
6. The candidate will understand the purpose and function of risk control and premium auditing.	
Learning Outcomes	
The candidate will be able to: - Describe the goals of insurer risk control activities - Describe the risk control services provided by insurers - Explain how risk control cooperates with other insurer functions - Explain why premium audits are conducted - Describe the premium auditing process - Explain why premium audits must be accurate - Explain how premium auditing contributes to other insurer functions	
Syllabus Resources	
CPCU 520 – 6 Risk Control and Premium Auditing	

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EXAM: GI-INTRO	TOPIC: The Claim Function
Learning Objective	
7. The candidate will understand the claim function and related elements.	
Learning Outcomes	
The candidate will be able to: a) Identify goals of the claim function, the users of claim information, and the parties with whom claim personnel interact b) Describe the claim department structure, types and functions of claim personnel, and claim personnel performance measures c) Describe the key activities in the claim handling process: Acknowledging and assigning the claim, Identifying the policy and setting reserves, Contracting the insured or the insured's representative, Investigating the claim, Documenting the claim, Determining the cause of loss, liability, and the loss amount, and Concluding the claim d) Explain how the law of bad faith relates to an insurer's duty of good faith and fair dealing and how the legal environment affects the law of bad faith e) Describe the elements of good-faith claim handling	
Syllabus Resources	
• CPCU 520 – 7 The Claim Function	

EXAM: GI-INTRO	TOPIC: Adjusting Property and Liability Claims
Learning Objective	
8. The candidate will understand the claim handling process for property and liability claims.	
Learning Outcomes	
The candidate will be able to: a) Explain how and why the activities in the framework for handling property claims are accomplished b) Describe the challenges of handling various types of property claims: Residential dwelling, Residential personal property, Commercial structure, Business income, Merchandise, Transportation and bailment, and Catastrophe c) Explain how and why the activities in the framework for handling a liability claim are accomplished d) Describe the challenges of handling various types of liability claims: Auto bodily injury liability, Auto property damage, Premises liability, Operations liability, Products liability, Workers compensation, and Professional liability e) Given a claim, determine coverage for a loss using the framework for coverage analysis and the activities in the claim handling process	
Syllabus Resources	
• CPCU 520 – 8 Adjusting Property and Liability Claims	

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EXAM: GI-INTRO	TOPIC: Reinsurance
Learning Objective	
9. The candidate will understand the function and types of reinsurance and its application.	
Learning Outcomes	
The candidate will be able to: - Describe reinsurance and its principal functions - Describe the three sources of reinsurance - Describe treaty reinsurance and facultative reinsurance - Describe the types of pro rata reinsurance and excess of loss reinsurance and their uses - Describe finite risk reinsurance and other methods that rely on capital markets as alternatives to traditional and non-traditional reinsurance - Describe the factors that should be considered in the design of a reinsurance program - Given a case, identify the reinsurance needs of an insurer and recommend an appropriate reinsurance program to address those needs - Explain how reinsurance is regulated	
Syllabus Resources	
CPCU 520 – 10 Reinsurance	

EXAM: GI-INTRO	TOPIC: Personal Auto Policy
Learning Objective	
10. The candidate will understand the role of automobile insurance in society and the contents of the Personal Auto Policy.	
Learning Outcomes	
The candidate will be able to: - Evaluate various laws and systems regarding approaches to compensating automobile accident victims: Tort liability system, Financial responsibility laws, Compulsory insurance laws, Uninsured motorists coverage, Underinsured motorists coverage, and No-fault insurance - Describe no-fault automobile laws in terms of their types required benefits - Explain how high-risk drivers may obtain auto insurance - Describe automobile insurance rate regulation in terms of rating factors, matching price to exposure, competition, and other regulatory issues - Summarize the sections of the Personal Auto Policy - Identify the types of information typically contained on the declarations page of a personal auto policy - For each of Part A – Liability Coverage, Part B – Medical Payments Coverage, Part C – Uninsured Motorists Coverage, and Part D – Coverage for Damage to Your Auto: Summarize the provisions; given a case describing a claim, determine if that part of the coverage applies and, if so, the amount the insurer would pay for the claim - Describe underinsured motorist insurance in terms of its purpose and the ways in which it can vary by state - Describe the insured's duties following a covered auto accident or loss as shown in Part E - Summarize each of the general provisions in Part F - Describe the Personal Auto Policy endorsements that are used to handle common auto loss exposures - Given a case describing a claim, determine whether the Personal Auto Policy would cover the claim and, if so, the amount the insurer would pay for the claim	
Syllabus Resources	
- CPCU 553 – 2 Automobile Insurance and Society - CPCU 553 – 3 Personal Auto Policy: Liability, Med Pay, and UM Coverage - CPCU 553 – 4 Personal Auto Policy: Physical Damage, Duties After an Accident, Endorsements	

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EXAM: GI-INTRO	TOPIC: Homeowners Coverage
Learning Objective	
11. The candidate will understand the contents of the ISO Homeowners Program and describe some specialty plans.	
Learning Outcomes	
The candidate will be able to: a) Describe how individuals and families can use the ISO 2011 Homeowners insurance program to address their personal risk management needs b) Summarize the structure of the Homeowners Policy (HO-3), key changes in the ISO 2011 program revision, and factors important to rating homeowners insurance c) Determine whether the 2011 HO-3 policy provisions in Section I – Property Coverages provide coverage for a given loss or loss exposure: Coverage A – Dwelling, Coverage B – Other Structures, Coverage C – Personal Property, Coverage D – Loss of Use, and additional coverages d) Summarize the 2011 HO-3 policy provisions concerning Perils Insured Against and Exclusions e) Summarize each of the 2011 HO-3 policy provisions in Section I – Conditions f) Given a scenario describing a homeowners property claim, determine whether the 2011 HO-3 Policy Section I – Property Coverages would cover the claim and, if so, the amount the insurer would pay for the claim g) Determine whether the 2011 HO-3 policy provisions in Section II – Liability Coverage provide coverage for a given loss or loss exposure: Coverage E – Personal Liability, Coverage F – Medical Payments to Others, and additional coverages h) Determine whether one or more exclusions preclude the coverage provided by Section II of the 2011 HO-3 policy provisions in Section II – Exclusions i) Summarize the 2011 HO-3 policy provisions concerning Conditions applicable to Section II and Conditions applicable to Sections I and II j) Given a case describing a homeowners liability claim, determine whether the 2011 HO-3 policy Section II – Liability Coverage would cover the claim, and if so, the amount the insurer would pay for the claim k) Compare the coverage provided by each of the following 2011 Homeowners policies to the coverage provided by the 2011 HO-3 policy: HO-2 Broad Form, HO-5 Comprehensive Form, HO-4 Contents Broad Form, HO-6 Unit-Owners Form, and HO-8 Modified Coverage Form l) Summarize the coverages provided by the various 2011 ISO Homeowners policy endorsements m) Given a case describing a homeowners claim, determine whether a 2011 HO-3 Policy that may include one or more endorsements would cover the claim, and, if so, the amount the insurer would pay for the claim n) Describe the operation of the National Flood Insurance Program and the coverage it provides o) Describe the operation of FAIR plans and beachfront and windstorm plans and the coverage they provide	
Syllabus Resources	
• CPCU 553 – 5 Homeowners Property Coverage • CPCU 553 – 6 Homeowners Liability, Conditions, Coverage Forms, and Endorsements • CPCU 553 – 7 Other Residential Insurance (pages 24-37 only)	

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EXAM: GI-INTRO	TOPIC: Commercial Property Insurance
Learning Objective	
12. The candidate will understand the nature of Commercial Property Insurance.	
Learning Outcomes	
The candidate will be able to: a) Describe commercial property insurance in terms of the major categories of loss exposures that can be covered and the components of a commercial property coverage part b) Determine whether a described item of property qualifies as Covered Property under one or more of these categories in the Building and Personal Property Coverage Form: Building, Your Business Personal Property, and Personal Property of Others c) Determine which of the additional coverages and coverage extensions of the Building and Personal Property Coverage Form apply to a described loss d) Determine whether the cause of a described loss is a covered cause of loss under the Causes of Loss – Basic Form or the Causes of Loss – Broad Form e) Determine whether the cause of a described loss is a covered cause of loss under the Causes of Loss – Special Form f) Apply the Limits of Insurance and Deductible provisions of the Building and Personal Property Coverage Form to a described loss g) Explain how each of the Loss Conditions and Additional Conditions affects coverage under the Building and Personal Property Coverage Form h) Explain how each of the following optional coverages described in the BPP modifies the basic coverage of the BPP: Agreed Value, Inflation Guard, Replacement Cost, and Extension of Replacement Cost to Personal Property of Others i) Summarize each of the Commercial Property Conditions j) Explain how each of the conditions contained in the Common Policy Conditions affects coverage under a commercial property coverage part k) Explain how each of these documents modifies the Building and Personal Property Coverage Form: Ordinance or Law Coverage endorsement, Spoilage Coverage endorsement, Flood Coverage endorsement, Earthquake and Volcanic Eruption Coverage endorsement, Peak Season Limit of Insurance endorsement, and Value Reporting Form l) Identify the factors that affect commercial property insurance premiums m) Given a case, determine whether, and for what amount, a described loss would be covered by a commercial property coverage part that includes the Building and Personal Property Coverage Form and any of the three causes of loss forms	
Syllabus Resources	
• CPCU 557 – 1 Commercial Property Insurance, Part I • CPCU 557 – 2 Commercial Property Insurance, Part II	

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EXAM: GI-INTRO	TOPIC: Commercial General Liability Insurance
Learning Objective	
13. The candidate will understand the nature of Commercial General Liability Insurance.	
Learning Outcomes	
The candidate will be able to: - Describe commercial general liability insurance in terms of the types of losses that can be covered by general liability insurance and the components of a commercial general liability coverage part - Determine whether a described claim meets the conditions imposed by the Coverage A insuring agreement of the Commercial General Liability Coverage Form (occurrence version) - Determine whether any of the exclusions applicable to Coverage A of the Commercial General Liability Coverage Form eliminate coverage for a described claim - Determine whether a described claim meets the conditions imposed by the Coverage B insuring agreement of the Commercial General Liability Coverage Form and whether any of the Coverage B exclusions eliminate coverage for the claim - Determine whether a described claim meets the conditions imposed by the Coverage C insuring agreement of the Commercial General Liability Coverage Form and whether any of the Coverage C exclusions eliminate coverage for the claim - Summarize the supplementary payments of the Commercial General Liability Coverage Form - Determine whether a described person or organization is an insured under the Commercial General Liability Coverage Form - Explain how the following limits of insurance in the CGL Coverage Form are applied: Each occurrence limit, Personal and advertising injury limit, Damage to premises rented to you limit, Medical expense limit, General aggregate limit, and Products-completed operations aggregate limit - Apply the Commercial General Liability Conditions to claims or other interactions between the insurer and the insured - Explain how the premium for CGL coverage is determined - Given a case, determine whether, and for what amount, the Commercial General Liability Coverage Form (occurrence version) covers a described claim	
Syllabus Resources	
- CPCU 557 – 6 Commercial General Liability Insurance, Part I - CPCU 557 – 7 Commercial General Liability Insurance, Part II	

EXAM: GI-INTRO	TOPIC: Workers Compensation and Employers Liability Insurance
Learning Objective	
14. The candidate will understand workers compensation and employers liability coverages.	
Learning Outcomes	
The candidate will be able to: - Describe workers compensation statutes in terms of: Basic purpose, Benefits provided, and Persons and employments covered - Describe workers compensation statutes in terms of: Extraterritorial provisions, Federal jurisdiction, and Methods for meeting employers' obligations - Summarize these sections of the Workers Compensation and Employers Liability Insurance Policy: Information Page, General Section, and Part One – Workers Compensation Insurance - Explain why employers liability insurance is needed and how the Workers Compensation and Employers Liability Insurance Policy addresses this need - Describe the purpose and operation of Part Three – Other States Insurance in the Workers Compensation and Employers Liability Insurance Policy - Describe the need for and the coverage provided by the Voluntary Compensation and Employers' Liability Coverage Endorsement and the Longshore and Harbor Workers' Compensation Act Coverage Endorsement - Explain how premium bases, classifications, and premium adjustments affect the rating of workers compensation insurance - Given a case, determine whether the Workers Compensation and Employers Liability Insurance Policy covers a described injury or illness and, if so, what types of benefits or what amount of damages is covered	
Syllabus Resources	
CPCU 557 – 9 Workers Compensation and Employers Liability Insurance	

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EXAM: GI-INTRO	TOPIC: Specialty Coverages
Learning Objective	
15. The candidate will understand various specialty coverages.	
Learning Outcomes	
The candidate will be able to: a) Describe commercial excess liability insurance and commercial umbrella liability insurance in terms of: The three basic types of commercial excess liability insurance and The provisions commonly found in commercial umbrella liability policies that distinguish them from other types of commercial liability policies b) Describe professional liability insurance and management liability insurance in terms of: How they differ from each other, How they differ from commercial general liability policies, and The common types of professional and management liability policies c) Describe the purpose and characteristics of each of these types of environmental insurance policies: Site-specific environmental impairment liability (EIL) policies, Underground storage tank compliance policies, Remediation stop-loss policies, Contractors pollution liability policies, and Environmental professional errors and omissions liability policies d) Describe aircraft insurance in terms of: The purpose-of-use categories that insurers use to classify aircraft and The coverages that can be included in an aircraft policy e) Describe the types of losses that can be covered by each of the insuring agreements generally available in cyber risk insurance policies f) Explain how an organization domiciled in the United States can insure foreign loss exposures that would not be covered under standard property and liability insurance policies g) Summarize the purpose and provisions of the terrorism endorsements developed by Insurance Services Office, Inc., and the National Council on Compensation Insurance, Inc. h) Summarize the guarantee provided by the particular types of surety bonds within the following bond classifications: Contract bonds, License and permit bonds, Public official bonds, Court bonds, and Miscellaneous bonds	
Syllabus Resources	
• CPCU 557 – 11 Specialty Coverages	

General Insurance Introduction to Ratemaking and Reserving
FALL 2014

Item 1 - General Insurance
Intro to Ratemaking &
Reserving Exam - Fall
2014

Important Exam Information:

Exam Date and Time A read-through time will be given prior to the start of the exam—15 minutes in the morning session and 15 minutes in the afternoon session.

[Exam Registration](#) Candidates may register online or with an application.

[Order Study Notes](#) There is no study note package for this examination.

[Introductory Study Note](#) The Introductory Study Note has a complete listing of all readings as well as errata and other important information.

Case Study There is no case study for this examination.

[Past Exams](#) Past copies of this exam from 2013-present are available on the SOA website.

[Updates](#) Candidates should be sure to check the Updates page on the exam home page periodically for additional corrections or notices.

Appendices The Appendices to *Fundamentals of General Insurance Actuarial Analysis* are part of the course of reading for this examination. Because they apply to multiple topics, they are not mentioned in the specific readings in the syllabus.

General Insurance Introduction to Ratemaking and Reserving
FALL 2014

1. Topic: Introduction and Key Considerations
Learning Objectives
The candidate will understand the key considerations for general insurance actuarial analysis.
Learning Outcomes
The Candidate will be able to: a) Understand professional requirements and the actuarial control cycle b) Identify different types of data used for actuarial analysis c) Identify professional responsibilities related to data d) Recognize differences in how data are aggregated and segregated e) Identify qualitative information required for actuarial analysis f) Describe the use of credibility theory g) Identify trend adjustments and describe the relationship between trend and loss development h) Describe documentation requirements i) Describe and recognize the role of professional judgment in actuarial analysis j) Create a claims development triangle from claims transaction data k) Estimate written, earned and unearned premiums l) Adjust historical earned premiums to current rate levels
Resources
• <i>Fundamentals of General Insurance Actuarial Analysis</i>, J. Friedland ○ Part 1: Introduction ○ Part 2: Key Concepts Relevant to Many Types of Actuarial Work ○ Part 3: Preparing the Data

General Insurance Introduction to Ratemaking and Reserving
FALL 2014

2. Topic: Projecting Ultimate Claims

Learning Objectives

The candidate will understand how to calculate projected ultimate claims and claims-related expenses.

Learning Outcomes

The Candidate will be able to:

- a) Use loss development triangles for investigative testing
- b) Estimate ultimate claims using various methods: development method, expected method, Bornhuetter Ferguson method, Cape Cod method, frequency-severity methods, Berquist-Sherman methods
- c) Estimate claims-related expenses and recoveries
- d) Explain the effect of changing conditions on the projection methods cited in (b)
- e) Assess the appropriateness of the projection methods cited in (b) in varying circumstances
- f) Evaluate and justify selections of ultimate values based on the methods cited in (b)

Resources

- *Fundamentals of General Insurance Actuarial Analysis*, J. Friedland
 - Part 4: Projecting Ultimate Claims, Claims-Related Expenses, and Recoveries

General Insurance Introduction to Ratemaking and Reserving
FALL 2014

3. Topic: Financial Reporting
Learning Objectives
The candidate will understand financial reporting of claim liabilities and premium liabilities.
Learning Outcomes
The Candidate will be able to: a) Describe the key assumptions underlying ratio and count-based methods for estimating unpaid unallocated loss adjustment expenses b) Estimate unpaid unallocated loss adjustment expenses using ratio and count-based methods c) Describe the components of claim liabilities in the context of financial reporting d) Evaluate the estimates of ultimate claims to determine claim liabilities for financial reporting e) Describe the components of premium liabilities in the context of financial reporting f) Evaluate premium liabilities
Resources
• <i>Fundamentals of General Insurance Actuarial Analysis</i>, J. Friedland ○ Part 5: Financial Reporting and the Establishment of Reserves

General Insurance Introduction to Ratemaking and Reserving
FALL 2014

4. Topic: Trending
Learning Objectives
The candidate will understand trending procedures as applied to ultimate claims, exposures and premiums.
Learning Outcomes
The Candidate will be able to: a) Identify the time periods associated with trending procedures b) Describe the influences on frequency and severity of changes in deductibles, changes in policy limits, and changes in mix of business c) Choose trend rates and calculate trend factors for claims d) Describe the influences on exposures and premiums of changes in deductibles, changes in policy limits, and changes in mix of business e) Choose trend rates and calculate trend factors for exposures
Resources
• <i>Fundamentals of General Insurance Actuarial Analysis</i>, J. Friedland ○ Part 6: Trending Procedures

General Insurance Introduction to Ratemaking and Reserving
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5. Topic: Ratemaking
Learning Objectives
The candidate will understand how to apply the fundamental ratemaking techniques of general insurance.
Learning Outcomes
The Candidate will be able to: a) Describe the objectives of general insurance rate regulation and the various regulatory environments b) Calculate expenses used in ratemaking analyses including expense trending procedures c) Incorporate underwriting profit and contingency margins into ratemaking d) Calculate loadings for catastrophes and large claims e) Demonstrate the use of credibility in ratemaking f) Calculate overall rate change indications under the claims ratio and pure premium methods g) Calculate risk classification changes and territorial changes h) Calculate deductible factors, increased limits factors, and coinsurance penalties i) Calculate rates for large accounts j) Perform individual risk rating using standard plans k) Calculate rates for claims-made coverage
Resources
• <i>Fundamentals of General Insurance Actuarial Analysis</i>, J. Friedland ○ Part 7: Ratemaking • “<i>The Mathematics of Excess of Loss Coverages and Retrospective Rating—A Graphical Approach</i>,” Lee, Y., Casualty Actuarial Society, 1988 Proceedings, Vol. LXXV This article may be accessed at www.casact.org through the following navigation: - Publications - Yearbook/Proceedings - Past Issues of the Proceedings of the Casualty Actuarial Society - 1988 Proceedings of the Casualty Actuarial Society, Volume LXXV - <i>The Mathematics of Excess Loss Coverage...</i>

General Insurance Introduction to Ratemaking and Reserving
FALL 2014

6. Topic: Monitoring Results
Learning Objectives
The candidate will understand the need for monitoring results.
Learning Outcomes
The Candidate will be able to: a) Describe the role of monitoring in ultimate values and pricing b) Analyze actual claims experience relative to expectations c) Develop plans for future actuarial work based on the results of monitoring d) Demonstrate the use of the actuarial control cycle in the context of monitoring
Resources
• <i>Fundamentals of General Insurance Actuarial Analysis</i>, J. Friedland ○ Part 8: Monitoring Results

General Insurance Introduction to Ratemaking and Reserving
FALL 2014

7. Topic: Catastrophe Modeling
Learning Objectives
The candidate will understand the nature and application of catastrophe models used to manage risks from natural disasters.
Learning Outcomes
The Candidate will be able to: a) Describe the structure of catastrophe models b) Apply catastrophe models to insurance ratemaking, portfolio management, and risk financing
Resources
• <i>Catastrophe Modeling: A New Approach to Managing Risk</i>, Grossi, P.; and Kunreuther, H. ○ Ch. 1-7 (Section 2.4.1 is incorrect and will not be tested; however, exceedance probability curves as discussed elsewhere in the book may be tested)

FINANCIAL AND REGULATORY ENVIRONMENT – US
FALL 2014

Item 1 - FRE Exam -
US - Fall 2014

Important Exam Information:

Exam Date and Time	A read-through time of 15 minutes will be given prior to the start of the exam.
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 readings as well as errata and other important information.
Case Study	There is no case study for this examination.
Past Exams	There are no past exams for this examination. Past exams from 2000-present for other SOA exams are available on the SOA website.
Updates	Candidates should be sure to check the Updates page on the exam home page periodically for additional corrections or notices.

FINANCIAL AND REGULATORY ENVIRONMENT – US
FALL 2014

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) Compare different financial reporting standards for general insurers including: U.S. Statutory Accounting Principles (SAP), U.S. Generally Accepted Accounting Principles (GAAP), Canadian Generally Accepted Accounting Principles (CGAAP), Solvency II and International Financial Reporting Standards (IFRS)
- 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:
 - Part 1 Accounting Systems for General Insurers
 - Part 2 Accounting for Insurance Contracts
 - Part 3 Accounting for Financial Instruments
 - Part 4 Accounting Perspectives for Non-Admitted Assets
 - Part 5 Accounting for Reinsurance Contracts
 - Part 6 Schedule F, Statutory Credit for Reinsurance
 - Part 7 Statutory Loss Accounting and Schedule P
 - Part 8 Measuring Total Income for General Insurers
 - Part 9 Notes to the Financial Statements
 - Part 10 Statutory Surplus: Computation, Pricing, and Valuation
 - Part 15 Income Taxes for General Insurers
- National Association of Insurance Commissioners, Official 2012 NAIC Annual Statement Blanks, Property and Casualty (individual and consolidated basis), pages 2-14, 17-19, 20-30 (Schedule F) and 34-94 (Schedule P)
- FRE-801-14: Excerpts from National Association of Insurance Commissioners, Accounting Practices and Procedures Manual, 2012,
 - Preamble
 - Statement of Statutory Accounting Principles 3, "Accounting Changes and Corrections of Errors"
 - Statement of Statutory Accounting Principles 5 Revised, "Liabilities, Contingencies, and Impairment of Assets," excluding paragraphs 15-24, 28-30 and Appendix A
 - Statement of Statutory Accounting Principles 9, "Subsequent Events"
 - Statement of Statutory Accounting Principles 53, "Property Casualty Contracts-Premiums"
 - Statement of Statutory Accounting Principles 55, "Unpaid Claims, Loss and Loss Adjustment Expenses," excluding paragraphs 6-8
 - Statement of Statutory Accounting Principles 62 Revised, "Property and Casualty Reinsurance"
 - Statement of Statutory Accounting Principles 65, "Property and Casualty Contracts"

Resources for this topic continued on the next page

FINANCIAL AND REGULATORY ENVIRONMENT – US
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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 through the following navigation:

- Publications
 - Variance Journal
 - Past Journal Issues
 - 2007 Volume 01 Issue 01
 - 9 Risk Transfer Testing of Reinsurance Contracts...

- *“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 through the following navigation:

- Publications
 - Yearbook/Proceedings
 - Past Issues of the Proceedings of the Casualty Actuarial Society
 - 1996 Proceedings of the Casualty Actuarial Society, Volume LXXXIII
 - Estimating the Premium Asset on Retrospectively Rated Policies

FINANCIAL AND REGULATORY ENVIRONMENT – US
FALL 2014

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) Discuss the Canadian Minimum Capital Test and the Canadian Dynamic Capital Adequacy Test e) Understand the development and principles of solvency regulation, including that in the U.S., Canada and the E.U. f) Demonstrate knowledge of the E.U. Solvency II standard formula solvency capital requirement g) Demonstrate knowledge of ORSA and its implementations h) Compare different solvency standards i) Discuss the function of credit rating agencies and their impact on general insurers
Resources
• <i>General Insurance Financial Reporting Topics</i>, Society of Actuaries: ○ Part 12 Solvency Monitoring ○ Part 13 General Insurance Financial Ratings • FRE-102-14: "Insurance Regulatory Information System (IRIS) Ratios Manual," National Association of Insurance Commissioners, 2013 Edition, Pages 1-26 • "The United States Insurance Financial Solvency Framework," National Association of Insurance Commissioners, 2010 http://www.naic.org/documents/committees_e_us_solvency_framework.pdf • "NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual," National Association of Insurance Commissioners, as of March 2013 http://www.naic.org/documents/committees_e_orsa_wg_related_docs_guidance_manual_2013.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 http://www.naic.org/Releases/2009_docs/090305_vaughan_presentation.pdf

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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:
 - Part 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, March 2013
 - No. 20, Discounting of Property/Casualty Unpaid Claim Estimates, September 2011
 - No. 21, Responding to or Assisting Auditors or Examiners in Connection with Financial Statements for All Practice Areas, May 2011
 - No. 36, Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves, May 2011
 - No. 41, Actuarial Communications, December 2010
 - No. 43, Property/Casualty Unpaid Claim Estimates, May 2011

<http://www.actuarialstandardsboard.org/asops.asp>
- “*International Standard of Actuarial Practice 1, General Actuarial Practice*,” Approved by the IAA Council November 18, 2012, International Actuarial Association
http://www.actuaries.org/ISAP1/ISAP1_Final_WebVersion.pdf
- “*A Public Policy Practice Note, Statements of Actuarial Opinion on Property and Casualty Loss Reserves*,” American Academy of Actuaries, Committee on Property and Liability Financial Reporting, 2012
http://www.actuary.org/files/COPLFR_PN_Dec17_2012.pdf
- “*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
- “*The Function of the Actuary in Prudential Supervision*,” International Actuarial Association, September 2002
http://www.actuaries.org/LIBRARY/Papers/Prudential_Supervision_EN.pdf

FINANCIAL AND REGULATORY ENVIRONMENT – US
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4. Topic: Regulation

Learning Objective

The candidate will be able to describe the current and historical regulatory environment.

Learning Outcomes

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 market conduct regulation
- e) Discuss the issues regarding usage based insurance and telematics in automobile insurance
- f) Describe the development of general insurance programs controlled by government or collective insurance industry organizations
- g) Describe the mechanisms of operation for government and/or collective insurance industry controlled programs as included in the resources
- h) Discuss the concept of no-fault laws and its application in general insurance
- i) Understand the regulation of reinsurance
- j) Outline the function and regulation of captives

Resources

- *Insurance Regulation*, Porter, K., The Institutes, 1st Edition, 2008
- FRE-100-14: "Government Provision of General Insurance," Cappelletti, A., Society of Actuaries Study Note
- FRE-104-14: "Usage Based Insurance and Telematics," Cappelletti, A., Society of Actuaries Study Note
- "The Economic Crisis and Lessons from (and for) U.S. Insurance Regulation," Vaughan, T., Journal of Insurance Regulation, National Association of Insurance Commissioners, Volume 28, No. 1, Fall/Winter 2009
http://www.naic.org/documents/cipr_jir_vaughan.pdf
- "Code of Conduct for Insurers' use of Credit Information (CODE)," Insurance Bureau of Canada
http://www.ibc.ca/en/consumer_protection/documents/code_of_conduct.pdf
- "Use of Credit Scores by Insurers," Canadian Council of Insurance Regulators, Issues Paper, Credit Scoring Working Group, June 2011
[http://www.ccir-ccrra.org/en/init/credit_scor/CCIR%20credit%20scores%20issues%20paper\(En\).pdf](http://www.ccir-ccrra.org/en/init/credit_scor/CCIR%20credit%20scores%20issues%20paper(En).pdf)
- "Insurance and the discrimination laws: motor and travel insurance," Edmunds, T., House of Commons Library Standard Note SN04601, March 13, 2013
<http://www.parliament.uk/briefing-papers/SN04601>
- "The National Flood Insurance Program: Past, Present ... and Future?," American Academy of Actuaries Flood Insurance Subcommittee, A Public Policy Monograph, American Academy of Actuaries, July 2011, excluding Appendices
http://www.actuary.org/pdf/casualty/AcademyFloodInsurance_Monograph_110715.pdf
- "Biggert-Waters Flood Insurance Reform Act of 2012," Pankow, S. and Robben, S., National Association of Insurance Commissioners, The Center for Insurance Policy and Research, CIPR Newsletter, October 2012
http://www.naic.org/cipr_newsletter_archive/vol5_biggert-waters_flood_reform_act_2012.pdf

Resources for this topic continued on the next page

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- *“Considerations for Residual Market Regulation,”* Facility Association, Position Paper, November 2003
http://www.facilityassociation.com/docs/position_paper/Considerations_for_Residual_Market_Regulation-Nov24.pdf
- *“Understanding the New Financial Reform Legislation: The Dodd-Frank Wall Street Reform and Consumer Protection Act,”* Mayer Brown, July 2010, Section on Title V – Insurance
<http://www.mayerbrown.com/files/Publication/1ec275f4-5618-4a63-9d38-3129010c06db/Presentation/PublicationAttachment/ef42ecce-49ff-44b2-b37a-72b81d87fb79/Final-FSRE-Outlinev2.pdf>
- *“Recent Developments in the Captive Insurance Industry,”* Hall, S., National Association of Insurance Commissioners, The Center for Insurance Policy and Research, CIPR Newsletter, January 2012
http://www.naic.org/cipr_newsletter_archive/vol2_captive.htm

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5. Topic: Law

Learning Objective

The candidate will be able to understand tort law and insurance law with respect to its impact on the general insurance industry.

Learning Outcomes

The candidate will be able to:

- a) Describe and interpret the key elements of tort law and the underlying principles of insurance law
- b) Discuss the influence of the U.S. tort litigation environment in Canada
- c) Discuss the issues of tort trends and tort reform as it applies to the general insurance industry
- d) Understand mass torts/class action suits and discuss their impact on the general insurance industry
- e) Describe and interpret legal cases/issues from *Important Legal Cases with Respect to the U.S. General Insurance Industry*

Resources

- [FRE-101-14: "Tort Law Issues for General Insurance Actuaries,"](#) Cappelletti, A., Society of Actuaries Study Note
- FRE-103-14: *Excerpts from Business Law for Insurance Professionals*, The Institutes, Institutes Custom Publishing, 1st edition, 2013
- "The Impact of U.S. Tort Law in Canada," Klar, L., Pepperdine Law Review, Volume 38, Issue 2, Article 9, 2011
<http://digitalcommons.pepperdine.edu/plr/vol38/iss2/9/>
- "Asbestos and the Future of Mass Torts," White, M., Journal of Economic Perspectives," Volume 18, Number 2, Spring 2004, Pages 183–204
<http://www.econ.ucsd.edu/~miwhite/asbestos-jep-final.pdf>
- *Important Legal Cases with Respect to the U.S. General Insurance Industry*
 - "Changes in the Standards for Admitting Expert Evidence," RAND Institute for Civil Justice, RB-9037-ICJ, RAND Corporation, 2002
http://www.rand.org/pubs/research_briefs/RB9037/index1.html
 - "Res Ipsa Loquitur in Medical Malpractice Cases," Zeppieri, L., Kelly, Rode & Kelly, LLP, Counsellors at Law, August 7, 2003
<http://www.krklaw.com/cases/cases/print/32.html>
 - "Insurer Bad Faith Damages: A USA-Canada Comparison," Kent, N., Clark Wilson LLP, 2005
<http://www.cwilson.com/publications/insurance/insurer-bad-faith-damages.pdf>
 - "Supreme Court Reverses Ninth Circuit's Loss Causation Standard in Dura Pharmaceuticals, Inc. v. Broudo," Gibson Dunn, Publications, April 20, 2005
<http://www.gibsondunn.com/publications/pages/SupremeCourtReversesNinthCircuitsLossCausationStandardiniDuraPharmaceuticalsIncBroudoi.aspx>
 - "Constitutional Limits on Punitive Damages Awards: An Analysis of the Supreme Court Case Philip Morris USA v. Williams," Burrows, V., Congressional Research Service, Report for the Congress, Order Code RL33773, July 2007
<http://www.fas.org/sgp/crs/misc/RL33773.pdf>

Resources for this topic continued on the next page

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- *“Wyeth v. Levine: Where Do We Go From Here?”* Rose, B. and Falletta, C., Sills Cummis & Gross P.C., The National Law Review, Article, 2009
<http://www.natlawreview.com/print/article/wyeth-v-levine-where-do-we-go-here>
- *“Supreme Court Unanimously Rejects Fifth Circuit’s Loss Causation Standard,”* Foster, B. and Nielsen, M., Andrews Kurth LLP, The National Law Review, Article, 2011
<http://www.natlawreview.com/print/article/supreme-court-unanimously-rejects-fifth-circuit-s-loss-causation-standard>
- *“The Effects of Wal-Mart v. Dukes on Class Certification,”* Bell, R. and Haskins, T., Securities Litigation, Articles, American Bar Association, ABA Section of Litigation, January 31, 2012
<http://apps.americanbar.org/litigation/committees/securities/email/winter2012/winter2012-wal-mart-dukes-initial-effects-securities-fraud-class-certification.html>
- *“Insurer Has Duty to Settle Even in Absence of Settlement Demand,”* Haney, C., Litigation News, Top Stories, American Bar Association, ABA Section of Litigation, September 10, 2012
http://apps.americanbar.org/litigation/litigationnews/top_stories/091012-insurer-duty-to-settle.html
- *“Courts Are Now Rejecting Insurers’ Reimbursement for Defending Non-covered Claims,”* Morgan, B., Insurance Coverage Litigation, Articles, American Bar Association, ABA Section of Litigation, September 12, 2012
<http://apps.americanbar.org/litigation/committees/insurance/articles/julyaug2012-courts-rejecting-reimbursement2.html>

Advanced Topics in General Insurance
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Item 1 - Advanced Topics in
General Insurance Exam -
Fall 2014

Important Exam Information:

Exam Date and Time	A read-through time of 15 minutes will be given prior to the start of the exam.
Exam Registration	Candidates may register online or with an application.
Order Study Notes	There is no study note package for this examination.
Introductory Study Note	The Introductory Study Note has a complete listing of all readings as well as errata and other important information.
Case Study	There is no case study for this examination.
Past Exams	The Spring 2014 exam is available at this link. Past exams from 2000-present for other SOA exams are also available at that location.
Updates	Candidates should be sure to check the Updates page on the exam home page periodically for additional corrections or notices.

Advanced Topics in General Insurance
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1. Topic: Basic Stochastic Reserving

Learning Objectives

The candidate will understand how to use basic loss development models to estimate the standard deviation of an estimator of unpaid claims.

Learning Outcomes

The candidate will be able to:

- a) Identify the assumptions underlying the chain ladder estimation method.
- b) Test for the validity of these assumptions.
- c) Identify alternative models that should be considered depending on the results of the tests.
- d) Estimate the standard deviation of a chain ladder estimator of unpaid claims.
- e) Apply a parametric model of loss development.
- f) Estimate the standard deviation of a parametric estimator of unpaid claims.

Resources

- Mack, T., "Measuring the Variability of Chain Ladder Reserve Estimates," Casualty Actuarial Society Forum, Spring 1994
This article may be accessed at www.casact.org through the following navigation:
 - Publications
 - E-Forum
 - 1994 Spring Forum
 - Measuring the Variability ...
- Venter, G.G., "Testing the Assumptions of Age-to-Age Factors," PCAS LXXXV, 1998
This article may be accessed at www.casact.org through the following navigation:
 - Publications
 - Yearbook/Proceedings
 - Past Issues of the Proceedings of the Casualty Actuarial Society
 - 1998 Proceedings of the Casualty Actuarial Society, Volume LXXXV
 - Testing the Assumptions ...
- Clark, D.R., "LDF Curve Fitting and Stochastic Reserving: A Maximum Likelihood Approach," Casualty Actuarial Society Forum, Fall 2003
This article may be accessed at www.casact.org through the following navigation:
 - Publications
 - E-Forum
 - 2003 Fall Forum
 - LDF Curve Fitting ...

Advanced Topics in General Insurance
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2. Topic: Risk Margins for Unpaid Claims
Learning Objectives
The candidate will understand the considerations in selecting a risk margin for unpaid claims.
Learning Outcomes
The candidate will be able to: a) Describe a risk margin analysis framework. b) Identify the sources of uncertainty underlying an estimate of unpaid claims. c) Describe methods to assess this uncertainty.
Resources
• Marshall, K., Collings, S., Hodson, M., and O’Dowd, C., “A Framework for Assessing Risk Margins,” Institute of Actuaries of Australia 16th General Insurance Seminar, 9-12 November 2008, Coolumb, Australia http://www.actuaries.asn.au/Library/Framework%20for%20assessing%20risk%20margins.pdf

Advanced Topics in General Insurance
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3. Topic: Credibility with Shifting Risk Parameters
Learning Objectives
The candidate will understand how to use a credibility model with parameters that shift over time.
Learning Outcomes
The candidate will be able to: a) Identify the components of a credibility model with shifting risk parameters. b) Apply the model given various assumptions. c) Estimate the parameters of the model. d) Compare various models that might be used.
Resources
• Klugman, S.A., "Credibility with Shifting Risk Parameters," SOA Study Note, 2014

Advanced Topics in General Insurance
FALL 2014

4. Topic: Reinsurance Pricing
Learning Objectives
The candidate will understand how to apply the fundamental techniques of reinsurance pricing.
Learning Outcomes
The candidate will be able to: a) Calculate the price for a proportional treaty. b) Calculate the price for a property per risk excess treaty. c) Calculate the price for a casualty per occurrence excess treaty. d) Apply an aggregate distribution model to a reinsurance pricing scenario. e) Describe considerations involved in pricing property catastrophe covers.
Resources
• <u>Clark, D.R., "Basics of Reinsurance Pricing," CAS Study Note, 2014</u>

Advanced Topics in General Insurance
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5. Topic: Underwriting Profit Margins
Learning Objectives
The candidate will understand methodologies for determining an underwriting profit margin.
Learning Outcomes
The candidate will be able to: a) Calculate an underwriting profit margin using the target total rate of return model. b) Calculate an underwriting profit margin using the capital asset pricing model. c) Calculate an underwriting profit margin using the risk adjusted discount technique. d) Allocate an underwriting profit margin (risk load) among different accounts.
Resources
• D'Arcy, S.P., and Dyer, M.A., "Ratemaking: A Financial Economics Approach," PCAS LXXXIV, 1997 (excluding Sections 7 and 8) This article may be accessed at www.casact.org through the following navigation: - Publications - Yearbook/Proceedings - Past Issues of the Proceedings of the Casualty Actuarial Society - 1997 Proceedings of the Casualty Actuarial Society, Volume LXXXIV - Ratemaking: A Financial ... • Mango, D.F., "An Application of Game Theory: Property Catastrophe Risk Load," PCAS LXXXV, 1998 This article may be accessed at www.casact.org through the following navigation: - Publications - Yearbook/Proceedings - Past Issues of the Proceedings of the Casualty Actuarial Society - 1998 Proceedings of the Casualty Actuarial Society, Volume LXXXV - An Application of Game ...